



Australian Government

Australian Accounting
Standards Board

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH

Dear David

AASB Comments on IASB Exposure Draft *Relationships with the State* (proposed amendments to IAS 24)

The Australian Accounting Standards Board (AASB) welcomes the opportunity to comment on the IASB Exposure Draft *Relationships with the State* (proposed amendments to IAS 24).

The AASB has particular comments on two areas, being the broad nature of the exemptions and the need to better identify what is meant by the 'state'. Our detailed comments on the questions raised by the IASB are in the attachment.

If you have any queries regarding this submission, please do not hesitate to contact me or Angus Thomson (athomson@aab.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bruce Porter'.

Bruce Porter
Acting Chairman

-attachment-

ATTACHMENT

Specific comments

Question 1—State-controlled entities

This exposure draft proposes an exemption from disclosures in IAS 24 for entities controlled, jointly controlled or significantly influenced by the state in specified circumstances.

Do you agree with the proposed exemption, and with the disclosures that entities must provide when the exemption applies? Why or why not? If not, what would you propose instead and why?

The AASB is concerned about the broad nature of the proposed exemption. The AASB believes that users of financial statements would be interested in information about related party transactions that are not at arm's length (that is, on terms that are not normal) with all types of entities and, accordingly, such transactions should not be within the scope of the exemption. The AASB appreciates that professional judgement would need to be exercised in determining those transactions that are not at arm's length.

The AASB's concern is highlighted by recent events that have led some governments to take significant and sometimes controlling stakes in financial institutions that may then deal with one another or other government influenced or controlled entities as a consequence of government policy. In these circumstances the other remaining stakeholders in those institutions would be expected to have a keen interest in related party dealings that are not at arm's length with other entities significantly influenced or controlled by government.

In addition, the AASB suggests that the IASB clarify whether the disclosures that entities are required to provide when the exemption applies are subject to materiality or whether all relationships should be disclosed. Given that any assessment of materiality could depend very much on qualitative factors, there may be a need to include some explanation of how materiality would be applied in the case of the proposed exemption to IAS 24.

Question 2—Definition of a related party

The exposure draft published in 2007 proposed a revised definition of a related party. The Board proposes to amend that definition further to ensure that two entities are treated as related to each other 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 the third entity has joint control or significant influence over the other entity or has significant voting power in it.

Do you agree with this proposal? Why or why not? If not, what would you propose instead and why?

The AASB generally agrees with the proposal, but has some specific comments.

The AASB considers that it is not clear as to what is meant by 'significant voting power'. The AASB is concerned about introducing a new notion, in addition to the

established notions of joint control and significant influence, outside the context of a thorough review of the established notions.

The AASB also considers that it would be helpful to identify whether there are any consequences arising from the proposals in respect of disclosures about key management personnel. For example, are there disclosure consequences when a member of key management personnel of one of the relevant entities is the person who has joint control over one entity and has joint control or significant influence over the other entity or has significant voting power in it?

Question 3—Do you have any other comments on the proposals?

The AASB suggests that, for consistency with the language used by the IPSASB, the term ‘state’ should be replaced with the term ‘government’. The AASB notes that, although the IFRSs use both ‘government’ and ‘state’, the word ‘government’ is used more often – see in particular IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and Interpretation 12 *Service Concession Arrangements*. Furthermore, IFRS 8 *Operating Segments* uses the phrase ‘government (national, state, provincial, territorial, local or foreign)’, which implies that the word ‘state’ does not mean all governments, yet the AASB considers that the IASB wishes it to mean all governments in the context of IAS 24.

Irrespective of the term adopted, clarification of its definition is warranted. The AASB suggests that potential areas in need of clarification include the following:

- (a) Are individual entities within a ‘state’ themselves a ‘state’, and would transactions with such a lower-level ‘state’ entity therefore fall under the proposed exemptions?

In this regard, the AASB notes that the issue of control in a public sector context itself is an area of controversy. For example, it is debatable in many jurisdictions whether certain types of entities, such as universities, are part of a single ‘state’ (in Australia, under Governance Finance Statistics, they are classed as multi-jurisdictional).

- (b) When does a cooperative arrangement between different nations/regions become a ‘state’? For example, would or should the European Union be considered as a ‘state’?

Editorial Comment:

While we acknowledge that the IASB ED *Relationships with the State* (issued December 2008) builds on IASB ED *State-controlled Entities* (issued in February 2007), we consider that the 2008 ED should have much more clearly identified the points of the 2007 ED on which the IASB had already made firm decisions. In particular, it was not clear to many readers whether the definition of ‘state’ from the 2007 ED is still applicable.