



Solution 121.38

Component	Investment entities
Index	The Group
Short Title	Consolidation by GP – No right of removal of the GP

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. The limited partners have no right to remove or replace company A as the general partner.

In addition to receiving an annual management fee equal to 1.5% of the net assets of the partnership, company A has a 5% investment in the partnership as a limited partner.

Is company A required to consolidate the limited partnership?

Solution

Yes. Company A can not be removed or replaced therefore it has the power to govern the financial and operating policies of the limited partnership. In addition, company A obtains benefit from this activity through its 5% stake in the partnership.