



**The Japanese Institute of
Certified Public Accountants**

4-4-1, Kudan-Minami, Chiyoda-ku, Tokyo 102-8264 JAPAN

Phone: +81-3-3515-1130 Fax: +81-3-5226-3355

e-mail: kigyokaikei@jicpa.or.jp

<http://www.hp.jicpa.or.jp/english/>

March 13, 2009

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

Comments on the Exposure Draft of *Relationships with the State (Proposed amendments to IAS 24)*

To the Board Members:

The Japanese Institute of Certified Public Accountants appreciates the continued efforts of the International Accounting Standard Board (IASB) on the related party disclosures project and welcomes the opportunity to comment on the exposure draft of *Relationships with the State (Proposed amendments to IAS24)*.

The following is our response to the items in 'invitation to comment' with which we disagree or have questions or concerns.

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?

Comment:

We do not agree, because of the following two reasons.

1. Determination of entities that are significantly influenced by the state

The exposure draft proposes the addition of paragraph 17A (b): a reporting entity is exempt from the disclosure requirements for transactions with another entity that is a related party because the same state has control, joint control or significant influence over both the reporting entity and the other entity.

However, referring to transactions with entities that are significantly influenced by the state in the standards is not consistent with paragraph BC 9 of the proposed amendment in the exposure draft, which states that “In developing this revised proposal for the current exposure draft, the Board noted that it might be very difficult, if not impracticable, to assess whether influence actually existed. Thus, the exemption does not require such an assessment”. Also, it is extremely difficult for reporting entities to thoroughly understand whether or not the entities to which they are related are significantly influenced by the state. Considering these matters, it is not necessary to mention “significant influence” in paragraph 17A (b) or to require an entity to make such assessment. Therefore, we believe that paragraph 17A (b) of the exposure draft should be amended as follows.

“another entity that is a related party because the same state has control or joint control ~~or significant influence~~ over both the reporting entity and the other entity.”

In contrast, in the case of control or joint control, we believe that it is necessary to emphasize in paragraph BC 9 that a reporting entity shall thoroughly assess whether there is control or joint control by the state over the entities to which the reporting entity relates.

2. Scope of disclosure exemption

According to paragraph IE2(b) of Example 1 of the exposure draft, in the case that Entity 1 is controlled by State S, Entity A will be exempted from disclosing transactions with Entities 1 and B. However, considering that transactions with both Entities 1 and B are important for Entity A, we believe that this exemption is excessive in light of the objective of the standard.

Question3

Do you have any other comments on the proposals?

Comment:

1. Definition of the “state”

With regard to the definition of the “state” in the exposure draft, we believe that the interpretation of the word “state” should be judged by each reporting entity to reflect its situation and circumstances, since the meaning or authority of the state may vary between countries and jurisdictions. The final standards should clearly state in the basis for conclusions that such judgments are made by each reporting entity.

2. Definition of “key management personnel”

While the definition of “key management personnel” stated in the paragraph 9 of current IAS 24 is not amended by the exposure draft, we have been afraid that such definition which includes any director (whether executive or otherwise) as key management personnel might result in following two problems. Although it is out of scope of the proposed amendment, we believe that the definition of “key management personnel” should not be “any director (whether executive or otherwise)” but be “executive directors”, in order to disclosure information related to directors who have particularly close connections with the entity.

1) Imbalance of treatment between key management personnel, significant influence and significant voting power

The exposure draft proposes that when an entity or a person (or a close member of that person’s family) has significant influence or significant voting power over both the reporting entity and another entity, that other entity should not be treated as related to the reporting entity. On the other hand, the draft proposes that when a person significantly influences or has significant voting power in the reporting entity and is a member of the key management personnel of another entity, that other entity should be treated as related to the reporting entity.

This appears to imply that the influence of a member of the key management is regarded as always stronger than significant influence or significant voting power, that is, more similar to control over an entity. However, since the definition of key management remains as stated in paragraph 9 of the current IAS 24, the relationship between an entity and a member of its key management, in case of a director other than executive personnel, which is often weaker than significant influence or significant voting power, might need to be disclosed since the definition of key

management personnel includes any directors (whether executive or otherwise). This might result in a lack of balance in that a relationship that should be disclosed in the financial reporting of the entity, is not.

2) Practical difficulty

The reporting entity may have difficulty to identify entities which may have a member of key management personnel with significant voting power in the reporting entity, if such a person is a shareholder. While the reporting entity can demand personal information from the members of its key management personnel on legal grounds, it does not generally have the authority to demand the same from its shareholders. Unless large shareholders have a statutory obligation to provide the reporting entity with the information it requires, problems might arise with respect to the verification or the completeness of the proposed disclosure requirement, and the effectiveness of the requirement in the standard would not be ensured.

3. Disclosure about entities accepting capital injection or funding from the state

Due to the current economical circumstances, entities that are controlled, jointly controlled or significantly influenced by the state are not rare because of acceptance of capital injection or funding from the state. We assume that these may be the entities within the scope of the proposed requirements in the exposure draft. In such case, since the application would sometimes be very difficult in practice, disclosure requirements should be clearly stated in the final standards.

Yours faithfully,

Kiyoshi Ichimura

Executive Board Member - Accounting Standards

The Japanese Institute of Certified Public Accountants