

IFRS Briefing Sheet

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

March 2007, **Issue 63**

This IFRS Briefing Sheet summarises the International Accounting Standards Board's (IASB) Exposure Draft (ED) of *Proposed Amendments to IAS 24 Related Party Disclosures – State-controlled Entities and the Definition of a Related Party*, which was published on 22 February 2007.

- In countries in which state control is pervasive, the volume of transactions between state-controlled entities can be extensive, even though such transactions are not necessarily impacted by the related party relationship.
- It is sometimes difficult to identify when transaction counterparties are controlled by the same state entity.

The ED proposes to amend IAS 24 so that the disclosure of related party transactions focuses on those transactions that have been impacted by the related party relationship. Indicators that transactions have been impacted, and therefore require disclosure, are proposed and include:

- common board members;
- direction or compulsion from the state to act in a certain way;
- transactions at non-market rates between the entities (other than by way of regulation);
- the use of shared resources; or
- economically significant transactions between the entities.

The proposals include limiting the related party transaction disclosures required by state-controlled entities, and amending the definition of a related party in respect of relationships involving significant influence.

State-controlled Entities

Currently under IAS 24 two entities controlled by the same state (government) are deemed to be related parties because they are controlled by the same party. This requirement raised the following concerns amongst government business entities:

A state-owned entity that concludes that no transactions with other state-owned entities were impacted by their related party relationship would disclose that there are no indicators that it influenced, or was influenced by, any entity controlled or significantly influenced by the state.

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The ED also proposes to clarify that the term “state” refers to national, regional or local governments.

Relationships Involving Significant Influence

The proposals are intended to make the identification of related party relationships symmetrical as the current definitions have some inconsistencies.

Using Figure 1 to illustrate, the ED proposes to amend the definition of related parties to:

- include the relationship between a subsidiary (entity S) and an associate (entity A) of the same entity (entity P), in respect of the individual and / or separate financial statements of both the subsidiary and the associate
- exclude situations in which two entities are related because a person (person Y) has significant influence over an entity (entity F) and a close family member of that person (person X) has significant influence over another entity (entity S)

- include other entities (entity G) in which a significant investor (person X) of the reporting entity (entity S) is a member of key management personnel.

Other Proposed Amendments

The ED also proposes to clarify that:

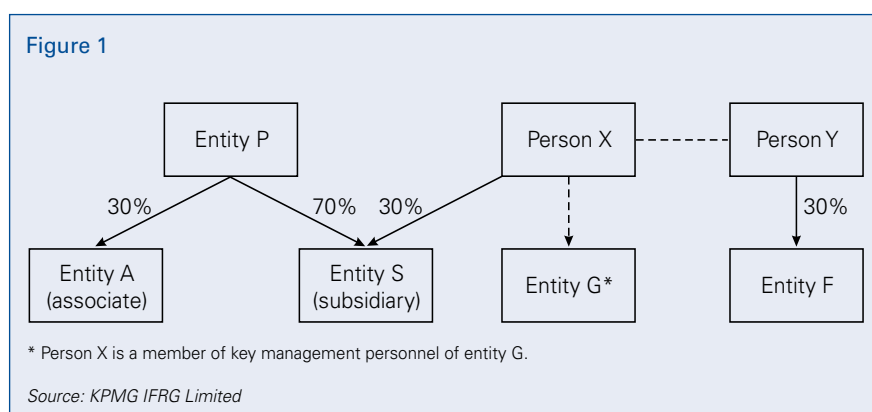
- the IAS 24 disclosures apply to relationships and transactions between an entity and its related party – not between two related parties of an entity
- related party transactions include future commitments

- IAS 24 applies to consolidated, individual and separate financial statements.

Response to the IASB

The IASB has invited comments on the ED by 25 May 2007.

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.



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