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International
Accounting Standards
Board

INFORMATION FOR OBSERVERS

Board Meeting: **November 2008, London**

Project: **Amendments to IAS 24 *Related Party Disclosures***

Subject: **Sweep issues arising from the pre-ballot draft (Agenda paper 13)**

INTRODUCTION

1. In October 2008, the staff issued a pre-ballot draft of proposed amendments to IAS 24 Related Party Disclosures – *State-controlled entities* (for re-exposure, '2008 ED') for the Board to review.

2. The staff would like the Board to consider the following sweep issues arising from the pre-ballot process:

   (a) the extent of transactions with a state or state-controlled entities; and

   (b) the comment period.

DISCUSSION

The extent of transactions with a state or state-controlled entities

3. Paragraph 17B of the pre-ballot draft requires a state-controlled reporting entity that is exempt from the disclosure requirements to disclose the following information about transactions with the state or other state-controlled entities that are related to it:

   (a) the name of the state and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);

   (b) the fact that the reporting entity has transactions with the state or such entities;

   (c) the extent of these transactions in total for the state and all such entities, either qualitatively (eg a significant portion) or quantitatively (eg about one quarter); and

   (d) the fact that such entities are related parties as defined in IAS 24 but, as permitted by paragraph 17A, disclosures about related party transactions do not include transactions with that state or those entities.

4. One Board member pointed out that the example in paragraph 17B(c) ‘a significant portion’ is not qualitative information but quantitative information. Examples of qualitative information would be the nature of transactions.

5. Another Board member suggested the following alternative wording for paragraph 17B(c):

   > The nature and extent of these transactions in total for the state and all such entities, either qualitatively (eg, a significant portion of the revenues and a minor portion of purchases made by the reporting entity is transacted with state controlled entities) or quantitatively (eg, about one quarter of the sales, about one half of the purchases of raw materials and about one tenth of other external production costs).

6. Paragraph 17B(c) was not intended to require detailed disclosure of transactions with the state or other state-controlled entities. In other words, that paragraph 17B does not require the reporting entity to identify every state-controlled entity, nor to quantify in detail transactions with such entities, because such a requirement would negate the exemption.

7. However, those comments in paragraphs 4 and 5 above imply that the current wording of paragraph 17B may not be clear enough to communicate the Board's intention, as expressed in paragraph 6.

8. Therefore, the staff recommends revising the paragraph 17B and adding a new paragraph 17C as follows:

> **17B However, a reporting entity shall disclose the following information about transactions with the state or other entities referred to in paragraph 17A:**
>
> > **(a) the name of the state and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);**
> >
> > **(b) the extent of transactions with the state or such entities; and**
> >
> > **(c) 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 include transactions with that state or those entities.**
>
> 17C To comply with the requirement in paragraph 17B(b), the reporting entity might, for example, disclose whether transactions with the state or other entities described in paragraph 17A are significant or insignificant. The reporting entity is not required to analyse those transactions by counterparty or by nature and need not provide detailed quantitative information about their extent.

9. For the new paragraph 17B above, the old paragraph 17B(b) –i.e. the fact that the reporting entity has transactions with the state or such entities - was removed because it is already covered by that old paragraph 17B(c) (ie that new paragraph 17B(b)).

10. ***Does the Board agree with the staff's recommendation in paragraph 8?***

The comment period

11. Paragraph 42 of the IASB's Due Process Handbook 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 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.

12. The staff originally assumed a comment period of 120 days for the 2008 ED, as normally recommended in the IASB's Due Process Handbook. This was because:

    (a) there is no urgent reason to shorten the period. Even if the comment period is shortened, the 2008 ED is expected to be published at the same period (ie in the second half of 2009); and

    (b) the expected comment period (from December 2008 to March or April 2009) is likely to be busy for respondents.

13. However, some Board members suggested 90 days *not* 120 days because the 2008 ED deals with a narrow issue with limited applicability and is not expected to particularly be controversial and the 2008 ED is relatively short (16 pages in total).

14. Therefore, the staff recommends shortening the comment period to 90 days. Also, the staff notes that the comment period of the 2007 ED[1] was 90 days although the shortened period was mainly aimed for publication of the final standard by the end of 2007 so that state-controlled entities could apply the exemption as early as possible. ***Does the Board agree with changing to a 90 day comment period?***

[1] Exposure Draft of proposed Amendments to IAS 24 Related Party Disclosures *State-controlled Entities and the Definition of a Related Party*, published in February 2007.