



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

May 5, 2009

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: Relationships with the State***

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or Board) Exposure Draft of Proposed Amendments to IAS 24 *Related Party Disclosures: Relationships with the State* (the 2008 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 SC 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 SC 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.

**General Comment**

We note the 2008 Exposure Draft reflects the Board's consideration of comments received on the previous exposure draft related to IAS 24, *State-controlled Entities and the Definition of a Related Party* (the 2007 Exposure Draft). As stated in our comment letter on the 2007 Exposure Draft, we would prefer the first sentence to articulate a principle, rather than what appears to be a circular definition: "A *related party* is a person or entity that is related to the entity that is preparing its financial statements (*italics original*)." We believe the application of the standard would be improved if practitioners and users are able to determine the basis from which the current listing of related parties is derived.

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## **Exemption for State-controlled Entities**

*Question 1: 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?*

In general, we support the idea of offering an exemption to state-controlled entities<sup>1</sup> in disclosure of certain related party transactions because we recognize that using the standard control criteria set out in IAS 24 to identify the related parties for whom disclosure is necessary is not appropriate for state-controlled entities. However, we do not support the exemption as proposed. Our two concerns with the exemption as proposed are noted below.

First, we believe it goes too far because it exempts state-controlled entities from full disclosure of information about transactions and relationships with the state and with each other that are other-than-customary. For example, we do not believe the significant financial assistance that some governments have recently provided to the financial institutions they regulate would be adequately disclosed pursuant to the exemption provisions of the ED by the issuer stating "The company ... benefits from guarantees by State S of the company's bank borrowing ..." or similarly, "The company benefits from borrowing arrangements with the State" as illustrated by the type of disclosure in the Example in paragraph IE3. To address this concern, we suggest that state-controlled entities provide the full disclosure for other-than-customary transactions while maintaining the proposed exemption for customary transactions. In a more day-to-day manner, this distinction might be illustrated by exempting the state-controlled heavy equipment manufacturer from the full disclosure of its transactions to purchase steel from the state-controlled steel company, but not exempting it from full disclosure of a transaction to sell a piece of land to the state-controlled steel company.

Second, we believe it goes too far because it exempts from full disclosure the information about transactions and relationships within the group of an individual state-controlled enterprise, whether those transactions and relationships are customary or other-than-customary. In many cases a state-controlled business is structured in the same way as a publicly-owned business with a parent company and subsidiaries and affiliated companies. In such cases we do not think it is appropriate for transactions and relationships between the various entities (that is, the parent, its subsidiaries and its affiliates) making up a business to be exempt from disclosure only on the basis that the parent is controlled by the state. We think this information about transactions among members of the group is relevant to lenders and minority or other shareholders in these subsidiaries and affiliates regardless of whether the controlling shareholder of the parent entity is or is not the State. To address this, we suggest the IASB establish guidance that distinguishes circumstances where these exemptions are not appropriate. For example, any transactions and relationships between entities under the control of a common parent entity for which its equity securities are publicly traded could fall outside the scope of the exemption from full disclosure.

Regardless of the final approach taken by the Board, we noted a point related to the notion of "related party" itself. By way of example, some of our members have referred to the

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<sup>1</sup> We use the phrase "state-controlled entities with the same meaning as in paragraph 1 of the Introduction to refer to entities that are controlled, jointly controlled or significantly influenced by a state

situation in a country in which the State has established a wholly-state-owned investment company to hold certain equity interests of the State in certain financial institutions and to represent the State in exercising the State's investor rights and obligations. The wholly-state-owned investment company is taken as being the parent for those financial institutions in which it owns shares so transactions among the financial institutions are considered in practice to be related party transactions. Would this be the case under the proposed Standard?

### **Definition of a Related Party**

*Question 2: 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?*

We would prefer a more clearly articulated principle to define a related party. For example, assume two companies are related to each other under paragraph 9(a) or 9(b), apart from any state influence. Separately, assume both entities would qualify for the exemption in paragraph 17A(a) with respect to their relationship with the state. A question arises as to whether the two companies would be exempt from disclosing their arrangements with each other under paragraph 17A(b) by virtue of the state's individual influence on each entity. While it is our tentative understanding that the exemption would apply, it is not readily apparent. Said differently, a principles-based definition of a related party might improve practice when actual fact patterns do not conform to the specific cases contained in paragraph 9.

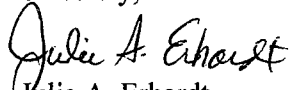
In addition, the Board may wish to consider the following points as it finalizes the definition of a related party:

- Proposed paragraph 9(a)(iii) introduces the phrase "significant voting power." It is unclear whether this is synonymous with "significant influence" as that term is used in paragraph 1's description of the proposed exemption for "entities that are controlled, jointly controlled or significantly influenced by a state...." If these terms are intended to be equivalent, we suggest using a single phrase consistently throughout the final version of IAS 24. Otherwise, we believe "significant voting power" should be defined in terms that contrast it with "significant influence."
- We have identified one additional case that would seem to constitute a related party relationship, but it is not explicitly addressed in the new version of paragraph 9 (although the Board appears to have contemplated it in BC15). If a person or entity exerts influence, but not control, over two separate entities, are the separate entities considered related to each other for purposes of disclosure in their stand-alone financial statements? In comparison, it is not clear to us why the arrangement described in paragraph 9(b)(ii) of the 2008 Exposure Draft is a stronger form of association that merits disclosure.

\* \* \* \*

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 that reads "Julie A. Erhardt". The signature is written in a cursive style with a large initial 'J'.

Julie A. Erhardt

Chair

IOSCO Standing Committee No. 1