



16 September 2002

International Accounting Standards Board,
30 Cannon Street
London EC4M 6XH

CommentLetters@iasb.org.uk

Dear Sir,

Exposure draft: Improvements to international accounting standards

I am writing in response to the invitation to comment on the improvements proposed to various International Accounting Standards. My comments relate to IAS 24 Related Party Transactions.

Our answers to the questions posed in the Exposure Draft are set out in the accompanying appendix. However, we also believe that the proposed standard has some omissions. These concern disclosure of the controlling party by name and guidance on what constitutes a material related party transaction.

Disclosure of controlling party

We believe that the name of the controlling party, and any ultimate controlling party, should be disclosed. This is because the identity of the controlling party (and its reputation) is something which we believe could have a significant impact on how a reader of a company's accounts might view those accounts.

Materiality guidance

This is a very important area for such a standard. We believe that the standard should stipulate that the disclosures are required in respect of material transactions. Without this stipulation and accompanying guidance on what is deemed material, there is a danger of disclosures of related party transactions becoming so detailed that the impact of the disclosures is lessened, with the transactions worthy of close scrutiny being obscured by the level of detail given. (This is important as the preface to International Accounting Standards currently makes no reference to materiality).

Assuming that the standard is taken to apply to material items, we need more guidance on what constitutes 'material'. Under existing UK GAAP the equivalent standard, FRS 8, clearly explains that an item can be material to a related party (eg a director) without being material to the reporting entity as a whole. I believe such explanation is important. Without it there is a risk that a material transaction is taken to be one that is material when viewed only by the reporting entity, without consideration of the materiality in the eyes of the other party. Related party transactions are a special case in this respect.

Yours faithfully,

Alison Bexfield
Technical accounting manager

Appendix

Related Party Disclosures

The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 24 :

- IASB (i) Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

We agree. We believe that disclosure of management compensation falls within the corporate governance rather than financial reporting arena.

- IASB (ii) Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

We have some sympathy with the alternative view presented by some members of the IASB that knowledge of the amount of trade between a subsidiary and other group members might be significant in understanding the financial health of that subsidiary.

However, we believe that this exemption is acceptable provided that the parent (controlling party) can be identified and its own consolidated financial statements are publicly available.