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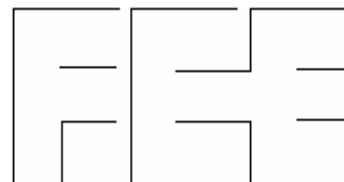
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Dear Mr. Enevoldsen,

Re: EFRAG Draft Comment Letter on 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 EFRAG Draft Comment Letter on "IASB Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures: State-Controlled Entities and the Definition of a Related Party".

General

1. We are of the opinion that the inclusion of illustrative examples is very useful in that it clarifies the proposals. We suggest that EFRAG in its comment letter should commend the IASB on the inclusion of illustrative examples in the Exposure Draft.

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 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. EFRAG proposes in paragraph 3 of its letter to extend the statement to the other entities and suggests that entities explicitly state that related party transactions not disclosed were undertaken on terms equivalent to those prevailing in arms length transactions. We are concerned that these proposals, 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 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. We also note that this concept is not far from the latest amendments to the Fourth and Seventh Directives (amendment to Articles 43(1)7.b), whereby only material transactions that have not been concluded under normal market conditions need to be disclosed.
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.

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. 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, 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, 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 that the revised definition remains very complex. The use of the term “equivalent” is not helpful.
13. We support EFRAG's attempt for a simplified definition, but agree that a simplified definition of “related party” needs further development before it can be proposed to IASB.

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?

14. We agree, like EFRAG, with the proposed definition of “related party transaction”.

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


15. We agree with EFRAG 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. We support EFRAG’s remarks in paragraph 14 on indirect control by the state through agencies in order to embrace a wider range of structures in state-controlled entities.

17. We suggest that EFRAG in its comment letter propose clarification, through the use of examples, of the category “dependants”. For example, does this term require a formal family relationship?

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

Yours sincerely,



Jacques Potdevin
President