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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: 18 September 2008, London

Project: Amendments to IAS 24 *Related Party Disclosures*

Subject: Redeliberations: Follow-up issues – statement on use of exemption for state-controlled entities (Agenda paper 13C)

INTRODUCTION

1. The **purpose of this paper** is to discuss the issue ‘statement on use of exemption for state-controlled entities’, and ask the Board to make a decision about it. Paragraph 17E of the ED requires a state-controlled reporting entity to disclose a statement on use of the exemption for state-controlled entities proposed in the ED.
2. The staff originally addressed this issue in a paper for the January 2008 Board meeting – Agenda paper 8C, but deferred discussion of it.
3. The staff’s recommendations on this issue focus on principles, rather than detailed wording. The staff will work on the wording in drafting the final Standard.

DETAILED DISCUSSTION OF THE ISSUE

Statement on use of exemption for state-controlled entities

4. This issue is considered in the following order:
 - (a) The proposal in paragraph 17E of the ED
 - (b) Comments received on the ED
 - (c) The staff's analysis and recommendations

The proposal in paragraph 17E of the ED

5. Paragraph 17E of the ED proposed that a state-controlled entity should disclose a statement on use of the exemption for state-controlled entities as provided by the ED.17A. To reproduce the ED.17E:

17E When there are no indicators that the reporting entity influenced, or was influenced by, any other entity controlled or significantly influenced by the state, as provided by paragraph 17A, the reporting entity shall disclose a statement to that effect. When a reporting entity does not qualify for the exemption in paragraph 17A, it shall comply with all the disclosure requirements of this Standard for that related party.

Comments received on the ED

6. Two respondents asked for more guidance on the level of detail required to comply with paragraph 17E of the ED – i.e. a simple generic statement or more detailed statement.
7. A few respondents expressed the following concerns about the statement requirement in paragraph 17E of the ED:
 - (a) the requirement implies that an entity is able to identify all the entities controlled or significantly influenced by a common state which are related parties;
 - (b) in certain jurisdictions where compliance with accounting standards is a legal requirement, it is not feasible for such a statement to be made when the entity might not even be aware if it had comprehensively identified all related state-controlled entities;
 - (c) how extensively should a reporting entity search for all related parties about which it may not otherwise be aware?;

- (d) this proposal, if adopted, would impose an impractical burden on auditors to establish completeness; and
- (e) IAS 24.21 does not require disclosures that related party transactions were made at market-rates.

The staff's analysis and recommendations

- 8. The staff thinks that this issue could separate into the following three sub-issues:
 - (a) Whether to maintain this statement requirement as proposed in the ED.
 - (b) If maintaining this proposal, how to apply this statement requirement?
That is,
 - (i) whether to require a single statement covering all related parties or separate statements for each related party; and
 - (ii) whether to require a general statement or more detailed statement.
- 9. The staff notes the following:
 - (a) The reasons for the exemption for state-controlled entities.
 - In jurisdictions with a large number of state-controlled entities, it can be difficult to identify other entities that are controlled or significantly influenced by the state.
 - The cost of meeting the requirements in IAS 24 for state-controlled entities is not always offset by the benefit of increased information for users of financial statements.
 - Some states establish subsidiaries and associates to compete with each other.
 - (b) An indicator approach as a tool to implement the exemption.
 - A state-controlled reporting entity is exempt from disclosure requirements if there are no indicators that the reporting entity influenced, or was influenced by, the other state-controlled entity.
 - Review of whether actual influence existed between state-controlled entities is performed through an indicator approach - i.e. through an indicator identification process and then further judgement on whether influence exists.
 - (c) The reason for the statement requirement as explained in paragraph BC19 of the ED.
 - This statement requirement is intended to ensure that entities affirm their assessment of all known facts.

10. For the sub-issue in paragraph 8(a) above, the staff recommends that this statement requirement should be maintained, particularly noting that this statement requirement supports an indicator approach, and ensures that entities affirm their assessment of all known facts as explained in paragraph BC19 of the ED. ***Does the Board agree?***
11. For the sub-issue in paragraph 8(b)(i) above, it can be difficult for a reporting entity to identify all other state-controlled entities, in jurisdictions with a large number of state-controlled entities. Indeed, the Board adopted the indicator approach for this very reason. Therefore, the staff recommends that it would be appropriate to require a single statement covering all related parties, rather than separate statements for each related party. ***Does the Board agree?***
12. For the sub-issue in paragraph 8(b)(ii) above, the staff recommends that it would be appropriate to require a general statement to ensure that entities affirm their assessment of all known facts without imposing unnecessary burdens on entities. The general statement would be essentially the same as proposed in paragraph 17E of the ED, subject to drafting improvements. ***Does the Board agree?***