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

Dear Sirs,

We are pleased to respond to your request for comments on the IASB Exposure Draft of Proposed Amendments to IAS 24 *Related Party Disclosures: State-controlled Entities and the Definition of a Related Party*.

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?

We agree with the proposed exemption to disclose transactions between entities which are related only because the entities are both under the control of or influenced by the State. We believe that such disclosure may be costly and adds little value to the transparency of the financial statements. We would not agree in the absence of the condition stated in 17A(b) that there are no indicators that the reporting entity is influenced or was influenced by the other entity and we suggest extending paragraph 17A to include also another condition as follows

“(c) the transactions have not been entered into following indications by the State”.

The latter condition is in our view important because if the State decides the content of a transaction or the name of the counterparty, there is a presumption that the transaction may be different from a transaction between wholly unrelated parties.

We suggest that it should be made clear in the standard that if the reporting entity is under the influence of the other party or it influences the other party, then all transactions between the entities should be disclosed and not just the ones in which influence was actually exercised.

We disagree with EFRAG’s suggestion that related parties’ transactions should be disclosed only if one or another party is under the influence of the other. In the absence of a clear definition of the term “influence”, the exemption (which would be the rule) might be extensively interpreted, leading to widespread omission of important disclosures.

(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?

We agree with the “indicator approach” and, in line with EFRAG’s response, we believe that such indicators should simply highlight the existence of possible influence but that they are not per se conclusive of a situation of influence.

We suggest, however, that if a transaction has been entered into at no-market rates, this fact should always be disclosed given its importance for assessing an entity’s performance and future cash flows.

We also suggest that the “share of resources” should be better defined as it is currently too vague.

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?

We agree with EFRAG’s response.

(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?

We agree with EFRAG’s response.

(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?

We agree with EFRAG’s response.

(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?

The proposed definition is rather complex but it captures the most important situations and it is an improvement over the existing definition. While we appreciate EFRAG's attempt to make the definition more principle-based, we believe that a more prescriptive approach, such as the one proposed by the Board, works better in practice because it achieves consistency.

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?

We agree with EFRAG's response.

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

We share EFRAG's concern about the revised definition of close members of the family and we believe that the previous definition should be retained. The previous definition appeared to be workable in practice and it is far better than introducing into an accounting standard a "best/effort" clause which needs to be tightly defined.

We agree with EFRAG's request to expand the definition of entities influenced by the State so as to include other ways in which such influence can be exercised.

Yours sincerely

Prof. Angelo Provasoli

(OIC – Chairman)