

May 25, 2007

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

Dear Sirs,

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

We are 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.” The views expressed as follows are those of the International Issues Standing Committee of the Accounting Standards Board of Japan (ASBJ).

1. General Comments

1. We believe that setting an accounting standard for related party disclosures needs to take into consideration the burdens on preparers of financial statements. We appreciate the Exposure Draft (ED) that pays a certain degree of attention to practicability in that it clarifies that transactions between related parties would be eliminated from the scope of related party disclosures. However, we suggest that further consideration should be given to this viewpoint with regard to the treatment of parties such as associates of a parent of the reporting entity, entities over which a person, which has control or significant influence over the reporting entity, has joint control or significant influence and the entities over which a member of key management personnel of the reporting entity has joint control or significant influence. In our opinion, disclosure of transactions with such parties should be required only when the parent, the person who is a significant shareholder or the member of key management personnel of the reporting entity exercises significant influence in the transactions, rather than always including such parties within the definition of related parties.
2. We would like to make comments on the following selected questions, hoping that these comments are helpful to the future deliberation process of the IASB.

2. Comments on Selected Questions

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?**

1. Subsidiaries and their relationships with associates of controlling investors

We believe that it would not be appropriate from the perspective of cost/benefit to expand the scope of “related parties” to always include an associate of a parent within related parties of a subsidiary. We consider that financial statements of a subsidiary can be affected by a transaction with an associate of a parent only when the parent exercises significant influence in the transaction.

An alternative to require disclosures of such transactions without expanding the scope of related parties would be to define a “related party transaction” so as to include a transaction in which any related party exercises significant influence. In other words, we believe that it would be better to prescribe a general provision that, when a related party (in this case, the parent) of the reporting entity exercises significant influence in a transaction between the reporting entity (in this case, the subsidiary) and another party (in this case, an associate of the parent), that transaction should be disclosed as a related party transaction.

2. Treatment of cases where a significant investor of the reporting entity is a person

Definition of a “related party” under ED includes an entity in which a person that has control over the reporting entity holds significant voting power or has joint control or significant influence, not only an entity that is controlled by that person.

However, it would be difficult to demand an individual investor to submit the information about his/her investments in other entities, particularly entities over which he/she does not have control (i.e., his/her percentage of shareholding is less than a majority). Therefore,

we believe that it would not be appropriate from the perspective of cost/benefit to include within a related party an entity over which a controlling individual investor in the reporting entity does not have control. We consider that financial statements of the reporting entity can be affected by a transaction with an investee of a person who has control over the reporting entity only when that person exercises significant influence in the transaction.

An alternative to require disclosures of such transactions without expanding the scope of related parties would be to define a “related party transaction” so as to include a transaction in which any related party exercises significant influence. In other words, we believe that it would be better to prescribe a general provision that, when a related party of the reporting entity (in this case, the person who has control over the reporting entity) exercises significant influence in a transaction between the reporting entity and another party (in this case, another entity in which the individual investor has a significant investment), that transaction should be disclosed as a related party transaction.

Question 2 – Definition of a *related party*

(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 this proposal, because we believe that it would be not appropriate to require disclosures of transactions between related parties. However, as mentioned in our comments on Question 2(a) above, we believe that the treatment of cases where a significant investor in the reporting entity is a person could be better addressed than ED.

Question 2 – Definition of a *related party*

- (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 believe that it would be inappropriate to include within the definition of a “related party” all of the entities of which member of key management personnel is a significant investor in the reporting entity. We consider that financial statements of the reporting entity can be affected by a transaction with an entity of which member of key management personnel is a significant investor in the reporting entity only when he/she exercises significant influence in the transaction.

An alternative to require disclosures of such transactions without expanding the scope of related parties would be to define a “related party transaction” so as to include a transaction in which a related party is involved on behalf of another party other than related parties. In other words, we believe that it would be better to prescribe a general provision that, when a related party (in this case, the significant individual investor) of the reporting entity is involved in a transaction with the reporting entity on behalf of an entity in which he/she is a member of key management personnel, that transaction should be disclosed as a related party transaction.

In addition, we believe that the treatment of the converse case (i.e., 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 is defined as related to the reporting entity), which is unchanged from the existing IAS 24, is also inappropriate from the perspective of cost/benefit. We consider that financial statements of the reporting entity can be affected by a transaction with an entity in which a member of key management personnel of the reporting entity is a significant investor only when that he/she exercises significant influence in the transaction.

Accordingly, we suggest that an investee of a member of key management personnel of the reporting entity should be excluded from the definition of a “related party” unless he/she has control over that investee and, as mentioned in our comments on Question 2(a) above, a “related party transaction” should be defined so as to include a transaction in which any related party exercises significant influence. In other words, we believe that it would be better to prescribe a general provision that, when a related party (in this case, a member of key management personnel) of the reporting entity exercises significant influence in a transaction between the reporting entity and another party (in this case, an entity in which that member of key management personnel has significant influence), that transaction should be disclosed as a related party transaction.

Question 2 – Definition of a *related party*

(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 consider it inappropriate that the definition of a related party includes even the post-employment benefit plan of an entity related to the reporting entity (e.g., a post-employment benefit plan of associates of the reporting entity), although this is unchanged from the existing IAS 24. Considering consistency with other categories of related parties, we suggest that par. 9 (b)(iv) of the definition should be revised to “the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or a subsidiary of the reporting entity.”

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 appreciate that it is made clear that transactions between related parties would be eliminated from the scope of related party disclosures.

Question 4

Do you have any other comments on the proposals?

(On the disclosure of executory contracts (commitment))

ED includes commitment with related parties within examples of that are disclosed (par. 20 and BC23). However, we believe that consistency with the treatment of commitments in general should be considered, given that commitments are not generally recognized in financial statements or disclosed in the notes. We question the reasoning behind requiring disclosure of commitments only about those entered into with the related parties. In our opinion, it would be most appropriate to disclosure such information as non-financial information.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Sincerely yours,



Ikuo Nishikawa

Chairman, International Issues Standing Committee

Chairman, Accounting Standards Board of Japan