

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS

Exposure Draft of proposed AMENDMENTS TO *FRS 24 RELATED PARTY DISCLOSURES -* STATE-CONTROLLED ENTITIES AND THE DEFINITION OF A RELATED PARTY

Comments to be received by 25 April 2007

This exposure draft (ED) contains proposed amendments to FRS 24 *Related Party Disclosures*.

This ED should be read in the context of the Preface to Financial Reporting Standards published by the Council on Corporate Disclosure and Governance (CCDG).

This ED is issued by CCDG for comment only and does not necessarily represent the views of CCDG.

Since this ED may be modified as a result of comments received, CCDG would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **25 April 2007**, preferably by email to: accounting_stds@acra.gov.sg or addressed to:

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INTRODUCTION

- 1 This exposure draft contains proposals to amend FRS 24 *Related Party Disclosures*. The amendments would eliminate the disclosure requirements in paragraph 17 of FRS 24 for some entities that are controlled or significantly influenced by a state in relation to transactions with other entities controlled or significantly influenced by that state. The exemption does not apply when influence exists in such relationships.
- 2 The exposure draft also proposes amending the definition of a related party, for four reasons. First, the relationship between an associate and a subsidiary of an entity ('the investor') was considered. FRS 24 requires disclosure of transactions between an associate and a subsidiary of the investor in the individual or separate financial statements of the associate but not in the individual or separate financial statements of the subsidiary. The definition of a related party is proposed to be changed to ensure that an associate and a subsidiary of an entity are related parties for the purposes of their individual, or separate, financial statements. Similarly, it proposes that when the investor is a person, an entity that is significantly influenced by that person and another entity that is controlled by that person are related parties.
- 3 Secondly, the relationship between associates of the investor was considered. FRS 24 does not define associates as related to each other if the investor is an entity. However, an entity that is significantly influenced by a person, and another entity that is significantly influenced by a close member of the family of that person, are related parties. The definition of a related party is proposed to be amended to exclude such entities, thereby ensuring consistent treatment of all associates.
- 4 Thirdly, FRS 24 treats some investees* of the key management personnel of an entity preparing its financial statements (in this exposure draft referred to as the 'reporting entity') as related to the reporting entity. However, the definition in FRS 24 does not include the reciprocal of this— ie in the financial statements of the investee, the reporting entity is not a related party. The definition is proposed to be amended to ensure that in both sets of financial statements the entities are defined as related parties.
- 5 Lastly, in response to comments that the definition of a related party is difficult to understand and interpret, it is proposed to restructure it. The restructuring is not intended to change the meaning of a related party except for the changes described in paragraphs 2–4 above.
- 6 The exposure draft also proposes to improve the wording of the standard.

* Investees include entities controlled, jointly controlled or significantly influenced by an investor or in which the investor holds significant voting power.

INVITATION TO COMMENT

CCDG invites comments on the amendments proposed in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) comment on the questions as stated;
- (b) indicate the specific paragraph or group of paragraphs to which they relate;
- (c) contain a clear rationale; and
- (d) if applicable, include an alternative to be considered.

CCDG is not seeking comments on matters in FRS 24 other than those set out in this exposure draft.

Respondents should submit comments in writing so as to be received no later than **25 April 2007**.

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?

- (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?

Question 2 – Definition of a *related party*

- (a) The definition of a related party in FRS 24 does not include, for a subsidiary's individual or separate financial statements, an associate of the subsidiary's controlling investor. It has been decided that it should be included, and thus proposes to amend the definition of a related party. It is similarly proposed 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?

- (b) FRS 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, FRS 24 defines those two entities as related parties. The definition for both types of ownership is proposed to be aligned 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?

- (c) FRS 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. It is proposed 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?

- (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 FRS 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?

Question 3 – Definition of *related party transactions*

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

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

Question 4

Do you have any other comments on the proposals?

Proposed Amendments to FRS 24 *Related Party Disclosures*

Scope

In the Standard, paragraph 3 is amended as follows. New text is underlined.

- 3 This Standard requires disclosure of related party transactions and outstanding balances in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with FRS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual financial statements.

Definitions

In the Standard, paragraph 9 is amended by replacing the definition of a *related party* as shown below. The existing definition is reproduced for ease of reference.

Proposed revised definition

A *related party* is a person or entity that is related to an entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- (a) A person or a close member of the family of that person is related to a reporting entity if either person:
- (i) is a member of the key management personnel of the reporting entity or a parent of the reporting entity;
 - (ii) has control over the reporting entity; or
 - (iii) has joint control or significant influence over the reporting entity.
- (b) An entity is related to a reporting entity if:
- (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) the reporting entity is an associate or joint venture of the entity (or of a member of a group of which the entity is a member);
 - (iii) the entity is an associate or joint venture of the reporting entity (or of a member of a group of which the reporting entity is a member);
 - (iv) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity;
 - (v) the entity is controlled by a person identified in (a);

- (vi) the entity is one in which a person identified in (a)(i) or (a)(ii) holds significant voting power or has joint control or significant influence; or
- (vii) a member of the key management personnel of the entity, or a parent of the entity, has control, joint control or significant influence over, or significant voting power in, the reporting entity.

Existing definition

Related party A party is related to an entity if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in FRS 28 Investments in Associates) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (see FRS 31 Interests in Joint Ventures);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

In the Standard, paragraph 9 is amended by revising the definitions of a *related party transaction* and *close members of the family of an individual* and introducing the definition of a *state*. New text is underlined and deleted text is struck through. Paragraph 11A is added.

A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related partyies, regardless of whether a price is charged.

Close members of the family of an individual person are those family members who may be expected to influence, or be influenced by, that individual person in their dealings with an entity and ~~They may~~ include:

- (a) ~~the~~ individual's person's domestic partner (such as a husband or wife or equivalent) and children;

- (b) ~~children of the~~ at individual's ~~person's~~ domestic partner; and
- (c) dependants of ~~the~~ at individual ~~person~~ or ~~the~~ at individual's ~~person's~~ domestic partner.

A state is a national, regional or local government.

- 11A 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 national, regional or local level.

In the Standard, paragraph 14 is deleted and paragraphs 12 and 17 are amended.
New text is underlined and deleted text is struck through.

Disclosures

- 12 Relationships between a parents and its subsidiaries shall be disclosed irrespective of whether there have been related party transactions ~~between those related parties~~. An entity shall disclose the name of ~~the entity's~~ its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.
- 14 ~~[deleted] The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 and IAS 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.~~
- 17 ~~If there have been~~ an entity has related party transactions ~~between related parties, an entity~~ it shall disclose the nature of the related party relationship as well as information about the transactions, and outstanding balances and commitments necessary for ~~an~~ users to understanding ~~of~~ the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirement in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:
- (a) the amount of the transactions;
 - (b) the amount of the outstanding balances and:
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - (ii) details of any guarantees given or received;
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

In the Standard, after paragraph 17 paragraphs 17A–17E are added.

- 17A A reporting entity is exempt from the disclosure requirements of paragraph 17 in relation to an entity if:

- (a) **the entity is a related party only because the reporting entity is controlled or significantly influenced by a state and the other entity is controlled or significantly influenced by that state; and**
 - (b) **there are no indicators that the reporting entity influenced, or was influenced by, that entity.**
- 17B Indicators that the influence referred to in paragraph 17A(b) exists are when the related parties:
- (a) transact business at non-market rates (otherwise than by way of regulation);
 - (b) share resources; or
 - (c) engage in economically significant transactions with each other.
- 17C The existence of direction or compulsion by a state for related parties to act in a particular way could indicate that the influence referred to in paragraph 17A(b) exists. Furthermore, the presence of common members on the boards of the reporting entity and the other entity could lead to the relationship having an effect on the profit or loss and financial position. Entities shall consider whether the existence of direction or compulsion by a state or the existence of common board members indicates that the influence referred to in paragraph 17A(b) exists.
- 17D The indicators of influence described in paragraphs 17B and 17C are not exhaustive. A reporting entity might identify other factors or circumstances that suggest the reporting entity could influence, or be influenced by, the related party that would require the reporting entity to comply with the requirements in paragraph 17.
- 17E When there are no indicators that the reporting entity influenced, or was influenced by, any other entity controlled or significantly influenced by the state, as provided by paragraph 17A, the reporting entity shall disclose a statement to that effect. When a reporting entity does not qualify for the exemption in paragraph 17A it shall comply with all the disclosure requirements of this Standard for that related party.**

In the Standard, paragraph 20 is amended as follows. New text is underlined and deleted text is struck through.

- 20 The following are examples of transactions that are disclosed if they are with a related party:
- (a) ...
 - (h) provision of guarantees or collateral; ~~and~~
 - (i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party; ~~and~~
 - (j) transactions or commitments to do something if a particular event occurs or does not occur in the future.

In the Standard, paragraph 23B is added.

Effective date

- 23B** An entity shall apply the [draft] amendments adding paragraphs 11A, 17A–17E and 20(j), deleting paragraph 14 and amending paragraphs 3, 9, 12 and 17 for annual periods beginning on or after [date to be inserted after exposure]. Earlier application is permitted. If an entity applies the [draft] amendments for a period beginning before [date to be inserted after exposure], it shall disclose that fact.

Illustrative Examples

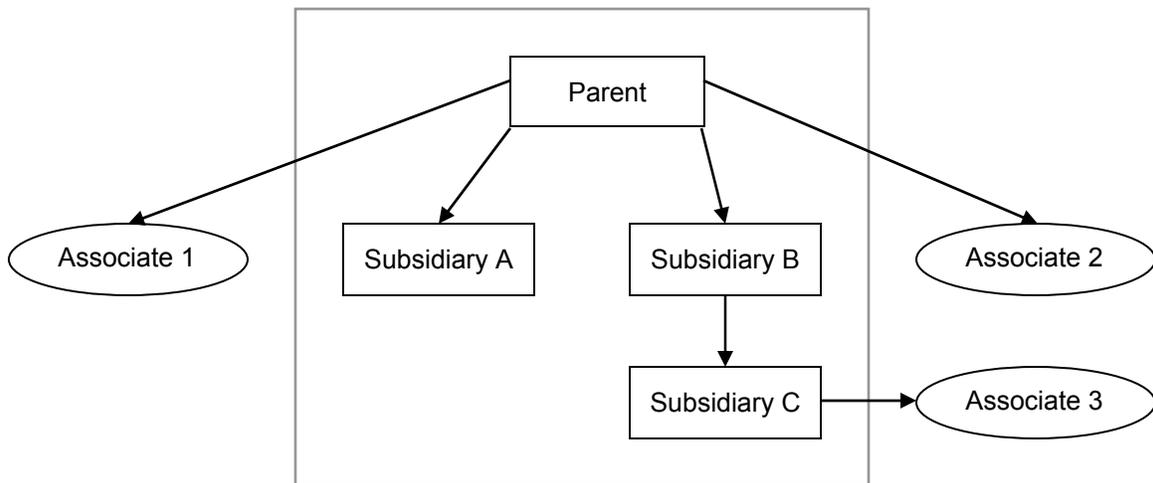
The following illustrative examples are added after the Basis for Conclusions.

FRS 24 Related Party Disclosures Illustrative Examples

These [draft] examples accompany, but are not part of, FRS 24. The references are to subparagraphs of the definition of related party in paragraph 9 of FRS 24.

Example 1—Associates and subsidiaries

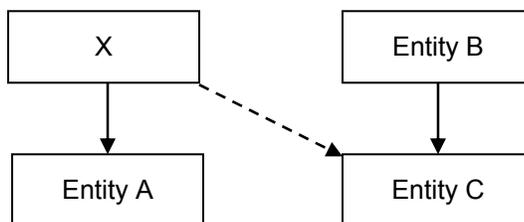
- IE1 Parent entity has a controlling interest in Subsidiaries A, B and C and has significant influence over Associates 1 and 2. Subsidiary C has significant influence over Associate 3.



- IE2 In Parent's separate financial statements, Subsidiaries A, B and C, and Associates 1, 2 and 3 are related parties. [(b)(i) and (iii)]
- IE3 In Subsidiary A's individual financial statements, Parent, Subsidiaries B and C and Associates 1, 2 and 3 are related parties. In Subsidiary B's separate financial statements, Parent, Subsidiaries A and C and Associates 1, 2 and 3 are related parties. In Subsidiary C's individual financial statements, Parent, Subsidiaries A and B and Associates 1, 2 and 3 are related parties. [(b)(i) and (iii)]
- IE4 In the individual financial statements of Associates 1, 2 and 3, Parent and Subsidiaries A, B and C are related parties. Associates 1, 2 and 3 are not related to each other. [(b)(ii)]
- IE5 In Parent's consolidated financial statements, Associates 1, 2 and 3 are related to the Group. [(b)(iii)]

Example 2—Key management personnel

- IE6 A person, X, has a 100 per cent investment in Entity A and is a member of the key management personnel of Entity C. Entity B has a 100 per cent investment in Entity C.

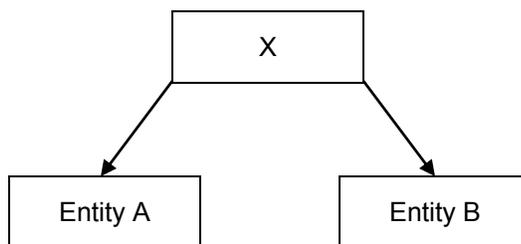


- IE7 In Entity C's financial statements,* Entity A is related to Entity C because X controls Entity A and is a member of the key management personnel of Entity C. [(b)(v)-(a)(i)]
- IE8 In Entity C's financial statements, Entity A is also related to Entity C if X is a member of the key management personnel of Entity B and not Entity C. [(b)(v)-(a)(i)]
- IE9 Furthermore, the outcome described in paragraphs IE7 and IE8 will be the same if X has only joint control, significant influence or significant voting power over Entity A. [(b)(vi)-(a)(i)]
- IE10 In Entity A's financial statements, Entity C is related to Entity A because X controls A and is a member of Entity C's key management personnel. [(b)(vii)]
- IE11 Furthermore, the outcome described in paragraph IE10 will be the same if X has only joint control, significant influence or significant voting power over Entity A. The outcome will also be the same if X is a member of the key management personnel of Entity B and not Entity C. [(b)(vii)]
- IE12 In Entity B's consolidated financial statements, Entity A is a related party of the Group if X is a member of the key management personnel of the Group. [(b)(v)-(a)(i)]

* In examples 2-4, 'financial statements' means the individual, separate or consolidated financial statements.

Example 3—Person as investor

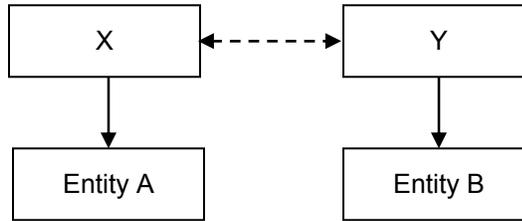
- IE13 A person, X, has an investment in Entity A and Entity B.



- IE14 In Entity A's financial statements,* if X controls Entity A, Entity B is related to Entity A when X has control, joint control or significant influence over Entity B. [(b)(v)-(a)(ii) and (b)(vi) - (a)(ii)]
- IE15 Similarly, in Entity B's financial statements, Entity A is related to Entity B. [(b)(v)-(a)(ii) and (b)(v) - (a)(iii)]

Example 4—Close members of the family holding investments

IE16 A person, X, is the domestic partner of Y. X has an investment in Entity A and Y has an investment in Entity B.



IE17 In Entity A's financial statements,* if X controls Entity A, Entity B is related to Entity A when Y has control, joint control or significant influence over Entity B. [(b)(v)—(a)(ii) and (b)(vi) – (a)(ii)]

IE18 Similarly, in Entity B's financial statements, Entity A is related to Entity B. [(b)(v)—(a)(ii) and (b)(v) – (a)(iii)]

* In examples 2–4, 'financial statements' means the individual, separate or consolidated financial statements.