

# Rådet för finansiell rapportering

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

RFR-rs 2007:1

Dear Sirs,

We appreciate the opportunity to respond to the International Accounting Standards Board's Exposure Draft of proposed Amendments to IAS 24 Related Party Disclosures – *State-controlled Entities and the Definition of a Related Party*. This letter represents the views of the Council for Financial Reporting.

Information about related parties and transactions with them is vital for readers of financial information. In many cases the current IAS 24 leads to interpretation problems. We therefore welcome the Board's initiative to review the standard.

Our response is set out below. However, in particular we wish to direct your attention to our comments to question 1.b) in which we say that there is a need for a principle on which the indicators for influence should be based. Such a principle is important considering the principles based approach that IFRS-standards should follow.

## **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?**

It can be difficult and onerous for state-controlled companies to identify and to aggregate transactions with other businesses under state control, especially in an economy where many major enterprises remain under government ownership. We therefore agree with the proposal to give relief from the detailed disclosures of such transactions between state-controlled entities under the circumstances outlined in paragraphs 17A through 17 E.

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**(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?**

(i) We believe that an indicator approach is a necessary condition to accomplish a relief for state-controlled entities. However, we believe that the indicators set out in the revised standard do not seem to be based on a clear underlying principle. One way of addressing this concern would be to try to articulate more effectively what the underlying principle is. In addition to such an underlying principle, examples of indicators could be discussed in an appendix to the revised standard, similar to the approach in SIC 12 where indicators of control over an SPE is discussed in an appendix. This is more in line with a principles-based standard.

(ii) We are questioning why the notion of “transact business at non-market rates” is used in paragraph 17B (a) as an indicator instead of using the notion of “transact business at terms that is not equivalent to those that prevail in arm’s length transactions” that is used elsewhere in the standard (see paragraph 21). Is there any intended difference between the expressions?

## **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 the proposed amendment.

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- (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 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?

We agree 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?

We agree that the existing definition is complex and difficult to understand and apply. We further agree that the changes and restructuring the IASB is proposing will improve the definition. However, we think the revised definition is also complex and will prove difficult to understand and apply. For that reason we suggest that further efforts are made to simplify the definition and, in doing so, bring out the underlying principles.

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## 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 the proposal.

## Question 4

Do you have any other comments on the proposals?

The reference in paragraph 11 subparagraph (a) of IAS 24, has to be amended. At the moment this subparagraph refers to (d) and (f) in the definition of “related party”. As the definition of a related party has been amended, the references needs to be amended as well.

Paragraph 17 has been amended to include a requirement to disclose information about any commitments entered into with a related party. Accordingly, paragraph 17, as amended, cover transactions, outstanding balances and commitments. However, the last sentence in paragraph 17 that states the minimum disclosures that should be provided does not include any mentioning of “details of any future commitments entered into”, which we think is inconsequent.

We believe that paragraph 17A incorrectly does not cover “joint control”. We believe that subparagraph (a) should read: “the entity is a related party only because the reporting entity is controlled, jointly controlled or significantly influenced by a state and the other entity is controlled, jointly controlled or significantly influenced by that state; and”. A reference to joint control is also needed in paragraph 17E.

We do not think that the disclosure requirement in the first sentence of paragraph 17E is clear on what the intended disclosure should look like and when it comes into play. Should this disclosure only be provided if a state-controlled entity concludes that there are no indicators that the reporting entity influenced, or was influenced by, any other entity controlled or significantly influenced by the state? Conversely, if a state-controlled entity does conclude that there are indicators that the reporting entity influenced, or was influenced by one or two other state-controlled entity (-ies) should a disclosures be provided that there might exist other transactions with other state-controlled entities where such indicators were not present? If this is the case, we expect all state-controlled entities to include some boiler-plate language to the effect that there might exist relationships to other state-controlled entities where there are no indicators that the reporting entity influenced, or was influenced by, any other entity controlled or significantly influenced by the state. Under such circumstances, the disclosure requirement of paragraph 17E will not provide useful information.

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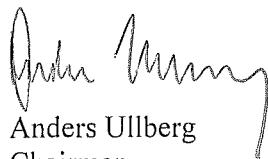
We also do not believe that the intention is to provide a list of the names of all state-controlled entities that the reporting entity has entered into transactions with during the current and previous year and where the indicators are not at hand.

Accordingly, we believe that the disclosure requirement in the first sentence of paragraph 17E should be explained in more detail in order for preparers, users and auditors to understand the objective of that requirement.

Stockholm, June 1, 2007

Yours faithfully,

THE SWEDISH FINANCIAL REPORTING BOARD



Anders Ullberg  
Chairman

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