

STAFF PAPER

May 2015

IFRS Interpretations Committee Meeting

IFRS IC January 2015

Project	Finalisation of agenda decision
Paper topic	IAS 24 <i>Related Party Disclosures</i> —definition of close members of the family of a person
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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. In July 2014, the IFRS Interpretations Committee (‘the Interpretations Committee’) published a tentative agenda decision not to add to its agenda a request to clarify the definition of close members of the family of a person in paragraph 9 of IAS 24 *Related Party Disclosures*.
2. The submitter pointed out that the definition in paragraph 9 of IAS 24 does not specify that the parents of a person could be included in this definition and suggested that the Interpretations Committee should:
 - (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
3. At its meeting in January 2015 the Interpretations Committee discussed this issue. It 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 family member is expected to influence, or be influenced by,

a person. The Interpretations Committee observed that 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.

4. The Interpretations Committee also noted that the list in paragraphs 9(a)–(c) of IAS 24 specifies members that would 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 of the family. Consequently the Interpretations Committee thought that other family members, including parents or grandparents, could qualify as close members of the family depending on the assessment of specific facts and circumstances.
5. On the basis of this discussion and in the light of the existing IFRS requirements, the Interpretations Committee decided to issue a tentative agenda decision that can be found in the [IFRIC Update of January 2015](#).

Purpose of the paper

6. The purpose of this paper is to:
 - (a) provide an analysis of the comments received on the tentative agenda decision; and
 - (b) set out the wording for the final agenda decision (see **Appendix A**).

Comment letter analysis

7. The comment period for the tentative agenda decision ended on 10 April 2015. We received **two** responses from¹:
 - (a) Deloitte; and
 - (b) EY.

¹ The comment letters from these respondents are attached to this paper (see **Appendix B**).

8. We also received some informal comments from the staff of the Australian Accounting Standards Board (AASB) that we will refer to in paragraphs below².
9. Deloitte agrees with the Interpretations Committee's tentative decision not to add to its agenda, for the reasons stated in the agenda decision.
10. EY agrees with the observations made by the Interpretations Committee in the tentative agenda decision. However, EY observes that two views exist in practice on how the list in paragraphs 9(a)–(c) of IAS 24 should be interpreted and thinks that the tentative agenda decision does not clarify which one of these two views should be applied in practice. These two views are reproduced below from the respondent's letter:

View 1: The list should be considered just as a list of illustrative examples of the parties who could qualify as close members of the family, if the main principle of the definition is met. This means that any of the listed parties would only meet the definition, if he or she may be expected to influence, or be influenced by, the person, which must be assessed based on the specific facts and circumstances on a case-by-case basis.

View 2: The parties listed in paragraphs 9(a)-(c) are a part of the definition and, therefore, would always qualify as close members of the family. This view suggests that the definition is more rule-based in its nature.

11. EY notes that some of the wording in the tentative agenda decision appears to support the application of View 1, whereas other wording appears to support the application of View 2. In this respect EY observes that when the tentative agenda decision states that:

- (a) *“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 that the list in paragraphs 9(a)–(c) of IAS 24 *“is non exhaustive and does not*

² We did not receive a formal comment letter from the AASB.

preclude other family members from being considered close members of the family”, this wording appears to support the application of View 1; whereas

- (b) “*the list in paragraphs 9(a)–(c) of IAS 24 specifies members that would be considered close members of the family of a person*”, this wording appears to support the application of View 2³.

12. EY thinks that View 1 is the appropriate view and recommends that the Interpretation Committee should consider amending paragraph 9 of IAS 24, as well as the wording of the tentative agenda decision, to bring it in line with View 1.
13. We disagree with EY’s suggestions because we think that the tentative agenda decision reflects the conclusions reached by the members of the Interpretations Committee at their January 2015 meeting. We observe that at this meeting there was general agreement 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 its application requires the use of judgement within the context of relevant facts and circumstances. However, they also observed that paragraphs 9(a)–(c) of IAS 24 give application guidance on applying the principle by prescribing which family members should be considered at a minimum as close members. Accordingly, the Interpretations Committee agreed that the family members mentioned in paragraphs 9 (a)–(c) of IAS 24 would *always* be classified as close members of a family of a person⁴. We observe that this aspect is reflected in the first sentence of the penultimate paragraph of the agenda decision. This sentence states that (emphasis added):

The Interpretations Committee also noted that **the list in paragraphs 9(a)–(c) of IAS 24 specifies members that**

³ EY also points out that the fact that the word ‘typically’ was removed from the draft wording proposed by the staff in [Agenda Paper 13](#) of January 15 suggests that the Interpretations Committee reads the definition in line with View 2.

⁴ We presented an analysis of this issue to the Interpretations Committee in paragraphs 22-24 of [Agenda Paper 13](#) of January 2015.

would be considered close members of the family of a person.

14. Consequently, we do not recommend amending the wording in the agenda decision or amending paragraphs 9(a)–(c) of IAS 24 as EY had suggested.
15. The staff from the AASB agrees with the Interpretations Committee’s tentative decision and recommend some minor edits to the first sentence of the penultimate paragraph of the agenda decision to make this sentence clearer, as shown below (their proposed new text is underlined and its proposed deleted text is struck through):

The Interpretations Committee also noted that the list of close members of the family of a person given in paragraphs 9(a)–(c) of IAS 24 specifies members that would be considered close members of the family of a person.

16. We note that the edits proposed by the staff of the AASB to the first sentence of the penultimate paragraph of the agenda decision would make this paragraph clearer and we propose adding them in the final agenda decision.

Staff recommendation

17. After considering the comments received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda.
18. In finalising this agenda decision, we propose including the edits proposed by the staff of the AASB to make the wording clearer in the penultimate paragraph of the agenda decision. The proposed wording of the final agenda decision is shown in **Appendix A** to this paper.

Questions for the Interpretations Committee

Question for the Interpretations Committee

Does the Interpretations Committee agree with our recommendation to finalise the agenda decision and to make the wording changes as indicated in Appendix A?

Appendix A—Final agenda decision

A1. We propose the following wording for the final 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 family 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)–(e) of IAS 24 specifies members that would 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 of the family. Consequently, the Interpretations Committee thought that other family members, including parents or grandparents, could qualify as close members of the family 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—comment letters submitted

(included in the following page)

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

1 April 2015

Dear Mr Upton

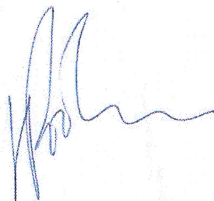
Tentative agenda decision - IAS 24 *Related Party Disclosures*: Definition of close members of the family of a person

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the January IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on the definition of 'close members of the family of a person' in the context of identifying related parties.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision and believe that the tentative agenda decision provides a useful explanation of the principles to be applied in determining whether an individual should be considered a 'close member of the family of a person'.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS Leader

International Financial Reporting Standards Interpretations
Committee
30 Cannon Street
London
EC4M 6XH

30 March 2015

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative agenda decision - IAS 24 Related Party Disclosures - Definition of close members of the family of a person

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative decision of the IFRS Interpretations Committee (the Committee) published in the January 2015 IFRIC Update.

We agree with the Committee's observation that the definition of close members of the family of a person in paragraph 9 of *IAS 24 Related Party Disclosures* (the standard) is expressed in a principle-based manner and involves assessing whether a family member is expected to influence or be influenced by that person. We also agree that a person's parents could qualify as close members of the family depending on the assessment of specific facts and circumstances.

However, we have noted that two different views exist in practice on how the list in paragraphs 9(a)-(c) of *IAS 24* should be interpreted.

The definition in the standard is stated, as follows:

"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."

The two views on how to interpret the list in paragraphs 9(a)-(c) noted in practice are:

View 1: The list should be considered just as a list of illustrative examples of the parties who could qualify as close members of the family, if the main principle of the definition is met. This means that any of the listed parties would only meet the definition, if he or she may be expected to influence, or be influenced by, the person, which must be assessed based on the specific facts and circumstances on a case-by-case basis.

View 2: The parties listed in paragraphs 9(a)-(c) are a part of the definition and, therefore, would always qualify as close members of the family. This view suggests that the definition is more rule-based in its nature.

The wording of the tentative agenda decision does not clarify which of the two views is appropriate. On the one hand, it is noted that the definition “is expressed in a principle-based manner” and that the list in paragraphs 9(a)-(c) “is non-exhaustive and does not preclude other family members from being considered close members of the family”. This wording suggests the Committee’s reading of the definition is in line with View 1. On the other hand, the tentative agenda decision states that the Committee “also noted that the list in paragraphs 9(a)-(c) of IAS 24 specifies members that would be considered close members of the family of a person”. This wording and the fact that the Committee decided to remove the word “typically” from the draft wording proposed by the staff in Agenda Paper 13 at the January IFRIC meeting, suggests that the Committee reads the definition in line with View 2.

We believe View 1 is appropriate, since IFRS is a principle-based set of standards. Therefore, we would recommend the Interpretation Committee to:

1. Consider amending the definition of close members of the family of a person in paragraph 9 of IAS 24 to clarify that the list in paragraphs 9(a)-(c) is just a list of illustrative examples. This could be done by the following change of the wording to read: “... those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and may include ...”

And

2. Consider amending the wording of the tentative agenda decision to bring it in line with View 1

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +31 88 407 5035.

Yours faithfully

Ernst + Young Global Limited