



30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

**International
Accounting Standards
Board**

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: 2 November 2006, London

Project: Review of published tentative agenda decisions

Subject: SIC-12 Consolidation of Special Purpose Entities -
Relinquishment of control (Agenda Paper 7(iv))

Tentative agenda decision published in July-2006 IFRIC Update

The IFRIC considered an issue concerning the relative weight to be given to the various indicators in paragraph 10 of SIC-12 *Consolidation of 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 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.

Deloitte.

Deloitte Touche Tohmatsu
Hill House
1 Little New Street
London EC4A 3TR
United Kingdom

Tel: National +44 20 7936 3000
Direct Telephone: +44 20 7007 0907
Direct Fax: +44 20 7007 0158
www.deloitte.com
www.iasplus.com

25 September 2006

Robert Garnett, Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: ifric@iasb.org

Dear Bob,

**Proposed rejection wording: SIC 12 *Consolidation of Special Purpose Entities* –
Relinquishment of Control**

Deloitte Touche Tohmatsu is pleased to respond to IFRIC's publication in the July 2006 *IFRIC Update* of the tentative decision not to take onto the IFRIC agenda a request for an interpretation of SIC 12.

We support the IFRIC's decision not to take this item onto the agenda. We are supportive of the proposed wording for the rejection notice as we believe it clarifies two principles. Firstly, the notice clarifies that the assessment of whether an entity controls a Special Purpose Entity is made on the basis of a balanced evaluation of all factors, including those indicators in paragraph 10 of SIC 12 (which in some instances may not be conclusive) as applied to a particular set of facts and circumstances and after exercising appropriate skill and judgement. Secondly, the rejection notice clarifies that consistent with the above principle none of the indicators in paragraph 10 has precedence over another; therefore, a conclusion that consolidation is appropriate is not automatic simply because one of the indicators is met.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0) 207 007 0907.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ken Wild", written over a single horizontal line.

Ken Wild
Global IFRS Leader

cc: Allan Cook, IFRIC