Grant Thornton

Chartered Accountants
Business Advisers and Consultants

Mr David Boymal
Chairman
Australian Accounting Standards Board
Email: standard@aasb.com.au

7 May 2007

Dear David

Exposure Draft 153 'Proposed Amendments to IAS 24 (AASB 124) Related Party Disclosures State-Controlled Entities and the Definition of a Related Party'

Grant Thornton Association Inc ("Grant Thornton Australia") is pleased to comment on Exposure Draft 153 'Proposed Amendments to IAS 24 (AASB 124) Related Party Disclosures State-Controlled Entities and the Definition of a Related Party'. Our responses to the questions in the Exposure Draft are set out in the Appendix to this letter, and reflect input from both our Australian Constituents, and in particular initial thinking from Grant Thornton International. However a final Grant Thornton International Submission will be made direct to the IASB, so the purpose of Grant Thornton Australia's Submission is to provide the AASB with our Australian thinking at this time, and this Submission should not be seen as representing Grant Thornton's final views to the IASB. Our main comments are summarised in the following paragraphs.

Support for the project

We generally support the proposals in this Exposure Draft (ED) and note that the existing Australian equivalent to the IFRS Standard AASB 124 'Related Party Disclosures' already exempts not-for-profit public sector entities and this appears to be in principle consistent with the proposed exemption for 'State-controlled entities' as contained in the ED, except that it will also provide some exemptions for the 'for-profit' public sector. From a global perspective, we agree that it can be difficult in jurisdictions with a large number of state-controlled entities to identify every other entity controlled or significantly influenced by the state. The current version of IAS 24 can impose significant cost on state-controlled entities in those jurisdictions and lead to the disclosure of information that is of questionable usefulness. We therefore agree that IAS 24's requirements should be relaxed somewhat in this area.

We also support the measures taken to clarify and make consistent the definitions and scope of IAS 24. We propose some additional modifications that could be made while the Board is undertaking this clarification process.

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T +61 2 8297 2400
F +61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

Grant Thornton Association Inc
ABN 99 849 816 835

We do have various detailed comments on certain of the proposals, and these are included in our responses below to the questions in the ED.

If you have any questions on our response, or wish us to amplify our comments, please contact me.

Yours sincerely
GRANT THORNTON ASSOCIATION INC

KEITH REILLY
National Head of Professional Standards

APPENDIX

A. RESPONSES TO SPECIFIC IASB QUESTIONS

Question 1 – State-controlled entities

(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 instead and why?

We agree with broad approach and consider it to be both workable and an improvement on the current position.

(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?

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

We note that the proposed paragraph 17A triggers disclosure if two entities are subject to common state control (or significant influence and one entity influences the other (based on the indicators in 17B). We suggest that the more important factor is whether or not the state has directed or compelled the entities in question to act in a particular way. Accordingly we recommend that paragraph 17A(b) is reformulated along the lines:

> **"17A…**
>
> **(b) common state control or significant influence, has not affected the terms on which the reporting entity and that entity transact with one another.**
>
> 17B Common state control or significant influence shall be presumed to have affected the terms on which the reporting entity and that entity transact with one another when the related parties:
>
> (a) transact business at non-market rates (otherwise than by way of regulation);
> (b) share resources; or
> (c) engage in economically significant transactions with each other."

Question 2 – Definition of a *related party*

(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?

We agree.

(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 that *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.

(c) IAS 24 defines any 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, is 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.

(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?

We largely agree. We consider the proposal to be clearer than the existing definition. We believe that the first part of the definition, dealing with a person who is a related party would be clearer still if reformulated as follows:

> "(a) A person is related to a reporting entity if that person:
>
> (i) is a member of the key management personnel of the reporting entity or a parent of the reporting entity;
> (ii) has control over the reporting entity; or
> (iii) has joint control or significant influence over the reporting entity; or
> (iv) is a close member of the family of any person in (i)-(iii) above."

Also, we note that paragraphs (b)(vi) and (b)(vii) of the proposed definition include reference to "significant voting power" as indeed does the existing IAS 24. We are unsure as to why this reference is included. In most circumstances significant voting power would convey significant influence. In those cases, the term "significant voting power" is superfluous. In situations when such voting power does not amount to significant influence, we are not convinced that it should be considered to give rise to a related party relationship.

Question 3 – Definition of *related party transactions*

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.

Question 4 - Do you have any other comments on the proposals?

Scope - Paragraph 3
We agree that the existing paragraph 3 of the Scope section of IAS 24 is potentially confusing and therefore support its clarification.

However, the proposed new paragraph includes a statement to the effect that the Standard applies to "individual financial statements". This term is not defined in the Exposure Draft. Nor, to our knowledge, is it currently defined elsewhere in IFRS. We suggest that it could usefully be defined, but probably in IAS 27 so that it sits together with the definitions of consolidated and separate financial statements. However, as concerns IAS 24, we are not convinced that the Scope section needs to state that the Standard applies to consolidated, separate and individual statements, given that it applies to <u>all</u> IFRS financial statements. The reference to "financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements* also seems unnecessary.

A simpler formulation would be:

> "3. This Standard requires disclosure of related party relationships, transactions and outstanding balances. It applies to all IFRS financial statements."

Key management compensation - Paragraph 16
Paragraph 16 of existing IAS 24 requires the disclosure of key management compensation by categories that reflect the IAS 19 *Employee Benefits* categories, along with share-based payments. BC7 contends that the guidance in IAS 19 is sufficient to enable entities to disclose the relevant information. Although the intention of a related party standard should be to disclose here the benefits received by the key management personnel, the layout of IAS 24 paragraph 16 and the requirement for a total to be given, may imply that the amounts disclosed should be determined in accordance with the expense recognized under IAS 19 and IFRS 2 *Share-based Payment.* Not only would these amounts represent the cost to the entity rather than the benefit to the individuals, but applying the Standard in this way gives rise to issues over an entity's treatment of actuarial gains and losses (for example).

We suggest that the Board might take this opportunity, while clarifying other aspects of IAS 24, to clarify the intended disclosures under this paragraph.

Grant Thornton

B. RESPONSES TO SPECIFIC AASB QUESTIONS

(a) Any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(i) not-for-profit entities; and
(ii) public sector entities

We are not aware of any specific regulatory or other issues, other than contained in our comments on the IASB's questions which are detailed earlier in the Appendix

(b) Whether the proposals are in the best interests of the Australian economy

We believe that the proposals are in the best interests of the Australian economy.