Federation of European Accountants
Fédération des Experts comptables Européens

2 April 2009

Sir David Tweedie
Chairman
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

E-mail: commentletters@iasb.org

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

Dear Sir David,

Re.: FEE Comments 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 IASB Exposure Draft of proposed amendments to IAS 24 *Relationships with the State* (the "ED").

(2) As a founding organisation of EFRAG, we have also contributed to the EFRAG consultation process by submitting the FEE comments on EFRAG's Draft Comment Letter issued by EFRAG on 22 December 2008. EFRAG has issued its final comment letter on 1 April 2009. We have considered the EFRAG Final Comment Letter in our response and made reference to the EFRAG comments where relevant.

(3) We support EFRAG's final 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.

(4) Like EFRAG, we also have some concerns about the proposed amendments to the definition of a related party.

(5) 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.

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. 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.

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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

Appendix: 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 – 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) 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.

(12) 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.

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(13) 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?

(14) 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 that (A) and (B) are two additional conditions that both need to be met and which if applicable, result in a situation that an entity is related to a reporting entity. According to this reading, we do not see in substance any difference between paragraph 9(b)(vi) and paragraph 9(b)(ix). It would be helpful if the IASB could clarify this point further.

(15) 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.

(16) 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.

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(17) 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?

(18) We support the detailed comments in paragraphs 5 and 6 of EFRAG’s Final Comment Letter and share its concerns raised about the practical application of the definition of “a state”.

(19) 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”.

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