



Project	Related Party Disclosures
Topic	Comment Letter Analysis: Tentative Board decisions

Introduction

1. This paper summarizes the tentative Board decisions on completion of deliberations of Exposure Draft *State-controlled Entities and the Definition of a Related Party*¹
2. There are two components to the information provided, that were both posted on the public IASB website:
 - (a) the amendments resulting from Board deliberations on ED 2007
 - (b) the illustrative examples that the Board intends to publish in the revisions to IAS 24 *Related Party Disclosures*.
3. This paper is for reference only there: are no Board decisions to be made.

Tentative decisions to date

4. ED 2007 proposed the following amendments:
 - (a) exemption for state-controlled entities
 - (b) amendments to the definition of a related party
 - (c) amendment to the definition of a related party transaction and
 - (d) other minor amendments.

¹ 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.

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5. After considering the comments received, the Board tentatively decided to finalise amendments (b), (c) and (d) above based on ED 2007, and make further consequential amendments to other IFRSs (ie IAS 19 *Employee Benefits* and IFRS 8 *Operating Segments*).
6. The staff dealt with the amendments described in paragraph 4 (b), (c) and (d) and the consequential amendments separately from ED 2008 and posted them on the IASB's website to provide context for constituents commenting on ED 2008. There is therefore no need to re-visit these issues.
7. In September 2008, the Board decided to propose a revised exemption for (a) and for one further amendment to the definition of a related party, that resulted in exposure draft *Relationships with the State*².

² Referred to as ED 2008.

THE OTHER AMENDMENTS PROPOSED IN 2007 EXPOSURE DRAFT

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<p>3 This Standard requires disclosure of related party transactions and outstanding balances in the <u>consolidated and</u> separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 <i>Consolidated and Separate Financial Statements</i>. <u>This standard also applies to individual financial statements.</u></p>	<ul style="list-style-type: none"> • No changes to the 2007 ED 	<p>3 This Standard requires disclosure of related party transactions and outstanding balances in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 <i>Consolidated and Separate Financial Statements</i>. This standard also applies to individual financial statements.</p>
<p>Definitions</p> <p>9 The following terms are used in this Standard with the meanings specified:</p>		<p>Definitions</p> <p>9 The following terms are used in this Standard with the meanings specified:</p>
<p><i>A related party</i> is a person or entity that is related to an entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').</p> <p>(a) A person or a close member of the family of that person is related to a reporting entity if either person:</p>	<ul style="list-style-type: none"> • Changes to the 2007 ED 	<p><i>A related party</i> is a person or entity that is related to an <u>the</u> entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').</p> <p>(a) A person or a close member of the<u>that</u> <u>person's</u> family of that person is related to a reporting entity if either</p>

³ This column includes paragraphs of the 2007 ED relevant to the other amendments. This has been marked up from IAS 24 (except the definition of 'a related party', which is not marked up because it was completely restructured).

⁴ This column includes the Board's tentative decisions, in the light of the comments received, and indicates whether they change the 2007 ED.

⁵ This column reflects the Board's tentative decisions and shows their effect. This has been marked up from the 2007 ED.

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<p>(i) is a member of the key management personnel of the reporting entity or a parent of the reporting entity;</p> <p>(ii) has control over the reporting entity; or</p> <p>(iii) has joint control or significant influence over the reporting entity.</p> <p>(b) An entity is related to a reporting entity if:</p> <p>(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);</p> <p>(ii) the reporting entity is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);</p> <p>(iii) the entity is an associate or joint venture of the reporting entity (or an associate or a joint venture of a member of a group of which the reporting entity is a member);</p> <p>(iv) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the</p>		<p><u>that person:</u></p> <p>(i) is a member of the key management personnel of the reporting entity or <u>of</u> a parent of the reporting entity;</p> <p>(ii) has control over the reporting entity; or</p> <p>(iii) has joint control or significant influence over the reporting entity <u>or has significant voting power in it.</u></p> <p>(b) An entity is related to a reporting entity if <u>any of the following conditions applies:</u></p> <p>(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);</p> <p>(ii) the reporting either <u>entity</u> is an associate or joint venture of the <u>other</u> entity (or of a member of a group of which the <u>other</u> entity is a member);</p> <p>(iii) the entity is an associate or joint venture of the reporting entity (or of a member of a group of which the reporting entity is a member);</p> <p>(iii) <u>both entities are joint ventures of a</u></p>

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<p>reporting entity;</p> <p>(v) the entity is controlled by a person identified in (a);</p> <p>(vi) the entity is one in which a person identified in (a)(i) or (a)(ii) holds significant voting power or has joint control or significant influence; or</p> <p>(vii) a member of the key management personnel of the entity, or a parent of the entity, has control, joint control or significant influence over, or significant voting power in, the reporting entity.</p>	<ul style="list-style-type: none"> • Two entities are related if a person or a third entity has joint control over one entity and that person (or a close member of that person's family) or the third entity has joint control, significant influence or significant voting power in the other entity • Include the sponsoring employer as a related party of a post-employment benefit plan. Also, a multi-employer plan is a related party of its sponsoring entities and, for the financial statements of the plan, its sponsoring entities are related parties of the plan • Two entities are not related parties simply because a member of key management personnel of one entity has significant influence over the other entity • An entity is a related party of the reporting 	<p><u>third party.</u></p> <p>(iv) <u>either entity is a joint venture of a third entity and the other entity is an associate of the third entity.</u></p> <p>(iv)(v) <u>the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. <u>If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.</u></u></p> <p>(v)(vi) <u>the entity is controlled or jointly controlled by a person identified in (a).</u></p> <p>(vi)(vii) <u>the entity is one in which a person identified in (a)(i) or (a)(ii) holds significant voting power or has joint control or significant influence in the entity.</u></p> <p>(vii) (viii) <u>a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.</u></p> <p>(ix) <u>a person or a close member of that person's family (A) has significant influence over the entity or significant voting power in it and (B) has joint control over the</u></p>

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	<p>entity if a person controls, jointly controls or significantly influences the reporting entity and a close member of that person's family is a member of the key management personnel of the other entity</p> <ul style="list-style-type: none"> • Retain the term 'significant voting power' in the definition of a related party. • Some changes in drafting 	<p><u>reporting entity</u>;</p> <p>(vii)(x) a member of the key management personnel of the entity or <u>of</u> a parent of the entity, <u>or a close member of that member's family</u>, has control <u>or</u>, joint control <u>over the reporting entity</u> or significant influence over, or has significant voting power in, <u>the reporting entity</u> it;</p>
<p><i>A related party transaction</i> is a transfer of resources, services or obligations between <u>a reporting entity and a related party</u>ies, regardless of whether a price is charged.</p>	<ul style="list-style-type: none"> • No changes to the 2007 ED 	<p><i>A related party transaction</i> is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.</p>
<p><i>Close members of the family of an individual person</i> are those family members who may be expected to influence, or be influenced by, that individualperson in their dealings with an entity <u>and</u> . They may include:</p> <p>(a) the <u>at individual's</u> domestic partner (such as a husband or wife or <u>equivalent</u>) and children;</p> <p>(b) children of the <u>at individual's</u> domestic partner; and</p> <p>(c) dependants of the <u>at individual</u> or the <u>at individual's</u> domestic partner.</p>	<ul style="list-style-type: none"> • No changes to the 2007 ED • Retain the definition proposed in the 2007 ED. In particular, the Board decided not to reinstate 'may' between 'and' and 'include' just above listed items (a)-(c). 	<p><i>Close members of the family of a person</i> are those family members who may be expected to influence, or be influenced by, that person in their dealings with an entity and include:</p> <p>(a) that person's domestic partner (such as a husband or wife or equivalent) and children;</p> <p>(b) children of that person's domestic partner; and</p> <p>(c) dependants of that person or that person's domestic partner.</p>
<p><u>A state</u> is a national, regional or local</p>	<ul style="list-style-type: none"> • No changes to the 2007 ED 	<p><u>A state</u> is a national, regional or local</p>

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<p><u>government.</u></p>	<ul style="list-style-type: none"> • Retain the definition proposed in the 2007 ED. 	<p>government.</p>
<p>11 In the context of this Standard, the following are not necessarily related parties:</p> <p>(a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.</p> <p>(b) two venturers simply because they share joint control over a joint venture.</p> <p>(c) (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) government departments and agencies, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision making process).</p> <p>(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.</p>	<ul style="list-style-type: none"> • Changes to the 2007 ED • Two entities are not related parties simply because a member of key management personnel of one entity has significant influence over the other entity • Changes in drafting 	<p>11 In the context of this Standard, the following are not necessarily related parties:</p> <p>(a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.</p> <p>(b) two venturers simply because they share joint control over a joint venture.</p> <p>(c) (i) providers of finance, (ii) trade unions, (iii) public utilities, and (iv) government departments and agencies, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision making process).</p> <p>(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely <u>simply</u> by virtue of the resulting economic dependence.</p>

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		(e) <u>two entities simply because a member of key management personnel of one entity has significant influence over the other entity.</u>
11A <u>The term <i>state</i> 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.</u>	<ul style="list-style-type: none"> No changes to the 2007 ED Retain the definition proposed in the 2007 ED. 	11A The term <i>state</i> 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.
-	<ul style="list-style-type: none"> Clarify that references to an associate (joint venture) in the definition of a related party include the associate's (the joint venture's) subsidiaries. 	11B <u>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</u>
<p>Disclosure</p> <p>12 Relationships between a parents and its subsidiaries shall be disclosed irrespective of whether there have been <u>related party transactions between those related parties</u>. An entity shall disclose the name of the entity's its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial</p>	<ul style="list-style-type: none"> changes to the 2007 ED changes in drafting 	<p>Disclosure</p> <p>12 Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been related party <u>related party transactions between those related parties</u>. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces <u>consolidated</u> financial</p>

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statements available for public use, the name of the next most senior parent that does so shall also be disclosed		statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
14 [deleted] The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 and IAS 31, which require an appropriate listing and description of significant investments in subsidiaries, associate and jointly controlled entities.	<ul style="list-style-type: none"> • Changes to the 2007 ED • Reinstate part of the original paragraph 	14 <u>The requirement to disclose related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 and IAS 31.</u>
17 If there have been an entity has related party transactions between related parties, an entity it shall disclose the nature of the related party relationship as well as information about the transactions, and outstanding balances <u>and commitments</u> necessary for an <u>users to understand</u> of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include: <ul style="list-style-type: none"> (a) the amount of the transactions; (b) the amount of outstanding balances and: <ul style="list-style-type: none"> (i) their terms and conditions, 	<ul style="list-style-type: none"> • No changes to the 2007 ED. 	17 If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include: <ul style="list-style-type: none"> (a) the amount of the transactions; (b) the amount of outstanding balances and: <ul style="list-style-type: none"> (i) their terms and conditions, including whether they are secured, and the nature of the

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<p>including whether they are secured, and the nature of the consideration to be provided in settlement; and</p> <p>(ii) details of any guarantees given or received;</p> <p>(c) provisions for doubtful debts related to the amount of outstanding balances; and</p> <p>(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.</p>		<p>consideration to be provided in settlement; and</p> <p>(ii) details of any guarantees given or received;</p> <p>(c) provisions for doubtful debts related to the amount of outstanding balances; and</p> <p>(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.</p>
<p>20 The following are examples of transactions that are disclosed if they are with a related party:</p> <p>(a) purchases or sales of goods (finished or unfinished);</p> <p>(b) purchases or sales of property and other assets;</p> <p>(c) rendering or receiving of services;</p> <p>(d) leases;</p> <p>(e) transfers of research and development;</p> <p>(f) transfers under licence agreements;</p> <p>(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);</p> <p>(h) provision of guarantees or collateral; and</p>	<ul style="list-style-type: none"> • Changes to the 2007 ED • Retain a new example proposed in the 2007 ED – i.e. paragraph 20(j), and confirm that this example includes executory contracts. 	<p>20 The following are examples of transactions that are disclosed if they are with a related party:</p> <p>(a) purchases or sales of goods (finished or unfinished);</p> <p>(b) purchases or sales of property and other assets;</p> <p>(c) rendering or receiving of services;</p> <p>(d) leases;</p> <p>(e) transfers of research and development;</p> <p>(f) transfers under licence agreements;</p> <p>(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);</p> <p>(h) provision of guarantees or collateral;</p> <p>(i) settlement of liabilities on behalf of</p>

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<p>(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; <u>and</u></p> <p>(j) <u>transactions or commitments to do something if a particular event occurs or does not occur in the future.</u></p> <p>Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of IAS 19)</p>		<p>the entity or by the entity on behalf of another party; and</p> <p>(j) transactions or commitments to do something if a particular event occurs or does not occur in the future, <u>including executory contracts (recognised and unrecognised).</u></p> <p>Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of IAS 19)</p>
<p>Effective Date</p> <p>23B <u>An entity shall apply the [draft] amendments adding paragraphs 17A–17E and paragraph 20(j), deleting paragraph 14 and amending paragraphs 3, 9, 12, and 17 for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies the [draft] amendments for a period beginning before [date to be inserted after</u></p>	<ul style="list-style-type: none"> • Changes to the 2007 ED • The proposed amendments to IAS 24 will apply retrospectively. 	<p>Effective Date⁶</p> <p>23B An entity shall apply the [draft] amendments adding paragraphs 17A–<u>and 17EB</u> and paragraph 20(j), deleting paragraph 14 and amending paragraphs 3, 9, 12, <u>14</u> and 17 for annual periods beginning on or after [date to be inserted <u>after exposure confirmed</u>]. Earlier application is permitted. If an entity applies the [draft] amendments for a period beginning before [date to be</p>

⁶ Effective date and transitional provision would be discussed again after the comment period of the 2008 ED.

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<p><u>exposure], it shall disclose that fact.</u></p>		<p>inserted after exposure confirmed], it shall disclose that fact.</p>
<p>-</p>	<p>-</p>	<p>Appendix Amendments to other pronouncements</p> <p><i>The amendments in this appendix shall be applied for annual periods beginning on or after [date to be confirmed]. If an entity applies this Standard for an earlier period, the amendments in this appendix shall be applied for that earlier period. In the amended paragraphs, new text is underlined and deleted text is struck through.</i></p>
<p>-</p>	<ul style="list-style-type: none"> • Amend paragraph 34 of IFRS 8 <i>Operating Segments</i>, so that entities would not be regarded as a single customer simply because they are controlled by the same state. • An entity should use judgement to determine whether it should regard entities controlled by the same state as a single customer. The staff was asked to develop guidance on the factors relevant for this judgement, including the extent of economic integration between those state- 	<p>IFRS 8 <i>Operating Segments</i></p> <p>34 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports</p>

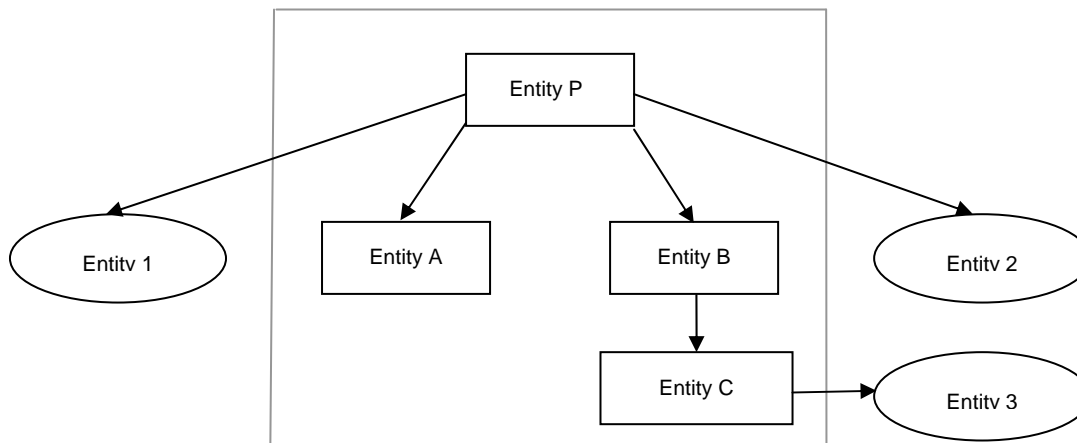
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	<p>controlled entities.</p>	<p>from that customer. For the purposes of this IFRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer. <u>However, judgement is required to assess whether and a</u> 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 <u>are</u> considered a single customer. <u>In assessing this, the reporting entity shall consider the extent of economic integration between those entities.</u></p>
-	<ul style="list-style-type: none"> • Attach a footnote to paragraph 68L of the Basis for Conclusions on IAS 19 <i>Employee Benefits</i>, to draw attention to the revised definition of a related party because the definition of a qualifying insurance policy in IAS 19 refers to the definition of a related party. 	<p>[Example footnote to paragraph 68L of the Basis for Conclusions on IAS 19] The definition of a qualifying insurance policy refers to a related party as defined by IAS 24. IAS 24 was amended in 2009.</p>

ILLUSTRATIVE EXAMPLES

Example 1 – Subsidiaries and associates

IE1 Entity P, directly or indirectly, controls Entities A, B and C, and has significant influence over Entities 1 and 2. Entity C has significant influence over Entity 3.



IE2 For the financial statements⁷ of Entities P, A, B and C, Entities P, A, B and C are related to each other. *[paragraph 9(b)(i) of the revised definition in the 2008 exposure draft]*

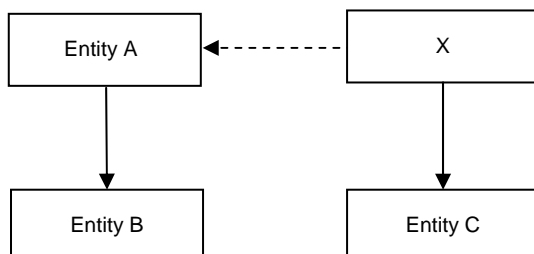
IE3 For the financial statements of Entities P, A, B and C, Entities 1, 2 and 3 are related to Entities P, A, B and C. *[paragraph 9(b)(ii)]*

IE4 Similarly, for the financial statements of Entities 1, 2 and 3, Entities P, A, B and C are related to Entities 1, 2 and 3. However, Entities 1, 2 and 3 are not related to each other. *[paragraph 9(b)(ii)-(iv)]*

⁷ In examples 1-4, 'financial statements' means the individual, separate or consolidated financial statements.

Example 2 – Key management personnel

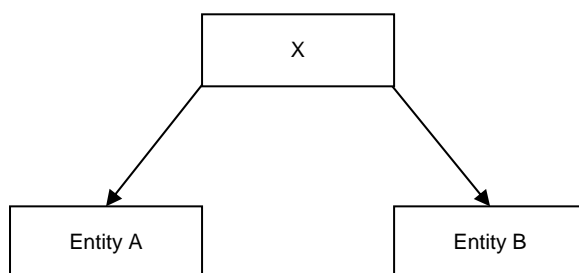
- IE5 Entity A controls Entity B. Person X is a member of the key management personnel of Entity A and has control or joint control over Entity C or has significant voting power (*not* significant influence) in it.



- IE6 For Entity A's financial statements, Entity C is related to Entity A. [*paragraph 9(b)(vi) and (vii)*]
- IE7 For Entity B's financial statements, Entity C is related to Entity B. Entity A is also related to Entity B because it is a parent of Entity B. [*paragraph 9(b)(vi) and (vii)*]
- IE8 Similarly, for Entity C's financial statements, Entity A and Entity B are related to Entity C. [*paragraph 9(b)(x)*]

Example 3 – Controlling person

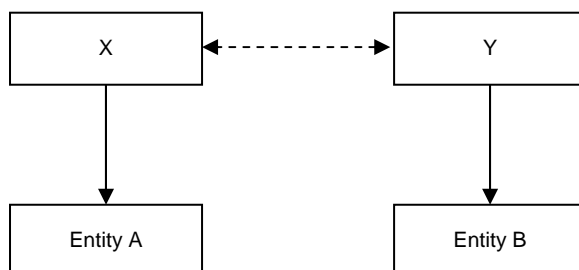
- IE9 Person X (a) controls Entity A and (b) has control, joint control or significant influence over Entity B or has significant voting power in it.



- IE10 For Entity A's financial statements, Entity B is related to Entity A. [*paragraph 9(b)(vi) and (viii)*]
- IE11 Similarly, for Entity B's financial statements, Entity A is related to Entity B. [*paragraph 9(b)(vi)*]

Example 4 – Close members of the family of controlling person

IE12 Person X controls Entity A. Person Y is a close member of Person X's family and has control, joint control or significant influence over Entity B or has significant voting power in it.



IE13 For Entity A's financial statements, Entity B is related to Entity A. [*paragraph 9(b)(vi) and (viii)*]

IE14 Similarly, for Entity B's financial statements, Entity A is related to Entity B. [*paragraph 9(b)(vi)*]