



Accounting Standards Board

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

14 May 2007

Dear Sir

Re: Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures – State-controlled Entities and the Definition of a Related Party

1 This letter sets out the Accounting Standards Boards (ASB) comments on the above Exposure Draft. We welcome the IASB initiative of updating and amending the definition of a related party and related party transactions. The ASB believes that the amendments to the standard both improve and clarify the existing IAS 24.

2 Please refer to the Appendix to this letter for answers to the questions set out in the Invitation to Comment. If you wish us to expand on any aspect of this response, please contact, Jennifer Guest j.guest@frc-asb.org.uk

Yours sincerely

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Chairman

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**APPENDIX - RESPONSE TO SPECIFIC QUESTIONS IN IASB EXPOSURE
DRAFT OF PROPOSED Amendments to IAS 24 Related Party Disclosures
'State-controlled Entities and the definition of a Related Party'**

- Q1. (a) Do you agree with the proposal to provide, in the circumstances described in this exposure draft, an exemption for entities controlled or significantly influenced by the state? If not, why? What would you propose and why?

The ASB agrees with the proposals to provide an exemption for entities controlled or significantly influenced by the state in the circumstances described in the exposure draft.

- Q1. (b) Do you agree:
- (i) that an indicator approach is an appropriate method for identifying when the exemption should be provided for entities controlled or significantly influenced by the state; and
 - (ii) that the proposed indicators are appropriate?

(i) The ASB agrees with the indicator approach described in the exposure draft and believes that it is an appropriate method for identifying when the exemption should be provided. However, it would be useful for the IASB to establish a principle underlying the indicators. We question the meaning of the phrase, 'economically significant transactions' and would consider, 'material transactions' a more suitable phrase, given that IAS 1 provides guidance on materiality.

(ii) The ASB believes that the proposed indicator approach is appropriate for the standard, subject to our comments above where we believe it would be useful to establish an underlying principle.

- Q2. (a) The definition of a related party in IAS 24 does not include, for a subsidiary's individual or separate financial statements, an associate of the subsidiary's controlling investor. The Board has decided that it should be included, and thus proposes to amend the definition of a related party. The Board similarly proposes that when the investor is a person, entities that are either significantly influenced or controlled by that person are to be treated as related to each other. Do you agree with this proposed amendment? If not, why? What would you propose instead and why?

The ASB agrees with the proposed amendment to the definition of a related party in IAS 24, which is described in (a) above.

Q2. (b) IAS 24 does not define associates of an entity as related parties. However, when a person has significant influence over an entity and a close member of the family of the person has significant influence over another entity, IAS 24 defines those two entities as related parties. The Board proposes to align the definition for both types of ownership by excluding from the definition of a related party an entity that is significantly influenced by a person and an entity that is significantly influenced by a close member of the family of that person. Do you agree with the proposed amendment?

If not, why? What would you propose instead and why?

The ASB agrees with the proposed amendment to the definition of a related party in IAS 24, which is described in (b) above.

Q2. (c) IAS 24 defines an entity over which a member of the key management personnel of the reporting entity has control, joint control or significant influence, or in which the member holds significant voting power, as related to the reporting entity. However the converse is not true. Thus when the entity that a person controls, jointly controls or significantly influences, or in which the person has significant voting power, if the reporting entity and that person is a member of the key management personnel of another entity, that other entity is not defined as related to the reporting entity. The Board proposes to remove this inconsistency by expanding the definition to encompass both situations. Do you agree with the proposed amendment?

If not, why? What would you propose instead and why?

The ASB agrees with the proposed amendment to the definition of a related party in IAS 24, which is described in (c) above. The ASB believes that the amendment improves consistency in the standard.

Q2. (d) Do you agree with the proposal to clarify the definition of a related party? Does the wording proposed capture the same set of related parties as IAS 24 at present (except for the amendments described in (a) – (c) above)? Do you agree that the proposed wording improves the definition of a related party? If not, why? What would you propose instead and why?

The ASB agrees that the proposed amendments to the definition of a related party improve and clarify the definition. Furthermore, the ASB believes that the proposed wording enables the capture of the same set of related parties as IAS 24 has at present (with the exception of the amendments described in

(a) – (c) above).

Q3. Do you agree with the proposal to clarify the definition of a related party transaction? If not, Why? What changes would you propose and why?

The ASB agrees with the proposal to clarify the definition of a related party transaction and that the suggested amendments achieve this goal.

Q4. Do you have any other comments on the proposals?

The ASB does not have any further comments on the proposals set out in the exposure draft.