



# Accounting Standards Board

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Stig Enevoldsen  
Chairman  
EFRAG  
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Belgium

9 February 2009

Dear Stig

## **EFRAG's Draft Comment Letter on the IASB's Exposure Draft 'Relationships with the State' – Proposed amendments to IAS 24**

This letter sets out the Accounting Standards Board's (ASB's) views on the EFRAG draft comment letter to the above IASB exposure draft (ED).

The Board has responded directly to the IASB and a copy of our letter is attached. You will see from that letter that the ASB is broadly supportive of the IASB's proposed amendments and takes a different view to that set out in the EFRAG draft comment letter.

Our more detailed comments on the draft comment letter are set out below:

### **Question 1 State controlled entities**

We note that, in paragraph 3 (appendix) of the EFRAG draft response, concerns are expressed about the requirements of paragraph 17B being onerous. The ASB also considered this issue, but we are reassured by the last sentence of paragraph BC11 in the basis of conclusions of the ED which states that, 'they do not require the reporting entity to identify every state-controlled entity, nor to quantify in detail transactions with such entities, because such a requirement would negate the exemption.'

In relation to paragraph 4 in the appendix of the draft comment letter, the ASB does not consider that the EFRAG proposal to insert the word 'same' between 'the' and 'state' in paragraph BC8 (a) last sentence is necessary. The sentence later says 'controlled by it', therefore it must be the same state and not a different one, otherwise the sentence would say 'them'. We consider that two entities would not necessarily be related parties if they are subject to significant influence by different states.

### **Question 2 Definition of a related party**

The ASB notes that EFRAG disagrees with the amendment being proposed in paragraph 9(b)(ix). The ASB has a different interpretation of this paragraph, but we acknowledge that that wording could be clearer. The ASB suggests that replacing '(A)' with 'both' and '(B)' with 'also' would clarify the paragraph.

### Question 3 Other comments on the proposals

With regards to EFRAG's suggested response to Question 3 (paragraph 6 of the appendix to the draft comment letter), the ASB would like to make the following comments:

(a) In the basis of conclusions (BC10(c)) the IASB acknowledges that different states might conduct many transactions differently to another i.e. either directly or through state-controlled entities. The revised proposals therefore take into account that although different states conduct their business differently, disclosure on the substance of the relationships and transactions should be similar. The ASB therefore suggests that EFRAG's example of an agency which is the intermediary between the entity and the state should fall within the scope of the exemption proposed in the revised ED, but we agree that the position could be clarified. However, we think it would be helpful if EFRAG could provide more detail in the example to enable the IASB to properly evaluate if the exemption applies to the example.

(c) With regards to EFRAG's example of several governments working together, not always falling under the definition of 'joint control', and the assertion that if statutory or regulatory powers are not transferred, then they are not covered by the exemption, the ASB considers that if regulatory or statutory powers are not transferred, then the entity would not be considered to be state-controlled but could be deemed to be state-influenced. The ASB considers that such bodies should be included in the scope of the definition and that clarification by means of amending the definition of 'a state' would solve this issue.

(d) The ASB does not share the EFRAG view that the IASB definition of government was intended to include certain regulators that oversee market participants, such as the energy market. Regulators of this sort would only have regulatory oversight in certain fields and hence would not fit the definition of a government which has overreaching statutory and regulatory competences. In our view, the IASB does not intend that such entities be within the scope of the definition. However without knowing the exact circumstances, it is difficult to make a judgment. It would be helpful if EFRAG could enlarge on the detail of the example.

Should you wish us to expand on any aspect of this response, please contact myself or Jennifer Guest ([j.guest@frc-asb.org.uk](mailto:j.guest@frc-asb.org.uk))

Yours sincerely



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International Accounting Standards Board  
30 Cannon Street  
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9 February 2009

Dear Sirs

### **Exposure Draft of Proposed amendments to IAS 24: 'Relationships with the State'**

This letter sets out the Accounting Standards Board's (ASB's) comments on the above exposure draft (ED). In general, the ASB supports the proposed amendments, which should clarify the position with regards to increasing consistency in the application of the proposed exemption.

The ASB's answers to the questions in the ED are set out in the Appendix to this letter.

The ASB considers that the definition of a 'State' should be amended, in particular to include supra-national governmental organisations such as the European Union and we have included a suggested definition in our response to question 3. Whilst we recognise that the IASB is not inviting comment on the definition of a 'State', we consider that since the ED covers 'Relationships with the State', it should be unquestionably clear what is meant by a 'State'.

Should you wish us to expand on any aspect of this response, please contact myself or Jennifer Guest ([j.guest@frc-asb.org.uk](mailto:j.guest@frc-asb.org.uk)).

Yours sincerely

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## APPENDIX

### RESPONSE TO SPECIFIC QUESTIONS IN THE IASB EXPOSURE DRAFT 'Relationships with the State -Proposed amendments to IAS 24'

#### State-controlled entities

Q1. 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 ASB agrees with the proposed exemption and with the disclosures that entities are required to provide when the exemption applies.

#### Definition of a related party

Q2. The exposure draft published in 2007 proposed a revised definition of a related party. The Board proposes to amend the 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 ASB agrees with the revised definition of a related party but suggests that the condition set out in paragraph 9 (b) (ix) could be clarified as follows:  
'(A)' should be replaced with 'both' and '(B)' should be replaced with 'also'.

#### Other matters

Q3. Do you have any other comments on the proposals?

The ASB considers that there is a need for an amendment to the definition of a 'State'. In our view the current definition of a 'State' would not include supra-national governments such as the European Union. We think it should. Whilst we recognise that the IASB is not inviting comment on the definition of a 'State', we consider that since the ED covers 'Relationships with the State', it should be unquestionably clear what is meant by a 'State'. A suggested redrafting of the definition of a 'State' is as follows:

**'A *state* is a supra-national, national, regional or local government.'**

The term *state* in this Standard refers to any governing jurisdiction that has statutory or regulatory powers of government, whether that state is at a supra-national, national, regional or local level.'

Additionally, the ASB consider that the ED would benefit from some minor grammatical clarifications. These are as follows:

- Paragraph 9(b) (iv) - 'either entity' should be replaced with 'either of the entities'; and
- Paragraph 17A - 'in relation to' should be replaced with 'when it has a relationship to'.