



Financial Reporting Alert

Issued July 2007

Title:	FRED 41 <i>Related Party Disclosures</i>		
Issued by:	ASB	Status:	Exposure draft
Impact:	Proposes to replace FRS 8 with a financial reporting standard based on IAS 24.		
Effective date:	2009 (precise date to be confirmed); Comment deadline 19 October 2007		

Background

The Accounting Standards Board (ASB) has today issued Financial Reporting Exposure Draft (FRED) 41 *Related Party Disclosures*, which proposes to replace FRS 8 with a standard based on IAS 24 (as amended by the IASB's proposals issued in February 2007).

The proposals in the FRED are designed to ensure consistency between the requirements of accounting standards and company law, once the latter changes. In March 2007 the Government issued a consultation document *Implementation of Directive 2006/46/EC on Company Reporting – Amending the Accounting Directives* which will align the definition of a related party in UK company law with that in IAS 24. Without an amendment to FRS 8 a conflict would arise between that standard and the Companies Act requirement.

Proposals

The proposals are intended to lead to improved convergence between UK GAAP and IFRS whilst avoiding any potential conflict between the requirements of financial reporting standards and company law. The FRED also proposes to:

- provide disclosure exemptions for wholly-owned subsidiaries;
- provide guidance on materiality, based on that set out in IAS 1 *Presentation of Financial Statements*; and
- require separate disclosure of transactions entered into by the company with related parties if they are material and have not been concluded under normal market conditions (while this would diverge from IAS 24, it would reflect the proposed legal requirement).

Effect

The main differences between the disclosure requirements of FRS 8, IAS 24 and FRED 41 are:

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- (i) FRS 8 does not require disclosure of transactions in the parent's own financial statements or in a subsidiary undertaking's financial statements (where 90 per cent or more of the voting rights are controlled within the group) of transactions with entities that are part of the group provided that the consolidated financial statements in which that subsidiary is included are publicly available; *the ASB proposes an exemption from disclosure of transactions between two or more members of a group provided that the subsidiaries which are party to the transaction are wholly owned by such a member.*
- (ii) FRS 8 does not require disclosure of key management personnel compensation; *the ASB proposes that disclosure of key management personnel compensation should be made in accordance with IAS 24.*
- (iii) FRS 8 requires disclosure of the names of the transacting related parties; *the ASB is not proposing as part of the FRED to require such disclosure.*

It is anticipated that the changes proposed to UK company law above will become effective in 2009, and any changes required to UK Financial Reporting Standards are intended to be made simultaneously.

Comments are requested by 19 October 2007.

The ASB press release and a copy of FRED 41 are available on the web at:
<http://www.frc.org.uk/asb/press/pub1365.html>

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