



Our Ref.: C/FRSC

**Sent electronically through the IASB Website ([www.iasb.org](http://www.iasb.org))**

13 March 2009

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

Dear Sirs,

**[IASB Exposure Draft of Proposed Amendments to IAS 24 Relationships with the State](#)**

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on the captioned Exposure Draft. Our responses to the questions raised in your Exposure Draft are set out in the Appendix for your consideration.

We support the proposals in the Exposure Draft relating to the revised definition of a related party and also the exemption from paragraph 17 in respect of transactions between state-controlled entities and with the state.

We consider that the exemption from paragraph 17, together with the more relevant information required to be disclosed under paragraph 17B, is an appropriate solution to address the issues identified in paragraph BC3, which our members have encountered, particularly in Mainland China. We support the principle-based approach adopted in the current Exposure Draft and believe that the requirements in paragraph 17B(b) adequately capture any individually or collectively significant transactions with the state or other state-owned entities.

We have, however, noted concerns amongst some practitioners about whether it is sufficiently clear that the amendments do not give a blanket exemption from disclosure when the transactions are individually or collectively significant. In this regard, we would suggest that the IASB addresses this concern by expanding the discussion in BC11 to stress that, although these entities are exempt from paragraph 17, the disclosures required under paragraph 17B(b) where the transactions are individually or collectively significant would need to include sufficient detail in order to meet the objective of IAS 24, and that the level of detail would be expected to vary depending on the closeness of the relationship and the nature of the transaction.

Given the issue is urgent and important to Hong Kong as more than 90% of the Mainland companies that have overseas listings are listed in Hong Kong using IFRS, we would encourage the IASB to finalise the amendment as soon as practicable.



***Disclosure requirement under IFRS 8 Operating Segments***

In this connection, we would like to draw your attention to a related point mentioned in our last comment letter dated 25 May 2007 on the 2007 Exposure Draft on IAS 24 where we have raised concerns on the application of paragraph 34 of IFRS 8 *Operating Segments* which requires disclosure when revenue arising from a single customer is greater than 10%, and states that "a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer." We are concerned that the application of this requirement in IFRS 8 by any entities with significant or diverse operations in Mainland China will lead to the same data gathering, information overload and cost-benefit concerns that has led to the issue of this Exposure Draft. We note that the Board has discussed this but we are unclear as to whether or not the Board has decided to make amendments to IFRS 8. In this regard, we therefore request that the IASB provides relief from disclosure on this matter in IFRS 8 together with the issuance of the finalized revised IAS 24, so that this relief is available as from the first effective date of IFRS 8.

If you have any questions on our comments, please do not hesitate to contact me at [ong@hki CPA.org.hk](mailto:ong@hki CPA.org.hk).

Yours faithfully,

A handwritten signature in black ink that reads 'Steve Ong'. The signature is written in a cursive, flowing style.

Steve Ong, FCA, FCPA  
Director, Standard Setting Department

SO/WC/ac



**Hong Kong Institute of CPAs**

**Comments on the IASB Exposure Draft of Proposed Amendments to IAS 24 -  
*Relationships with 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?**

We agree with the proposed exemption and with the disclosures that entities are required to provide when the exemption applies.

We support the approach adopted in the current Exposure Draft because we believe it is both principle-based and pragmatic. We believe that the proposed exemption from paragraph 17 would allow entities to avoid disclosing significant amounts of information that is of little value, and that could otherwise distract the user's attention from related party relationships that do have an impact on the financial statements. We believe that any individually or collectively significant transactions with the state or other state-owned entities should be adequately captured by the requirements in paragraph 17B(b).

As mentioned in our opening remarks, we have, however, noted concerns amongst some practitioners about how paragraph 17B(b) would be applied in practice and in particular whether transactions that are individually significant would be adequately disclosed. In this regard, we would suggest that the IASB addresses this concern by expanding the discussion in BC11 to stress that, although these entities are exempt from paragraph 17, the disclosures required under paragraph 17B(b) where the transactions are individually or collectively significant would need to include sufficient detail in order to meet the objective of IAS 24, and that the level of detail would be expected to vary depending on the closeness of the relationship and the nature of the transaction.



## **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?**

We agree with the revised definition of a related party as proposed.

In addition, we are pleased to note that the Exposure Draft has taken into account the comment made by us in our previous submission where entities should not be treated as related parties merely because one entity's member of key management personnel has significant influence over the other entity. However, we suggest the IASB to provide some guidance or clarification on the term "significant voting power" that has been used in paragraph 9(a)(iii), 9b(vii) and (x). It is not clear how to distinguish the term "significant voting power" from that of "significant influence". We are concerned that this may create inconsistencies and divergence in practice.

## **Question 3**

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

### ***Disclosure requirement under IFRS 8 Operating Segments***

As mentioned in our cover letter, we are concerned that the application of the requirement of paragraph 34 of IFRS 8 which requires disclosure when revenue arising from a single customer is greater than 10%, and states that "a group of entities known to a reporting entity to be under common control shall be considered a single customer, and a government (national, state, provincial, territorial, local or foreign) and entities known to the reporting entity to be under the control of that government shall be considered a single customer.", will lead to the same data gathering, information overload and cost-benefit concerns to entities with significant or diverse operations in Mainland China.

We note that the IASB has discussed this issue in its meeting in November 2007 and January 2008. We urge the IASB to expedite the finalization of the consequential amendment to IFRS 8 by granting the same relief in paragraph 34 of IFRS 8 as the proposed IAS 24 would and to issue such amendment in time for the first reporting period that IFRS 8 is effective.