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6 March 2009

Re: *Draft comment letter to Exposure Draft of Proposed Improvements to IAS 24 Relationships with the State*

Dear Sir/Madam

We are pleased to have the opportunity to comment on your draft comment letter to *ED of Proposed Improvements to IAS 24 Relationships with the State*.

Our comments are as follows:

Question 1 – State-controlled entities

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?

The IASB proposes an exemption from disclosures in IAS 24, paragraph 17, for entities controlled, jointly controlled or significantly influenced by the state (state-controlled entities) in relation to transactions with both other state-controlled entities and the state. However, in the case of significant transactions the reporting entity should disclose certain information.

We agree that the proposed exemption is applied not only in relation to transactions with other state-controlled entities but also with the State, as indicated in paragraph 17A. Furthermore, we concur to extend such exemption to any relationship between the state-controlled entity, without limiting its applicability to the cases where the parties are related for the only reason that they are controlled, jointly controlled or significantly influenced by the same State.

Anyway, we strongly recommend a clear definition of 'State' to avoid any practical difficulty to identifying entities that should fall within the scope of the exemption proposed. That

especially in jurisdictions where there are both national governments and supranational ones, or the “State” has an internal “federal” structure.

However, we do not agree with the proposed disclosure required when the exemption applies, as indicated in paragraph 17B. We think that the benefit of the exemption is greatly reduced by the required disclosures of the transactions, even if limited to the significant ones, with the State or other state-controlled entities and in particular by a qualitative or quantitative illustration of their extent.

We note that the ED, in paragraph BC12, does not require “the reporting entity to identify every state-controlled entity” nor “to quantify in detail transactions with such entities, because such a requirement would negate the exemption”. Nevertheless, this shareable simplification can hardly be applied since in order to provide the required disclosure as to the significant transactions, it is necessary to identify the state-controlled entities and to monitor the transactions entered with them.

Furthermore, the general reference to ‘entities’ in paragraph 17B(b) implies also to consider the relationships with state entities which are not companies.

In addition to these aspects, we wonder whether such information are useful, especially when the transactions are at arm’s length and/or the State, regardless its involvement, has not a management and coordination capacity.

Therefore, we suggest to amend the paragraph 17B requiring disclosure limited to unusual or unfrequent transactions. Finally, we propose to consider only transactions between profit-oriented entities which are controlled, jointly controlled or significant influenced by the same State.

Question 2 – Definition of a related party

Do you agree with this proposal? Why or why not? If not, what would you propose instead and why?

The Exposure draft clarifies that two entities are related parties 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.

We do not agree with the proposal since the relationship in question seems to be really loosely described and therefore it would be difficult to determine the level of influence over the economic decisions. This reasoning is valid also for other relationships indicated in the ED. For example, associates of a joint venture are treated as related parties of the venturer. Furthermore, we think it can be extremely difficult to obtain the information that an entity would need to provide the disclosures, since such information can attain to the privacy and the personal business of individuals. In addition to this, we believe that the compliance with the proposal requirements rises relevant operational and organizational costs exceeding the benefit of the information for the stakeholders, whereas the little relevance of information and the fact that the influence by a party over another one is highly unlikely.

Yours sincerely,

Angelo Casò
(OIC Chairman)