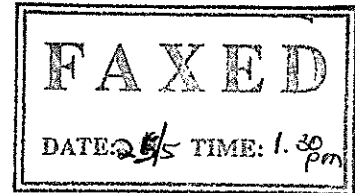




LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD



25 May 2007

The Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures

- State-controlled Entities and the Definition of a Related Party

The Malaysian Accounting Standards Board commends the efforts of IASB to address concerns raised by state-controlled entities (SCE) in obtaining information required under IAS 24 and to clarify certain aspects of the definition of related parties.

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Having reviewed the proposal, we do not agree with the proposed amendments in a number of areas as explained in the ensuing paragraphs.

Exemption from disclosure of transactions between SCE

We suggest the IASB to reinstate the provision in the original IAS 24 where no disclosure of transaction is required in financial statements of SCE of transactions with other SCE. The IASB conclusion in removing the exemption to SCE when it issued the revised version of IAS 24 on the premise that the disclosure requirements would not be a burden for SCE only holds good for jurisdictions where the extent of SCE is not substantial and only a handful of SCE are involved.

The proposed amendments put forth are counter productive to jurisdictions, particularly developing economies, where it is practically difficult to identify entities that are controlled or significantly influenced by the state as a result of the large number of SCE. Such identification exercise is a highly tedious process with inconsequential benefit to users.

In many cases, as the IASB has rightly recognised, entities that are controlled or significantly influenced by the state might not be aware that an entity with which



they have transactions is a related party. This would result in the information disclosed being incomplete.

The amendments proposed in paragraph 17A would only determine the existence of influence between two SCE which could only be done once the identification process is carried out. It fails to address the identification issue, which is the fundamental initiation process before one is able to assess the existence of influence amongst SCE.

Statement on 'no indicators' of influence

We do not agree for SCE to disclose a statement to the effect that there are no indicators that they influenced, or was influenced by other SCE.

In jurisdictions such as Malaysia where compliance with accounting standards is a legal requirement, it is not feasible for such a statement to be made when the SCE might not even be aware if it had comprehensively identified all related SCE due to the large number of such entities as well as the large volume of transactions.

The 'indicator' approach

We also do not agree with the 'indicator' approach proposed in paragraph 17A. The 'indicator' approach to determine whether a SCE influenced, or was influenced by another SCE is not a solution to the concerns and difficulties faced by SCE in complying with IAS 24 as it fails to address the very underlying operational issue which is fundamental to the workability of the Standard.

Should the IASB decides to move forward with the 'indicator' approach as proposed in paragraph 17A, evidence of 'influence' should be guided by actual influence and not merely by perceived influence. Conclusion based on perceived influence will still result in operational difficulties. It should be explained in the Standard that the current indicators will be used as an initial basis upon which further analysis should be carried out to gather evidence of 'influence' to determine a related party relationship. In other words, the 'bar' should be raised for the test for influence, if the test for influence is still required.

Paragraph 17C appears to imply that the 'indicator' test is at the entity level. If that is the case, a single 'affected' transaction between SCE would result in disclosure of all transactions between SCE, including those transactions which do not trigger the indicators. This is counter productive to the objective of the



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proposals, and as the Board rightfully put in paragraph BC12 the excessive disclosures about unaffected transactions would obscure those information that is potentially useful to users of financial statements. The Board should clarify that the 'indicator' test should be carried out at the transaction level rather than at the entity level.

Existence of common board members

Paragraph 17C requires entity to consider the existence of common board members as part of the indicator of influence between SCE. Further guidance in the interpretation of the set of indicators in paragraphs 17B and 17C would benefit reporting entities.

As it is, reporting entities would be expected to consider the presence of any number of common board members to indicate existence of influence between SCE, even if the presence of only one board member. This would be in contrary to the explanation provided in paragraph 11 of IAS 24 which explains that two entities are not necessarily related parties simply because they have a director in common. Paragraph 17C should clarify that the existence of common board members as part of the indicator of influence is relevant only if the number of the common Board members is significant enough to exert influence.

Without additional guidance in the interpretation of the set of indicators in paragraphs 17B and 17C, there will be inconsistencies in the reporting of SCE as one entity's evaluation of existence of influence may differ from the other entity with whom it has transactions with.

Definition of reporting entity

The amendment should provide a definition of a 'reporting entity' and explanation on the concept of a 'reporting entity'. Such clarification is needed especially in light of the requirements of IAS 24 in the consolidated financial statements, separate financial statements and individual financial statements.

Although paragraph IE5 states that in parent's consolidated financial statements, associates are related to the Group, it should also make clear that the relationship does not extend to the associate's group. As it is, one may adopt the view that the parent's consolidated financial statements covers the related parties of the associates as well. If this is the case, practically all related party transactions disclosed in the financial statements of the associate will also need to be disclosed in the parent's consolidated financial statements.



Another area where clarification is necessary is in a situation where a member of the key management personnel of the parent has transactions with the associate of the parent. For example, a director of the parent may receive professional fee for his services rendered to the associate company. It is not clear from the amendment whether in the parent's separate and consolidated financial statements, such transactions need to be disclosed.

Transitional provision

The ED is not clear on whether the proposed amendments, particularly the test on 'influence' indicators shall apply to all past transactions when an indicator is discovered.

The proposal also has not provided guidance on whether a related party could avail itself to the exemption when the indicator ceased to exist. For example, an entity at its infant stage may be sharing resources with other SCE but as it expands, such sharing of resources would no longer be feasible as the entity would have build up its own resources.

Should you require further information, please contact Dr. Nordin Mohd Zain, the Executive Director of MASB, via e-mail at nordin@masb.org.my.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman