



Project	Related Parties
Topic	Other issues raised by respondents

Introduction

1. This paper gives an overview of comments received on the exposure draft *Relationships with the State*¹, other than those comments covered in other papers for this meeting.
2. This paper is for information only. The staff do not plan to ask the Board to discuss the issues in this paper because the Board has either discussed these issues before or they are beyond the scope of this project.

Other issues raised by respondents

Indirect relationships

3. One respondent asked the Board to clarify whether the requirements in paragraphs 9(b)(ii), (iii) and (iv) would cover indirect relationships. Using the Example 1 from the February 2007 exposure draft *State-controlled Entities and the Definition of a Related Party*², this can be illustrated by adding a subsidiary to one of the associates.

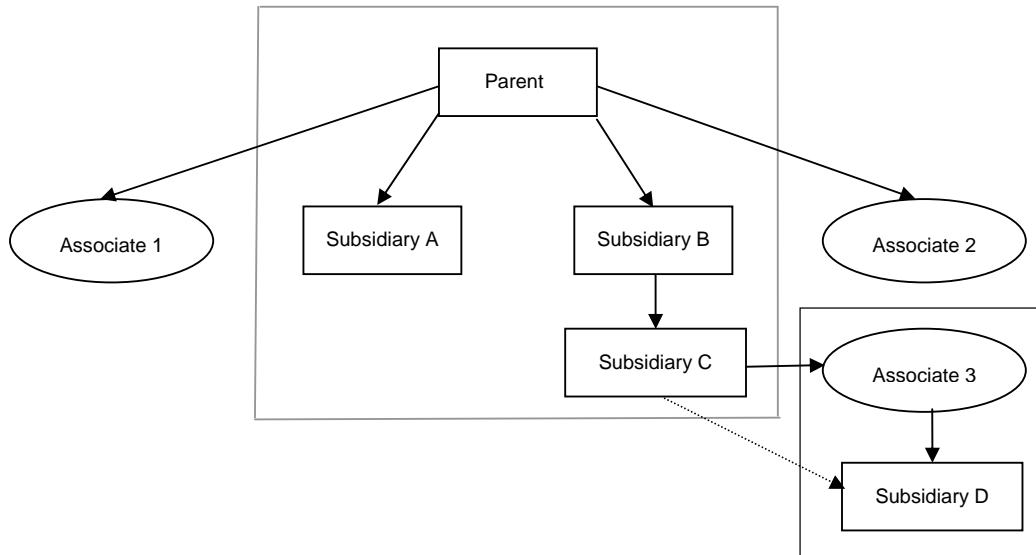
¹ Referred to as ED 2008.

² Referred to as ED 2007.

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.



4. The respondent's question is what the related parties of Subsidiary D would be. IE4 of the 2007 ED states that in the individual financial statements of Associates 1, 2 and 3, Parent and Subsidiaries A, B and C are related parties. Associates 1, 2 and 3 are not related to each other. *[(b)(ii)]*
5. In the individual financial statements of Subsidiary D the related parties would include Associate 3 based on 9(b)(i) however, under the proposed definition, Parent and Subsidiaries A, B and C would not be related parties.
6. As an example, the respondent suggests that paragraph 9(b)(ii) is changed to "either entity (or the parent of either entity) is an associate of or joint venture of the other entity (or a member of a group of which the other entity is a member)". This will include the Parent and Subsidiaries A, B and C as related parties.
7. The staff note that in November 2007 the Board decided to clarify that references to an associate include the associate's subsidiaries. This clarification was drafted as supporting paragraph 11B which was posted on the website however was not exposed as part of ED 2008:

11B In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the

investor that has significant influence over the associate are related to each other.

Whether an entity can be Key Management Personnel (KMP)

8. One respondent observed that IAS 24 assumes that 'personnel' are natural persons. This, it is claimed should be expanded to include entities and guidance should be provided when key management is in fact an entity.
9. The Board discussed this issue in September 2008 and decided that it was beyond the scope of the project.

Disclosure of key management personnel compensation

10. One respondent asked for guidance on what constitutes KMP compensation - whether it is the amount paid, payable or the expense. BC7 of the existing IAS 24 notes that IAS 19 *Employee Benefits* provides sufficient guidance but is not clear about whether it means the expense and whether (or how) actuarial gains or losses should be included. Also it does not specify whether the IFRS 2 *Share-based Payment* expense should be included.
11. The Board discussed disclosure of KMP compensation in November 2007 and decided that this issue was outside the scope of the project.

Significant influence

12. One respondent disagreed with the basic assumption in both ED 2007 and ED 2008 that significant influence is sufficient to affect transactions between the reporting entity and another party.
13. One respondent noted that it is difficult for an entity to have access to information about its parent's associates. Thus, this respondent argued that the subsidiary should not, in its separate financial statements, identify the associates of its parents as related parties.
14. However, another respondent noted that:
 - (a) two entities are treated as related to each other when one is an associate of the other, but
 - (b) two entities are treated as unrelated if both are associates of the same third entity. The respondent viewed this as inconsistent since, if the association is considered strong enough for the third entity to influence

the transactions of one of its associates, then it must be strong enough to influence the transactions of both of its associates.

15. The following paragraphs in the Basis for Conclusions on the 2007 ED explain the Board's decisions on these issues:
 - BC6 The Board concluded that the relationship between associates of an entity should not fall within the definition of a related party. This is because there is insufficient influence through the common investment in two associates to warrant concluding that they are related.
 - BC7 When a person has significant influence over an entity, and a close member of the family of that person has significant influence over another entity, subparagraph (f) of the definition of related party in IAS 24 defines those entities as related parties. However, on reconsideration the Board concluded that having common significant influence through a person and a close member of the family of that person does not create sufficient influence to conclude that they are related. Therefore, the Board proposes to amend the definition of a related party to remove situations in which the investor is a person and a close member of the family of that person.

Definition of 'close member of family'

16. Paragraph 9 (b)(ix) of ED 2008 refers to 'close member of that person's family'. Several respondents requested more guidance on how to apply this term, although some accepted that this would involve judgement.
17. ED 2008 leaves it up to the preparer to judge whether certain family ties constitute 'close members of the family'. A preparer, one respondent noted, may need inside information on the private lives of people to comply with this disclosure requirement.
18. Some respondents observed that ED 2007 deleted the word 'may' from the proposed definition of 'close members of the family of a person'. This suggests that the persons described in subsections (a)-(c) of the proposed definition in ED 2007 are always close members of the family, whereas the previous wording implied a rebuttable presumption. These respondents favour re-instating the word 'may'.
19. In November 2007, the Board discussed similar comments received to the 2007 ED and decided to retain the definition as proposed in that ED.

Consequential amendment to IFRS 8 Operating Segments

20. In September 2008 the Board discussed a consequential amendment to paragraph 34 of IFRS 8. That paragraph requires an entity to disclose information about its reliance on major customers. In November 2007 the Board had tentatively decided that entities would not be regarded as a single customer simply because they are controlled by the same state and that an entity should use judgement to determine whether it should regard entities controlled by the same state as a single customer. The staff will develop guidance on the factors relevant for this judgement, including the extent of economic integration between those state-controlled entities.
21. The following clarification was drafted and posted on the website for information, but was not exposed as part of ED 2008:
- 34 ...For the purposes of this IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. However, judgement is required to assess whether and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.
22. Some respondents supported a consequential amendment to IFRS 8 since relationships with the state had resulted in similar implementation difficulties and they do not believe that it is practicable or meaningful to regard all state-controlled entities³ as a single customer in a country where state control is pervasive.
23. Additionally, they thought it reasonable for an entity to use judgment to determine whether it should regard entities controlled by the same state as a single customer.
24. Many respondents supported the idea of providing relief from IFRS 8.34 and argued that entities should not be regarded as a single customer simply because they are controlled by the same state. They supported the idea of amending

³ Means entities controlled, jointly controlled or significantly influenced by the state.

IFRS 8, stating that the requirements in this IFRS should not be more onerous than the limited disclosure requirements in paragraphs 17A and 17B of IAS 24.

25. One respondent referred to the tentative decision by the Board in September 2008 that an entity should use its judgment to determine whether it should regard entities controlled by the same state as a single customer. The respondent noted that this decision would not resolve the implementation difficulties of IFRS 8.34. A reporting entity under IFRS 8.34 may not have the information about the relationship between a state and entities under the control of that state, more so if it is transacting with entities from a different country. There is no reason why no exemption is provided in IFRS 8.34 when transactions between state-controlled entities themselves will now be provided some level of exemption.
26. The staff will consider in the drafting whether any decisions in July require any further consequential amendments to IFRS 8.

Paragraph 24.20 Examples of transactions required to be disclosed

27. One respondent suggested that the IASB revises IAS 24.20 (j) by making clear whether commitments and/or executive contracts and/or future transactions subject to a condition are meant and by ensuring a corresponding wording with IAS 24.17.
28. In November 2007 the Board decided to retain a new example proposed in the 2007 ED – i.e. paragraph 20(j), and confirm that this example includes executory contracts. The following clarification was drafted and posted on the website for information, but was not exposed as part of ED 2008:

20 The following are examples of transactions that are disclosed if they are with a related party:

...

- (j) ~~transactions or~~ commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised).

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