



THE INSTITUTE  
OF CHARTERED  
ACCOUNTANTS  
IN ENGLAND AND WALES

17 March 2009

Our ref: ICAEW Rep 30/09

Your ref:

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

By email: [commentletters@iasb.org](mailto:commentletters@iasb.org)

Dear David

**RELATIONSHIPS WITH THE STATE: PROPOSED AMENDMENTS TO IAS 24**

The Institute of Chartered Accountants in England and Wales (the Institute) is pleased to respond to your request for comments on the exposure draft *Relationships with the State: Proposed amendments to IAS 24* published in December 2008.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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## ICAEW REPRESENTATION

ICAEW REP 30/09

### RELATIONSHIPS WITH THE STATE: PROPOSED AMENDMENTS TO IAS 24

Memorandum of comment submitted in March 2009 by The Institute of Chartered Accountants in England and Wales, in response to the exposure draft *Relationships with the State: Proposed amendments to IAS 24* published by the International Accounting Standards Board in December 2008.

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## **RELATIONSHIPS WITH THE STATE: PROPOSED AMENDMENTS TO IAS 24**

### **INTRODUCTION**

1. The Institute of Chartered Accountants in England and Wales (the Institute) welcomes the opportunity to comment on the exposure draft *Relationships with the State: Proposed amendments to IAS 24* published by the International Accounting Standards Board in December 2008.

### **WHO WE ARE**

2. The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 130,000 members in more than 140 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 700,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. The Institute ensures these skills are constantly developed, recognised and valued.
4. Our members occupy a wide range of roles throughout the economy. This response was developed by the Financial Reporting Committee of the Institute, which includes preparers, analysts, standard-setters and academics as well as senior members of accounting firms and members working in the Public Sector.

### **MAJOR ISSUES**

5. We welcome the Board's continued efforts to provide some relief from the potentially onerous requirements of IAS 24 in relation to related party disclosures by state-controlled entities. However, we have reservations about the current proposals and we do not support them in their current form.

#### **Scope of the exemption**

6. Under the current proposals, transactions between two entities would not need to be disclosed if they are controlled, jointly controlled or significantly influenced by the same state - even if the two entities are otherwise related parties according to the criteria of IAS 24. (See also paragraph 8 below.) We do not support this derogation from IAS 24. We prefer an approach where the relationships which exist because of the state are 'invisible' in terms of disclosing related party transactions, but where there are relationships arising from other sources, transactions between them should be fully disclosed. We therefore support the approach in the previous exposure draft, whereby the exemption was available only if the only reason the two entities were related was if they were controlled, jointly controlled or significantly influenced by the same state.

## Definition of the state

7. We understand that the definition of the state is not being re-exposed, but we nevertheless feel that some further guidance is required on the distinction between what might be termed 'departments of state' and the different structures and vehicles that the state might use for managing its interests. For example, in the UK context, we might regard the state as a body which exercised a specific function of the state (for example a policy-making body, statutory regulator or an entity raising a statutory tax or levy) but not recognise as the state an entity which was owned by the state but which provided services on an arm's length basis, or in a commercial or quasi-commercial environment, such as a bank. As set out in paragraph 6 above and 8 et seq below, we believe that exemption from disclosure should apply only if the only reason two entities are related is because of state control. In these circumstances, it will be important to know where the state itself ends and state-controlled entities begin. This will not prove workable in different constitutional jurisdictions if there is a lack of clarity as to what constitutes the 'state'.

## 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?**

8. We do not agree with the proposed exemption. As set out in paragraph 6 above, we believe that the exemption should be not be available where two entities are related according to other IAS 24 criteria, in addition to being controlled, jointly controlled or significantly influenced by the same state. For example, in Illustrative Example IE1, Entities 1, A and B are related to each other, regardless of any state control. Based on the proposed exemption, they would all be exempt from disclosure of transactions with each other whereas other similar entities without ultimate state ownership would have no exemption from disclosure of intra-group transactions. So if Entity 1 were, say, a bank in which the state had a controlling interest, and Entities A and B were subsidiaries in which there were non-controlling interests, users of the accounts would be denied useful information about related party transactions between A and B. Moreover, if Entity 2 was also a state-controlled bank, no information would be provided on transactions between Entities A, B, C and D.
9. If, as we would prefer, the exemption were to apply only if two entities are related only through state control, the definition of the 'state' becomes important in determining whether the disclosure is required. For example, in Illustrative Example IE1 would a single holding company above Entities 1 and 2 qualify as part of the state or not? Equally, would Entities 1 and 2 themselves always be considered to be part of the state? We trust the Board has not decided to weaken the provisions of IAS 24 merely because it is difficult to define the 'state'.
10. We question whether the disclosures required by paragraph 17B are achievable by those entities that cannot identify other state-controlled entities (which is the reason for the exemption in the first place).

11. We believe that the draft would benefit from a clearer statement of whether disclosure is required of balances as well as transactions, notwithstanding the reference to balances in paragraph 17.

### **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?**

12. We agree with this proposal.
13. We note that 'significant voting power' is not defined in IAS 24, and will need to be addressed in the context of the proposals in ED 10 *Consolidated Financial Statements*. This is an issue because significant voting power is the threshold at which certain of the definitions of a related party are first met (for example, in 9(b)(vii)), so preparers need to know where this threshold lies in order to help achieve consistent application of the standard. We note that 'significant voting power' in IAS 24 seems to only apply to individuals.

### **Question 3**

**Do you have any other comments on the proposals?**

14. The proposals are far-reaching. We suggest that the implementation date and transitional arrangements are structured to allow entities sufficient time to position themselves to make the required disclosures.

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