

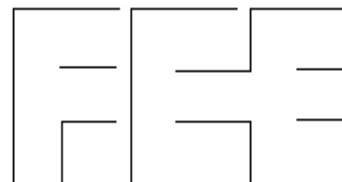
Date  
12 June 2007

Le Président

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Sir David Tweedie  
Chairman  
International Accounting Standards Board  
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Email: commentletters@iasb.org

Dear Sir David,

Re: IASB Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures: State-Controlled Entities and the Definition of a Related Party

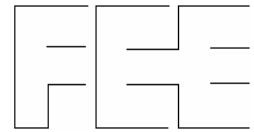
FEE (Fédération des Experts Comptables Européens, European Federation of Accountants) is pleased to submit its comments on the IASB Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures: State-Controlled Entities and the Definition of a Related Party. FEE as a founding organisation of EFRAG has also contributed to the EFRAG consultation process by submitting our views on EFRAG's draft comment letter. We refer to the EFRAG preliminary comments (draft letter of 24 April). We share EFRAG's views that the disclosure requirements that the ED is proposing to amend are currently proving burdensome and resulting in disclosures that appear to be of little value, and the definition of related party is in need of improvement and simplification. However, we have not considered the final EFRAG submission to IASB in our own response since it is not yet finalised.

#### *General*

1. We commend the IASB on the inclusion of illustrative examples in the Exposure Draft. We find these examples very useful in that they clarify the proposals.

#### *Question 1 – State-controlled entities*

- (a) *Do you agree with the proposal to provide, in the circumstances described in this exposure draft, an exemption for entities controlled or significantly influenced by the state? If not, why? What would you propose instead and why?*
2. From a reporting point of view we support the exemption for entities that are controlled or significantly influenced by a state in relation to transactions with other entities controlled or significantly influenced by that state from the disclosure requirements of IAS 24.17 as well as the extension suggested by EFRAG in its draft comment letter to other types of entities – disclosures about transactions between, related parties need only to be given if the party is under influence of the other – as a general principle. However we have significant concerns from an auditing point of view if the scope of related party disclosures is limited to the transactions with a related party when a significant influence has been established with that related party using the suggested indicator approach. In this respect, it should be noted that the International Auditing and Assurance Standards Board (IAASB) Exposure Draft of February 2007 on Proposed Revised and Redrafted international Standard on Auditing (ISA) 550 on Related Parties, defined related parties differently.



3. Paragraph 17E requires a statement that there are no indications that the entity was influenced for exempted state controlled entities. We are concerned that this proposal, if adopted, would impose an impractical burden on auditors of establishing completeness. The IAASB Exposure Draft of February 2007 on Proposed Revised and Redrafted ISA 550 on Related Parties, does not include requirements on the audit of the completeness of related party transactions and relationships, mainly because of the inherent limitations of an audit. The current IAS 24.21 does not require disclosures that related party transactions were made at market-rates. Instead, it allows for such disclosures if, and only if, such terms can be substantiated.

(b) *Do you agree:*

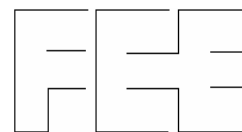
- (i) *that an indicator approach is an appropriate method for identifying when the exemption should be provided for entities controlled or significantly influenced by the state; and*
- (ii) *that the proposed indicators are appropriate?*

*If not, why? What would you propose instead and why?*

4. We support the call of EFRAG in its draft comment letter for a clear underlying principle in selecting the indicators, or as an alternative the IAS 36 approach where reference is made to indicators that influence may (not will) exist.
5. The wording of ED IAS 24.17B and 17C and of ED IAS 24.BC18 seems to imply that the quality of the indicators in paragraph 17B is different from the indicators in paragraph 17C. When one of the indications in paragraph 17B exists, it is difficult to deny that transactions are influenced by the “related party” relationship. However, the situations indicated in paragraph 17C are described as ones where an entity shall consider whether this is an indication of an influential relationship. In our view all indicators should be seen as rebuttable presumptions.
6. It is furthermore important that the IASB makes clear that the indicators need to be applied on an entity level rather than on a transaction level.
7. Instead of using the indicator of “non-market rates” there could be other indicators such as normal commercial payment terms and conditions. We consider the term “rate” is too restrictive and likely to lead to translation difficulties. In addition the notion “market” is also unhelpful since there is not always a market.
8. The first indicator in the indicator approach in 17B (a) – transaction of business at non-market rates - may be challenging for entities as to identify those transactions whereby the related party is under influence or control of the other party since transactions are not carried out at arms length. For the auditor it will be difficult if not impossible to obtain sufficient appropriate audit evidence as to the completeness of the transactions between related parties that are not at an arms length basis, without checking all transactions between those related parties. This would constitute an increased audit cost. As already noted, the IAASB Exposure Draft of February 2007 on Proposed Revised and Redrafted ISA 550 on Related Parties does not include requirements on the audit of the completeness of related party transactions and relationships. Therefore we have difficulties with the introduction of this indicator and we suggest its deletion both in the IASB 24.17B and in the general principle-based approach as suggested by EFRAG in its draft comment letter.

*Question 2 – Definition of a related party*

- (a) *The definition of a related party in IAS 24 does not include, for a subsidiary’s individual or separate financial statements, an associate of the subsidiary’s controlling investor. The Board has decided that it should be included, and thus proposes to amend the definition of a related party. The Board similarly proposes that when the investor is a person, entities that are either significantly influenced or controlled by that person are to be treated as related to each other.*



*Do you agree with this proposed amendment? If not, why? What would you propose instead and why?*

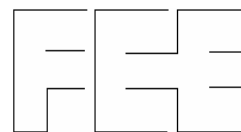
9. We agree, like EFRAG in its draft comment letter, with both proposals. The illustrative examples refer to significant influence. However, the existence of significant influence alone is in our view not sufficient to establish a related party relationship. It is necessary to control the financial and operating policy decision of an entity. This could also be clarified in IAS 24 paragraph 9. This would facilitate the obtaining of relevant information for both reporting entities and their auditors.
  - (b) *IAS 24 does not define associates of an entity as related parties. However, when a person has significant influence over an entity and a close member of the family of that person has significant influence over another entity, IAS 24 defines those two entities as related parties. The Board proposes to align the definition for both types of ownership by excluding from the definition of a related party an entity that is significantly influenced by a person and an entity that is significantly influenced by a close member of the family of that person. Do you agree with the proposed amendment? If not, why? What would you propose instead and why?*
10. We agree, like EFRAG in its draft comment letter, with the proposed amendment.
  - (c) *IAS 24 defines any entity over which a member of the key management personnel of the reporting entity has control, joint control or significant influence, or in which the member holds significant voting power, as related to the reporting entity. However, the converse is not true. Thus, when the entity that a person controls, jointly controls or significantly influences, or in which the person has significant voting power, is the reporting entity and that person is a member of the key management personnel of another entity, that other entity is not defined as related to the reporting entity. The Board proposes to remove this inconsistency by expanding the definition to encompass both situations. Do you agree with the proposed amendment? If not, why? What would you propose instead and why?*
11. We agree, like EFRAG in its draft comment letter, with the proposed amendment.
  - (d) *Do you agree with the proposal to clarify the definition of a related party? Does the wording proposed capture the same set of related parties as IAS 24 at present (except for the amendments described in (a)–(c) above)? Do you agree that the proposed wording improves the definition of a related party? If not, why? What would you propose instead and why?*
12. We agree with EFRAG as expressed in its draft comment letter that the revised definition remains very complex. The use of the term “equivalent” is not helpful.

*Question 3 – Definition of related party transactions: Do you agree with the proposal to clarify the definition of a related party transaction? If not, why? What changes would you propose and why?*

13. We agree, like EFRAG in its draft comment letter, with the proposed definition of “related party transaction”.
14. We suggest that the definition of “related party transaction” would benefit of clarification through the use of examples, of the category “dependants”. For example, does this term require a formal family relationship?

*Question 4: Do you have any other comments on the proposals?*

15. We agree with EFRAG as expressed in its draft comment letter that the revision of the definition of “close members of the family” has not achieved the objective of clarifying the definition and has increased complexity for the entity since the requirement has become much more difficult to comply with. It cannot be expected that such information is available for the identified family and “equivalence” relationships with related audit implications concerning completeness of such



disclosures. We would indeed prefer the previous definition or to soften the definition including a “best efforts clause”.

16. In Europe, a number of different structures are used to control (or influence) entities that are in effect state-controlled (or state-influenced) entities. Not all those structures may result under the IASB ED definition in entities being called state-controlled or state-influenced. For example, in some countries the entities are not controlled or influenced by the government directly, but by an agency that is neither strictly speaking a governmental body nor a private sector body. We support EFRAG's remarks in its draft comment letter on indirect control by the state through agencies in order to embrace a wider range of structures in state-controlled entities under the exemption.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jacques Potdevin', written over a horizontal line.

Jacques Potdevin  
President