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Bruce Porter
Acting Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

18 March 2009

Dear Bruce

Exposure Draft ED 170 *Relationships with the State – Proposed amendments to AASB 124*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's Exposure Draft *Relationships with the State – Proposed amendments to IAS 24.* The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss this further.

Yours sincerely

Jan McCahey

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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

13 March 2009

Dear Sir David

Exposure draft: Relationships with the State – Proposed Amendment to IAS 24

We are responding to your invitation to comment on the above Exposure Draft.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the exposure draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We welcome the opportunity to respond to the exposure draft and we continue to support the broad objective of introducing an exemption for state-controlled entities and the general approach taken to meet that objective.

We welcome the Board's efforts to address the concerns raised by respondents to the previous exposure draft and we believe that the revised proposals address those concerns. However, we believe the proposed exemption is now so broad that it creates a risk that valuable information will not be provided to users of the financial statements. We have two concerns:

- Transactions between entities that are directly related to each other are more likely to be influenced by the relationship and should be distinguished from transactions between entities that are related only because of their relationship with the state. Excluding such transactions from the scope of IAS 24 risks excluding useful information from the financial statements and creates an unnecessary inconsistency between entities that are state controlled and those that are not. We suggest that the proposed exemption applies only to entities that are related solely because of their relationship with the state.

- State-controlled entities are sometimes directed to transact with each other in a way that independent entities would not and the impact of these transactions on the financial statements can be significant. The objective of the standard is to provide the disclosure necessary to make users aware that the financial statements might have affected by transactions between related parties. This objective would not be achieved if qualitative information about material transactions was only provided together with information about other less significant transactions. We suggest that information about the nature and extent of individually significant transactions is disclosed separately.

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We have made some detailed recommendations to address these issues in the Appendix to this letter.

If you have any questions in relation to this letter please do not hesitate to contact Richard J Keys (020 7212 4555), or Tony de Bell (020 7213 5336).

Yours faithfully

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

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Appendix

Detailed comments on the Exposure Draft: Relationships with the State – Proposed Amendment to IAS 24

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 (referred to below as "state-controlled entities") in specified circumstances.

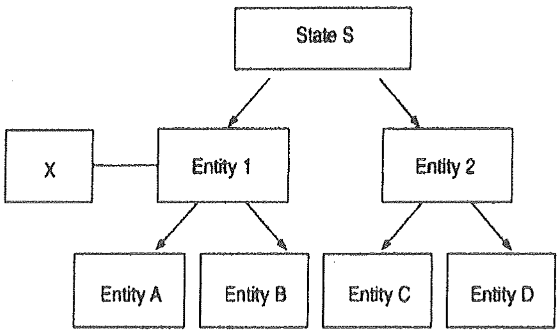
Do you agree with the proposed exemption, and with the disclosures that entities must provide when the exemption applies? Why or why not? If not, what would you propose instead and why?

(a) Scope of exemption

We continue to support the objective of providing state-controlled entities relief from disclosing details of those related party transactions that may not provide useful information to users of the financial statements. We also support the general approach taken to meet this objective.

The revised proposal provides an exemption from disclosing any transactions with the state or any other state-controlled entity. The exemption applies regardless of whether influence exists in such relationships and does not distinguish between entities that are related only because of their relationship with the state and those that are related in other ways. This exemption is too broad and risks omitting disclosures that would be valuable to users of the financial statements. It also provides state-controlled entities with a significant exemption that it not available to entities that have no relationship with the state.

The diagram below illustrates our concern. Transactions between Entity 1 and Entities A and B would be disclosed if Entity 1 was not state controlled because the information would help users to understand the financial statements. The exposure draft proposes that there is no requirement to disclose these transactions.



We suggest that the exposure draft is amended so that the exemption from disclosure is available only to entities that are related solely because of their relationship with the state. This could be accomplished by modifying paragraph 17 as follows:

> 17A A reporting entity is exempt from the disclosure requirements of paragraph 17 in relation to:
>
> (a) a state that has control, joint control or significant influence over the reporting entity; and
> (b) another entity that is a related party solely because the same state has control, joint control or significant influence over both the reporting entity and the other entity."

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(b) Disclosure of individually significant transactions

State-controlled entities are sometimes directed to transact with each other in a way that independent entities would not and the impact of these transactions on the financial statements can be significant. For example a state controlled entity might be instructed to purchase assets from another state controlled entity at above market value. The proposed exemption would allow a reporting entity to combine individually significant transactions with other collectively significant transactions, which reduces the transparency and usefulness of the financial statements. These transactions would be disclosed individually only if they were business combinations or investments in associates or joint ventures, for which there is a specific disclosure requirement.

The objective of the standard to provide the disclosure necessary to make users aware that the financial statements might have affected by transactions between related parties would not be achieved if qualitative information about material transactions was provided together with information about other less significant transactions. We suggest that information about the nature and extent of individually significant transactions is disclosed separately.

Paragraph 17B(b) of the proposed amendment requires an entity to disclose individually or collectively significant transactions either qualitatively or quantitatively. An entity will need to have the necessary systems and processes in place to capture information about all these transactions so it can make the required disclosures. The proposal will therefore simplify only the disclosure and not relieve the entity from information gathering, a key element of the Board's objective. We suggest that the standard permits entities to disclose only qualitative information about transactions that are not individually significant.

We suggest that the exposure draft is amended by modifying paragraph 17B as follows:

> 17B However, a reporting entity shall disclose the following information about transactions with the state or other entities referred to in paragraph 17A:
>
> (a) the name of the state and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
> (b) (i) a description of the nature and extent of each individually significant transaction with the state or state-controlled entities and (ii) for each of the different types of other ~~individually or~~ collectively significant transactions with the state or state-controlled entities, qualitative or quantitative disclosure of their extent. Types of individually or collectively significant transactions to be subject to such disclosures include those listed in paragraph 20; and
> (c) the fact that the state or such entities are related parties as defined in IAS 24 but , as permitted by paragraph 17A, disclosures about related party transactions do not cover transactions with that state or those entities.

Question 2 – Definition of a related party

The exposure draft published in 2007 proposed a revised definition of 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?

We agree with the further amendment to the definition of related parties suggested in this exposure draft to treat reciprocal relationships consistently.

Question 3

Do you have any other comments on the proposals?

- The term "State" was defined in the previous exposure draft as a national, regional or local government. Some jurisdictions have a federal government in which each state or city has an independently elected government, which is bound together by a federal administration (for example, the United States, Australia and Germany). Entities may also be state funded or state regulated and, in some territories, a supra-national body, for example, the European Union has the authority of a government. The standard should articulate a clear principle that will allow the definition to be applied in different circumstances.

- "Significant voting power" used in iii) of the definition of a related party should be defined. This term is used in the current version of IAS 24 paragraph 9(f) and we understand it to refer to an individual (not corporation) having the ability to significantly influence an entity. This term appears in the same sentence as "joint control or significant influence", and could be interpreted as applying where an entity has influence over another entity but not significant influence as defined in IAS 28.

- "Significant transactions" in paragraph 17B(b) should be clarified. It is not clear whether significant should be determined by reference to the size or nature of the transaction or whether a transaction is significant because it is non-routine or non-recurring or because it has been directed by the state. We suggest that the Board explain in the Basis of Conclusion the types of transactions that it intends to capture.

- The exemption available to state-controlled entities is an exception to the general disclosure requirements. We suggest that the standard explicitly prohibits this exemption from being applied by analogy.