

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

J

Committee: IAASB Consultative Advisory Group

Meeting Location: London

Meeting Date: September 20-21, 2007

Related Parties

Objectives of Agenda Item

1. The objectives of this agenda item are:
 - (a) To review a summary of the significant comments received on the re-exposure draft of proposed ISA 550 (Revised and Redrafted), “Related Parties;” and
 - (b) To obtain the Representatives’ views on the task force’s preliminary recommendations¹ in response to those comments.
2. **Agenda Item J.1, the re-exposure draft of ISA 550, is provided as a CAG Reference Paper.**

Background

3. The proposed revised ISA 550 was first exposed for public comment in December 2005. As a result of comments received from respondents, the IAASB made substantive revisions to the proposals in that exposure draft and decided to re-expose the revised document in February 2007.
4. The comment period for the re-exposure draft (“ED 550”) closed on June 30, 2007. A total of 49 comment letters were received from IFAC member bodies, regulators, national standard setters, firms and others.² Respondents were generally supportive of the revised proposals, and many were of the view that they represented an improvement over the previous draft. Most of the respondents addressed the two specific questions posed in the explanatory memorandum (“EM”) to ED 550 regarding the proposed definition of the term “related party” and the matter of implicit arm’s length assertions. Most of the significant comments focused on specific proposals in the requirements section.
5. The following section summarizes the significant comments received from respondents and the task force’s preliminary views on how these should be addressed.

Significant Comments from Respondents

A. OBJECTIVES OF THE ISA

¹ The summary of significant comments and the task force’s preliminary views have not yet been considered by the IAASB.

² A list of respondents is included in Appendix A.

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6. In finalizing ED 550, the IAASB concluded that the objectives of the ISA should reflect the three distinct responsibilities the auditor has with respect to related parties, i.e.:

(a) To obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and

(b) Irrespective of whether the applicable financial reporting framework establishes related party requirements:

(I) To obtain an understanding of related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions:

(i) Achieve fair presentation (for fair presentation frameworks); or

(ii) Are not misleading (for compliance frameworks); and

(II) To identify fraud risk factors arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud.

7. There was clear overall support from the respondents for this approach to the objectives. Several respondents, however, offered suggestions for further improvement:

- A number of them suggested that the objectives would be clearer and their flow improved if the “obtaining an understanding” part were to be placed first because obtaining (or not obtaining) sufficient appropriate audit evidence depends upon the auditor first obtaining an understanding and assessing risk.
- Three respondents were of the view that the objectives should not include the phrase “*irrespective of whether the applicable financial reporting framework establishes related party requirements*” because a principles-based objective should not refer to a specific (series of) financial reporting framework(s). They were also of the view that the phrase was redundant because from a risk-based perspective, subparagraphs (I) and (II) of the objectives should always be met.
- Two respondents suggested that subparagraph (b)(II) seemed to imply that the auditor would not meet the objectives of the ISA if no fraud risk factors were identified. Accordingly, they suggested that a more appropriate objective would be to *respond* to fraud risk factors that are identified.
- Two other respondents were of the view that greater recognition should be given to the identification of related party relationships and transactions in the objectives.

Preliminary Task Force Views

8. The task force agreed that it would be logically sensible to place the “obtaining an understanding part” first, particularly given that the identification of fraud risk factors in part (b)(II) of the proposed objectives should precede the auditor’s conclusion as to whether

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sufficient appropriate audit evidence has been obtained. The task force accepted that the phrase “*irrespective of whether the applicable financial reporting framework establishes related party requirements*” is unnecessary, as the objectives in parts (b)(I) and (b)(II) would apply in all circumstances. In addition, the task force agreed that the words “if any” should be added to part (b)(II) of the objectives as the auditor may not identify fraud risk factors in all circumstances.

9. The task force, however, did not agree that the ISA should include as one of its objectives the identification of related party relationships and transactions. The task force was of the view that, where the applicable financial reporting framework establishes related party requirements, the question of identification would be covered by whether related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the framework, and *that* is the desired outcome that is reflected in the objectives. Notwithstanding this, many of the requirements in ED 550 (such as making relevant inquiries of management, probing into significant transactions outside the normal course of business, and maintaining heightened alertness) are geared towards identification as a pre-requisite step towards concluding on whether the higher-level objectives have been achieved.
10. Where the framework does not establish accounting and disclosure requirements for related parties, the task force was of the view that including identification as one of the objectives would set a virtually impossible task for the auditor as management itself may not have identified all parties that should be considered related under this auditing standard. Furthermore, it is the identification of fraud risk factors that is the key objective in those circumstances, rather than obtaining evidence about the completeness of the entity’s related parties. Whilst the auditor’s preliminary inquiries may be useful, the task force believes that it is (a) the focus on the entity’s controls over the authorization and approval of significant transactions outside the normal course of business, and (b) probing into the nature of such transactions when identified during the audit, that are most important in providing a robust basis for the identification of fraud risk factors in the absence of accounting and disclosure requirements. The task force therefore proposes that no change be made in this respect.

➤ **Do Representatives agree that it would not be appropriate to include identification of related party relationships and transactions as one of the objectives of this ISA?**

11. Taking the above respondents’ comments into account, and subject to further discussion with the IAASB and the IAASB CAG, the task force proposes that the objectives of the ISA be refined as follows:

The objectives of the auditor are:

- (a) To obtain an understanding of related party relationships and transactions sufficient to be able to:

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- (I) Identify fraud risk factors, if any, arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud; and
- (II) Conclude whether the financial statements, insofar as they are affected by those relationships and transactions:

- (i) Achieve fair presentation (for fair presentation frameworks); or
- (ii) Are not misleading (for compliance frameworks); and

- (b) To obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework.

B. PROPOSED RELATED PARTY DEFINITION

12. The EM asked for respondents' views on the appropriateness of the following proposed definition of a related party:

“Related Party” – A party that:

- (i) Controls or significantly influences, directly or indirectly through one or more intermediaries, the entity;
- (ii) The entity controls or significantly influences, directly or indirectly through one or more intermediaries; or
- (iii) Is under common control with the entity (such as through having common management or a common controlling shareholder).

When the applicable financial reporting framework provides additional criteria or more specificity in defining related parties, the definition in the framework is used in addition to (i) to (iii) above.

13. The overwhelming majority of respondents expressed support for the principles-based approach to the definition. Several of them, however, expressed reservations about certain specific aspects of the proposal as follows.

Parties under Common Control

14. Some respondents noted that subparagraph (iii) of the proposed definition dealing with common control was inconsistent with the proposed revised IAS 24, “Related Party Disclosures,” which the International Accounting Standards Board (IASB) issued for exposure in February 2007.³ They indicated that the IASB proposed to exclude the concept of common control from its revised related party definition, except to the extent that groups or key management personnel are involved. Other respondents argued that where the applicable financial reporting framework does not establish related party disclosure

³ See relevant extracts in Appendix B.

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requirements, it would be extremely difficult and impracticable for the auditor to identify all parties under common control, given that management will in all probability not have put in place the systems necessary to identify such parties.

15. Some of the respondents therefore believed that the common control part of the definition in the ISA should be deleted. Others suggested narrowing the scope of common control to groups (i.e. fellow subsidiaries).

Preliminary Task Force Views

16. The task force, however, acknowledged that where the framework has no related party requirements, placing the onus on the auditor to identify the full scope of common control up front would set an impracticable goal as, unless management needs to identify related party relationships and transactions because of a reporting requirement, procedures such as inquiries of management would unlikely be effective. In those circumstances, the task force agreed that it would be more practicable for the auditor to focus on an upfront understanding of the entity's organizational structure and where "active" control and significant influence exist.
17. However, the task force believes that once into the audit, it is particularly important that the auditor should probe significant transactions outside the normal course of business and explore the possible effect of common control on such transactions. This approach would be the key driver to identifying fraud risk factors when the entity has no related party reporting obligations. In those circumstances, the auditor would be expected to explore whether there may be indirect influence from related parties on such transactions:

If the auditor identifies significant transactions outside the normal course of business for the entity, the auditor shall inquire of management:

- (a) To understand the nature of these transactions; and
- (b) Whether related parties could be involved.

The task force proposes the following preliminary guidance to explain why it is important to inquire into whether related parties could be involved:

Related parties could be involved in a transaction not only by being a party to the transaction but also by otherwise influencing it. Even if the transaction is not a related party transaction under the applicable financial reporting framework, the influence of a related party may indicate the existence of a fraud risk factor.

With this approach, the task force believes that it is not eliminating consideration of common control, but addressing it from a different direction.

18. Given this revised approach to common control, the task force proposes the following revised definition of a related party:

"Related Party" –

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- (i) A person or entity that controls or significantly influences, directly or indirectly through one or more intermediaries, the reporting entity;
- (ii) An entity that the reporting entity controls or significantly influences, directly or indirectly through one or more intermediaries; or
- (iii) An entity that is under common control (i.e. a fellow subsidiary).

When the applicable financial reporting framework provides additional criteria or more specificity in defining related parties, the definition in the framework is used in addition to (i) to (iii) above.

➤ **Do Representatives agree with the task force's proposed revised approach to common control in the definition of a related party?**

Entities Controlled or Significantly Influenced by the State.

19. Two respondents pointed out that the proposed IAS 24 (Revised) would exempt reporting entities that are controlled or significantly influenced by the state from disclosure requirements in relation to transactions with similar entities provided that there is no indication that the reporting entities “influence,” or are “influenced by,” those other entities. They noted that the IASB had concluded that for those entities, the cost of complying with the disclosure requirements of IAS 24 would likely outweigh the benefit of the disclosures to the users of the financial statements. The proposed definition in ED 550, in their view, would cause difficulties for many audits in jurisdictions such as China. Accordingly, they suggested that the definition should be aligned with that proposed in IAS 24 (Revised), with a specific exemption given to entities that are controlled or significantly influenced by the state.

Preliminary Task Force Views

20. For the practical reasons given by the respondents, the task force agreed that entities that are controlled or significantly by the state should be excluded from the scope of the related party definition. However, restricting the scope of common control as discussed above should achieve this without the need for a specific exemption.

Definition of Control and Significant Influence

21. A number of respondents noted that the proposed related party definition used the terms “control” and “significant influence” but did not define them. They argued that for clarity and consistency of application, those terms should be defined, and suggested that the current definitions set out in IAS 24 would be appropriate for this purpose:

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.

Preliminary Task Force Views

22. The task force agreed with the respondents that it would be appropriate to provide guidance on the meaning of the terms “control” and “significant influence” to ensure greater consistency of application, and that the definitions in IAS 24 would be appropriate for this purpose.

Shift from an IAS 24-Based Definition to a Principles-Based Definition in the ISA

23. At the April 2007 CAG meeting, Representatives discussed the change in the approach to the definition of the term “related party” from the extant ISA 550’s adoption of the detailed definition in IAS 24 to the provision of a more principles-based definition in ED 550. It was noted that for audits carried out in a jurisdiction where the framework does not deal with related parties, or does so inadequately, the proposed revised definition (in contrast to the previous IAS 24-based definition) did not appear to capture related party transactions that are quantitatively immaterial but qualitatively material, such as those in which the directors of the entity may be financially interested. It was argued that if a related party transaction came to light in the public arena that was quantitatively immaterial but qualitatively material, the auditor could be publicly criticized for not attending to this issue. Accordingly, it was felt that the ISA should be more explicit in this regard.

Preliminary Task Force Views

24. The task force noted that ED 550 already contained guidance indicating that a consideration of both the size and *nature* of a related party transaction is important in evaluating whether a misstatement to which it gives rise is material **(Refer Agenda Item J.1, paragraph A36)**. This is supported by the requirement in ISA 450, “Evaluation of Misstatements Identified During the Audit,” that in evaluating whether uncorrected misstatements are material, individually or in aggregate, the auditor should consider the size and nature of the misstatements, both in relation to particular classes of transactions, account balances and disclosures and the financial statements as a whole, and the particular *circumstances* of their occurrence.
25. ISA 450 further explains that the circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than the materiality level for the financial statements as a whole (or for a particular class of transactions, account balance or disclosure, if any). It also provides illustrative guidance⁴ on the types of circumstances that may affect such an evaluation, including, inter alia, “the extent to which the misstatement relates to items involving *particular parties* (e.g., whether external parties to the transaction are related to members of the entity’s management).”

⁴ This guidance can be found in paragraph 27 of the closed-off version of ISA 450.

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26. In view of this, the task force believes that further elaboration on materiality considerations in ISA 550 would be unnecessary. The task force, however, agreed to clarify the relevant guidance in ED 550 to state the following:

A consideration of the size and nature of a related party transaction *and the circumstances of its occurrence* is important in evaluating whether a misstatement to which it gives rise is material. The significance of the transaction to the financial statement users may not depend solely on the recorded amount of the transaction but also on other specific relevant factors, such as the nature of the related party relationship.

- **Do Representatives agree that this clarified guidance, taken with the guidance already set out in ISA 450, adequately emphasize the need for the auditor to have regard to the qualitative aspects of related party transactions?**

C. IMPLICIT ARM'S LENGTH ASSERTIONS

27. When the first exposure draft was issued, the IAASB received comments from a number of respondents who noted a recent change to the European Union's 4th and 7th Company Law Directives that would require disclosure of material related party transactions not conducted under arm's length or normal market conditions. The IAASB noted that a consequence of this requirement was that if related party transactions were to be *not* disclosed in the financial statements, there would be an implicit assertion that they were conducted under arm's length or normal market conditions. These respondents suggested that the proposed ISA address this situation.
28. The IAASB agreed that under this framework, there would be significant cost and practical implications in auditing related party transactions that have not been disclosed to obtain evidence that they were conducted under arm's length or normal market conditions. The IAASB did not reach a conclusion on whether the proposed ISA should address this situation but asked for respondents' views in the EM as to whether and, if so, how it should do so.
29. The majority of respondents agreed that the ISA should not deal with the issue. Most argued that ISAs should be framework-neutral and should not address region- or jurisdiction-specific requirements. Some noted that the auditing implications of implicit assertions are no different from those of explicit assertions, and as such would not justify specific requirements in the ISA. Others argued that providing specific guidance on implicit arm's length assertions would raise questions as to whether other implicit assertions in the financial statements are also subject to specific audit procedures. Several of the respondents suggested that European standard setters and regulators should work together to develop appropriate guidance for auditors to address the specific legal requirements in the Directives.
30. A minority of respondents were in favor of specific provisions in the ISA to deal with implicit arm's length assertions. Some noted that whilst ISAs should not deal with

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jurisdiction-specific issues, where issues arise in a number of jurisdictions they cease to be jurisdiction-specific. Consequently, they felt that the IAASB should address the issue and suggested certain approaches, such as substantiating completeness on the basis of risk, and focusing on performing work on the specific controls the entity might have put in place. Others argued that it would be in the public interest for auditors to be made aware of situations where implicit assertions might need to be audited, and suggested that guidance should be provided to make auditors aware of the fact that implicit assertions would need to be audited in accordance with the ISA.

Preliminary Task Force Views

31. The task force agreed that there is a clear majority in favor of avoiding any specific reference to explicit and implicit arm's length assertions in the ISA. The task force believes that this would be the appropriate approach to follow as it would maintain the framework neutrality of the ISA, which is critically important to ensure its global acceptance. As many of the respondents have suggested, the task force agrees that this issue should be more appropriately dealt with at the national or jurisdictional level, where specific and detailed guidance could be developed to address the issue. Accordingly, as ED 550 did not make any reference to implicit or explicit arm's length assertions, the task force proposes that no change be made.

D. INHERENT LIMITATIONS

32. ED 550 highlighted the inherent limitations on the auditor's ability to detect material misstatements associated with related parties, and noted that those limitations are greater because of certain characteristics pertaining to the nature of related party relationships and transactions.
33. A number of respondents argued that the proposed ISA should place *further* emphasis on the difficulties in obtaining persuasive audit evidence regarding the completeness of related party relationships and transactions. In particular, one respondent was of the view that for related parties, the general inherent limitations of an audit result in particularly severe specific inherent limitations due to the difficulty in obtaining persuasive audit evidence about related party relationships and transactions. The respondent believed that the procedures set out in the proposed ISA, such as inquiry of management and inspection of documents, would not help the auditor obtain as high a degree of comfort as could be obtained for certain other matters. Accordingly, it suggested that the ISA should make clear that *even when following all the requirements of this and the other ISAs* (including determining the necessity for additional procedures in the circumstances), there would still be a considerable risk that related parties, or related party relationships or transactions, might not be identified. Another respondent suggested that the ISA should emphasize that whilst the auditor would obtain reasonable assurance on related party transactions, the level of assurance obtained would likely be lower than that obtained for other assertions.

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34. One respondent, however, took an opposite view, arguing that the proposed ISA still placed too much emphasis on the inherent limitations on the auditor's ability to detect material misstatements arising from related party relationships and transactions. This respondent noted that inherent limitations exist in every auditing technique and that the emphasis on the inherent limitations in this case might provide an excuse for auditors to be less than thorough in their search for evidence. It added that there would also be a risk that auditors would not be as inquisitive as they should be about matters that management might regard as sensitive. Another respondent argued for any discussion of inherent limitations to be centralized in ISA 200, which addresses the fundamental concepts of an audit.

Preliminary Task Force Views

35. The task force noted that the issue of inherent limitations was discussed at length by the IAASB in finalizing ED 550. As the EM noted, the IAASB concluded that it was important to highlight the inherent limitations on the auditor's ability to identify related party relationships and transactions because of the special nature of related parties, but agreed to do so in such a way as to achieve a balanced message. The views expressed by the above respondents continue to represent the two opposing sides on this issue, and as such it remains particularly important to maintain an appropriate balance in the ISA.
36. Finally, the task force noted that the issue of whether inherent limitations should be dealt with centrally in ISA 200 was given due consideration by the IAASB when it finalized ED 550. As such, it does not represent a new issue. The task force therefore proposes that the approach taken to describing inherent limitations in ED 550 remain unchanged.

➤ **Do Representatives agree that the approach to highlighting the inherent limitations of the audit in the context of related parties appropriately conveys a balanced message in the ISA?**

E. MATTERS TO BE TREATED AS SIGNIFICANT RISKS

Significant Related Party Transactions Outside the Normal Course of Business

37. ED 550 proposed to require the auditor to treat as a significant risk identified significant related party transactions outside the normal course of business. One respondent argued that this requirement should be further clarified because there could be two ways to approach the issue, i.e.
- The ISA could state that significant related party transactions outside the normal course of business are *presumed* to be significant risks (in which case there would be no need for the auditor to exercise professional judgment to decide whether the risk is significant but the presumption would be rebuttable); or
 - The ISA could introduce the *possibility* for the auditor to apply professional judgment and require a consideration of whether those transactions give rise to significant risks (in

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which case the auditor would be required to document the rationale supporting his or her conclusion).

Preliminary Task Force Views

38. The task force believes that in this particular case, the IAASB's original view remains valid. Under ISA 315, "Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment," factors that may give rise to significant risks include, inter alia, whether the risk involves significant transactions with related parties, and whether the risk involves significant transactions outside the normal course of business for the entity. In the task force's view, the combination of these two factors in significant related party transactions outside the normal course of business would cause these transactions to reach such a threshold of risk as to require special audit consideration in *all* circumstances. In other words, there would not be any circumstance in which a significant related party transaction outside the normal course of business would not deserve the auditor's special attention. Accordingly, the task force agreed that the auditor should treat such transactions as giving rise to significant risks by default.

➤ **Do Representatives agree that significant related party transactions outside the normal course of business for the entity should give rise to significant risks by default?**

Arm's Length Assertions

39. ED 550 proposed to require the auditor to treat as a significant risk *any* arm's length assertion that management has made in the financial statements with regard to a related party transaction.
40. Several respondents disagreed with this proposal. They argued that many transactions with related parties (for example, subsidiaries) are uncomplicated transactions conducted on the same terms and conditions as transactions with external parties in the normal course of business, and therefore such related party transactions are unlikely to represent higher inherent risks. Consequently, they were of the view that an arm's length assertion regarding such transactions would not represent a higher inherent risk in all circumstances. They also noted the following:
- In practical terms, the proposed requirement could capture a high volume of routine transactions with related parties that would not constitute a significant risk.
 - The determination of significant risks in accordance with ISA 315 is a matter for the auditor's professional judgment because it should take into account consideration of many factors.
 - The proposed approach could discourage entities to volunteer such disclosures when organizations such as the OECD are encouraging companies to make disclosures that transactions with subsidiaries are conducted at arm's length to promote fair-trading globally.

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Most of the respondents therefore suggested that this requirement should be deleted. One respondent suggested that the requirement should be revised to establish a *presumption* of significant risk.

Preliminary Task Force Views

41. The task force acknowledged the force of these concerns and agreed that this requirement could cause practical difficulties. The task force believes that in these circumstances, it would be more appropriate to adopt an approach based on evaluating the relevant factors (as ISA 315 envisages) in determining whether a significant risk is present. The task force did not agree that a presumption of significant risk in this case would be appropriate as rebutting the presumption (with a requirement to document the basis for the rebuttal) would likely prove to be difficult and burdensome for the auditor. Accordingly, the task force proposes that this requirement be deleted.

➤ **Do Representatives agree arm's length assertions for related party transactions should not be significant risks by default?**

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APPENDIX A

List of Respondents

IFAC member bodies: 23

Regulators: 4

Firms: 8

Governmental: 5

Others (standard setters, industry, etc.): 9

#	Respondent	Ref	Group
1	American Institute of Certified Public Accountants	AICPA	Member Body
2	The Association of Chartered Certified Accountants	ACCA	Member Body
3	Auditing Practices Board (United Kingdom)	APB	Other
4	Auditor-General of New Zealand	AGNZ	Governmental
5	Australian Auditing and Assurance Standards Board	AUASB	Other
6	Australasian Council of Auditors-General	ACAG	Governmental
7	Basel Committee on Banking Supervision	Basel	Regulator
8	BDO Global Coordination B.V	BDO	Firm
9	Canadian Auditing and Assurance Standards Board	CAASB	Other
10	Canadian Public Accountability Board	CPAB	Regulator
11	Chartered Institute of Public Finance and Accountancy	CIPFA	Member Body
12	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables	CNCC	Member Body
13	Confederation of European Business (BusinessEurope)	CEB	Other
14	Committee of European Banking Supervisors	CEBS	Regulator
15	Deloitte Touche Tohmatsu	DTT	Firm
16	Den Norske Revisorforening	DNR	Member Body
17	Ernst & Young	EY	Firm
18	European Commission	EC	Regulator
19	Foreningen Auktoriserade Revisorer (FAR-SRS)	FAR	Member Body

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#	Respondent	Ref	Group
20	Federation des Experts Comptables Europeens	FEE	Other
21	Florida Institute of Certified Public Accountants	FICPA	Other
22	Grant Thornton International	GT	Firm
23	Hong Kong Institute of Certified Public Accountants	HKICPA	Member Body
24	IEC	IEC	Other
25	Independent Regulatory Board for Auditors, South Africa	IRBA	Other
26	Institut der Wirtschaftsprüfer	IDW	Member Body
27	Institut des Réviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren	IRE	Member Body
28	Institute of Certified Public Accountants of Cyprus	ICPAC	Member Body
29	Institute of Certified Public Accountants in Ireland	ICPAI	Member Body
30	Institute of Certified Public Accountants of Kenya	ICPAK	Member Body
31	Institute of Certified Public Accountants of Singapore	ICPAS	Member Body
32	Institute of Chartered Accountants in England and Wales	ICAEW	Member Body
33	Institute of Chartered Accountants of India	ICAI	Member Body
34	Institute of Chartered Accountants in Ireland	ICAIre	Member Body
35	Institute of Chartered Accountants of Pakistan	ICAP	Member Body
36	Institute of Chartered Accountants of Scotland	ICAS	Member Body
37	The Japanese Institute of Certified Public Accountants	JICPA	Member Body
38	Korean Institute of Certified Public Accountants	KICPA	Member Body
39	KPMG	KPMG	Firm
40	KPMG South Africa	KPMGSA	Firm
41	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)	NIVRA	Member Body
42	Dr. Joseph Maresca CPA, CISA	JM	Other
43	Mazars	Mazars	Firm
44	National Institute of Accountants, Australia	NIA	Member Body

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#	Respondent	Ref	Group
45	New Zealand Institute of Chartered Accountants	NZICA	Member Body
46	PricewaterhouseCoopers	PwC	Firm
47	Provincial Auditor Saskatchewan	PAS	Governmental
48	Riksrevisionen (Swedish National Audit Office)	SNAO	Governmental
49	Welsh Audit Office, UK	WAO	Governmental

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APPENDIX B

Revised Definition of “Related Party” in the Proposed IAS 24 (Revised)

The comment period on the IASB’s exposure draft of IAS 24 (Revised) closed on May 25, 2007. The IASB is currently analyzing comments received on its proposals to revise the definition of “related party” and related terms, and is expected to issue the final standard in the fourth quarter of 2007. The IASB’s proposed revised definition of a related party is as follows:

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.

The proposed IAS 24 (Revised) also defines a state as follows:

A state is a national, regional or local government.

In addition, it proposes to exclude state-controlled entities from disclosure requirements as follows:

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

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Related Parties

- (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.