



Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

via e-mail: standard@asb.com.au

15 May 2007

Our ref: DH/KL

Dear David

Re: ED 153 Proposed Amendments to AASB 124 *Related Party Disclosures* – State-controlled Entities and the Definition of a Related Party

Deloitte Australia welcomes the opportunity to comment on the exposure draft ED 153 Proposed Amendments to AASB 124 *Related Party Disclosures* – State-controlled Entities and the Definition of a Related Party ('ED 153').

State-controlled entities

We do not have any objection to the proposal to provide an exemption for entities controlled or significantly influenced by the state from providing the disclosures required by paragraph 17, in certain circumstances, thereby reducing the disclosure burden on these entities. However, if the IASB pursue its current indicator approach we have questions around some of the indicators being suggested, such as shared resources, as we are not convinced that parties would necessarily be considered to be influenced merely because they utilised share resources. If this approach is followed we recommend that the indicators be reassessed.

It is our understanding that if there have been any transactions whatsoever between state-controlled entities which trigger the indicators then all transactions between the state-controlled entities fall to be disclosed under paragraph 17, including those transactions which do not trigger the indicators. We question whether this is the intention of the IASB especially in light of BC12.

As indicated in the summary of main changes to AASB 124 *Related Party Disclosures* (AASB 124), in the Australian context, the relief for state-controlled entities in relation to disclosures under paragraph 17, would only apply to for-profit public sector entities, because AASB 124 does not apply to not-for-profit public sector entities. Accordingly, from an Australian perspective we do not anticipate that this ED would impact a significant number of entities in Australia.

Definition of a related party

We agree with the proposed amendments to the definition of related party to remove inconsistencies. Further, we welcome the attempt to clarify the definition and believe the restructure has gone some way to achieve this. However, we still have a concern that the definition is very complex and difficult to understand and do not believe that this can be remedied solely by including illustrative examples. We are of the view that one or more examples illustrating which parties are related to the reporting entity may assist users, but cannot be a substitute for a well worded definition.

Based on our understanding of the existing definition of related party we understand that if a person has joint control over the 'reporting entity' [paragraph (a)(iii)] and that person or a close member of the family of that individual [paragraph (e)] controls, jointly controls or significantly influences, or has significant voting power in another entity then the other entity and the reporting entity [paragraph (f)] will be considered to be related parties. Based on our understanding of the revised definition of related party we do not believe that this relationship would still be captured. While we do not object to this change, we note that the revised definition does not capture the same parties as the existing IAS 24 definition and that this change has not been articulated as a change.

We also note that the existing definition of related party specifically refers to direct and indirect relationships whereas the revised definition does not. For the avoidance of any doubt we suggest that the IASB clarify that these relationships are still captured by the revised definition.

Definition of related party transactions

We agree with the proposal to clarify the definition of related party transaction.

Other comments on the proposals

Definition of state

In relation to the definition of state we are uncertain whether transactions between entities at different levels of government would be considered to be related. In particular, in the Australian context it is unclear whether the ED would consider transactions between entities controlled by different levels of government to be within the scope of the exemption provided for in paragraphs 17A to 17E especially since for instance national government is controlled by a different political party to some of the state governments. We would welcome clarification on how this definition is to be interpreted in such circumstances.

Definition of close members of the family of a person

We have a concern with the proposed amendment to the definition of close member of the family of a person. The existing definition is not exhaustive but provides examples of those parties who may be considered to be influenced by or who may influence the individual. If the IASB consider that it is now appropriate to provide an exhaustive list we have a concern with the term "children" in particular how one should interpret that term. Our concern with an exhaustive list is that the relationships listed would not always result in influence being exerted. For instance, whilst an adult is still likely to be considered their parent's child they will not always be influenced by or influence their parent's dealings particularly if the individual no longer resides with their parents.

In conclusion, while we do have some concerns about the proposals in ED 153, we believe that the IASB's intent, specifically in relation to simplification of the definition of related party and the removal of inconsistencies, is good. We are of the view that if the IASB further enhances the clarity of the definitions the final Standard will result in a significant improvement to related party disclosures.

Due to the later IASB submission deadline for the exposure draft, the global firm of Deloitte Touche Tohmatsu has not finalised its views in relation to the matters raised. Furthermore, in this letter we have highlighted issues and concerns in the Australian context that may not have the same degree of relevance internationally or which may not be considered of sufficient significance to warrant separate comment by the global firm of Deloitte in its submission. Therefore, the views presented in this document should be read in this context and may not necessarily represent the view of the global firm of Deloitte.

If you have any questions concerning our comments, please contact Debbie Hankey on (02) 9322 7665.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Debbie Hankey', written in a cursive style.

Debbie Hankey

Partner

SPECIFIC MATTERS FOR COMMENT

(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 other Australian issues that would affect the implementation of the proposals.

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

We believe that the adoption of IFRS as converged Australian Standards will improve the ability of Australian entities to compete for funds in global capital markets. Accordingly, we believe that there must be no change made by the AASB to the IFRS when issuing the AASB equivalent, other than any amendments applicable to not-for-profit and public-sector entities that are considered absolutely necessary.