

IFRS Briefing Sheet

Exposure Draft *Relationship with the State – Proposed amendments to IAS 24*

December 2008, **Issue 117**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB or Board) Exposure Draft (ED) *Relationship with the State – Proposed amendments to IAS 24* (the ED), which was published on 11 December 2008.

The proposed guidance, which revises a previous proposal, would provide an exemption from many related party disclosure requirements for entities that are controlled, jointly-controlled or significantly influenced by a state (state-controlled entities).

Key points

The ED proposes an exemption for all state-controlled entities from disclosing related party transactions with the state or other state-controlled entities, regardless of whether any of those transactions were influenced by the related party relationship. Instead, such state-controlled entities would be required to disclose certain information to draw attention to such transactions.

In addition, the ED proposes, compared to a previous ED that was issued in February 2007 (the 2007 ED), an additional minor amendment to the definition of a related party.

Background

The currently effective requirement of IAS 24 *Related Party Disclosures* to disclose transactions between state-controlled entities has raised concerns amongst state-controlled entities, principally because of the volume of transactions between such entities in countries in which state control is pervasive.

In response to these concerns, the IASB published an ED of proposed amendments to IAS 24 in February 2007; see *IFRS Briefing Sheet Issue 63*. The 2007 ED proposed to focus such disclosure requirements on transactions that are affected by a relationship in which one or more entities are controlled, jointly-controlled or significantly influenced by the state.

Although the 2007 ED proposed a disclosure exemption for state-controlled entities, it would have required those entities to make an assessment as to whether there were any indicators of influence, either by the common state or by entities controlled by the common state, to qualify for that disclosure exemption. After deliberations on respondents' concerns over the complexity of that approach, the Board agreed to revise the proposed disclosure exemption. The ED outlines the revised proposals.

KPMG's update on International Financial Reporting Standards (IFRSs)

Consensus

Disclosure Exemption

The ED proposes for *all* state-controlled entities an exemption from disclosing related party transactions with the state or other state-controlled entities, regardless of whether any of those transactions were influenced by the related party relationship.

However, the ED proposes not to extend that exemption to related party transactions of state-controlled entities arising from any other related party relationship (e.g., key management personnel).

The ED requires disclosure of the following information by state-controlled entities:

- the name of the state
- the nature of the entity's relationship with the state (i.e., control, joint control or significant influence)
- types of individually or collectively significant transactions with the state or other entities under the control or joint control of, or significant influence by, the same state
- a qualitative or quantitative indication of the extent of such transactions.

Definition of a Related Party

The 2007 ED proposed a number of amendments to current IAS 24 that relate to the definition of a related

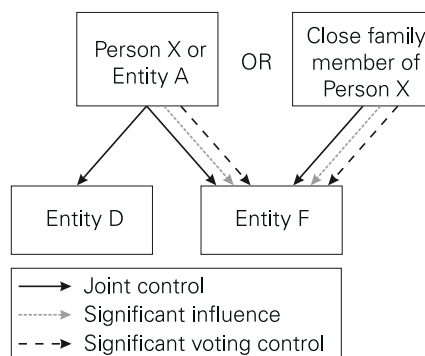
party. Those proposed amendments, which have been reaffirmed by the Board in its ED, would restructure the definition of a related party and include in that definition:

- the relationship between a subsidiary and an associate of the same entity, for both the subsidiary and the associate
- other entities in which a significant investor of the reporting entity is a member of key management personnel.

The proposal would exclude from the definition of a related party situations in which two entities are related because a person has significant influence over one entity, and a close family member of that person has significant influence over the other entity.

Some respondents commented that in the proposal for restructuring the definition of a related party in the 2007 ED, a certain case was omitted without being explicitly stated as a change to IAS 24. Accordingly, the Board has proposed in the ED an additional amendment to define two entities as related parties whenever a person or a third entity has joint control over one entity, and that person, or a close member of that person's family, or that third entity has joint control or significant influence over the other entity or has significant voting power in it (see figure 1).

Figure 1: Situation added to the definition of a related party



Footnote: Entities D and F are related parties for both entities.

Response to IASB

The IASB has invited comments on the proposals contained within the ED by 13 March 2009.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please talk to your usual local KPMG contact or call any of KPMG firms' offices.