

STAFF PAPER

27 January 2015

IFRS Interpretations Committee Meeting

Project	New items for initial consideration		
Paper topic	IAS 24 <i>Related Party Disclosures</i> —definition of close members of the family of a person		
CONTACT(S)	Denise Durant	ddurant@ifrs.org	+44 (0)20 7246 6469

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. The IFRS Interpretations Committee (‘the Interpretations Committee’) received a submission regarding the definition of ‘close members of the family of a person’ in paragraph 9 of IAS 24 *Related Party Disclosures*. This submission had been previously discussed by the Emerging Economies Group. This group had suggested that this issue should be sent to the Interpretations Committee for analysis.
2. We performed outreach on this topic with the International Forum of Accounting Standard Setters (IFASS), securities regulators and the global IFRS technical teams of the international networks of the large accounting firms, in order to find out how widespread the issue raised by the submitter is and to what extent significant diversity in practice exists. The results of this outreach are included in this paper.

Purpose of the paper

3. The purpose of this paper is to:
 - (a) provide a summary of the submission received;
 - (b) provide a summary of the outreach results on the issue raised;

- (c) provide an analysis of the issue raised;
 - (d) present an assessment of the issue against the Interpretations Committee’s agenda criteria;
 - (e) make a recommendation to issue a tentative agenda decision (refer to **Appendix A**); and
 - (f) ask the Interpretations Committee whether it agrees with the staff recommendation.
4. The submission is reproduced in full in **Appendix B** to this paper.

Summary of the submission received

5. The submitter points out that the definition of *close members of the family of a person* in paragraph 9 of IAS 24 does not specify that the parents of a person could be included in this definition.
6. The submitter thinks that this definition should include a person’s parents. In the submitter’s view “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 dealings with the reporting entity”.
7. The submitter notes in the submission that in several regulations around the world the notion of ‘close members of the family of a person’ (or related notions such as: ‘immediate family member’ or ‘close relative’ or just ‘relative’) extends to parents and to other relatives of the person, such as the person’s grandparents, grandchildren or brothers or sisters. Some of these definitions also state that the determination of who is considered a close family member requires the use of judgement.
8. The submitter thinks that the definition of *close member of the family of a person* in paragraph 9 of IAS 24 should be in line with, or at least not conflict with, the regulations about related parties in other countries.
9. In a conversation we had with the submitter, the submitter expressed some additional concerns about the wording of the definition of ‘close member of the

family of a person'. The submitter thinks that paragraphs 9 (a)–(c) are written as a rule in which 9 (a)–(c) are always related parties. The submitter mentioned that in its jurisdiction the children of a person's spouse (ie from a previous relationship) would not normally be considered related parties.

10. The submitter thinks that the Interpretations Committee could address its concerns by amending the definition of *close members of the family of a person* in paragraph 9 of IAS 24. The submitter suggests that the Interpretations Committee could:
- (a) specify that this definition includes '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'; and
 - (b) remove the examples of 'close members of the family of a person' from the definition.

Relevant guidance in IAS 24

11. We reproduce the following paragraphs from the definitions section in paragraph 9 of IAS 24 (emphasis added):

A **related party** is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) A person **or a close member of that person's family is related to a reporting entity** if that person:

- (i) has control or joint control of the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) ...

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.

Summary of outreach conducted

12. We sent our outreach request to securities regulators, members of IFASS and the global IFRS technical teams of the international networks of the large accounting firms. We asked them the following question:

In your jurisdiction, do you consider that the definition of “close members of the family of a person” in paragraph 9 of IAS 24 includes the notion of ‘parents’? Please provide us with examples that illustrate the practices that you observe and the reasons for the practice followed.

Responses received

13. We received 22 responses from the following respondents:
- (a) two regulators;
 - (b) fourteen national standard-setters; and
 - (c) six global IFRS technical teams of the international networks of the large accounting firms.
14. The views received represent informal opinions and do not reflect the formal views of those organisations.
15. The geographical breakdown for the responses received from national standard-setters is as follows:

Geographical region	Number of respondents
Asia	5
Europe	3
Americas	3
Oceania	2
Africa	1
Total respondents	14

16. We summarise the results of the outreach in the following paragraphs.

Summary of outreach responses

Some diversity in practice observed

17. A large majority of respondents observed that paragraph 9 of IAS 24 provides a principle-based definition of *close members of the family of a person*. They think that determining whether a parent is a close member would involve judgement and the assessment of specific facts and circumstances on the basis of this definition. Consequently they think that there will be circumstances in which parents will be related parties and other circumstances in which they will not be related parties.
18. A majority of these respondents also considered that the list in paragraphs 9 (a)-(c) is not exhaustive. One respondent noted, however, that this list appears to contain a presumption that certain family members will always meet the definition of close members of the family of a person.
19. The two regulators who responded to our outreach request mentioned that there seems to be some degree of diversity in practice in considering whether parents are close members of the family of a person. In this respect the two regulators who responded to our outreach request mentioned that:
- (a) in some jurisdictions, parents are considered close members on the basis of the definitions in national legislation;

- (b) in some other jurisdictions, parents are considered close members on the basis of the definition in paragraph 9 of IAS 24; and
- (c) in one jurisdiction, parents are excluded from the definition in paragraph 9 of IAS 24; for example, in the case of persons who are closely related to a person with an insider position, they are obliged to report their shareholdings and changes in those holdings.

Disagreement with the submitter's proposed amendment

20. More than a third of the responses commented that they do not support the amendment proposed by the submitter, which was to subject the application of the definition of *close members of the family of a person* to local laws and regulations. Some of the reasons for this disagreement are that:
- (a) using local laws as guidance creates the potential for divergence in application of the Standard;
 - (b) differences in reporting would only be understandable to a user who is familiar with these laws; and
 - (c) it would be impracticable to consider the application of local laws, because there are frequently different definitions of related parties.

Staff analysis

21. We disagree with the submitter's proposal to amend the definition of *close members of the family of a person*. This is because we observe that the definition of close members of the family of a person in paragraph 9 of IAS 24 is expressed in a principle-based manner. We think that this definition involves assessing the extent to which a close member is expected to influence or be influenced by a person. This assessment involves the use of judgement to determine on a case-by-case basis whether members of the family of a person (including that person's parents) are related parties or not. Local laws or customs in a jurisdiction might help an entity understand the nature of a relationship between the two parties. However, IAS 24 would need to be applied in analysing that relationship to determine it was a related party relationship.

22. We also note that the definition *includes* a list of three groups of people that would be considered close members of a family of a person. During our research on this issue we found evidence¹ that suggests that this list is intended to:
- (a) include only examples of members that *would typically* be considered close members; and
 - (b) be non-exhaustive.
23. Our reading of the list in paragraph 9 of IAS 24 leads us to conclude that this list is non-exhaustive and does not preclude other family members from being considered close members. Consequently, we are of the view that other family members, including parents or grandparents, could qualify as close members depending on the assessment of specific facts and circumstances.
24. However we agree with those that think that the family members in paragraphs 9 (a)–(c) of IAS 24 are *always* classified as close members of a family of a person; in other words that paragraph 9 of IAS 24 prescribes which members should be considered at a minimum as close members. We think that this is effectively a rule which could, in some circumstances, conflict with the principle in the definition.
25. We think that a potential amendment to the wording in paragraph 9 IAS 24 could be helpful to reflect that:
- (a) IAS 24 already allows suitable judgements to be made to determine who is a close member of the family of a person; and
 - (b) the family members mentioned in paragraphs 9(a)–(c) are merely a list of examples of family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.
26. Nevertheless we do not recommend that paragraph 9 of IAS 24 should be clarified, because we have observed that the definition of close members of the

¹ In Agenda Paper 3J of February 2003, the staff analysis the comments received on the Exposure Draft of IAS 24. In paragraphs 62–63 of this agenda paper, the staff explain that: “Respondents were concerned that the examples given in the definition would result in preparers limiting themselves to the examples presented in the standard”. The staff further explain their belief “that the Board’s position is adequate in respect of this issue because in IFRS the term ‘include’ is to be understood as “is not limited to”. We reviewed the IASB *Update* from February 2013 and we did not find evidence that the Board challenged the staff’s views.

family of a person in paragraph 9 of IAS 24 is expressed in a principle-based manner and its application requires the use of judgement in the context of the relevant facts and circumstances. Moreover, our view is that the list in paragraph 9 of IAS 24 would not preclude other family members (including parents) from being considered related parties, which was the principle concern raised by the submitter.

Agenda criteria assessment

27. The staff’s assessment of the Interpretations Committee’s agenda criteria is as follows:²

Agenda criteria

<p>We should address issues (5.16):</p> <p>that have widespread effect and have, or are expected to have, a material effect on those affected.</p> <p>where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods; and that can be resolved efficiently within the confines of existing IFRSs and the <i>Conceptual Framework for Financial Reporting</i>.</p>	<p>Met. The results of the outreach request revealed that some diversity in practice currently exists on the application of the definition in paragraph 9 of IAS 24.</p> <p>Not met. We observe that the definition of <i>close members of the family of a person</i> in paragraph 9 of IAS 24 is expressed in a principle-based manner and involves assessing the extent to which a close member is expected to influence or be influenced by a person. This assessment involves the use of judgement to determine on a case-by-case basis whether members of the family of a person (including that person’s parents) are related parties or not.</p> <p>We also note that the definition includes a list of three groups of people that would be considered close members of a family of a person. We found evidence suggesting that this list is intended to include only examples of members that would typically be considered close members and that this list is non-exhaustive. Consequently, we are of the view that other family members, including parents or grandparents, could qualify as close members depending on the assessment of specific facts and circumstances.</p> <p>We do not recommend that paragraph 9 of IAS 24 should be clarified, because we observe that the definition of close members of the family of a person in paragraph 9 of IAS 24 is expressed in a principle-based</p>
--	---

² These criteria can be found in the [IFRS Foundation Due Process Handbook](#).

Agenda criteria

	manner and its application requires the use of judgement in the context of the relevant facts and circumstances. Moreover, our view is that the list in paragraph 9 of IAS 24 would not preclude other family members (including parents) from being considered related parties, which was the principle concern raised by the submitter.
In addition: Can the Interpretations Committee address this issue in an efficient manner (5.17)	We propose that the Interpretations Committee should issue an agenda decision that would explain that in the light of the existing IFRS requirements the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and therefore decided not to add this issue to its agenda.
Will it be effective for a reasonable time period (5.21)? Only take on the topic of a forthcoming Standard if short-term improvements are justified.	Not applicable.

Staff recommendation

- 28. On the basis of the outreach results received and our assessment of the Interpretations Committee’s agenda criteria, we recommend that the Interpretations Committee should not take this issue onto its agenda.
- 29. We have set out proposed wording for the tentative agenda decision in **Appendix A** of this paper.

Questions to the Interpretations Committee

Questions to the IFRS Interpretations Committee
1. Does the IFRS Interpretations Committee agree with the staff recommendation?
2. Does the IFRS Interpretations Committee have any comments on the drafting of the tentative agenda decision?

Appendix A—Tentative agenda decision

A1. We propose the following wording for the tentative agenda decision.

IAS 24 *Related Party Disclosures*—definition of close members of the family of a person

The Interpretations Committee received a submission regarding the definition of *close members of the family of a person* in paragraph 9 of IAS 24 *Related Party Disclosures*.

The submitter points out that the definition of *close members of the family of a person* in paragraph 9 of IAS 24 does not specify that the parents of a person could be included in this definition. The submitter thinks that this definition should include a person's parents, because in its view they 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 dealings with the entity. The submitter further observes that some jurisdictions include the parents of a person within the definition of 'close members of the family of a person'.

The submitter suggests that the Interpretations Committee could:

(a) specify that this definition includes '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'; and

(b) remove the examples of 'close members of the family of a person' from the definition.

The Interpretations Committee observed that the definition of *close members of the family of a person* in paragraph 9 of IAS 24 is expressed in a principle-based manner and involves assessing whether a close member is expected to influence or be influenced by a person. This assessment involves the use of judgement to determine whether members of the family of a person (including that person's parents) are related parties or not.

The Interpretations Committee also noted that the list of close members of the family of a person given in paragraphs 9(a)–(c) are those members that would typically be considered close members of the family of a person. Moreover it noted that this list is non-exhaustive and does not preclude other family members from being considered close members. Consequently the Interpretations Committee thought that other family members, including parents or grandparents, could qualify as close members depending on the assessment of specific facts and circumstances.

In the light of the existing IFRS requirements the Interpretations Committee determined that neither an Interpretation nor an amendment to a Standard was necessary and therefore [decided] not to add this issue to its agenda.

Appendix B—Submission received

B1. We reproduce below the submission that we received. We have deleted details that would identify the submitter of this request.

3/11/2014

Wayne Upton
 Chairman, IFRS Interpretations Committee
 International Director, IASB
 30 Cannon Street
 London, EC4m 6XH, United Kingdom

Dear Mr. Upton

[...]

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 [...], 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 [...], the following are considered by [...] 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, grandchildren 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 grandchildren, 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. [...] 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. [...] 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 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.**

~~(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.~~

[...] further suggests that *no examples* should be attached to the definition since the close members of the family are defined differently in different cultures and legal environments. Examples will be suitable only if IASB would include as many examples as it would cover all cultures and legal systems.