

# IAS Plus Update.

## Revised Exposure Draft on disclosure of relationships with the state

On 11 December 2008, the International Accounting Standards Board (IASB) published an Exposure Draft (the 2008 ED) proposing to amend IAS 24 **Related Party Disclosures**. The 2008 ED addresses the disclosure of 'relationships with the state', with the objective of simplifying the disclosure requirements that apply to state-controlled entities under the existing IAS 24.

Comments on the 2008 ED are requested by 13 March 2009.

### Background

The current version of IAS 24 contains no specific guidance for state-controlled entities. In February 2007, the IASB published an Exposure Draft (the 2007 ED) – which proposed an exemption from the disclosure requirements in IAS 24 for entities controlled, jointly controlled or significantly influenced by a state ('state-controlled entities') in relation to transactions with other state-controlled entities. The proposed exemption would have applied if (a) neither entity actually influenced the other entity, and (b) the state did not actually influence either entity with regard to transactions between them.

Many respondents to the 2007 ED were of the view that the proposed exemptions were insufficient and that the revised Standard would have been too complex to apply in practice. As a result, the IASB has revised its proposals.

The 2007 ED also proposed amendments to the definition for a related party (please refer to our *March 2007 newsletter*). Respondents generally supported the new definition and the 2008 ED includes a similar definition for a related party, with proposals for one further amendment.

### Revised proposals

The 2008 ED proposes:

- a modified exemption from the disclosure requirements of IAS 24 for state-controlled entities; and
- a revised definition for 'related party'.

### Modified exemption for state-controlled entities

The 2008 ED proposes that, under a new paragraph 17A, a reporting entity would be exempt from the disclosure requirements set out in paragraph 17 of IAS 24 (subject to additional explanatory disclosures as set out below) in relation to:

- a state that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.

Therefore, transactions with such related parties would not fall within the general disclosure requirements of IAS 24, regardless of the extent of influence actually exercised in the relationships.

However, in respect of transactions exempted from disclosure under the new paragraph 17A, the revised Standard would require the reporting entity to disclose the following information:

- the name of the state and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);

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- the types of individually or collectively significant transactions with the state or such entities and a qualitative or quantitative indication of their extent; and
- the fact that the state or such entities are related parties as defined in IAS 24 but, as permitted by paragraph 17A, disclosures about related party transactions do not cover transactions with that state or those entities.

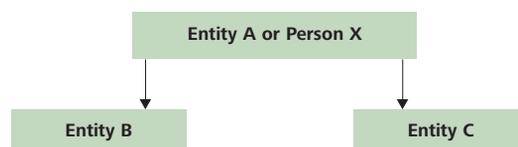
#### Revised definition for 'related party'

The proposed revised definition for a related party is included in an Appendix to this newsletter. As compared to the definition proposed in the 2007 ED, the 2008 ED addresses various minor inconsistencies and makes one further amendment. This amendment would treat two entities as related to each other whenever a person or a third entity has joint control over one entity and that person (or a close member of that person's family) or the third entity has joint control or significant influence over the other entity or has significant voting power in it. This circumstance was inadvertently omitted from the 2007 ED.

The IASB regards all other aspects of the definition proposed in the 2007 ED as final and seeks no further comment on them.

Two examples of relationships affected by the additional circumstances brought within the scope of IAS 24 are set out below.

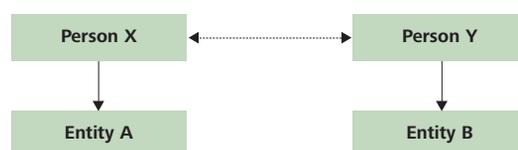
#### Example 1: Entity or person with joint control



Entity A or Person X has (a) joint control over Entity B and (b) joint control or significant influence over Entity C.

Under the 2008 proposals, in both Entity B's and Entity C's financial statements, Entity B and Entity C would meet the definition of related parties.

#### Example 2: Close member of the family of person with joint control



Person X is a close member of Person Y's family. Person X has joint control over Entity A and Person Y has joint control or significant influence over Entity B or significant voting power in it.

Under the 2008 proposals, in both Entity A's and Entity B's financial statements, Entity A and Entity B would meet the definition of related parties.

## Appendix

### Revised definition of a related party proposed in the 2008 ED

A related party is a person or entity that is related to the entity that is preparing its financial statements (in [IAS 24] referred to as the 'reporting entity').

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity;
  - ii) has control over the reporting entity; or
  - iii) has joint control or significant influence over the reporting entity or has significant voting power in it.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).
  - iii) both entities are joint ventures of a third party.
  - iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.
  - vi) the entity is controlled or jointly controlled by a person identified in (a).
  - vii) a person identified in (a)(i) has significant voting power in the entity.
  - viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.
  - ix) a person or a close member of that person's family (A) has significant influence over the entity or significant voting power in it and (B) has joint control over the reporting entity.
  - x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

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