



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

May 29, 2007

IAS 24 Amendments
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: Exposure Draft of Proposed Amendments to IAS 24 *Related Party Disclosures: State-controlled Entities and the Definition of a Related Party*

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft of Proposed Amendments to IAS 24 *Related Party Disclosures: State-controlled Entities and the Definition of a Related Party* (the Exposure Draft).

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Definition of a Related Party (Questions 2a to 2d)

We believe the Board's efforts to clarify the intended meaning and simplify the structure of the definition of a related party are worthwhile. However, we have concerns about the Board's approach to this effort. In particular, we believe the Board should provide a principle for the definition of a related party. We can not tell from what principle the current exhaustive listing of related parties is derived. With a principle, the criteria currently proposed could instead be provided and described as either indicators or examples of the principle.

We believe that a principle is necessary for circumstances where an entity should be considered to be a related party but the relationship is not clearly captured by one of the items on the proposed list. For example, where an entity has significant influence over several associates, not all of the associates would necessarily be related parties to each other, but the proposed definition does not contemplate that

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax: (34.91)
555.93.68
mail@oicv.iosco.org • www.iosco.org

there could be relationships between those associates that would reasonably cause them to be considered related parties to each other.

In addition, we believe the definition of a related party should be sufficiently clear so that the examples merely illustrate the definition, as opposed to being integral to understanding the definition. As currently proposed, we believe the definition itself is hard to understand and the examples are necessary to understand the definition.

We also have the following more detailed comments related to the definition of a related party, as proposed:

- We believe the Board should provide a reference to where an associate or joint venture is defined in IAS 28 and 31, respectively.
- In terms of the mechanics, it appears to us that the Board should make revisions to paragraph 11(a) of the current Standard because it now makes references to parts (d) and (f) of the definition of a related party that would no longer exist in the proposed revised definition.

Exemption from Related Party Disclosures (Question 1a)

The Board has proposed to provide an exemption from disclosures of related party relationships and transactions for certain entities. We understand and support the Board's conclusion that, in many situations, the cost of disclosing transactions with entities that are related simply because of control or significant influence by *the state* will outweigh the benefits obtained from disclosure of the information. However, we believe that the same conclusion could reasonably have been reached by the Board with respect to other situations where entities are related simply because of control or significant influence. At the same time, we have concerns that the proposed exemption from paragraph 17's disclosure requirements, as it is currently presented, may permit some entities to take advantage of the exemption when it is not appropriate to do so, and may preclude other state-controlled or state-influenced entities from qualifying for the exemption, even when resulting disclosures may be excessive and not useful. These concerns may be alleviated by revisions and clarifications to the guidance on indicators, as we discuss in our comments below. However, we would prefer that the Board develop a principles-based exception, rather than focusing solely on reporting entities controlled or significantly influenced by a state.

Indicator Approach (Question 1b)

Regardless of the scope of the exemption, we have operability concerns about some of the proposed indicators. While proposed paragraphs 17C and 17D suggest that judgment should be applied by a reporting entity in determining whether the influence referred to in proposed paragraph 17A(b) exists, the indicators in proposed paragraph 17B seem to be determinative. We are unclear as to whether the Board intends for reporting entities to apply judgment as to the significance of the indicators in proposed paragraph 17B. The Basis for Conclusions states in paragraph BC17 that the indicators "suggest examples" of the types of situations that "could give rise to the need" for disclosure, whereas paragraph BC18 has a stronger statement that the circumstances described in the indicators would be "difficult to refute" as situations involving the influence referred to in proposed paragraph 17A(b). We believe the Board should clarify in the final standard how the indicators should be applied, including, if helpful, providing examples.

Regarding the indicators in proposed paragraph 17B, it is not clear what the Board intends the term “resources” to encompass in indicator (b), and whether an insignificant sharing of resources would cause an entity not to qualify for the disclosure exemption. In addition, with regard to indicator (c), it may not be unusual for reporting entities that are each controlled or significantly influenced by the same state to engage in economically significant transactions with each other; the primary question would appear to be whether the transactions are conducted at market rates and with terms similar to transactions engaged in with other parties at “arm’s length.” We therefore question how indicator (c) is intended to be applied.

In addition, we believe that the Board should provide some guidance on how extensively a reporting entity needs to search for all related parties about which it may not otherwise be aware. In this regard, we believe that the Board should expand its proposed paragraph 17E to address the fact that a reporting entity may not be aware of all related parties, but is expected to affirm its assessment of all known facts, as is articulated in paragraph BC19.

Other Comments (Question 4)

We submit the following additional comments for the Board’s consideration:

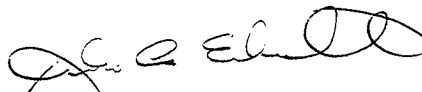
- We believe the Board should define the term “individual financial statements” that it proposes to add to paragraph 3 or provide a reference to where that term is now defined in IFRS. As currently proposed, it is unclear how “individual financial statements” are different than the “separate financial statements” also mentioned in paragraph 3, as it is currently written. If they are different, we believe the Board should clarify the differences. If they are not different, we believe that the Board should not add a second sentence to the current paragraph 3.
- We believe the Board should ensure that the term “reporting entity” is consistently used where appropriate in the revised Standard. The proposed revised definition of a “related party” notes that the revised Standard will make reference to a “reporting entity”. However, there appear to be uses of the term “entity” in the proposed revisions where the term “reporting entity” could be used. Similarly, the Board does not appear to propose revisions to existing paragraphs within the Standard where the term “entity” is being used but where the term “reporting entity” could be used.
- We believe the Board should propose further revisions to paragraph 12 to define the term “financial statements available for use” or to provide a reference to where that term is now defined in IFRS. For example, it is not currently clear whether the term includes financial statements provided solely to shareholders and/or creditors or if the term is primarily focused on financial statements posted on the internet or available to anyone upon request.
- As the Board is proposing to add “commitments” to the body of paragraph 17, we believe it should also be included in the listing of minimum disclosures included in paragraph 17.
- We believe the Board should revise its proposed paragraph 20(j) so that the example also depicts future transactions or commitments that are unconditional, such as those that are not based on the occurrence or nonoccurrence of a future event.
- We believe the Board should provide clarifications to Illustrative Examples 2 through 4 about key management personnel. In paragraph IE12, we believe that what comprises “the Group” should be clarified, as it is unclear if the management personnel are key to particular entities or

to the whole group of entities. In addition, we believe that Illustrative Examples 3 and 4 should indicate whether the investors are also key management personnel, as they potentially could be.

* * * *

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

A handwritten signature in black ink, appearing to read "Julie A. Erhardt". The signature is fluid and cursive, with a large initial "J" and "E".

Julie A. Erhardt
Chairman
IOSCO Standing Committee No. 1