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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 24 January 2007, London

Project: Amendments to IAS 24 *Related Party Disclosures*

Subject: Sweep issues arising from the pre-ballot draft
(Agenda Paper 5)

INTRODUCTION

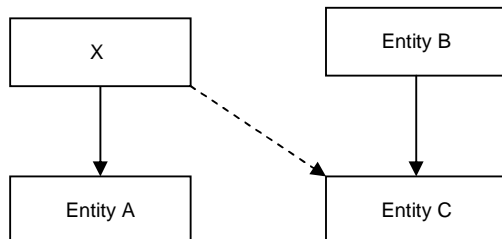
1. In December 2006, the staff issued a pre-ballot draft of Amendments to IAS 24 *Related Party Disclosures – State-controlled Entities and the Definition of a Related Party* (the 'exposure draft') for Board members to review. Before proceeding to a ballot draft, the staff would like the Board to consider some sweep issues that have arisen from the pre-ballot process.
2. This paper will address issues relating to:
 - (i) illustrative example 2;
 - (ii) paragraph 17A (c);
 - (iii) the definition of a related party transaction; and
 - (iv) the comment period.

DISCUSSION

Example 2 – Key Management Personnel

3. Example 2 in the Illustrative Examples states the following:

IE8. A person, X, holds a 100 per cent investment in Entity A and is a member of the key management personnel of Entity C. Entity B holds a 100 per cent investment in Entity C.



IE9. In Entity C's financial statements¹, Entity A is a related party of Entity C because X controls Entity A and is a member of the key management personnel of Entity C. [Refer: IAS 24 paragraph 9(b)(v)(A)–(9)(a)(i)]

IE10. Entity A is also a related party of Entity C if X is a member of the key management personnel of Entity B. [Refer: IAS 24 paragraph 9(b)(v)(A)–(9)(a)(i)]

IE11. Further, Entity A is a related party of Entity C if X holds only joint control, significant influence or significant voting power over Entity A. [Refer: IAS 24 paragraph 9(b)(v)(A)–(9)(a)(i)]

IE12. In Entity A's financial statements, Entity C is not a related party of Entity A.

4. Several Board members raised concerns that paragraph IE12 highlights an inconsistency in IAS 24. If Entity A is a related party of Entity C, then on the same basis several Board members believe that Entity C should be a related party of Entity A. The staff agrees with this assessment. The current definition of a related party does not include such situations. Thus, the staff suggests an amendment to the definition to include such relationships.

5. **Does the Board agree that in Entity A's financial statements, Entity C should be included as a related party?**

¹ In examples 2 and 3, financial statements is referring to either the individual, separate or consolidated financial statements.

Paragraph 17A (c) – is this operable?

6. A Board member has asked whether paragraph 17A (b) is operable. Paragraph 17A of the exposure draft states:

‘A reporting entity is exempt from the disclosure requirements of paragraph 17 in relation to an entity that:

- (a) is a related party only because the reporting entity is controlled or significantly influenced by a state and the other entity is controlled or significantly influenced by that state; and
- (b) nothing has come to the attention of the reporting entity that would indicate that the reporting entity influenced, or was influenced by, that entity.’

There is a concern that the requirement in paragraph 17A (b) might not be adhered to in the spirit in which it is written. Entities could merely state that they are unaware of the existence of any indicators and will not go looking for such indicators – ie the less I know the better off I am.

7. To overcome this concern the staff reason that paragraph 17A (b) could be redrafted to place a greater burden on the reporting entity to become aware of indicators if they exist. The wording would ensure that an entity is not able to ignore indicators that they ought to be aware of.
8. The staff believe there are three alternatives for the wording of paragraph 17A (b), either:
- (a) continue with the suggested wording placing no burden of proof on the reporting entity – ie a sentence stating that ‘nothing has come to the attention of the reporting entity’;
 - (b) a requirement that places a greater burden on the entity, where indicators might exist, and the entity ought to be aware of the existence of the indicators, then the exemption will not apply; or
 - (c) a neutral statement – ie a sentence stating ‘there are no indicators that the reporting entity influenced or was influenced by the entity’.

9. **Does the Board agree that paragraph 17A (b) should be amended to focus on the existence of indicators rather than whether they have come to the attention of the entity?**

What types of transactions are included in the definition of a related party transaction?

10. The exposure draft states that the definition of a related party transaction is:

‘a transfer of resources, services or obligations between an entity and a related party of that entity, regardless of whether a price is charged’.

A Board member has questioned whether the following qualify as a ‘transfer of resources’:

- (a) an entity enters a commitment to do something in the future with a related party if a particular event takes place; or
 - (b) an entity enters a forward contract to buy goods at a specified price from a related party but no cash changes hands until a future date?
11. In many situations, at the time of entering the commitment, there might not be a transfer of resources, thus does IAS 24 require an entity to disclose them as related party transactions?
12. **The staff believes that transactions or commitments, which have a future settlement date, should be included in the definition of a related party transaction and therefore the staff recommends adding an example in paragraph 20 of IAS 24 to clarify this². Does the Board agree?**

Comment period

13. A Board member has suggested a preference that the exposure draft should have a comment period of only 90 days. The Due Process Handbook for the IASB paragraph 42 states:

‘The IASB normally allows a period of 120 days for comment on the exposure draft. If the matter is exceptionally urgent, the document is

² Paragraph 20 of IAS 24 lists a number of transactions that should be disclosed if they are with a related party.

short, and the IASB believes that there is likely to be a broad consensus on the topic, the IASB may consider a comment period of no less than 30 days. For major projects, the IASB will normally allow a period of more than 120 days for comments.'

14. The staff considers the amendments proposed in the exposure draft will be considered to be urgent for state-controlled entities attempting to comply with the current IAS 24 requirements. Further, the exposure draft is relatively short (in total 18 pages). [Remainder of paragraph omitted from observer note]
15. **For these reasons, the staff believes a 90 day comment period would be sufficient for the exposure draft. Does the Board agree?**