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Endorsement of the 2009 revised IAS 24 *Related Party Disclosures*

Introduction, background and conclusions

Attachment 1: Effect study prepared by the European Financial Reporting Advisory Group (EFRAG)

Attachment 2: Endorsement advice prepared by EFRAG

1. EFFECT STUDY

The European Commission has agreed with the European Parliament that effect studies should be prepared for new accounting standards and interpretations up for endorsement in the European Union (EU). The Commission Services together with the European Financial Reporting Advisory Group (EFRAG) prepare these studies containing description of the accounting issues involved, results from stakeholder consultations as well as analysis of effects of using the new accounting rules in the EU.

EFRAG has prepared an effect study for the 2009 revised IAS 24 *Related Party Disclosures* (attached). As the EFRAG effect study refers to the endorsement advice, we also included it in attachments.

This cover note contains background information, comments and a conclusion by the Commission Services.

2. BACKGROUND ON THE REVISION OF IAS 24 *RELATED PARTY DISCLOSURES*

The revision of IAS 24 Related Party Disclosures

IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. In broad terms, two parties are related to each other if one party controls, or significantly influences, the other party.

The IASB has issued a revised version of IAS 24 *Related Party Disclosures* on 4 November 2009. The revision of IAS 24 was initiated in 2006 and the revised standard results from proposals that were contained in two exposure drafts published in February 2007 and December 2008.

The revision responds to concerns that the previous disclosure requirements and the definition of a related party were too complex and difficult to apply in practice, especially in environments where government control is pervasive.

The document presented by the IASB in November 2009 contains amendments to IAS 24 that address those concerns by:

- Providing a revised definition of a related party. The IASB has simplified the definition of a related party and removed some internal inconsistencies. Some amendments made to the definition of a related party widen the definition of a related party while others result in the exclusion of situations that were regarded as transactions with related parties under the previous standard. Overall, the practical implications of the amendments made to the definition of a related party is that more entities are considered related party while a number of inconsistencies have been eliminated.
- Providing relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions. The previous version of IAS 24 contained no specific exemption for government-related entities. Concerns were raised that in environments where government control was

pervasive, compliance with the disclosure requirements of IAS 24 could be burdensome. Under the revised standard, a reporting entity is exempt from the general disclosure requirements set out in IAS 24 in respect to so-called government-related entities. Entities that apply this exemption must still provide information about individually and collectively significant related-party transactions.

The 2009 revised IAS 24 is effective for annual periods beginning on or after 1 January 2011, with earlier application permitted.

EFRAG evaluation of the 2009 revised IAS 24 standard

EFRAG approach has been to carry out an initial assessment of the revised version of IAS 24 *Related Party Disclosures* against the EU endorsement criteria, to consult on the results of this initial assessment and to finalise the assessment of the revised standard in the light of the comments received. Commentators to the EFRAG consultation agreed with EFRAG's assessment of the revised standard. When evaluating the revised standard, EFRAG has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- It is not contrary to the "true and fair principle"; and
- It meets the criteria of relevance, reliability, comparability and understandability.

EFRAG also carried out an assessment of the costs and benefits of the revised standard issued in November 2009. EFRAG's final assessment is that the benefits of implementing the revised IAS 24 outweigh the costs involved.

EFRAG therefore believes that it is in the European interest to adopt the revised IAS 24 standard and recommends its adoption.

3. EFFECT STUDY

Main points identified in the EFRAG effect study

EFRAG considers that by clarifying the definition of a related party and simplifying the disclosure requirements for government-related entities, the 2009 revised IAS 24 will strengthen the relevance, the reliability and the understandability of the information disclosed. EFRAG also believes that 2009 revised standard will enhance the comparability of information as it makes the definition of a related party more symmetrical while retaining sufficient disclosures to inform users of the occurrence of significant related party transactions for government-related entities.

Main points identified in the EFRAG costs and benefits analysis

The 2009 amendments to IAS 24 make two changes to IAS 24: they widen the definition of a related party and they provide some relief to entities that are controlled, jointly controlled or significantly influenced by a government or by a common government (so-called government-related entities). Overall, EFRAG's assessment is that the amendments combined will not

result in increased costs to preparers and users. In EFRAG's views, the amendments combined will also result in increased benefits for preparers and users. EFRAG's final assessment is that the benefits to be derived from adopting the amendments are likely to outweigh the costs involved.

4. OVERALL COST-BENEFIT CONSIDERATIONS AND COMMISSION SERVICES CONCLUSIONS

On the basis of EFRAG's effect study, the Commission Services have considered the main costs and benefits of endorsing the 2009 revised IAS 24 standard and conclude that the benefits of the revision are likely to outweigh the costs introduced by the revision.

The Commission Services believe that the 2009 revised IAS 24 standard will have positive cost-benefits effects and that it should therefore be endorsed in the EU without delay.



The costs and benefits of implementing the revised IAS 24 *Related Party Disclosures*

Introduction

- 1 Following discussions between the various parties involved in the EU endorsement process, the European Commission decided in 2007 that more extensive information than hitherto needs to be gathered on the costs and benefits of all new or revised Standards and Interpretations as part of the endorsement process. It has further been agreed that EFRAG will gather that information in the case of the amendments to the revised IAS 24 *Related Party Disclosures* (the Amendments)
- 2 EFRAG first considered how extensive the work would need to be. For some Standards or Interpretations, it might be necessary to carry out some fairly extensive work in order to understand fully the cost and benefit implications of the Standard or Interpretation being assessed. However, in the case of the Amendments, EFRAG's view is that the cost and benefit implications can be assessed by carrying out a more modest amount of work. (The results of the consultations EFRAG has carried out seem to confirm this.) Therefore, as explained more fully in the main sections of this report, the approach EFRAG has adopted has been to carry out detailed initial assessments of the likely costs and benefits of implementing the amendments in the EU, to consult on the results of those initial assessments, and to finalise those assessments in the light of the comments received.

EFRAG's endorsement advice

- 3 EFRAG also carries out a technical assessment of all new and revised Standards and Interpretations issued by the IASB and IFRIC against the so-called endorsement criteria and provides the results of those technical assessments to the European Commission in the form of recommendations as to whether or not the Standard or Interpretation assessed should be endorsed for use in the EU. As part of those technical assessments, EFRAG gives consideration to the costs and benefits that would arise from implementing the new or revised Standard or Interpretation in the EU. EFRAG has therefore taken the conclusion at the end of this report into account in finalising its endorsement advice.

A summary of the Amendments

Background

- 4 Related party relationships are a common feature of commercial and business activities and include relationships that involve transactions with subsidiaries, joint ventures and associates as well as key management personnel of such entities. A related party relationship could have an effect on the financial performance and position of an entity because of the influence that a related party can exercise over transactions with an entity. It follows that information on an entity's related party transactions, including outstanding balances, commitments, and relationships with related parties is important to users. IAS 24 defines a "related party" and sets out the information that an entity must provide when it engages in transactions with parties that are considered to be related.
- 5 The definition of a "related party" in IAS 24 has been the subject of some criticism because some believe it to be inherently inconsistent and too complex to apply in practice because, in their view, it is asymmetrical, lacks clarity and includes multiple cross-references that are difficult to interpret.
- 6 IAS 24 applies to all entities including entities that are government-related – i.e. entities controlled, jointly controlled or significantly influenced by the government. Concerns have been raised that in environments where government control is pervasive, compliance with the disclosure requirements in IAS 24 can be burdensome because of difficulties in identifying when the same government controls, jointly controls or significantly influences both parties to a transaction. In addition, concerns have been raised about the cost/benefit implications of voluminous disclosures about transactions that are unlikely to have been influenced by related party relationships in these situations.
- 7 The IASB therefore set out to amend IAS 24 to address the concerns described above. In particular, the Amendments set out to:
 - (a) simplify the definition of a "related party" while eliminating some internal inconsistencies and to make it symmetrical; and
 - (b) provide relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

What has changed?

Related party definition

- 8 As explained above, the objective of IAS 24 is to provide information to users about the existence and possible effect of related party transactions on the financial performance and position of an entity. The definition of a "related party" is therefore an integral concept in this standard.
- 9 The Amendment made to the definition of a related party can be illustrated as follows:
 - (a) associates are regarded as related parties of subsidiaries of a common investor, and vice versa. Previously associates considered subsidiaries of their controlling

investor as related parties, but those subsidiaries did not consider the associates as related parties in their separate financial statements;

- (b) entities in which key management personnel invests (investees) and the entity managed by said key management personnel are regarded as related parties of one another. Previously an entity managed by such individuals considered the investees of that individual as related parties, but the investees did not regard the entity managed by the key management personnel as a related party in their separate financial statements;
 - (c) where an individual investor has significant influence over one entity and control or joint control over another entity, these two entities are regarded as related parties of one another. Previously such entities were not regarded as related to each other; and
 - (d) where an individual investor has joint control over a reporting entity and a close member of that individual's family has joint control or significant influence over the other entity, these two entities are regarded as related parties of one another. Previously the entity under joint control of an individual investor considered another entity under joint control or significant influence of that individual's close family member as a related party, but this relationship was not regarded as a related party relationship from the perspective of investees of the close family member.
- 10 The amended definition also results in the exclusion of situations where a person has significant influence over an entity and a close member of that person's family has significant influence over another entity. In the past these were regarded as related parties.
- 11 The amendment also clarified that if an individual is part of the key management personnel in one entity and has significant influence over another entity, these two entities are not regarded as related parties of one another.
- 12 Accordingly, the practical implication of the Amendment to the definition of a related party is that more entities are considered related parties. As a result, the volume of disclosures in the financial statements is likely to increase for entities that fall within the amended definition.
- The revised standard contains illustrative examples of the amendments.

Exemption for government-related entities

- 13 The requirements in existing IAS 24 also apply to, amongst others, entities that are related to a government through control, joint control or significant influence. The "exemption" Amendment to IAS 24 aims to provide relief to such entities from certain disclosure requirements.
- 14 "Government", for the purposes of the exemption, refers to government, government agencies and similar bodies whether local, national or international. This is the same definition used in other IFRSs such as IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
- 15 The Amendment exempts a reporting entity from the "normal" disclosure requirements in relation to related party transactions and outstanding balances, including commitments, in respect to so-called government-related entities with:

- (a) a government that has control, joint control or significant influence over the reporting entity; and
 - (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.
It is important to note that the exemption applies only to entities and not to individuals.
- 16 However, when the exemption in the Amendment is used, the reporting entity is required to disclose:
- (a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence) for transactions and related outstanding balances referred to above;
 - (b) information about the nature and amount of each individually significant transaction in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements. For other transactions that are collectively, but not individually, significant a qualitative or quantitative indication of their extent shall also be disclosed.
- 17 These disclosures are intended to inform users that related party transactions have occurred and to provide an indication of their nature and the amounts involved. The intention, however, is not to require the reporting entity to identify every single government-related entity, nor to quantify in detail every transaction with such entities, because such a requirement would negate the relief provided by the exemption.

EFRAG's initial analysis of the costs and benefits of the amendments

- 18 EFRAG carried out an initial assessment of the costs and benefits expected to arise for preparers and for users from implementing the Amendments, both in year one and in subsequent years. The results of EFRAG's initial assessment can be summarised as follows. The implementation in the EU of the Amendments is likely to:
- (a) involve a decrease in preparation costs for those preparers affected by the exemption while those affected by the revised definition will incur additional costs;
 - (b) involve users in additional but insignificant analysis costs; and
 - (c) likely to result in an improvement in the quality of the information provided about certain related party transactions that were previously not disclosed while some (not all) information about government-related entities will be lost.
- 19 EFRAG published its initial assessment and supporting analysis on 20 November 2009. It invited comments on the material by 10 January 2010. In response, EFRAG received eight comment letters. Six respondents agreed with EFRAG's assessment of the benefits of implementing the Amendments and the associated costs involved for users and preparers. The other respondents did not comment specifically on EFRAG's initial assessment of the costs and benefits of implementing the Amendments in the EU, but supported EFRAG's recommendation that the Amendments be adopted for use in Europe.

EFRAG's final analysis of the costs and benefits of the amendments

- 20 Based on its initial analysis and stakeholders' views on that analysis, EFRAG's detailed final analysis of the costs and benefits of the Amendments is presented in the paragraphs below.

Costs for preparers

- 21 The Amendments make two changes to IAS 24: they widen the definition of a related party and they provide some relief to entities that are controlled, jointly controlled or significantly influenced by a common government (government-related entities). EFRAG has carried out an assessment of the additional work the Amendments are likely to create (or what work they might save) preparers.
- 22 The application of the amended definition of a related party would result in more disclosures for some entities that are likely to require some time and effort to compile, at least in the first year of application. Those preparers affected are likely to incur some incremental year-one and ongoing costs. For some preparers those costs will be insignificant.
- 23 Many government-related entities thought that the detailed disclosure requirements in existing IAS 24 imposed unnecessary burden on them, which is not necessarily offset by a perceived benefit to users. The Amendments address this issue because the revised standard will require less granular disclosures than at present. In EFRAG's view, this will reduce the burden to those preparers affected and save those preparers significant time and effort. EFRAG's assessment is that the cost saving involved for those preparers is likely to be significant in year-one and on an ongoing basis.

Costs for users

- 24 EFRAG has also carried out an assessment of the implications of the Amendments for the costs incurred by users of the financial statements.
- 25 Prior to the Amendments, there was some uncertainty as to which entities might be considered to be related to each other. The Amendment removes this uncertainty, and provides a clearer basis for including particular relationships in the definition of a related party. The outcome will be information that is more meaningful and understandable and as a result is likely to generate cost savings to users.
- 26 Regarding the exemption, EFRAG concluded that there could be an increase in costs to supplement the loss of some information. However, the revised IAS 24 requires some disclosures when the exemption is applied, which in EFRAG's view, appear to be sufficient to inform users of the occurrence of significant related party transactions. In addition, the disclosure requirements of other standards, such as IAS 20, will continue to apply. This increase in costs to users is therefore likely to be insignificant.

- 27 Users are also expected to incur some incremental costs to incorporate the additional information resulting from the revised definition into their analysis – again this is not likely to be significant.
- 28 Overall, EFRAG’s assessment is that the Amendments combined will not result in increased costs to users.

Benefit for preparers and users

- 29 Finally, EFRAG assessed the benefits that are likely to arise from the Amendments. EFRAG’s initial assessment is that the Amendments will result in a significant benefit for some preparers who were previously subjected to onerous disclosure requirements. The benefit for preparers resulting from the application of the exemption comes at the cost of users who may lose some, but not all, relevant information. It is however unlikely that this loss of information is more significant than the benefit to preparers.
- 30 In contrast, users are likely to benefit from the increased disclosures resulting from the application of the amended definition of a related party while preparers will be burdened with disclosure requirements. In EFRAG’s view, the benefit for users is likely to outweigh the cost for preparers.

Conclusion

- 31 EFRAG’s overall assessment is that implementing the Amendments:
- (a) is likely to involve a decrease in preparation costs for those preparers affected by the exemption while those affected by the revised definition will incur additional cost;
 - (b) is likely to involve users in additional but insignificant analysis costs; and
 - (c) is also likely to result in an improvement in the quality of the information provided about certain related party transactions that were previously not disclosed while some (not all) information about government-related entities will be lost.
- 32 EFRAG’s assessment is that the benefits to be derived from adopting the Amendments are likely to outweigh the costs involved.

Stig Enevoldsen
EFRAG, Chairman
29 January 2010

Attachment 2



Jörgen Holmquist
Director General
European Commission
Directorate General for the Internal Market
1049 Brussels

29 January 2010

Dear Mr Holmquist

Adoption of the revised IAS 24 *Related Party Disclosures*

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of the amendments to the revised IAS 24 *Related Party Disclosures* (the Amendments), which was issued by the IASB on 4 November 2009. It was issued as an Exposure Draft in December 2008 and EFRAG commented on that draft.

The Amendments set out to simplify the definition of a “related party” while removing some internal inconsistencies and make it symmetrical and to provide relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

The Amendments change the definition of a related party so that the following relationships are included in the definition:

- associates are regarded as related parties of subsidiaries of a common investor, and vice versa;
- entities in which key management personnel invests (investees) and the entity managed by said key management personnel are regarded as related parties of one another;
- where an individual investor has significant influence over one entity and control or joint control over another entity, these two entities are regarded as related parties of one another; and
- where an individual investor has joint control over a reporting entity and a close member of that individual’s family has joint control or significant influence over the other entity, these two entities are regarded as related parties of one another.

Furthermore, the Amendment exempts a reporting entity from the “normal” disclosure requirements in relation to related party transactions and outstanding balances, including commitments, in respect to so-called government-related entities with:

- a government that has control, joint control or significant influence over the reporting entity; and

- another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Such entities are however required to disclose the name of the government and the nature of its relationship with the reporting entity for transactions and related outstanding balances referred to above. In addition, information about the nature and amount of each individually significant transaction in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements shall be disclosed. For other transactions that are collectively, but not individually, significant a qualitative or quantitative indication of their extent shall also be disclosed.

The Amendments becomes effective for annual periods beginning on or after 1 July 2010, with earlier application permitted.

EFRAG has carried out an evaluation of the Amendments. As part of that process, EFRAG issued an initial evaluation for public comment and, when finalising its advice and the content of this letter, it took the comments received in response into account. EFRAG's evaluation is based on input from standard setters, market participants and other interested parties, and its discussions of technical matters are open to the public.

EFRAG supports the Amendments and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that:

- it is not contrary to the "true and fair principle" set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- it meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt the Amendments and, accordingly, EFRAG recommends its adoption. EFRAG's reasoning is explained in the attached 'Appendix - Basis for Conclusions'.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely

Stig Enevoldsen
EFRAG, Chairman
APPENDIX
BASIS FOR CONCLUSIONS

This appendix sets out the basis for the conclusions reached, and for the recommendation made, by EFRAG on the Amendments to IAS 24 Related Party Disclosures (the Amendments).

In its comment letters to the IASB, EFRAG points out that such letters are submitted in EFRAG's capacity as a contributor to the IASB's due process. They do not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as adviser to the European Commission on endorsement of the final IFRS or Interpretation on the issue.

In the latter capacity, EFRAG's role is to make a recommendation about endorsement based on its assessment of the final IFRS or Interpretation against the European endorsement criteria, as currently defined. These are explicit criteria which have been designed specifically for application in the endorsement process, and therefore the conclusions reached on endorsement may be different from those arrived at by EFRAG in developing its comments on proposed IFRSs or Interpretations. Another reason for a difference is that EFRAG's thinking may evolve.

Does the accounting that results from the application of the Amendments meet the criteria for EU endorsement?

- 1 EFRAG has considered whether the Amendments meet the requirements of the European Parliament and of the Council on the application of international accounting standards, in other words that the Amendments:

meet the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and

meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

EFRAG also considered whether it would be in the European interest to adopt the Amendments.

Relevance

- 2 According to the Framework, information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events or by confirming or correcting their past evaluations.
- 3 EFRAG considered whether the Amendments would result in the provision of relevant information - in other words, information that has predictive value, confirmatory value or both - or whether it would result in the omission of relevant information. EFRAG's assessment about the Amendments' relevance is very similar to its assessment of comparability.
- 4 The Amendment to the definition of a related party clarifies certain aspects of the existing definition and removes some of its internal inconsistencies. This is

achieved by widening the definition of related party transactions to capture relationships that are similar in nature, but which are excluded from the present definition. In EFRAG's view, the additional disclosure resulting from the wider definition is relevant for users because it concerns information that can affect the financial performance and position of the reporting entity. By providing information about relationships between related parties that were not previously required by the standard, users will benefit from added transparency concerning the transactions affected by those relationships.

- 5 The Amendment in respect to the exemption provided to government-related entities will result in the loss of some information to users. However, entities that apply the exemption must still provide information about individually and collectively significant transactions with related parties. Therefore, in EFRAG's view, users will continue to receive most of the relevant information that they receive under the existing standard. In addition, EFRAG thinks that by focusing on significant transactions, the information provided will not be obscured by excessive information about less significant transactions between related entities.
- 6 EFRAG also considered the implications of the increase in the number of government-controlled entities in environments where, as a result of the financial crises, governments have taken significant and sometimes controlling stakes in financial institutions. The exemption in the Amendments would extend to such financial institutions and it could be questioned whether the financial assistance provided by governments would be adequately disclosed. EFRAG thinks it would for two reasons:
 - (a) first, the Amendment requires disclosure of significant transactions in such instances and therefore all significant transactions would be disclosed in terms of paragraph 26 of the revised standard; and
 - (b) the disclosure requirements of other standards, such as IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, will continue to apply to those entities applying the exemption. These standards would require certain disclosures where transactions, not captured by the disclosures noted above, were not at arm's length and could therefore have affected the financial performance and position of the reporting entity.

Reliability

- 7 EFRAG also considered the reliability of the information that will be provided by applying the Amendments. The Framework explains that information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent, and is complete within the bounds of materiality and cost.
- 8 There are a number of aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness. In EFRAG's view, the

Amendments do not raise any significant issues concerning freedom from material error and bias.

- 9 Reliability concerns should not arise when entities report the additional information due to the change in the definition of a related party; entities should have access to the information about transactions with each other within the same group. In complex organisational structures it may be more difficult to collect all the relevant information, creating some reliability concerns. EFRAG considered these situations and noted that similar information is already required for some of the entities within such structures and such entities are able to obtain the information to meet the existing requirements. Therefore, the amended definition does not create any new reliability concerns in EFRAG's view.
- 10 Some argue that the reporting entity will need the co-operation of others to obtain information required about the private affairs of key management personnel. In some cases, it may be difficult to obtain the right information from those persons; and in other cases, disclosing such information could involve privacy infringement. EFRAG considered these situations, and noted that the existing definition of a related party in IAS 24 already requires a certain level of disclosure about individual persons, and that the Amendment should not create any new concerns involving privacy infringement.
- 11 EFRAG understands that currently some preparers are concerned that the existing requirements in IAS 24 are too cumbersome and sometimes difficult to apply in relation to government related entities, and as a result may lead to incomplete or unreliable disclosures being provided. In EFRAG's view, the relief provided by the Amendment will address concerns about obtaining reliable information concerning relationships and transactions involving a common government, and therefore strengthen the reliability of the information disclosed.

Comparability

- 12 The notion of comparability requires that like items and events are accounted for in a consistent way through time and by different entities, and that unlike items and events should be accounted for differently.
- 13 EFRAG has considered whether the Amendments have been scoped in a way that results in transactions that are economically similar being accounted for differently, or transactions that are economically different being accounted for as if they are similar.
- 14 EFRAG believes that the Amendment to the definition of a related party will enhance the comparability of information as it makes the definition of a related party more symmetrical. This is because the Amendment includes relationships between entities that can exercise a similar extent of influence over each other by virtue of its relationship with a third entity, and which are similar to other relationships that meet the existing definition of a related party.
- 15 EFRAG notes that the consistent application of the exemption for government-related entities will result in comparable information where entities with similar levels of government involvement provide the required disclosures. However,

the exemption may result in similar entities disclosing information for similar activities in differing levels of detail where one entity is government related while the other is not. Some may argue that such situations would not result in comparable disclosures. Notwithstanding this concern, as noted above under our assessment of relevance of information, EFRAG believes that the additional disclosure requirements for entities that use the exemption is sufficient to inform users of the occurrence of significant related party transactions. Therefore, it should not affect the comparability of information in any significant way.

Understandability

- 16 The notion of understandability requires that the financial information provided should be readily understandable by users with a reasonable knowledge of business and economic activity and accounting and the willingness to study the information with reasonable diligence.
- 17 Although there are a number of aspects to the notion of 'understandability', EFRAG believes that most aspects are covered by the discussion above about relevance, reliability and comparability (because, for example, information that represents something as similar when it is in fact dissimilar is not comparable, and that lack of comparability will mean it is also not understandable). As a result, EFRAG believes that the main additional issue it needs to consider in assessing whether the information resulting from the application of the Amendments is understandable, is whether that information will be unduly complex. In EFRAG's view, the Amendments do not introduce any new complexities that may impair understandability. In fact, the clarification of the definition of a related party and relief from providing information that is not relevant for entities applying the exemption in respect of government-related entities may improve the understandability of the disclosures resulting from this revised standard.

True and Fair

- 18 EFRAG has also concluded that there is no reason to believe that the information resulting from the application of the Amendments would be contrary to the true and fair view principle.

Cost and Benefit

- 19 EFRAG has considered whether the benefits of implementing the revised IAS 24 in the EU exceed the cost of doing so. EFRAG's assessment is that the benefits of implementing the revised IAS 24 outweigh the costs involved.

Conclusion

- 20 After considering all the above arguments, EFRAG has concluded that, on balance, the revised IAS 24 satisfies the criteria for EU endorsement and that it is likely to be in the European interest to adopt the revised IAS 24. Accordingly, EFRAG recommends its endorsement in Europe.