



13 March 2009

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Ref.: ACC/MB/SS/LF/SH

Dear Mr. Enevoldsen,

**Re.: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft of proposed amendments to IAS 24 *Relationships with the State***

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of proposed amendments to IAS 24 *Relationships with the State* (the "ED").
- (2) We support EFRAG's draft comment letter and agree in general with the proposed amendments to exempt entities that are controlled, jointly controlled or significantly influenced by a state from the disclosure requirements of IAS 24 in relation to transactions with other state-controlled entities.
- (3) Like EFRAG, we also have some concerns about the proposed amendments to the definition of a related party.
- (4) We support EFRAG's additional comments on the definition of "a State" and share the concerns raised about its practical application. In particular, as noted by EFRAG, jurisdictions may adopt different approaches for structuring state-related activities and organisations. Therefore, we agree that "a State" should be defined in a way to ensure that the scope of the proposed exemption to the disclosure requirements of IAS 24 is not affected by the existence of such different approaches in practice. We support EFRAG's comments that further work might therefore be needed in this area.

- (5) As a drafting comment, we think that EFRAG's covering letter should describe more clearly what its position is for each of the amendments proposed. This could be done by splitting it into two parts, for instance the proposed exemption and the definition of a related party.

### **Proposed exemption**

- (6) We understand that the proposed exemption is made available for practical reasons. In particular, we agree with EFRAG that in practice requiring the disclosures in IAS 24 when two entities are related only because they are controlled, jointly controlled or significantly influenced by the same state could be onerous. On this basis, we agree with the proposed exemption. However, the proposed exemption as currently presented may be too broad. We suggest to detail circumstances in which the use of the exemption would be detrimental, for example when entities issue consolidated financial statements, on the basis that the information will be necessary and there should be no practical difficulties to provide it. In these circumstances, we believe that the exemption should not be possible. Using the example provided on page 9 of the ED, we would not expect Entity 1 and Entity 2 to be exempted since they are part of the same group.

### **Definition of a related party**

- (7) Overall, in our opinion, the definition of a related party is still very complex and it would be useful for the IASB to include a diagram showing all the possible related parties of a reporting entity.
- (8) Regarding the disclosure requirement about "a close member of a person's family", we think like EFRAG that it can be difficult for an entity to comply with a disclosure requirement based on an expectation that it will have the necessary information available and this information can be difficult to be obtained. We encourage EFRAG to be stronger on this point in its letter to the IASB. Another example of possible impracticability to identify related parties is the situation in which a reporting entity X is an associate or a joint control entity of another entity Y. The reporting entity X may have difficulties in identifying or may not be able to identify entities jointly controlled or significantly influenced by Y.

Our responses to the questions in the Invitation to comment of the ED are included as an Appendix to this letter.

For further information on this letter, please contact Ms Saskia Slomp from the FEE Secretariat.

Yours sincerely,



Hans van Damme  
President



Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments IAS 24 *Relationships with the State*

**Question 1 – Definition of discontinued operations**

**EFRAG’s detailed comments on the ED *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?**

- (9) In our opinion, the explanation for the removal of the approach proposed in the previous ED (the exemption was available only if the two entities are related because they are controlled, jointly controlled or significantly influenced by the same state), is not clear enough in the basis for conclusions. The proposed exemption from disclosures in IAS 24 is a very important exemption and needs to be explained in a clear manner. We would appreciate the IASB further developing its reasoning on this particular point. In addition, the proposed exemption as currently presented may be too broad. We suggest to detail circumstances in which the use of the exemption would be detrimental, for example when entities issue consolidated financial statements, on the basis that the information will be necessary and there should be no practical difficulties to provide it. In these circumstances, we believe that the exemption should not be possible. Using the example provided on page 9 of the ED, we would not expect Entity 1 and Entity 2 to be exempted since they are part of the same group.
- (10) From a conceptual point of view, we agree with EFRAG that the proposed exemption may weaken IAS 24. Our main concern is that the revised proposal would exempt an entity from disclosing transactions with the state as well as other state-controlled entities, “regardless” of whether influence actually exists in such relationships. However, we understand that the proposed exemption is made available for practical reasons.
- (11) In theory, we think like EFRAG that material transactions between related parties influenced in some way by the existence of the relationship between the parties could be useful information and should ideally be disclosed in the financial statements. However, the reasoning presented in paragraph 1(b) of its Draft Comment Letter is confusing. Therefore we suggest deleting it.
- (12) We agree with EFRAG and support the proposal to extend the exemption that was proposed in the previous ED so that it applies not only to state-controlled entities but also to other relations with the state.

**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments IAS 24 *Relationships with the State***

- (13) We understand that the proposed exemption scopes out state-controlled entities from IAS 24 disclosure requirements except for the proposed amendment to paragraph 17B, which requires some additional information to be disclosed. Even if the proposed amendment to paragraph 17B requires reporting entities falling under the proposed exemption to disclose additional information, these entities would still benefit to some extent from the exemption, since only significant transactions should be identified, as opposed to all transactions.
- (14) In addition, we note that the proposed amendment requiring entities falling under the proposed exemption to disclose additional information, notably on significant transactions, would address our concern raised earlier that the revised proposal would exempt state-controlled entities' transactions, "regardless" of whether influence actually exists in such relationships, since the proposed paragraph 17 B(b) would ensure that material transactions between related parties are disclosed in the financial statements.

**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?**

- (15) Our reading of the suggestion included in the proposed new paragraph 9(b)(ix) (a person or a close member of that person's family (A) has significant influence over the entity or significant voting power in it and (B) has joint control over the reporting entity) is not that (A) and (B) are two persons, but rather two additional conditions which if applicable, of situation that an entity is related to a reporting entity. According to this reading, we do not see in substance why one could agree with paragraph 9(b)(vi) and not with paragraph 9(b)(ix). It would be helpful if the IASB could clarify this point further.
- (16) Overall, in our opinion, the definition of a related party is still very complex and it would be useful for the IASB to include a diagram showing all the possible related parties of a reporting entity.



**Responses to the questions in the Invitation to comment of the IASB Exposure Draft of proposed amendments IAS 24 *Relationships with the State***

- (17) Regarding the disclosure requirement about “a close member of a person’s family”, we think like EFRAG that it can be difficult for an entity to comply with a disclosure requirement based on an expectation that it will have the necessary information available and this information can be difficult to be obtained. Another example of possible impracticability to identify related parties is the situation in which a reporting entity X is an associate or a joint- control entity of another entity Y. The reporting entity X may have difficulties in identifying or may not be able to identify entities jointly controlled or significantly influenced by Y.
- (18) In the FEE Comments to the IASB letter dated 12 June 2007 on the 2007 ED of Proposed Amendments to IAS 24, we already raised our concerns when a disclosure requirement refers to “close members of a person’s family” and noted our agreement with EFRAG that it cannot be expected that information is always available in relation to “a close member of that person’s family”.

**Question 3**

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

- (19) We support the detailed comments in paragraphs 6 and 7 of EFRAG’s Draft Comment Letter and share its concerns raised about the practical application of the definition of “a state”.
- (20) We note that while with the proposed amendments to IAS 24 achieves the objective of reducing the burden of disclosures for state-controlled entities, it increases at the same time the requirements in relation to “close members of a person’s family”. There is a risk that this becomes very burdensome for some entities, in addition to the issue already noted above that it may not always be feasible to obtain and disclose the information required regarding “members of a person’s family”. We encourage EFRAG to be stronger on this point in its letter to the IASB.