



Project	<b>Related Party Disclosures</b>
Topic	<b>Comment Letter Analysis: Definition of 'State'</b>

---

## Introduction

1. This paper analyses respondents' comments on the definition of 'state', which appeared in exposure draft (ED) *State-controlled Entities and the Definition of a Related Party*<sup>1</sup>:

A state is a national, regional or local government.

Paragraph 11A of ED 2007 supported this definition.

The term *state* in this Standard refers to any governing jurisdiction that has statutory or regulatory powers of government, whether that state is at a national, regional or local level.

2. This definition was not re-exposed in ED *Relationships with the State proposed amendments to IAS 24*.<sup>2</sup>
3. In this paper staff recommend that the definition of 'state' is replaced with the following definition of 'government' that appears in IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*:

'Government refers to government, government agencies and similar bodies whether local, national or international.'

---

<sup>1</sup> Referred to as ED 2007 in the paper.

<sup>2</sup> Referred to as ED 2008 in the paper.

---

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.

## Issues raised in comment letters

### *Replacing 'state' with 'government'*

4. One respondent thought that the term 'state' should be replaced by 'government' since this term was more widely used in IFRS literature.

### *Need for a more comprehensive definition*

5. Respondents requested a more comprehensive definition of 'state' since the exemption proposal is dependent on what is meant by 'state'. The existing definition, in their view, did not enable practitioners to make such an assessment.
6. Other respondents commented that the definition in ED 2007 is too restrictive and does not encompass the various structures and bodies through which governments operate in various countries.
7. Some respondents commented that it does not capture a 'supra-national' government, such as the European Union, or components of an internal 'federal' structure, in which each state / city has an independently elected government, bound together by a federal administration (such as in the US, Australia and Germany). They recommended that such variations should be included in a revised definition.

### *Treatment of agencies and regulators*

8. One respondent asked if the exemption would apply where entities are not controlled / influenced by government **directly**, but by an agency. Strictly speaking, they stated, this is neither a governmental body nor a private sector body.
9. Another respondent thought that the definition of government as a governing jurisdiction with statutory and regulatory competences might also apply to regulators. The respondent questioned whether such circumstances would fall within the scope of the proposed disclosure exemption.

***Use of judgment***

10. Some respondents thought that the Basis for Conclusions should state that judgment is required by the reporting entity when interpreting the meaning of ‘state’, since the meaning of, or authority of, the State may vary between countries and jurisdictions.

**Staff Analysis and recommendation**

***Replacing the definition with the one in IAS 20***

11. Staff recommend replacing the existing definition in ED 2007 with the one in paragraph 3 of IAS 20:

Government refers to government, government agencies and similar bodies whether local, national or international.

12. This recommendation:
  - (a) reduces confusion about whether the definitions for ‘state’ and ‘government’ capture the same thing
  - (b) eliminates inconsistencies with other IFRS literature
  - (c) addresses respondents’ concerns.

*Are ‘state’ and ‘government’ capturing the same thing?*

13. ‘State’ broadly incorporates all institutions of government that have sovereignty over a definite territory. In practice, staff believe that the terms ‘government’ and ‘state’ are used interchangeably.<sup>3</sup>

---

<sup>3</sup> *The Compact Oxford English Dictionary* defines ‘state’ as a nation or territory considered as an organized political community under one government. It defines ‘government’ as the governing body of a state.

14. The definition in IAS 20 of ‘government’ and the definition in ED 2007 of ‘state’ are very similar and illustrate that the Board is intending to capture the same notion.

*Usage in IFRS*

15. There is a precedent in IFRS literature for using ‘government’. The IFRS Glossary does not define ‘state’: it does however provide the IAS 20 definition for ‘government’.
16. There are limited references to ‘state’ in IFRS standards and those that exist are in the context of well defined terms, such as ‘**state** benefit plans’ in IAS 19 *Employee Benefits*.
17. In contrast, the term ‘government’ is widely used in other IFRSs including:
- (a) IAS 24 *Related Party Disclosures* that makes reference to ‘**government** departments and agencies’ (24.11(c)(iv)).
  - (b) IFRS 8 *Operating Segments* :  
  
....a **government** (national, state, provincial, territorial, local or foreign)<sup>4</sup>....(IFRS 8.34)
  - (c) IAS 19 in the context of state plans:  
  
operated by national or local **government** (19.37).
  - (d) IAS 28 *Investments in Associates* refers to instances:  
  
when an associate becomes subject to the control of a **government**...(28.10).
  - (e) IAS 31 *Interests in Joint Ventures* refers to when:  
  
an entity commences a business in a foreign country in conjunction with the **government** or other agency in that country...(31.26).
  - (f) IAS 32 *Financial Instruments: Presentation* refers to an entity including ‘**government** agencies’(32.14).

---

<sup>4</sup> Staff recommend that the definition in IFRS 8 is replaced by the one in IAS 20.

- (g) IAS 34 *Interim Financial Reporting* refers to ‘**governments**’ (34.1).
- (h) IAS 38 *Intangible Assets* refers to acquisition by way of ‘**government grant**’ (38.44).
- (i) IAS 41 *Agriculture* refers to ‘**government grants**’ (41.1).

*Addressing respondents’ concerns*

- 18. Staff believe that ‘supra-national’ and ‘federal’ governing structures are captured by the reference to ‘national’ and ‘international’ in the IAS 20 definition.
- 19. The IAS 20 definition also makes specific reference to government agencies.

**Question 1**

For the reasons stated in paragraphs 11 - 19, staff recommend that the definition of ‘state’ in ED 2007 is replaced with the definition of ‘government’ in IAS 20:

Government refers to government, government agencies and similar bodies whether local, national or international.

Does the Board agree?

***Provision of additional guidance***

- 20. In its review of the responses to ED 2007, the Board decided tentatively to retain the definition of ‘state’ that appeared in that ED and not provide more detailed guidance.
- 21. Staff believe that it is counter-productive providing a more granular ‘rules-based’ definition that attempts (but inevitably fails) to capture **every** conceivable government structure across **every** jurisdiction. Judgment is required by the reporting entity when applying the definition since every jurisdiction has its own way of organizing state-related activities and organizations.
- 22. The definition of ‘state’ should remain principles-based, capturing some key concepts such as statutory or regulatory power and governing jurisdiction. The

staff believes that the current definition in IAS 20 meets this requirement and that no further guidance should be provided.

**Question 2**

For the reasons stated in paragraphs 20 - 22, staff do not recommend the provision of additional guidance on how to interpret the meaning of 'government'.

Does the Board agree?