



New Zealand Equivalent to SIC Interpretation 12

Consolidation—Special Purpose Entities (NZ SIC-12)

Issued November 2004 and incorporates amendments up to and including 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*

This Interpretation was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

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NZ SIC-12

New Zealand Equivalent to SIC Interpretation 12 *Consolidation–Special Purpose Entities* (NZ SIC-12) is set out in paragraphs 8–10.

NZ SIC-12 should be read in the context of the Basis for Conclusions on SIC-12 and the IASB’s Appendix to SIC-12.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

Reduced Disclosure Regime

Tier 2 for-profit entities must comply with all the provisions in NZ SIC-12.

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Consolidation—Special Purpose Entities (NZ SIC-12)

References

- NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- NZ IAS 19 *Employee Benefits*
- NZ IAS 27 *Consolidated and Separate Financial Statements*
- NZ IAS 32 *Financial Instruments: Presentation*
- NZ IFRS 2 *Share-based Payment*

Issue

- 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 NZ IAS 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 NZ IAS 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 NZ IAS 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

- 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. NZ IAS 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 NZ IAS 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 is provided in the Appendix to 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 by IASB]

Basis for Conclusions on SIC-12

12–15E [Paragraphs 12–15E do not form part of NZ SIC-12.]

Effective Date

This Interpretation becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Interpretation is permitted only when the entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

Changes in accounting policies shall be accounted for in accordance with NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Framework: Tier 1 and Tier 2 For-profit Entities, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.

Appendix to SIC-12

[This appendix does not form part of NZ SIC-12.]

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ SIC-12 Consolidation—Special Purpose Entities

This table lists the pronouncements establishing and substantially amending NZ SIC-12. The table is based on amendments approved as at 30 November 2012 other than consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*.

Pronouncements	Date approved	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ SIC-12 Consolidation—Special Purpose Entities	Nov 2004	1 Jan 2005	1 Jan 2007
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> ¹	Nov 2012	Early application permitted	1 Dec 2012

Table of Amended Paragraphs in NZ SIC-12

Paragraph affected	How affected	By ... [date]
Effective date	Amended	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]

¹ This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.