

**Issue for discussion at the upcoming 7th EEG meeting in
Moscow**

The issue:

**The definition of “*Close members of the family of a person*”
(IAS 24, paragraph 9 (the third term in this paragraph))**

Raised by:

**The Saudi Organization for Certified Public Accountants
(SOCPA)**

1. Excerpts from IAS24, para. 9:

9....

....

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (a) that person's children and spouse or domestic partner;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

2. The Issue:

It seems that the above definition reflects only one view of such a term. The most controversial part of this definition is the exclusion of parents from being close members of the family. In Saudi Arabia, and also many other countries, parents are among the closest members of the family of a person who may be expected to influence, or be influenced by, that person in their dealing with the reporting entity.

Different countries have different definitions of "*close member of the family of a person*" which is sometimes referred to as "*immediate family member*" or "*close relative*" or just "*relative*". Followings are some examples:

1. In Saudi Arabia, the following are considered by the accounting committee to be close family members of a person for the purpose of financial reporting (i.e., related parties):
 - (a) that person's children and spouse;
 - (b) children of that person's spouse; and
 - (c) parents, grandparents, brothers and sisters, grand children and other dependants of that person or that person's spouse.
2. In Canada, and as per "*Related Party Transaction exposure draft*" for public sector entities, (2013, para. .20), the close family members "normally include an individual's spouse and those dependent on either the individual or the individual's spouse. The determination of whether an individual would be identified as a close family member requires judgment".
3. In UK, and as per FRS8 "*Related Party Disclosure*" (1995, para. 2), the close members of the family of an individual "are those family members, or members of the same household, who may be expected to influence, or be influenced by, that person in their dealing with the reporting entity". The standard does not give examples.

4. In United States, and as per SFAS57 “Related Party Disclosure” (2008, para. 24, c), the close member of a family is called “member of the immediate family” and it means "family members whom a principal owner or a member of management might control or influence or by whom they might be controlled or influenced because of the family relationship”. The standard does not give examples.
5. According to USLEGAL.COM (<http://definitions.uslegal.com/i/immediate-family/>), immediate family refers to a person’s parents, spouse, children, and siblings and will also include the parent’s spouse. Usually step children and adopted children and their spouses are included under the purview of immediate family. The site offers an example of the definition of this term from Missouri Code of State Regulations, which defines immediate family member as follows: “a parent; sibling; child by blood, adoption, or marriage; spouse; grandparent or grandchild”.
6. According to businessdictionary.com (<http://www.businessdictionary.com/definition/immediate-family.html#ixzz2xXs3whsA>), immediate family member is “someone’s spouse, parents and grandparents, children and grand children, brothers and sisters, mother in law and father in law, brothers in law and sisters in law, daughters in law and sons in law. Adopted, half, and step members are also included in immediate family”.
7. In Australia, ‘immediate family’ is defined in s12 of *the Fair Work Act 2009* to mean a spouse, de facto partner, child, parent, grandparent, grandchild or sibling of the employee; or a child, parent, grandparent or sibling of a spouse or de facto partner of the employee” (http://en.wikipedia.org/wiki/Immediate_family).
8. In the Indian AS 24 “*Related Party Disclosures*”, “close members of the family of a person are the persons specified within meaning of ‘relative’ under the Companies Act 1956 and that person’s domestic partner, children of that person’s domestic partner and dependants of that person’s domestic partner”.
9. Section 6. of the Indian Companies Act specifies that “a person shall be deemed to be a relative of another, if, and only if, (a) they are members of a Hindu undivided family; or (b) they are husband and wife; or (c) the one is related to the other in the manner indicated in Schedule IA.”
10. SCHEDULE IA of the Indian Companies act (1956) contained the LIST OF RELATIVES as follows: 1. Father, 2. Mother (including step-mother), 3. Son (including step-son), 4. Son's wife, 5. Daughter (including step-daughter), 6. Father's father, 7. Father's mother, 8. Mother's mother, 9. Mother's father, 10. Son's son, 11. Son's son's wife, 12. Son's daughter, 13. Son's daughter's husband, 14. Daughter's husband, 15. Daughter's son, 16. Daughter's son's wife, 17. Daughter's daughter, 18. Daughter's daughter's husband, 19. Brother (including step-brothers), 20. Brother's wife, 21. Sister (including step-sister), 22. Sister's husband

3. SOCPA Suggestion:

To properly apply the *principle-based* approach of the IFRSs and to facilitate and support their global adoption, IFRSs should be in line, or at least not conflicting, with local laws and regulations. SOCPA suggests the following amendment to the “*close members of the family of a person*” definition to take in consideration the legal environment of the adopting jurisdictions:

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the reporting entity and include those persons who are considered to be close members of the family according to the law or the prevailing customary norms in the jurisdiction where the entity operates.

SOCPA further suggests that *no examples* should be attached to the definition.

Sincerely,

Dr. Ahmad Almeghames
Secretary General, Saudi Organization for Certified public Accountants