



Project	Related Party Disclosures
Topic	Transitional requirements

Introduction

1. In this paper staff ask the Board to re-consider the tentative decisions it made at the July meeting about transitional requirements regarding the amendments to IAS 24 *Related Party Disclosures*.
2. The main changes proposed in the two EDs *State-controlled Entities and the Definition of a Related Party* (ED 2007) and *Relationships with the State* (ED 2008) are:
 - (a) partial exemption from the disclosure requirements for transactions between a government-controlled reporting entity and that government or other entities controlled by that government.
 - (b) amendments to the definition of a related party.
3. In July the Board decided that (a) and (b) would both apply **prospectively** for periods beginning on or after **1 January 2011**, with early adoption permitted.
4. In this paper staff recommend that the Board re-consider its tentative decision and permit **retrospective** application for both (a) and (b) with an effective date of 1 January 2011, with early adoption permitted.

De-coupling the transition requirements

5. Staff recommend de-coupling the transition requirements because:

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.

- (a) the **partial exemption** applies to government-controlled entities only and it is logical to allow such entities the benefit of applying this early for both current and prior periods through retrospective application. (Paragraphs 7 - 11).
 - (b) the **amendments to the definition** apply to both government and non-government controlled entities that have related party relationships. (Paragraphs 12 and 13).
6. De-coupling the requirements enables government-controlled entities the option of being able to apply the partial exemption at an earlier date without having to apply the changes to the definition at the same earlier date.

Partial exemption

Application

7. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* describes retrospective application as applying a new accounting policy to transactions, other events and conditions as if that policy had always applied.
8. Staff recommend **retrospective** application for the partial exemption because:
- (a) this enables entities to apply the exemption proposal for both current and prior periods; it would not make sense to disallow the reporting entity the benefit of applying the exemption retrospectively.
 - (b) this provides comparability for users when the exemption applies.
 - (c) it is not too onerous for preparers to provide the summarised disclosure required by paragraph 17B of the pre-ballot for comparative periods, given that they were previously required to provide full disclosure under paragraph 17 of IAS 24. It is certainly less onerous (and probably less confusing for readers) than requiring the reporting entity to provide full IAS 24 disclosure for the comparative period through prospective application.

Effective date

9. It is usual for IFRSs to have an effective date of 12-18 months after publication. Assuming that the standard is finalised by Q4 2009, the staff recommend an effective date of 1 January 2011.
10. In the July Board paper, staff recommended that it would be beneficial for preparers to be able to apply the exemption proposal immediately rather than from the effective date 1 January 2011.
11. On reflection staff believe that retaining an effective date of **1 January 2011** with early adoption permitted (and disclosure of the fact by the reporting entity that it has applied the requirements in the standard before 1 January 2011) will achieve the same outcome.

Question 1

Staff recommend **retrospective application** for the exemption proposal (and related disclosures in paragraph 17B of the pre-ballot) with an effective date of 1 January 2011, with early adoption permitted.

Does the Board agree?

Definition

12. In the July meeting staff recommended retrospective application because of the limited nature of the amendments and because it provides comparability for users.
13. The Board considered two other arguments for retrospective application of the new definition:
 - (a) It would be confusing for users if the comparatives are compiled using one definition and the current year disclosures are compiled using a different definition.
 - (b) If the revised definition is not mandatory for periods starting before 1 January 2011, no entity would be required to gather information for any date before 1 January 2010 (unless the entity presents more than one

year of comparatives). Thus, there is no need to permit prospective application.

Question 2

Staff recommend **retrospective application** for the amendments to the definition of a related party with an effective date of 1 January 2011 with early adoption permitted.

Does the Board agree?

Question 3

Staff recommend that the Board permit an entity to adopt the partial exemption for government-controlled entities before the effective date even if it chooses not to adopt the new definition of a related party until a later date.

Does the Board agree?