

PROPOSED FINANCIAL REPORTING STANDARD

ED/FRS 24

Exposure Draft

Relationships with the State

Proposed amendments to FRS 24

Comments to be received by 6 February 2009

This exposure draft *Relationships with the State* (proposed amendments to FRS 24 *Related Party Disclosures*) is issued by the Accounting Standards Council (ASC) for comment only and does not necessarily represent the views of ASC. The proposals may be modified in the light of the comments received before being issued in final form as amendments to FRS 24.

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 6 February 2009 preferably by email to MOF_Feedback_ASC@mof.gov.sg or addressed to:

Accounting Standards Council
c/o Ministry of Finance
100 High Street #10-01
The Treasury
Singapore 179434

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Introduction

- 1 In March 2007 the Council of Corporate Disclosure & Governance (which has since been replaced by the Accounting Standards Council) published *State-controlled Entities and the Definition of a Related Party* (an exposure draft of proposed amendments to FRS 24 *Related Party Disclosures*). In that document it proposed an exemption from the disclosure requirements in FRS 24 for entities that are controlled, jointly controlled or significantly influenced by a state ('state-controlled entities') in relation to transactions with other state-controlled entities. The proposed exemption would have applied (a) if neither entity actually influenced the other entity and (b) if the state did not actually influence either entity with regard to transactions between them.
- 2 The comment period ended on 25 April 2007. After considering respondents' comments, ASC now proposes a revised exemption for such entities, rather than finalising the exemption previously proposed. The revised proposal would exempt an entity from disclosing transactions with the state as well as other state-controlled entities, regardless of whether influence actually exists in such relationships. However, the proposal would require an entity to disclose information necessary to draw attention to such transactions.
- 3 The previous exposure draft also proposed amendments to the definition of a related party. Respondents generally supported the new definition and it intends to adopt a definition based on it, after seeking comment on one further amendment. That amendment would treat two entities 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. This proposal would reinstate one case inadvertently omitted by the previous exposure draft and eliminate various minor inconsistencies.

Invitation to comment

ASC 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 ASC should consider.

ASC 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 **6 February 2009**.

Question 1—State-controlled entities

This exposure draft proposes an exemption from disclosures in FRS 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?

Question 2—Definition of a related party

The exposure draft published in 2007 proposed a revised definition of a related party. It 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?

Question 3

Do you have any other comments on the proposals?

Proposed amendments to FRS 24 *Related Party Disclosures*

Definitions

In paragraph 9 the definition of a related party is replaced by the following.

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

- (a) **A person or a close member of that person’s family is related to a reporting entity if that person:**
- (i) **is a member of the key management personnel of the reporting entity or of 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 or has significant voting power in it.**
- (b) **An entity is related to a reporting entity if any of the following conditions applies:**
- (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) **either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).**
 - (iii) **both entities are joint ventures of a third party.**
 - (iv) **either entity is a joint venture of a third entity and the other entity is an associate of the third entity.**
 - (v) **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. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.**
 - (vi) **the entity is controlled or jointly controlled by a person identified in (a).**
 - (vii) **a person identified in (a)(i) has significant voting power in the entity.**

- (viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.
- (ix) a person or a close member of that person's family (A) has significant influence over the entity or significant voting power in it and (B) has joint control over the reporting entity.
- (x) a member of the key management personnel of the entity or of a parent of the entity, or a close member of that member's family, has control or joint control over the reporting entity or has significant voting power in it.

Disclosure

In the Standard, after paragraph 17 paragraphs 17A and 17B are added. Paragraph 20 is not proposed for amendment but is included here for ease of reference.

- 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 because the same state has control, joint control or significant influence over both the reporting entity and the other entity.
- 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) the types of individually or collectively significant transactions with the state or such entities and a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 20; and
 - (c) the fact that the state or such entities are related parties as defined in FRS 24 but, as permitted by paragraph 17A, disclosures about related party transactions do not cover transactions with that state or those entities.
- 20 The following are examples of transactions that are disclosed if they are with a related party:**
- (a) purchases or sales of goods (finished or unfinished);
 - (b) purchases or sales of property and other assets;
 - (c) rendering or receiving of services;
 - (d) leases;
 - (e) transfers of research and development
 - (f) transfers under licence agreements;
 - (g) transfers under finance arrangements (including loans and equity contributions in cash or

in kind);

- (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.

Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of FRS 19).

[Draft] Illustrative examples

The following [draft] examples [would] accompany, but [would not be] part of, FRS 24. They illustrate:

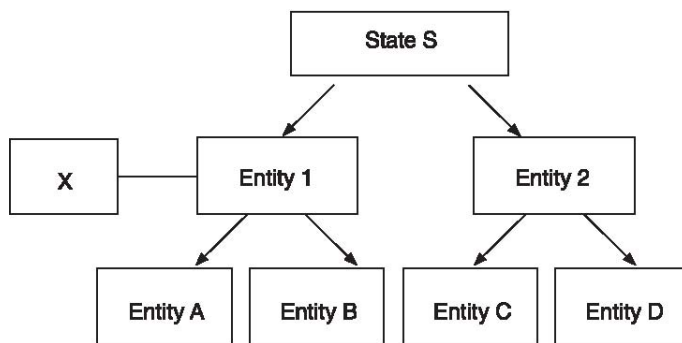
- the proposed exemption for state-controlled entities
- how the proposed definition of a related party would apply when a person or another entity has joint control, significant influence or significant voting power in the reporting entity and in a third party.

[Note for readers of the exposure draft: The exposure draft *State-controlled Entities and the Definition of a Related Party*, published in 2007, contained examples illustrating other aspects of the definition.

State-controlled entities

Example 1—Exemption from disclosures

IE1 State S, directly or indirectly, controls Entities 1 and 2 and Entities A, B, C and D. Person X is a member of the key management personnel of Entity 1.



IE2 In Entity A's financial statements, the exemption in paragraphs 17A and 17B would apply to:

- (a) transactions with State S; and
- (b) transactions with Entities 1 and 2 and Entities B, C and D.

However, that exemption would not apply to transactions with Person X.

IE3 In Entity A's financial statements*, an example of disclosure to comply with paragraphs 17A and 17B could be:

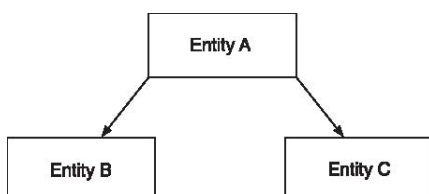
* In examples 1-4, 'financial statements' means the individual, separate or consolidated financial statements.

[Example] State S, directly or indirectly, owns 80 per cent of the company's outstanding shares. The company's significant transactions with State S and other entities controlled, jointly controlled or significantly influenced by State S are [a large portion of its sales of goods and purchases of raw materials] [about 50 per cent of its sales of goods and about 35 per cent of its purchases of raw materials]. The company also benefits from guarantees by State S of the company's bank borrowing (see note X [of the financial statements] for details [to comply with other relevant FRSs]). Those transactions are related party transactions as defined in FRS 24 *Related Party Disclosures*. However, as permitted by FRS 24, the related party disclosures in note Y do not include disclosure about transactions with those related parties.

Definition of a related party

Example 2—Entity with joint control

IE4 Entity A (a) has joint control over Entity B and (b) has joint control or significant influence over Entity C.

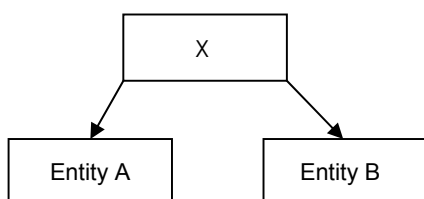


IE5 For Entity B's financial statements, Entity C is related to Entity B. [paragraph 9(b)(iii) and (iv)]

IE6 Similarly, for Entity C's financial statements, Entity B is related to Entity C. [paragraph 9(b)(iii) and (iv)]

Example 3—Person with joint control

IE7 Person X (a) has joint control over Entity A and (b) has joint control or significant influence over Entity B or significant voting power in it.

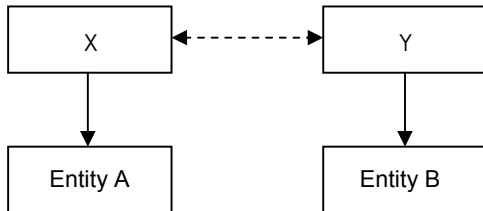


IE8 For Entity A's financial statements, Entity B is related to Entity A. [paragraph 9(b)(vi) and (ix)]

IE9 Similarly, for Entity B's financial statements, Entity A is related to Entity B. [paragraph 9(b)(vi)]

Example 4—Close member of the family of person with joint control

IE10. Person X is a close member of Person Y's family. Person X has joint control over Entity A and Person Y has joint control or significant influence over Entity B or significant voting power in it.



IE11 For Entity A's financial statements, Entity B is related to Entity A. *[paragraph 9(b)(vi) and (ix)]*

IE12 Similarly, for Entity B's financial statements, Entity A is related to Entity B. *[paragraph 9(b)(vi)]*

Appendix

For the convenience of respondents, this appendix shows the changes made to the definition of a related party, as proposed in the exposure draft published in 2007, to arrive at the definition proposed now. New text is underlined and deleted text is struck through.

Revised definition of a related party

A *related party* is a person or entity that is related to an the 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 that person's family ~~of that person~~ is related to a reporting entity if ~~either~~ that person:
- (i) is a member of the key management personnel of the reporting entity or of 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 or has significant voting power in it.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
- (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);²³
 - (ii) ~~the reporting~~ either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member);²³
 - ~~(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);~~
 - (iii) both entities are joint ventures of a third party.
 - (iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - ~~(iv)~~(v) 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. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.²³
 - ~~(v)~~(vi) the entity is controlled or jointly controlled by a person identified in (a);²³
 - ~~(vi)~~(vii) ~~the entity is one in which a person identified in (a)(i) or (a)(ii) has~~ holds significant voting power or has joint control or significant influence in the entity;²³ ~~or~~
 - (viii) a person identified in (a)(ii) has significant influence over the entity or significant voting power in it.
 - (ix) a person or a close member of that person's family (A) has significant influence over the entity or significant voting power in it and (B) has joint control over the reporting entity.
 - ~~(vii)~~(x) a member of the key management personnel of the entity or of a parent of the

entity, or a close member of that member's family, has control or, joint control over the reporting entity or ~~significant influence over~~, or has significant voting power in, ~~the reporting entity~~ it;