



Solution 121.57

Component	Investment entities
Index	The group
Short title	Consolidation of Limited Partnership by the General Partner

Issue

A parent shall present consolidated financial statements in which it consolidates its investments in subsidiaries [IAS27.9(R.05)].

A subsidiary is an entity, including an incorporated 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 [IAS27.4(R.05)].

Should a management company consolidate an investment fund that it controls even if it does not hold the majority of the share capital in issue / voting rights?

Background

Company A serves as a manager to an investment fund. Company A has a 10% investment in the investment fund and receives a 1% management fee and a 20% incentive allocation. The investors XYZ hold the remaining 90% of the fund. The investment objectives are very broad. It is written that the fund can be invested in equity interests around the world. The investment fund agreement states that company A governs the financial and operating policies of the fund. The investors XYZ have no right to remove or replace company A as manager of the fund. One of the investors, Y, owns 60% of the fund. These shares have no voting rights.

Should company A consolidate the investment fund?

Solution

Yes. Company A should consolidate the fund despite its minority holding.

Company A controls the financial and operating policies of the fund and the investors are in no position to exercise any formal influence or control. Furthermore, company A has a 10% interest and receives benefits out of its controlling activity.