

IAS 27 Consolidated and Separate Financial Statements (November 2006)

SIC-12 Consolidation—Special Purpose Entities – Relinquishment of Control

The IFRIC considered an issue concerning the relative weight to be given to the various indicators in paragraph 10 of SIC-12 *Consolidation—Special Purpose Entities* in determining who should consolidate a special purpose entity (SPE). The issue focused on a situation in which all the decisions necessary for the ongoing activities of the SPE had been predetermined by its creator and in which the majority of the ‘equity interest tranche’ had been transferred to a third party. The question was whether in such a situation the benefits and risks factors specified in paragraph 10(c) and (d) of SIC-12 took precedence over the factors in paragraph 10(a) (activities of the SPE conducted in accordance with specific business needs of one party) and paragraph 10(b) (one party has decision-making powers or has delegated them by setting up an ‘autopilot’ mechanism).

The IFRIC noted that, under IAS 27 *Consolidated and Separate Financial Statements*, control, which is the basis for consolidation, has two components: power to govern and rights to obtain benefits.

The IFRIC noted that the factors set out in paragraph 10 of SIC-12 are indicators only and not necessarily conclusive. The IFRIC believed that this approach was deliberate, in acknowledgement of the fact that circumstances vary case by case. In the IFRIC’s view, SIC-12 requires that the party having control over an SPE should be determined through the exercise of judgement and skill in each case, after taking into account all relevant factors. For this reason, the IFRIC decided not to take the issue onto the agenda.