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**INTERPRETATION OF  
STATUTORY BOARD  
FINANCIAL  
REPORTING STANDARD**

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**INT SB-FRS 12**

**Consolidation—Special Purpose Entities**

This version of the Interpretation of Statutory Board Financial Reporting Standard does not include amendments that are effective for annual periods beginning after 1 January 2013.

## INT SB-FRS 12

Interpretation of Statutory Board Financial Reporting Standard 12 Consolidation—Special Purpose Entities (INT FRS 12) is set out in paragraphs 8–10. INT FRS 12 is accompanied by an implementation guidance. The scope and authority of Interpretations are set out in the *Preface to Statutory Board Financial Reporting Standards*.

**FOR THE IMPLEMENTATION GUIDANCE ACCOMPANYING INT SB-FRS 12, SEE SEPARATE DOCUMENT.**

# Interpretation of Statutory Board Financial Reporting Standard 12 *Consolidation—Special Purpose Entities*

## References

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- SB-FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- SB-FRS 19 *Employee Benefits*
- SB-FRS 27 *Consolidated and Separate Financial Statements*
- SB-FRS 32 *Financial Instruments: Presentation*
- SB-FRS 102 *Share-based Payment*

## Issue

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- 1 An entity may be created to accomplish a narrow and well-defined objective (eg to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ('SPE') may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called 'autopilot').
- 2 The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ('capital providers') may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.
- 3 A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's equity.
- 4 SB-FRS 27 requires the consolidation of entities that are controlled by the reporting entity.  
However, the Standard does not provide explicit guidance on the consolidation of SPEs.
- 5 The issue is under what circumstances an entity should consolidate an SPE.
- 6 This Interpretation does not apply to post-employment benefit plans or other long-term employee benefit plans to which SB-FRS 19 applies.
- 7 A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of SB-FRS 27 and this Interpretation may mean that the entity should consolidate the SPE. This Interpretation does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

## Consensus

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- 8 An SPE shall be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.
- 9 In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on 'autopilot') or otherwise. SB-FRS 27.13 indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors.
- 10 In addition to the situations described in SB-FRS 27.13, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance accompanies this Interpretation):
- (a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;
  - (b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
  - (c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
  - (d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.
- 11 [Deleted]

## Effective Date

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This Interpretation becomes effective for annual financial periods beginning on or after 1 January 2006. Changes in accounting policies shall be accounted for in accordance with SB-FRS 8.