



Tasmania

DEPARTMENT of
TREASURY and FINANCE

Contact: Sakura Oddie
Phone: 03 6233 2402
Our Ref: D/001621 SO/CJ

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

Dear Mr Boymal

**INVITATION TO COMMENT: EXPOSURE DRAFT 153 –
PROPOSED AMENDMENTS TO AASB 124 RELATED PARTY DISCLOSURES –
STATE-CONTROLLED ENTITIES AND THE DEFINITION OF A RELATED
PARTY**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments on Exposure Draft ED 153 - *Proposed Amendments to AASB 124 Related Party Disclosures – State Controlled Entities and the Definition of a Related Party*.

HoTARAC supports continuance of the current exemption from compliance with the requirements of AASB 124 for not-for-profit public sector entities in Australia until the completion of a more extensive review of the Standard.

HoTARAC generally supports the proposals contained in ED 153. HoTARAC's comments in relation to the specific questions posed by the Board can be found in Attachment A.

If you have any queries regarding this submission, please contact Mr Robert Williams at NSW Treasury on 02 9228 3019 or by email at robert.williams@mail.treasury.nsw.gov.au.

Yours sincerely



D W Challen

CHAIR

**HEADS OF TREASURIES ACCOUNTING AND
REPORTING ADVISORY COMMITTEE**

15 May 2007

Encl

Attachment A**ED Proposed Amendments to IAS 24 Related Party Disclosures****Invitation to Comment**

The Board is not seeking comments on matters in IAS 24 other than those set out in this exposure draft.

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?

Yes, subject to the specific comments made with respect to the Exposure Draft below.

(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?

HoTARAC agrees that the proposed indicators generally are appropriate, but notes that they could be further refined to:

- remove apparent inconsistencies between the application of paragraphs 17A to 17C, as follows:
 - paragraph 17A(a) describes an entity being a related party only where it is controlled or significantly influenced by a state and the other entity is controlled or significantly influenced by that state. However, for exemption from the Standard, paragraph 17A(b) requires that there be no indicators that the entity influenced, or was influenced by, an entity; and

- paragraph 17B exempts an entity if it transacts business at non-market rates that are subject to regulation. Paragraph 17C requires disclosure if a compulsion by a state exists. What is the difference between “regulation” and “compulsion by a state”?
- more clearly delineate the types of transactions that require disclosure; for example does the description of economically significant transactions in paragraph 17B refer to material transactions.

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?

HoTARAC agrees with the proposed amendment.

(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?

HoTARAC agrees with the proposed amendment.

(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?

HoTARAC agrees with the proposed amendment.

(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?

HoTARAC agrees with the proposal to clarify the definition.

Question 3 – Definition of related party transactions

Do you agree with the proposal to clarify the definition of a related party transaction?

Yes, to the extent required to clarify the definition. HoTARAC does not support any change of the definition of a related party transaction.

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

Not applicable.

Question 4

Do you have any other comments on the proposals?

HoTARAC continues to support the current exemption for not-for-profit public sector entities in Australia from the related party disclosure requirements until a more extensive review can be performed. Such a review should not necessarily adopt future IAS 24 *Related Party Disclosures* amendments by default.

HoTARAC recommends referring in the Australian Standard to “government-controlled entities” rather than “state-controlled entities”. Paragraph 11A could then be deleted.