Accounting Standards Board

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Dear Stig

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

This letter sets out the ASB's comments on the draft EFRAG comment letter on the above IASB Exposure Draft. I attach, for information, a copy of the ASB's response to the IASB.

The ASB agrees with EFRAG in welcoming the IASB's initiative. Overall, the ASB considers that the amendments to IAS 24 improve the standard and we agree with (a) the proposal for an exemption for entities controlled or significantly influenced by the state and (b) the new definition of a related party and related party transaction.

However, we do not agree with a number of the detailed comments in the appendix to the draft comment letter. The appendix to this letter highlights where the ASB does not agree with EFRAG's draft comments.

Yours sincerely

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APPENDIX I- RESPONSE TO EFRAG'S 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 notes that whilst EFRAG supports this proposal, in paragraph 2 EFRAG states it does not believe that there are circumstances in which the benefits that arise from the disclosures (required by paragraph 17 of the standard), justify the costs. The ASB believes that EFRAG should provide further evidence relating to costs and benefits (or lack of) to ensure that the EFRAG proposal is robust. Furthermore the ASB does not share EFRAG's concerns relating to the ambiguity of the exemption as detailed in the exposure draft.
>
> The ASB further notes that EFRAG proposes in paragraph 2 that the principle should be, 'disclosure about transactions between related parties need be given only if one or other party is under the influence of the other'. We however question the meaning of the term, 'under the influence of the other'. The term 'significant influence' is defined in IAS 28 as, 'the power to participate in the financial and operating policy decisions of the investee' but is not control or joint control over those policies. However, 'under the influence of the other' would appear to extend beyond that of 'significant influence' and presumably include entities under common control. We therefore consider the term should be clearly defined.
>
> In paragraph 3 EFRAG seems to suggest an additional disclosure for an entity to state where transactions are not disclosed on terms equivalent to those prevailing in arms' length transactions. We consider the introduction of a 'negative-assurance statement' would be difficult for entities to ensure compliance with, and further may be subject to audit requirements. This would increase costs for companies.
>
> The ASB agrees with the comments in paragraph 4 (a). However, in paragraph 4 (b) we consider one exemption applies to transactions between parties that are related only because they are <u>both</u> controlled or under the significant influence of the state. We do not consider the current standard requires the involvement of the state in transactions of the nature described in paragraph 4(b) to be disclosed.

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?

> The ASB notes that EFRAG agrees in principle with the indicator approach but have concerns with the actual indicators proposed in the amended paragraph 17B. EFRAG believes that there is no underlying principle and hence the paragraph is ambiguous. The ASB agrees with EFRAG that a principle or direction of the indicators would be useful, as would defining what is meant by 'economically significant transactions' and we have indicated as such in our response to the IASB.

Q2. (a) The definition of a related party in IAS 24 does not include, for a subsidiary's individual or separate financial statements, and 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?

> We agree with the EFRAG response.

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?

> We agree with the EFRAG response.

Q2. (c) IAS 24 defines and 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?

We agree with the EFRAG response.

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 notes that EFRAG shares the view that the new proposed definition of a related party improves the definition, but believes that the new definition is complex and difficult to understand. The ASB does not share this view, because we believe that the definition is necessary to enable effective understanding and ensure greater clarity. The EFRAG proposed definition, as noted in paragraph 11, is, ‘not quite right yet’. The ASB believes that if EFRAG wishes to submit to the IASB an alternative suggested definition then EFRAG should ensure that the proposed definition is a robust credible alternative.

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?

We agree with the EFRAG response.

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, but notes that EFRAG outlines further comments relating to the definition and proposes to the IASB a wording change in paragraph 11A. The ASB does not share EFRAG's view because, as previously indicated, we do not find the proposed amended definition as ambiguous as suggested by EFRAG.

We consider the amendments made to the definition add clarity. In addition, the information is required only for close family members of key management personnel or, an individual that controls or, has significant influence over the entity. In many circumstances such information is required for other regulatory purposes.

We also note that EFRAG proposes to extend the definition of a state to include 'an organ of the state'. We have two concerns regarding this proposal; firstly we do not consider 'an organ of the state' is a sufficiently well defined term that could be used in International Financial Reporting Standards that are translated into many different languages. In addition we are concerned about the effect this could have on many regulated industries such as public utilities. We do not support EFRAG's proposed changes.