



Solution 121.36

Component	Investment entities
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Short Title	Consolidation by GP – limited economic benefit

Attention: This guidance is based on the revised standards and interpretations that are mandatory for accounting periods commencing 1 January 2005. A company may early adopt an individual revised standard, but only in its entirety. Guidance based on the previous version of the standards is included in the “Applying IFRS 2004” guidance.

Issue

A parent shall present consolidated financial statements in which it consolidates its investments in subsidiaries [IAS27R.9].

A subsidiary is an entity, including an unincorporated entity such as a partnership, which is controlled by another entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities [IAS27R.4].

Background

Company A is the general partner of a limited partnership. Company A governs the financial and operating policies of the limited partnership on behalf of the limited partners who are restricted by local law from participating in the management of the limited partnership. In addition, the limited partners have no right to remove or replace company A as the general partner.

Company A has no investment in the limited partnership but receives an annual fee equal to 1.5% of the net assets of the partnership for management services provided to the partnership.

Is company A required to consolidate the limited partnership?

Solution

No. As long as the fee that company A receives is a market rate for the services provided, company A will not be required to consolidate the limited partnership. This is because company A is governing the financial and operating policies of the partnership in a fiduciary capacity for the benefit of the limited partners rather than for its own benefit.