



Project	Related Party Disclosures
Topic	Comment Letter Analysis: Overview

Purpose of this paper

1. This paper provides a high level overview of responses to the exposure draft (ED) *Relationships with the State proposed amendments to IAS 24*¹, published on 11 December 2008 with a comment deadline of 13 March 2009.
2. Subsequent agenda papers provide more detail on the responses and questions for the Board.

Overview of responses

Questions in ED 2008

3. There were three questions in ED 2008:
 - (a) **Question 1** related to a proposed exemption from the disclosure in IAS 24 *Related Party Disclosures* for entities controlled, jointly controlled or significantly influenced by the state. It also asked for comments on the disclosure requirements when the exemption applies.
 - (b) **Question 2** related to a revision to the definition of a related party to incorporate situations of joint control over one entity combined with

¹ Referred to as ED 2008

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

joint control or significant influence over or significant voting power in another entity.

- (c) **Question 3** invited any other comments.

Characteristics of respondents

4. We received 75 responses:

	Academic	Accounting	Banks	Preparer	Public	Total
Africa		3				3
Asia Pacific (excl ANZ)		10	2	9	3	24
Australia/New Zealand		3		1	3	7
Europe		19	1	3	3	26
International		7			1	8
North America	1	1			3	5
South America	1	1				2
Total	2	44	3	13	13	75

5. We did not receive any comment letters from user groups.

Impact of the financial crisis

6. Many respondents observed that the current financial crisis had resulted in some governments taking significant, and sometimes controlling stakes in financial institutions. This had, in their view, heightened the need for full² disclosure of related party dealings that are not at arm's length with other entities significantly influenced or controlled by the same government.
7. The widening scope of the proposed exemption in terms of the increase in number of state-controlled entities, in their view, increased the need to consider the implications fully before the final standard is issued.
8. Many respondents commented that a revised IAS 24 is urgently needed.

² By 'full' staff mean the requirements in paragraph 17 of IAS 24.

Summary of responses to Question 1.

9. Respondents were generally in favour of the proposed exemption for state-controlled entities and supported the extension to transactions with the state itself.
10. They thought that the proposal was a pragmatic solution that met the objectives of IAS 24 without imposing unnecessary cost and burden on entities, especially those in countries where the volume of state-controlled entities is high.
11. A number of respondents thought that the proposed exemption was too broad in scope and did not believe that the existence of state control or influence alone should result in exemption when any of the other conditions listed in paragraph 9 (b) of ED 2008 applied. They thought this created an inconsistency between entities in the private and public sectors and placed the former at an unfair disadvantage.
12. While some respondents were in favour of the proposed disclosure requirements in paragraph 17B when the exemption applies, others thought that the disclosure requirements were too onerous and negated the exemption.
13. Other respondents argued that the disclosures should be restricted to instances where they help users understand the effect of significant related party transactions on the financial performance of the entities. To meet this objective, some respondents requested full IAS 24 disclosure where a 'special relationship' exists or where transactions are 'individually significant'. Some respondents thought a distinction should be made between transactions considered to be 'customary' and 'non customary'.
14. Agenda Paper 2B explores these issues in more detail and includes staff recommendations.

Summary of responses to Question 2.

15. Respondents generally approved of the proposal and thought that it provided clarification and eliminated inconsistencies in ED 2007.

16. Respondents agreed that a joint venture relationship increases the likelihood that transactions may be entered into on terms different from the market and that users should have access to information with which they can assess the reporting entity's operation.
17. Some respondents did not support the proposal and believed it to be unnecessary. In a joint venture relationship, they asserted, all venturers have a similar level of influence; no one entity has absolute influence.
18. Many respondents raised concerns about the cost and practicalities of obtaining the information required, especially in some international groups where the number of joint ventures and associates can be extensive.
19. Some respondents believed that it is difficult for an entity to access private information about individuals (including key management personnel and relatives), which would require the cooperation of others and involve issues of privacy infringement.
20. A number of respondents requested a definition of 'significant voting power', to distinguish clearly between 'significant voting power' and 'significant influence'.
21. Agenda Paper 2D explores responses to this question in more detail and includes staff recommendations.

Summary of other comments received

22. Many responses to question 3 raised issues that were the subject of previous Board deliberations. For example, some advocated the extension of the exemption proposal to other entities under common control or influence (i.e non-state controlled entities).
23. Many respondents thought that the 'rules-based' definition of a related party is still very complex and difficult to follow. One respondent noted that a principle-based definition might improve practice when actual fact patterns do not

conform to the specific requirements in the standard. We present an example of such a definition in Agenda Paper 2D.

24. Many respondents requested further guidance on definitions and clarification of requirements. We have summarised these in Agenda Paper 2E on Other Issues.