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: chousa1@jicpa.or.jp
http://www.jicpa.or.jp/n_eng/

May 17 , 2007

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

Comments on the Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures — State-controlled Entities and the Definition of a Related Party

To the Board Members:

The Japanese Institute of Certified Public Accountants is pleased to comment on the Exposure Draft of Proposed Amendments to IAS 24 Related Party Disclosures — State-controlled Entities and the Definition of a Related Party.

QUESTION 1

We are in no position to comment on this question, because we do not understand the circumstances of the state-controlled entities described in this exposure draft.

QUESTION 2

We agree with (a), (b) and (d). However, we believe that the proposed amendment mentioned in (c) needs some improvement.

The Exposure Draft proposes that when the entity that a person controls or significantly influences, or in which a 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 should be defined as related to the reporting entity. We believe that this proposal is problematic in the following point:

1) Imbalance of treatment between key management personnel and significant influence
The Exposure Draft proposes that when an entity or a person significantly influences the reporting entity and another entity, that other entity should not be treated as related to the reporting entity. On the other hand, it is proposed that when a person significantly influences or has significant voting power in the reporting entity and that person 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, that is, more similar to control over an entity. We believe that the relationship between an entity and a member of its key management is often weaker than significant influence, because the definition of key management personnel includes directors (executive or otherwise). Although we agree that some key management personnel may have a power similar to control over an entity, we believe that it is inappropriate to regard the influence of a member of the key management personnel as always stronger than significant influence, because to do so would result in a lack of adequate balance with the treatment of associates of an entity.

2) Practical difficulty
The reporting entity may have difficulty to identify entities whose member of key management personnel has significant voting power in the reporting entity, if such a person is a mere large shareholder. While the reporting entity can demand personal information from its member of key management personnel on legal grounds, it does not generally have the authority to force the same thing on a shareholder. Unless large shareholders are legally bound to provide necessary information to the reporting entity, problems might arise with respect to the verification of the completeness of the proposed disclosure, so the effectiveness of the requirement in the standard would not be ensured.

Considering these problems, we suggest that one entity and another in which a member of the key management personnel of the former significantly influences or has significant voting power in the latter should be treated as related only when the relationship between the entity and the person is especially strong, for example, when the person has the right of representation.

QUESTION 3
We agree.

QUESTION 4

We have no comment.

Very truly yours,

Satoshi Komiyama
Executive Board Member—Accounting Standards
The Japanese Institute of Certified Public Accountants