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1049 Brussels

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Dear Mr Holmquist

Adoption of the revised IAS 24 *Related Party Disclosures*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the amendments to the revised IAS 24 *Related Party Disclosures* (the Amendments), which was issued by the IASB on 4 November 2009. It was issued as an Exposure Draft in December 2008 and EFRAG commented on that draft.

The Amendments set out to simplify the definition of a “related party” while removing some internal inconsistencies and make it symmetrical and to provide relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

The Amendments change the definition of a related party so that the following relationships are included in the definition:

- associates are regarded as related parties of subsidiaries of a common investor, and vice versa;
- entities in which key management personnel invests (investees) and the entity managed by said key management personnel are regarded as related parties of one another;
- where an individual investor has significant influence over one entity and control or joint control over another entity, these two entities are regarded as related parties of one another; and
- where an individual investor has joint control over a reporting entity and a close member of that individual’s family has joint control or significant influence over the other entity, these two entities are regarded as related parties of one another.

Furthermore, the Amendment exempts a reporting entity from the "normal" disclosure requirements in relation to related party transactions and outstanding balances, including commitments, in respect to so-called government-related entities with:

- a government that has control, joint control or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Such entities are however required to disclose the name of the government and the nature of its relationship with the reporting entity for transactions and related outstanding balances referred to above. In addition, information about the nature and amount of each individually significant transaction in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements shall be disclosed. For other transactions that are collectively, but not individually, significant a qualitative or quantitative indication of their extent shall also be disclosed.

The Amendments becomes effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued an initial evaluation for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the "true and fair principle" set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman

APPENDIX BASIS FOR CONCLUSIONS

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IAS 24 Related Party Disclosures (the Amendments).

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Amendments:
 - (a) meet the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
 - (b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it would be in the European interest to adopt the Amendments.

Relevance

- 2 According to the Framework, information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 3 EFRAG considered whether the Amendments would result in the provision of relevant information - in other words, information that has predictive value, confirmatory value or both - or whether it would result in the omission of relevant information. EFRAG's assessment about the Amendments' relevance is very similar to its assessment of comparability.
- 4 The Amendment to the definition of a related party clarifies certain aspects of the existing definition and removes some of its internal inconsistencies. This is achieved by widening the definition of related party transactions to capture relationships that are similar in nature, but which are excluded from the present definition. In EFRAG's view, the additional disclosure resulting from the wider definition is relevant for users because it concerns information that can affect the financial performance and position

of the reporting entity. By providing information about relationships between related parties that were not previously required by the standard, users will benefit from added transparency concerning the transactions affected by those relationships.

- 5 The Amendment in respect to the exemption provided to government-related entities will result in the loss of some information to users. However, entities that apply the exemption must still provide information about individually and collectively significant transactions with related parties. Therefore, in EFRAG's view, users will continue to receive most of the relevant information that they receive under the existing standard. In addition, EFRAG thinks that by focusing on significant transactions, the information provided will not be obscured by excessive information about less significant transactions between related entities.
- 6 EFRAG also considered the implications of the increase in the number of government-controlled entities in environments where, as a result of the financial crises, governments have taken significant and sometimes controlling stakes in financial institutions. The exemption in the Amendments would extend to such financial institutions and it could be questioned whether the financial assistance provided by governments would be adequately disclosed. EFRAG thinks it would for two reasons:
 - (a) first, the Amendment requires disclosure of significant transactions in such instances and therefore all significant transactions would be disclosed in terms of paragraph 26 of the revised standard; and
 - (b) the disclosure requirements of other standards, such as *IAS 20 Accounting for Government Grants and Disclosure of Government Assistance*, will continue to apply to those entities applying the exemption. These standards would require certain disclosures where transactions, not captured by the disclosures noted above, were not at arm's length and could therefore have affected the financial performance and position of the reporting entity.

Reliability

- 7 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 8 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness. In EFRAG's view, the Amendments do not raise any significant issues concerning freedom from material error and bias.
- 9 Reliability concerns should not arise when entities report the additional information due to the change in the definition of a related party; entities should have access to the information about transactions with each other within the same group. In complex organisational structures it may be more difficult to collect all the relevant information, creating some reliability concerns. EFRAG considered these situations and noted that similar information is already required for some of the entities within such structures and such entities are able to obtain the information to meet the existing requirements. Therefore, the amended definition does not create any new reliability concerns in EFRAG's view.

- 10 Some argue that the reporting entity will need the co-operation of others to obtain information required about the private affairs of key management personnel. In some cases, it may be difficult to obtain the right information from those persons; and in other cases, disclosing such information could involve privacy infringement. EFRAG considered these situations, and noted that the existing definition of a related party in IAS 24 already requires a certain level of disclosure about individual persons, and that the Amendment should not create any new concerns involving privacy infringement.
- 11 EFRAG understands that currently some preparers are concerned that the existing requirements in IAS 24 are too cumbersome and sometimes difficult to apply in relation to government related entities, and as a result may lead to incomplete or unreliable disclosures being provided. In EFRAG's view, the relief provided by the Amendment will address concerns about obtaining reliable information concerning relationships and transactions involving a common government, and therefore strengthen the reliability of the information disclosed.

Comparability

- 12 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 13 EFRAG has considered whether the Amendments have been scoped in a way that results in transactions that are economically similar being accounted for differently, or transactions that are economically different being accounted for as if they are similar.
- 14 EFRAG believes that the Amendment to the definition of a related party will enhance the comparability of information as it makes the definition of a related party more symmetrical. This is because the Amendment includes relationships between entities that can exercise a similar extent of influence over each other by virtue of its relationship with a third entity, and which are similar to other relationships that meet the existing definition of a related party.
- 15 EFRAG notes that the consistent application of the exemption for government-related entities will result in comparable information where entities with similar levels of government involvement provide the required disclosures. However, the exemption may result in similar entities disclosing information for similar activities in differing levels of detail where one entity is government related while the other is not. Some may argue that such situations would not result in comparable disclosures. Notwithstanding this concern, as noted above under our assessment of relevance of information, EFRAG believes that the additional disclosure requirements for entities that use the exemption is sufficient to inform users of the occurrence of significant related party transactions. Therefore, it should not affect the comparability of information in any significant way.

Understandability

- 16 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 17 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most aspects are covered by the discussion above about relevance, reliability and comparability (because, for example, information that represents

something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable). As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex. In EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability. In fact, the clarification of the definition of a related party and relief from providing information that is not relevant for entities applying the exemption in respect of government-related entities may improve the understandability of the disclosures resulting from this revised standard.

True and Fair

- 18 EFRAG has also concluded that there is no reason to believe that the information resulting from the application of the Amendments would be contrary to the true and fair view principle.

Cost and Benefit

- 19 EFRAG has considered whether the benefits of implementing the revised IAS 24 in the EU exceed the cost of doing so. EFRAG's assessment is that the benefits of implementing the revised IAS 24 outweigh the costs involved.

Conclusion

- 20 After considering all the above arguments, EFRAG has concluded that, on balance, the revised IAS 24 satisfies the criteria for EU endorsement and that it is likely to be in the European interest to adopt the revised IAS 24. Accordingly, EFRAG recommends its endorsement in Europe.