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## IFRS® Interpretations Committee meeting

Date	<b>March 2026</b>
Project	<b>Control Assessment for a Single-investor Fund</b>
Topic	<b>Initial consideration</b>
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## Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity—that is the only investor in a fund other than the fund manager—assesses whether it controls the fund when the fund manager is an agent and does not control the fund.
2. The objective of this paper is:
  - (a) to provide the Committee with a summary of the matter;
  - (b) to present our research and analysis; and
  - (c) to ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

## Structure of this paper

3. This paper includes:
  - (a) [summary of the submission](#) (paragraphs 5–12);
  - (b) [findings from information request](#) (paragraphs 13–14);

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- (c) [staff analysis](#) (paragraphs 15–35); and
  - (d) [staff recommendation](#) (paragraphs 36–37).
4. There are three appendices to this paper:
- (a) [Appendix A](#)—suggested wording for the tentative agenda decision;
  - (b) [Appendix B](#)—outreach request and response summary;
  - (c) [Appendix C](#)—submission; and
  - (d) [Appendix D](#)—extracts from IFRS 10.

## Summary of the submission

5. The submission describes a situation in which an entity is the only investor in a fund other than the fund manager.<sup>1</sup>
6. The fund manager:
- (a) has determined the fund’s purpose and design, which is to provide investment opportunities to a number of institutional investors.
  - (b) has extensive decision-making authority to direct the relevant activities of the fund. The fund manager has the unilateral ability to direct all relevant activities of the fund, including investment decisions, selection and disposal of portfolio companies, appointment of key personnel, contracting, borrowing and policy setting.
  - (c) receives a market-based fee for its services, commensurate with the services provided.
  - (d) has a 0.01% investment in the fund.
  - (e) is an agent, as described in IFRS 10 *Consolidated Financial Statements*—although the fund manager has extensive decision-making authority and is

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<sup>1</sup> We refer to the entity as the ‘investor’ throughout the rest of the paper.

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exposed to variability of returns from its investment and remuneration, the fund manager's exposure indicates that the fund manager is an agent and does not control the fund.

7. The investor:
- (a) has a 99.99% investment in the fund. Although open to other institutional investors, the investor is the only investor who subscribed to the fund.
  - (b) was not involved in determining the fund's purpose and design.
  - (c) holds only protective rights, as described in IFRS 10<sup>2</sup>. For example, the investor has the ability to remove or replace the fund manager *only* for cause, such as breach of contract, wilful misconduct or gross negligence.
8. The fund has a contractually fixed term, during which the investor cannot withdraw its investment from the fund.
9. The submission asks:

In a fund structure where a single [investor] holds the economic interest in the Fund's net assets and the [fund manager] retains full decision-making authority—including having determined the Fund's purpose and design—and where the [fund manager] has minimal exposure to variable returns (limited to market-based management fees and performance-based carried interest), does this necessarily result in the [fund manager] being classified as an agent and the [investor] as a principal under IFRS 10?

If so, would the [investor] be required to consolidate the Fund, even in the absence of substantive rights over the relevant activities?

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<sup>2</sup> Paragraphs B26–B28 of IFRS 10 explain and provide examples of protective rights.

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10. We understand from discussions with the submitter that the question is about the investor's—and not the fund manager's—assessment of control. In other words, the submitter asks whether, in applying IFRS 10, the investor—being the only investor in the fund other than the fund manager—is *automatically* deemed to have delegated decision-making authority to the fund manager if the fund manager is an agent—that is, whether the investor automatically treats the fund manager's decision-making rights as its rights and, thus, controls the fund.
11. The submission says there is diversity in practice and identifies two views that it says are applied in practice:

View 1—Even though the [fund manager] is considered an agent and acts for the benefit of the [investor], the [investor] is not viewed as the principal—and therefore not the controlling party—for IFRS 10 purposes. The [investor] does not control the fund because it has neither the ability to make decisions about relevant activities nor any decision-making rights to delegate, as contemplated by paragraph B58 [of IFRS 10]. Consequently, the [investor] would not consolidate the fund due to the absence of power and the linkage required by paragraph 7 of IFRS 10 (the ability to use power to affect returns); instead, the [investor] applies IFRS 12 to disclose the relevant facts and significant judgments.

View 2—The [fund manager] is considered an agent of the [investor], and therefore the [investor] is automatically deemed to have power as the principal, having delegated authority to the [fund manager]. Applying paragraph B59 [of IFRS 10], the decisions made by the [fund manager] over the relevant activities are treated as decisions made on behalf of the [investor]. As such, the [investor] would be automatically deemed to control the fund and be required to consolidate it.

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12. Appendix C reproduces the submission, which provides further details about the fact pattern and the alternative views identified by the submitter.

## Findings from information request

13. We sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. We also made the submission available on our website.
14. Appendix B to this paper includes the questions asked and summarises the responses received.

## Staff analysis

15. Our analysis is structured as follows:
  - (a) Does the matter have widespread effect and a material effect (paragraph 16–18)?
  - (b) Is it necessary to add or change requirements in IFRS Accounting Standards (paragraph 19–35)?

### ***Does the matter have widespread effect and a material effect?***

16. Paragraph 5.16 of the IFRS Foundation's [Due Process Handbook](#) sets out the criteria the Committee considers when determining whether to add a standard-setting project to the work plan. The first criterion, included in sub-paragraph 5.16(a), is that 'the matter has widespread effect and has, or is expected to have, a material effect on those affected'.
17. As paragraph B5 of Appendix B notes, it is not always clear from the replies of respondents who said the fact pattern is common whether they are referring to the prevalence of fixed-term, single-investor funds of the type described in the submission. Nonetheless, feedback suggests:

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- (a) these types of fact patterns do occur;
  - (b) similar to the two views described in the submission—there are differences in how entities read the relevant requirements when considering whether delegated decision-making rights should automatically be treated as rights held by the single investor when the fund manager is deemed to be an agent; and
  - (c) these differences could have a material effect on those affected.
18. Therefore, in our view, the criterion set out in paragraph 5.16(a) of the Due Process Handbook is met.

***Is it necessary to add or change requirements in IFRS Accounting Standards?***

19. The second criterion, included in sub-paragraph 5.16(b) of the Due Process Handbook, is that 'it is necessary to add or change requirements in IFRS [Accounting] Standards to improve financial reporting—that is, the principles and requirements in the [Accounting] Standards do not provide an adequate basis for an entity to determine the required accounting.' The following paragraphs set out our analysis of whether the matter described in the submission meets this criterion.
20. Our analysis is structured as follows:
- (a) applicable requirements (paragraphs 21–24);
  - (b) applying the applicable requirements to the fact pattern described in the submission (paragraphs 25–34); and
  - (c) conclusion (paragraph 35).

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*Applicable requirements*

21. IFRS 10 requires an entity that controls one or more other entities to present consolidated financial statements<sup>3</sup>, and establishes control as the basis for consolidation (paragraph 2 of IFRS 10).
22. Paragraph 7 of IFRS 10 states:
- Thus, an investor controls an investee if and only if the investor has all the following:**
- (a) power over the investee (see paragraphs 10–14);**
- (b) exposure, or rights, to variable returns from its involvement with the investee (see paragraphs 15 and 16); and**
- (c) the ability to use its power over the investee to affect the amount of the investor’s returns (see paragraphs 17 and 18).**
23. Paragraphs B58–B59 of Appendix B *Application Guidance* to IFRS 10 state:

Link between power and returns

**Delegated power**

B58 When an investor with decision-making rights (a decision maker) assesses whether it controls an investee, it shall determine whether it is a principal or an agent. An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor. An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and therefore does not control the investee when it exercises its decision-making authority (see paragraphs 17 and 18). Thus, sometimes a

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<sup>3</sup> Paragraphs 4-4B of IFRS 10 includes some exceptions to the requirement to prepare consolidated financial statements.

principal's power may be held and exercisable by an agent, but on behalf of the principal. A decision maker is not an agent simply because other parties can benefit from the decisions that it makes.

B59 An investor may delegate its decision-making authority to an agent on some specific issues or on all relevant activities. When assessing whether it controls an investee, the investor shall treat the decision-making rights delegated to its agent as held by the investor directly. In situations where there is more than one principal, each of the principals shall assess whether it has power over the investee by considering the requirements in paragraphs B5–B54. Paragraphs B60–B72 provide guidance on determining whether a decision maker is an agent or a principal.

24. Appendix D to this paper reproduces Application Example 14–14A in paragraph B72 of Appendix B to IFRS 10. This example discusses a fund manager's assessment of control for a fund that the submitter says is similar to the fund described in the submission.

*Applying the applicable requirements to the fact pattern*

25. The submitter has asked whether, applying IFRS 10, the investor controls the fund, solely on the basis that (a) it is the only investor in the fund other than the fund manager, and (b) the fund manager is an agent, as described by IFRS 10.
26. In considering the requirements in paragraphs 2–18 of IFRS 10, as well as the application guidance in paragraphs B58–B72, we reach the following conclusions:
- (a) To control an investee, an investor must have all 3 elements of control set out in paragraph 7 of IFRS 10—that is, power over the investee, exposure (or rights) to variable returns and the ability to use its power to affect its returns. Control is the only basis for consolidation—an investor consolidates an investee only if it controls that investee.

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- (b) In assessing control in situations in which an entity has decision-making rights (as in the fact pattern in the submission), paragraphs B58–B59 require:
- (i) the decision-maker to assess whether it is a principal or agent. If it is an agent, it does not control the investee. In the fact pattern in the submission, the decision-maker is the fund manager, and the facts assume the fund manager is an agent.
  - (ii) an investor to determine whether the decision-maker is acting as an agent for the investor. If an investor has delegated its decision-making authority to an agent, then it must treat the decision-making rights delegated to the agent as held by the investor directly. Therefore, in the fact pattern in the submission, if the investor has delegated its decision-making authority on all relevant activities to the fund manager, the investor would treat those decision-making rights of the fund manager as its own decision-making rights. In that case, the investor would have power over the investee, exposure to variable returns and the ability to use that power to affect its returns. It would therefore control the investee.
27. Therefore, our analysis considers:
- (a) whether the investor is automatically deemed to have delegated decision-making authority to the fund manager because it is the only investor in the fund other than the fund manager (paragraphs 28–32);
  - (b) if the investor is not automatically deemed to have delegated decision-making authority, how the investor would assess whether it controls the fund (paragraph 33); and
  - (c) other considerations (paragraph 34).

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***Is the investor automatically deemed to have delegated decision-making authority to the fund manager?***

28. As noted above, paragraph B59 of IFRS 10 states that if an investor has delegated its decision-making authority to an agent on some specific issues or on all relevant activities, then the investor must treat the decision-making rights delegated to its agent as held by the investor directly.
29. In our view, to *delegate* decision-making authority, an investor must have had that decision-making authority and then delegated it to its agent. There are various ways an investor might have, and then delegate, decision-making authority to its agent—for example:
- (a) by being involved in setting the purpose and design of an investee. If the investor is involved in the setting an investee’s purpose and design, it may have had the opportunity and incentive to decide on the relevant activities of the investee and who has rights to direct those relevant activities. In that case, it may have had the opportunity and incentive to delegate decision-making authority when the investee was established.
  - (b) by retaining substantive rights to unilaterally remove the decision maker without cause. As paragraph B65 of IFRS 10 and BC134 of the Basis for Conclusions on IFRS 10 note, if a single party holds a unilateral substantive right to remove the decision maker, the decision maker always acts as an agent of the party that holds the removal right.
30. With that said, we think being the only investor in a fund other than the fund manager who is an agent does not, in isolation, mean that the investor delegated decision-making authority to the fund manager, in particular when the investor (a) had no involvement in setting the purpose and design of the fund; and (b) has no ability to remove or replace the fund manager except for cause.
31. View 2 described in the submission (see paragraph 11) says ‘the fund manager is considered an agent of the investor, and therefore the investor is automatically

deemed to be the principal, having delegated authority to the fund manager. Applying paragraph B59 of IFRS 10, the decisions made by the fund manager over the relevant activities are treated as decisions made on behalf of the investor. As such, the investor would be automatically deemed to control the fund and be required to consolidate it.’

32. We think considering a single investor to hold all the decision-making rights of a fund manager solely because—or automatically when—the fund manager is an agent could result in outcomes that are inconsistent with the control model in IFRS 10. That model requires an investor to have all 3 elements of control set out in paragraph 7 of the Standard to conclude that it controls an investee. Therefore, we disagree with view 2 as described in the submission.

***If the investor is not automatically deemed to have delegated decision-making authority, how does the investor assess whether it controls the fund?***

33. To assess whether it controls the fund, the investor would determine whether it has all 3 elements of control set out in paragraph 7 of IFRS 10. Paragraphs 10–18 of IFRS 10 and paragraphs B2–B72 of Appendix B to IFRS 10 include requirements the investor would apply in making this assessment. In doing so the investor would consider all facts and circumstances (paragraph 8 of IFRS 10).

***Other considerations***

34. We note:
- (a) while not referred to in the submission, paragraph B59 of IFRS 10 states ‘...In situations where there is more than one principal, each principal assesses whether it has power over the investee by considering the requirements in paragraphs B5–B54 of IFRS 10.’ Paragraph B59 does not explicitly state whether in situations in which there is only one principal, that principal must also apply paragraphs B5–B54 when assessing whether it has power over the investee. We think this could contribute to the differences in views noted in the submission. However, in our view this does not mean that in situations in which there is only one principal, that principal does not apply paragraphs B5–

B54 of IFRS 10. Requiring a principal to not consider paragraphs B5–B54—and thus deeming that a principal always has power, regardless of its rights—would be an exception to the control assessment framework that, in our view, was not intended by the IASB. Paragraph 7 of IFRS 10 states (emphasis added) ‘an investor controls an investee *if and only if* the investor has *all the following*: (a) power over the investee (see paragraphs 10-14);...’. Paragraph 10 of IFRS 10 states that ‘an investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities, ie the activities that significantly affect the investee’s returns.’

- (b) paragraphs B60–B72 of IFRS 10 apply to a ‘decision maker’—the fund manager in the submission—and are not directly applicable to an investor that does not have decision making rights. Nonetheless, in assessing whether the investor has power (by applying paragraphs B5–B54), there might be some helpful factors in B60-B72 of IFRS 10 for the investor to consider. For example, if the investor holds unilateral rights to remove the fund manager, or the right to walk away from the fund by withdrawing its investment and thereby causing the fund to liquidate or close, then either of those rights is likely to give the investor power over the fund.

### **Conclusion**

35. In our view, the principles and requirements in IFRS 10 provide an adequate basis for the investor described in the submission to assess whether it is *automatically* deemed to have delegated decision-making authority to the fund manager if the fund manager is an agent—that is, whether the investor automatically treats the fund manager’s decision-making rights as its rights and, thus, controls the fund. Therefore, we conclude that the criterion included in sub-paragraph 5.16(b) of the [Due Process Handbook](#) (see paragraph 19 of this paper) is not satisfied.

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## Staff recommendation

36. Based on our assessment of the work plan criteria in paragraph 5.16 of the Due Process Handbook, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that explains how, in applying IFRS 10, the investor—being the only investor in the fund other than the fund manager—assesses whether it is *automatically* deemed to have delegated decision-making authority to the fund manager if the fund manager is an agent.
37. Appendix A to this paper sets out suggested wording for the tentative agenda decision. In our view, the suggested tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.

### Questions for the Committee

1. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?
2. Does the Committee have any comments on the wording of the tentative agenda decision suggested in Appendix A to this paper

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**Appendix A—Suggested wording for the tentative agenda decision****Control Assessment for a Single-Investor Fund (IFRS 10 *Consolidated Financial Statements*)**

The Committee received a request about how an entity—that is the only investor in a fund other than the fund manager—assesses whether it controls the fund, when the fund manager is an agent and does not control the fund.

**Fact pattern**

The request describes a situation in which an entity (investor) is the only investor in a fund other than the fund manager.

The fund manager:

- a. determined the fund’s purpose and design, which is to provide investment opportunities to a number of institutional investors.
- b. has extensive decision-making authority to direct the relevant activities of the fund. The fund manager has the unilateral ability to direct all relevant activities of the fund, including investment decisions, selection and disposal of portfolio companies, appointment of key personnel, contracting, borrowing and policy setting.
- c. receives a market-based fee for its services, commensurate with the services provided.
- d. has a 0.01% investment in the fund.
- e. is an agent, as described in IFRS 10—although the fund manager has extensive decision-making authority and is exposed to variability of returns from its investment and remuneration, the fund manager’s exposure indicates that the fund manager is an agent and does not control the fund.

The investor:

- a. has a 99.99% investment in the fund. Although open to other institutional investors, the investor is the only investor who subscribed to the fund.
- b. was not involved in determining the fund’s purpose and design.

- c. holds only protective rights, as described in IFRS 10. For example, the investor has the ability to remove or replace the fund manager only for cause, such as breach of contract, wilful misconduct or gross negligence.

The fund has a contractually fixed term, during which the investor cannot withdraw its investment from the fund.

### **Question**

The request asks whether, in applying IFRS 10 to the fact pattern in the request, the investor is automatically deemed to have delegated its decision-making authority to the fund manager—in other words, whether the investor automatically treats the fund manager’s decision-making rights as held by the investor directly because it is the only investor in the fund other than the fund manager and the fund manager is an agent.

### **Applying IFRS 10 to the fact pattern**

In considering the requirements in paragraphs 2–18 of IFRS 10, as well as the application guidance in paragraphs B58–B72 of Appendix B to IFRS 10, the Committee observed the following:

- a. Other than as specified in paragraphs 4-4B of IFRS 10, an investor that controls other entities prepares consolidated financial statements. Control is the only basis for consolidation—an investor consolidates an investee only if it controls that investee.
- b. To control an investee, an investor must have all 3 elements of control set out in paragraph 7 of IFRS 10—that is, (i) power over the investee, (ii) exposure (or rights) to variable returns from its involvement with the investee, and (iii) the ability to use its power over the investee to affect the amount of the investor’s returns.
- c. In assessing control in situations in which an entity has decision-making rights (as in the fact pattern in the submission), paragraphs B58–B59 require:
  - i. the decision-maker to assess whether it is a principal or agent. If it is an agent, it does not control the investee. In the fact pattern described in the

- request, the decision-maker is the fund manager, and the facts assume the fund manager is an agent.
- ii. an investor to determine whether the decision-maker is acting as an agent for the investor. If an investor has delegated its decision-making authority on some specific issues or on all relevant activities to an agent, then the investor must treat the decision-making rights delegated to its agent as held by the investor directly. Therefore, in the fact pattern in the request, if the investor has delegated its decision-making authority on relevant activities to the fund manager, the investor would treat those decision-making rights of the fund manager as its own decision-making rights.

The Committee observed that to delegate its decision-making authority, an investor must have had that decision-making authority and then delegated it to its agent. There are various ways that an investor might have, and then delegate, decision-making authority to its agent—for example by being involved in determining the purpose and design of an investee.

However, being the only investor in a fund other than the fund manager who is an agent does not, in isolation, mean that the investor delegated its decision-making authority to the fund manager. Concluding that an investor holds all the decision-making rights of a fund manager solely because—or automatically when—the fund manager is an agent could result in outcomes that are inconsistent with the control model in IFRS 10.

Consequently, the Committee concluded that the investor—being the only investor in the fund other than the fund manager—is not automatically deemed to have delegated its decision-making authority to the fund manager if the fund manager is an agent.

The Committee observed that assessing whether the investor described in the fact pattern controls the fund requires consideration of all facts and circumstances. The investor would assess whether it has all 3 elements of control set out in paragraph 7 of IFRS 10.

Paragraphs 10–18 of IFRS 10 and paragraphs B2–B72 of Appendix B to IFRS 10 include requirements the investor would apply in making this determination.

**Conclusion**

The Committee concluded that the principles and requirements in IFRS 10 provide an adequate basis for the investor—being the only investor in a fund other than the fund manager—to assess whether it is automatically deemed to have delegated its decision-making authority to the fund manager if the fund manager is an agent. Consequently, the Committee [decided] not to add a standard-setting project to the work plan.

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## Appendix B—Outreach request and response summary

### **Questions asked**

- B1. The request asked respondents to provide their input on the following questions:
- (a) are fact patterns such as the one described in the submission (that is, a fixed-term and single-investor fund in which the single investor does not have the ability to remove or replace the fund manager except for cause) common?
  - (b) have you observed differences in how entities with similar fact patterns assess whether they have control over such funds? If yes, please describe these differences with reference to the relevant requirements in IFRS Accounting Standards.
  - (c) if you have observed such differences:
    - (i) do these differences have (or could have) a *material* effect on the entities' financial statements?
    - (ii) are such differences present and similar across all jurisdictions and industries, or is it only evident in particular jurisdictions or industries? Please identify those jurisdictions or industries.
    - (iii) what is the root cause of the differences? For example, are the differences caused by differences in the underlying contractual terms and conditions of the funds, or by differences in interpreting the relevant requirements in IFRS Accounting Standards.

### **Response summary**

- B2. We received 21 responses:
- (a) nine from national accounting standard-setters;
  - (b) seven from accounting firms;
  - (c) two from organisations representing groups of regulators; and

- (d) three preparers (including two from members of the Committee representing preparers).

B3. The responses received represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.

*Are such fact patterns common?*

B4. Many respondents say fact patterns such as the one described in the submission are:

- (a) not common; or
- (b) exist but are not widespread and/or arise only occasionally.

B5. However, many other respondents say fact patterns such as the one described in the submission are common and are seen in the asset management, banking, real estate, infrastructure, insurance and private equity industries. One national standard-setter (in Asia-Oceania) says similar fact patterns are common in overseas investment arrangements. It is not always clear from these respondents' replies if they are referring to the prevalence of fixed-term and single-investor funds more generally or to fixed-term and single-investor funds of the type described in the submission (that is, a fixed-term and single-investor fund in which the single investor (a) was not involved in determining the fund's purpose and design; and (b) does not have the ability to remove or replace the fund manager except for cause).

*Have differences in practice been observed and what is the cause of those differences?*

B6. Some respondents who say fact patterns such as the one described in the submission are common say they have not observed differences in how entities assess control in similar fact patterns.

B7. However, most respondents who say fact patterns such as the one described in the submission are common say they have observed differences in how entities assess control in these fact patterns. A number of these respondents say differences result from differences in facts and circumstances and the application of judgement.

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However, a number of these respondents also say that—similar to the two views described in the submission (see paragraph 11)—there are differences in how entities read the relevant requirements when considering whether delegated decision-making rights should automatically be treated as rights held by the single investor when the fund manager is deemed to be an agent.

*Do the differences have (or could have) a material effect?*

B8. Of the respondents who have observed differences in practice almost all say the differences have (or could have) a material effect on entities' financial statements.

These respondents say for example that:

- (a) different consolidation conclusions could result in significantly different presentation of assets, liabilities, income and expenses; and
- (b) the effect could be material in industries where such structures are common, particularly banking, insurance and asset management.

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## Appendix C—The submission

C1. We have reproduced the submission below.

### **Subject: Consultation on Control Assessment under IFRS 10 for Investment in a Fund managed by its General Partner**

We respectfully submit this consultation to seek the Committee's guidance on the application of IFRS 10 – Consolidated Financial Statements – involving an investor holding substantially all direct economic interest in a private fund, where all decision-making authority rests with the General Partner (GP).

The fact pattern presented in Appendix is closely aligned with Examples 14 and 14A of IFRS 10, paragraph B72, and is intended to highlight interpretive challenges in determining control when a single investor has significant economic exposure but lacks substantive rights over the fund's relevant activities.

### **Scenario Summary and Accounting Issue**

In the scenario presented, the GP independently manages the relevant activities of the investees without requiring approval from the investor. The investor holding the direct economic interest does not possess substantive rights to influence or remove the GP. Consequently, the GP is vested with full decision-making power over the investees' operations and activities. This includes the appointment of key management personnel, the design and strategic direction of the fund, and the execution of all operational decisions.

The investor, despite being the only Limited Partner (LP) in the fund, lacks the rights to remove or replace the GP or to directly influence the activities that affect the fund's returns. In practice, the absence of substantive removal or substitution rights implies that the investor remains invested in Fund X with no practical ability to replace the GP as decision-maker for the contractual life of the fund, irrespective of the fund's performance, other than in limited 'for cause' circumstances. The GP's authority encompasses all aspects of the fund's management, including but not limited to:

- **Investment Decisions:** The GP has exclusive authority to make decisions regarding the investigation, evaluation, selection, negotiation, structuring, commitment to, monitoring of, and disposition of portfolio investments.
- **Operational Control:** The GP controls the formulation of investment policies and strategies, the entering into various contracts and agreements and the amount and timing of distributions.
- **Financial Authority:** The GP has the power to borrow money, issue guarantees, and secure the fund's assets, giving it significant financial and operational control over the fund's day-to-day activities.

While the GP holds full decision-making authority and may be viewed as an agent under IFRS 10 (based on its limited exposure to variable returns and customary remuneration), we do not believe this automatically results in the Limited Partner being considered the principal. Paragraph B59 clarifies that a decision maker's classification as an agent does not in itself imply that another party controls the investee. The assessment of control must still consider whether the other party (in this case, the LP) has power over relevant activities, exposure to variable returns, and the ability to use that power to affect those returns. In the scenario presented, the LP lacks substantive rights over relevant activities and cannot remove or direct the GP, calling into question whether the criteria for control under IFRS 10 are met, despite its significant economic exposure.

### **Diversity in practice**

We note that there is diversity in practice in applying IFRS 10 to similar scenarios, where some entities consolidate similar structures based on economic interest alone, while others focus on the limited decision-making authority of the investor, or the lack thereof. Given that the investor lacks any substantive power to affect the funds' activities or returns, we believe this raises a valid question as to whether consolidation is appropriate under IFRS 10, despite being the only LP in the Fund.

We also observe diversity in views among the Big Four accounting firms when interpreting similar fact patterns. While some firms acknowledge that the absence of substantive decision-making rights by the investor should preclude control under IFRS 10, others place greater emphasis on the level of economic exposure. In particular, certain firms have argued that where an investor holds more than 80% of the investee's equity, the General Partner may be viewed as lacking sufficient exposure to variable returns to be considered a principal. As a result, the General Partner is characterised as an agent and the sole Limited Partner as the principal, by applying the guidance in IFRS 10 paragraphs B58 to B72. On this basis, the Limited Partner would be required to consolidate the fund, even in the absence of substantive rights over the relevant activities.

We have also identified divergence in interpretation among different IFRS technical desks within the same global audit firms, where jurisdictional practices or internal precedent may influence the conclusion reached. This inconsistency presents challenges for preparers, auditors, and users of financial statements in ensuring comparability and faithful representation. This inconsistency creates challenges for preparers, auditors, and users of financial statements in ensuring comparability and faithful representation.

In this context, in our view two prevailing interpretations have developed in practice:

- View 1: Even though the GP is considered an agent and acts for the benefit of the LPs, the LP is not viewed as the principal—and therefore not the controlling party—for IFRS 10 purposes. The LP investor does not control the fund as they have neither the ability to make decisions about relevant activities nor any decision-making rights to delegate, as required under paragraph B58. Consequently, even if there is only one LP, they would not consolidate the fund due to the absence of power and the linkage

required by IFRS 10.7 (the ability to use power to affect returns); instead, the investor applies IFRS 12 to disclose the relevant facts and significant judgments.

- View 2: In contrast, this view considers the GP as an agent of the LPs, and therefore the LPs are deemed to have power as principals, having delegated their authority to the GP. Applying paragraph B59, the decisions made by the GP over the relevant activities are treated as decisions made on behalf of the LPs. As such, where there is only one LP, that investor would be deemed to control the fund and be required to consolidate it.

### **Practical implications**

The absence of clear guidance in IFRS 10 on whether a Limited Partner with no substantive rights but significant economic exposure should consolidate a fund—especially in single-investor structures—creates material challenges for reporting entities. These include:

#### *Operational and Reporting Burden*

Requiring consolidation of an investee fund based solely on economic exposure would impose a disproportionate burden on entities, particularly when the investor has no ability to direct the relevant activities of the fund. In such cases, consolidation:

- Requires the investor to obtain detailed financial information from the fund, including underlying asset-level data.
- Necessitates aligning accounting policies and reporting timelines, which may be impractical in investment fund structures not designed for such integration.
- Leads to additional audit requirements and time-consuming consolidation procedures, often without providing more relevant information to users of the financial statements.

#### *Audit Risk and Financial Statement Restatement*

The lack of interpretative consistency across major audit firms (including the Big Four) increases the risk of differing conclusions in practice. In jurisdictions where mandatory audit firm rotation is required:

- A change in auditor could lead to a reassessment of control conclusions.
- If the new auditor takes a divergent view on the consolidation of material investees, the entity may be forced to restate previously issued financial statements, undermining comparability and eroding investor confidence.
- Such restatements can have knock-on effects on covenants, regulatory filings, and investor reporting.

#### *Access to Information and Control Limitations*

Entities classified as Limited Partners often lack the legal or practical ability to access timely and detailed financial information from funds managed by independent international fund managers:

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- These fund managers typically operate under confidentiality obligations and may refuse to provide entity-level reporting packages, particularly where the investor does not have control or governance rights.
  - This creates reporting delays and increases the risk of non-compliance with local financial reporting timelines.
  - It may also lead to qualified audit opinions if the entity is unable to consolidate an investee that the auditor considers should be consolidated based on economic exposure alone.

### **Request for Guidance**

We respectfully seek clarification from the Committee on the following:

- In a fund structure where a single Limited Partner holds the economic interest in the Fund's net assets and the General Partner retains full decision-making authority—including having determined the Fund's purpose and design—and where the GP has minimal exposure to variable returns (limited to market-based management fees and performance-based carried interest), does this necessarily result in the GP being classified as an agent and the LP as a principal under IFRS 10?

If so, would the LP be required to consolidate the Fund, even in the absence of substantive rights over the relevant activities?

Given the diversity in practice in the application of IFRS 10 to similar scenarios, we would appreciate the Committee's guidance to ensure consistent interpretation and application of the standard in such circumstances.

[...]

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**APPENDIX [to the submission] —INVESTMENT IN PRIVATE FUND**

The following scenario is based on the fact pattern presented in Examples 14 and 14A of IFRS 10.B72, adapted to reflect the characteristics typically observed in sovereign funds structures involving single-LP co-investment funds.

A fund manager (GP Manager Ltd) establishes, markets, and manages a private equity Co-Investment Fund (Fund X), structured as a limited partnership. The purpose of Fund X is to provide investment opportunities to a number of institutional investors.

Investor A, a Sovereign Fund, subscribes 99.99% of the total commitments in Fund X. The fund manager, acting as General Partner (GP), holds a 0.01% equity interest and is entitled to:

- 1.5% annual management fee based on assets under management, and
- 20% of the fund's profits as carried interest, provided certain thresholds are met.

The General Partner has broad and exclusive authority to direct the relevant activities of Fund X. This includes investment decisions, selection and disposal of portfolio companies, and operational matters such as appointing Key personnel, contracting, borrowing, and policy setting. All such authority is exercised under the terms of a Limited Partnership Agreement (LPA), which also requires that the GP acts in the best interests of all investors.

Investor A has no voting or decision-making rights over the relevant activities. Its influence is limited to protective rights.

The fund manager's remuneration is commensurate with the services provided and aligns its interests with those of the investors. However, the performance fees and minor equity interest do not create exposure to variability of returns that is of such significance as to indicate that the fund manager is a principal. The GP also has no obligation to fund losses beyond its small ownership stake.

Investor A cannot remove the fund manager at will. The GP can only be removed by the investors for cause, such as a breach of contract, wilful misconduct, or gross negligence. This right is considered protective under IFRS 10. As a result, Investor A remains invested in Fund X with no practical ability to replace the GP as decision-maker for the full contractual life of the fund, irrespective of the fund's performance, other than in limited 'for cause' circumstances.

The analysis below sets out the assessment underpinning View 2. View 1, which would result in Investor A being required to fully consolidate Fund X based solely on its economic exposure, is not further developed in this Appendix.

### *Control Assessment*

Although the fund manager has wide decision-making discretion, it is required to act in the best interests of all investors and does not have a significant exposure to variability of returns.

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The fixed and performance-based fees, and the 0.01% equity interest, do not create sufficient exposure to returns to suggest the GP is acting as a principal.

The protective removal rights held by investors do not constitute substantive rights. Similarly, Investor A, despite its economic exposure, does not hold power over relevant activities, and its rights are protective in nature.

### *Conclusion*

Consistent with IFRS 10.B72, Examples 14 and 14A, the fund manager:

- Directs the relevant activities, but is acting as an agent, not a principal;
- It has limited exposure to variable returns;
- Therefore, does not control the fund.

Likewise, although Investor A holds a significant economic interest in Fund X, this alone does not confer control under IFRS 10. As outlined in paragraphs B18–B20, assessing whether rights are sufficient to confer power requires consideration of whether the investor has the practical ability to direct the relevant activities. In this scenario:

- Investor A has no ability to appoint key management, direct significant transactions, or dominate the governance process;
- The General Partner retains exclusive authority over all activities that significantly affect the Fund's returns;
- Investor A cannot override or influence the GP's decisions in practice.

Moreover, per IFRS 10.17, control also requires that power be used to affect the amount of returns. Even if Investor A were viewed as having some rights, it does not have the current ability to use those rights to influence how returns are generated. The GP alone manages investment, leverage, distributions, and exit strategy—all of which are the key drivers of returns.

Therefore, consistent with IFRS 10's control framework, Investor A does not control the Fund, as it lacks both substantive power and the ability to use that power to affect returns.

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## Appendix D—Example 14 and 14A of IFRS 10

D1 Example 14 and 14A of IFRS 10 state:

### Example 14

A decision maker establishes, markets and manages a fund that provides investment opportunities to a number of investors. The decision maker (fund manager) must make decisions in the best interests of all investors and in accordance with the fund's governing agreements. Nonetheless, the fund manager has wide decision-making discretion. The fund manager receives a market-based fee for its services equal to 1 per cent of assets under management and 20 per cent of all the fund's profits if a specified profit level is achieved. The fees are commensurate with the services provided.

Although it must make decisions in the best interests of all investors, the fund manager has extensive decision-making authority to direct the relevant activities of the fund. The fund manager is paid fixed and performance-related fees that are commensurate with the services provided. In addition, the remuneration aligns the interests of the fund manager with those of the other investors to increase the value of the fund, without creating exposure to variability of returns from the activities of the fund that is of such significance that the remuneration, when considered in isolation, indicates that the fund manager is a principal.

The above fact pattern and analysis applies to examples 14A–14C described below. Each example is considered in isolation.

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#### Example 14A

The fund manager also has a 2 per cent investment in the fund that aligns its interests with those of the other investors. The fund manager does not have any obligation to fund losses beyond its 2 per cent investment. The investors can remove the fund manager by a simple majority vote, but only for breach of contract.

The fund manager's 2 per cent investment increases its exposure to variability of returns from the activities of the fund without creating exposure that is of such significance that it indicates that the fund manager is a principal. The other investors' rights to remove the fund manager are considered to be protective rights because they are exercisable only for breach of contract. In this example, although the fund manager has extensive decision-making authority and is exposed to variability of returns from its interest and remuneration, the fund manager's exposure indicates that the fund manager is an agent. Thus, the fund manager concludes that it does not control the fund.