



LKAS 24

Related Party Disclosures

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Why is there a standard for Related Party Disclosures?

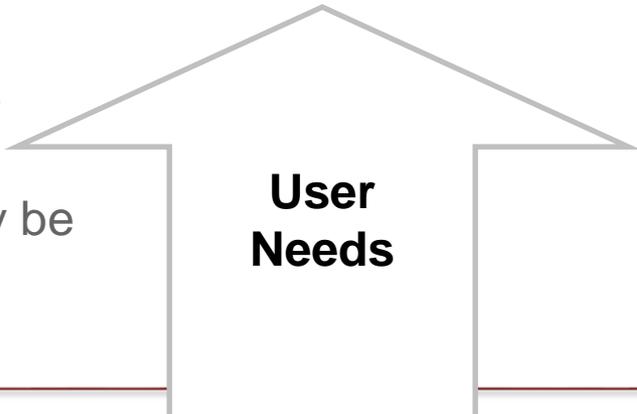
Objective:

- ▶ To ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its **financial position and profit or loss** may have been affected by :
 - ▶ the *existence* of related parties and
 - ▶ by *transactions* and
 - ▶ *outstanding balances*, and
 - ▶ *commitments*, with such parties.

Purpose

Preparers

- ▶ Related party relationships are a normal feature of commerce and business.
- ▶ Related parties may enter into transactions that unrelated parties would not.
- ▶ The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties.



**User
Needs**



Disclosures

What is the effect of Related party relationships and transactions on the financial statements?

(Financial performance, On and Off Balance Sheet impact)

Users

What is a Related Party Transaction?

- ▶ A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

What is a RP under LKAS 24?

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

- ▶ **(a) A person or a close member of that person's family is related to a reporting entity if that person:**
 - ▶ (i) has control or joint control of the reporting entity;
 - ▶ (ii) has significant influence over the reporting entity; or
 - ▶ (iii) is a member of the key management personnel of the reporting entity OR of a parent of the reporting entity.

continued.....

The terms 'control' and 'investment entity', 'joint control' and 'significant influence' are defined in SLFRS 10, SLFRS 11 *Joint Arrangements* and LKAS 28 *Investments in Associates and Joint Ventures* respectively and are used in this Standard with the meanings specified in those SLFRSs.

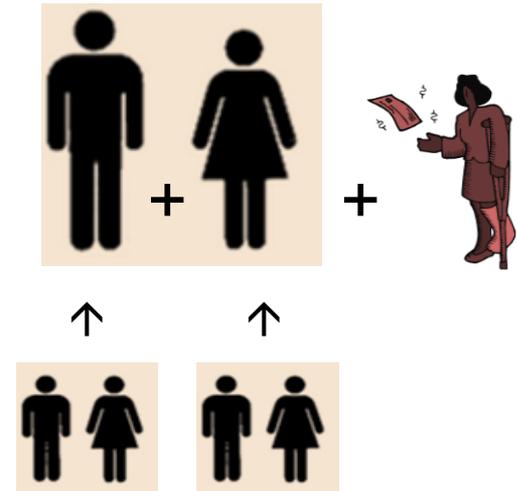
Close members of the family of a person (CMF)

- ▶ Close members of the family of a person are those family members *who may be expected to influence, or be influenced by*, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependents of that person or that person's spouse or domestic partner.

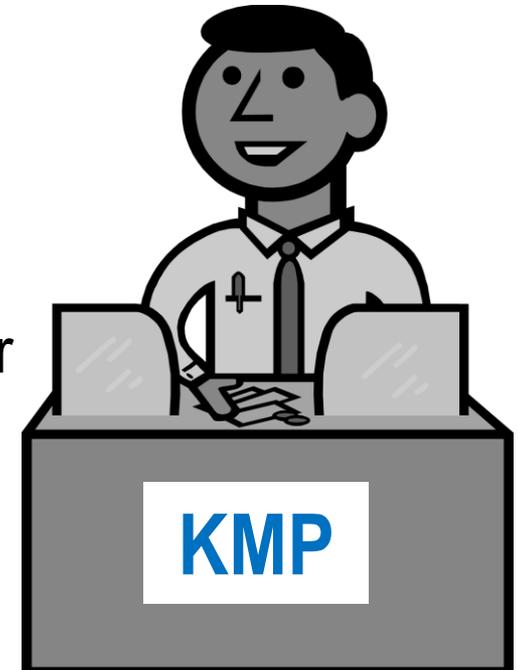


- ▶ *'Children' and 'Partner' not defined !*

- ▶ *Other family members such as parents, brothers, sisters could also be included, particularly where they have been influenced by or had influence over the individual in their dealings with the entity.*

Key management personnel (KMP)

- ▶ Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.
- ▶ *Encompass other individuals that are not directors of the entity and parents.*
- ▶ *Individuals concerned must apparently have the authority and responsibility for planning, directing and controlling the activities*
- ▶ *KMPs can be found outside the boardroom !*



Example 1

Part A.

Entity J is owned in equal shares by the members of the Family X—Mr. and Mrs. X and their daughters Ms. Y and Ms. Z. The entity is managed by the family members. Their positions at Entity J are: Mr. X, administration director; Mrs. X, operations director; Ms. Y, financial director; and Ms. Z, sales director.

Part B.

Facts are same as part A. But assume, Entity J is owned in equal shares and managed by Mr. and Mrs. X. Their daughters neither own shares in, nor manage, Entity J.

Part C.

Facts are same as part B. However, neither Mr. and Mrs. X nor either of their daughters manages Entity J.

What is a RP under LKAS 24? (continued)

- ▶ **(b) An **entity** is related to a reporting entity if any of the following conditions applies:**
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).**
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).**
 - (iii) Both entities are joint ventures of the same third party.**
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.**

Continued.....

What is a RP under LKAS 24? (continued)

- ▶ **(b) An entity is related to a reporting entity if any of the following conditions applies: (continued)**
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.**
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).**
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).**
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity**

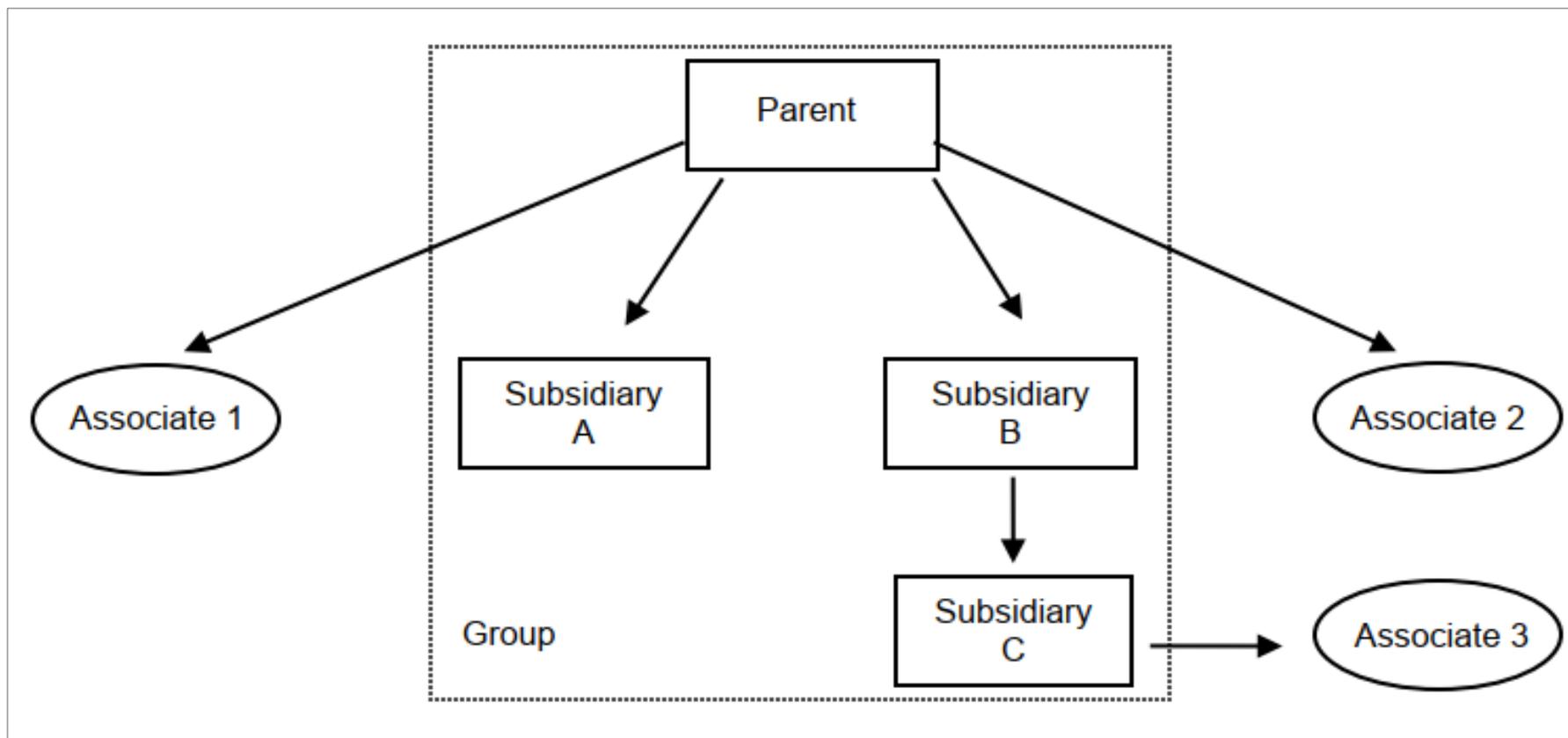
Related Party Definition: LKAS 24

▶ In summary RP definition includes:

1. **Persons (person + close family member)**
2. **Entities (incorporated or otherwise)**
 - a) That controls, having significant influence or joint controls the Reporting Entity (upstream)
 - b) That is controlled, subject to significant influenced or joint controlled by the Reporting Entity (downstream)
3. **Entities connected with persons (person + close family member)**
 - a) Entities connected due to control or joint control
 - b) Entities connected due to KMP relationship

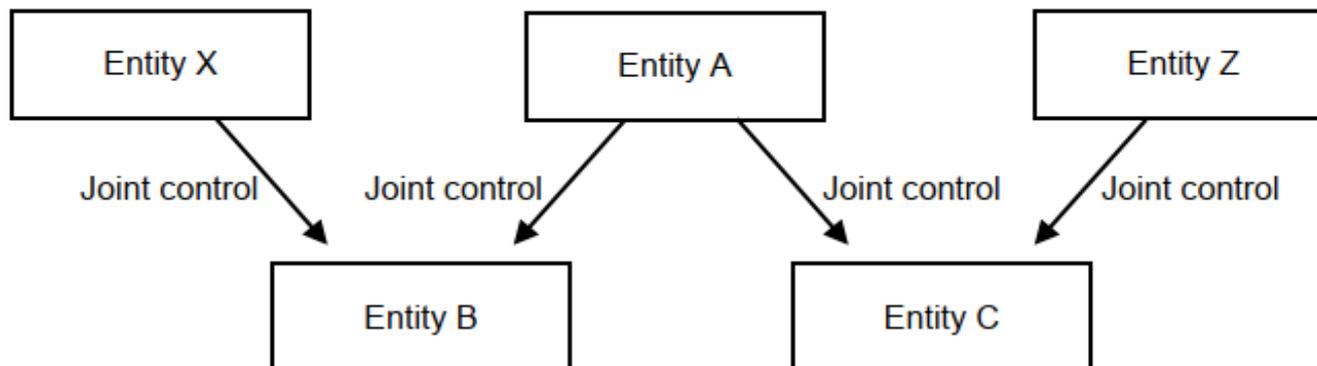
Example 2

Parent entity has a controlling interest in Subsidiaries A, B and C
Parent entity also has significant influence over Associates 1 and 2.
Subsidiary C has significant influence over Associate 3



Example 3

Entities A and X jointly share control over Entity B. Entities A and Z jointly share control over Entity C.



What are NOT Related Parties?

In the context of this Standard, the following are not related parties:

- ▶ (a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.
- ▶ (b) two joint venturers simply because they share joint control of a joint venture.
- ▶ (c) (i) providers of finance,
(ii) trade unions,
(iii) public utilities, and
(iv) departments and agencies of a government that does not control, jointly control or significant influence the reporting entity, simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process).
- ▶ (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.

Also note.....

- ▶ In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
- ▶ In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.
- ▶ Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures under LKAS 24

For ALL entities

- Relationships between a parent and its subsidiaries
 - Name of its parent and, if different, the ultimate controlling party
 - If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed

- ▶ To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.
- ▶ The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in LKAS 27 and SLFRS 12 *Disclosure of Interests in Other Entities*.
- ▶ Next most senior parent means the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

Disclosures under LKAS 24

For ALL entities

- ▶ If there are RPT during the periods covered by the financial statements,
 - ▶ Nature of the related party relationship
 - ▶ Information about those transactions
 - ▶ Outstanding balances

Disclosures under LKAS 24

For **ALL** entities

- ▶ At a minimum, disclosures shall include:
 - ▶ (a) the amount of the transactions;
 - ▶ (b) the amount of outstanding balances, including commitments, and:
 - ▶ (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and
 - ▶ (ii) details of any guarantees given or received;
 - ▶ (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - ▶ (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

(LKAS 24.18)

Disclosures under LKAS 24

For **ALL** entities

- ▶ (para 18) Disclosures (to be *meaningfully aggregated* into):
 - ▶ (a) the parent;
 - ▶ (b) entities with joint control or significant influence over the entity;
 - ▶ (c) subsidiaries;
 - ▶ (d) associates;
 - ▶ (e) joint ventures in which the entity is a venturer;
 - ▶ (f) key management personnel of the entity or its parent; and
 - ▶ (g) other related parties.

Does not specify
'individual person-wise' or
'entity-wise' or
'entity related via a person-
wise' disclosures.
Meaningfully summarized
transactions is adequate.

Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Disclosures under LKAS 24

For **ALL** entities

- ▶ Disclosures that related party transactions were made on terms equivalent to those that prevail in **arm's length** transactions are made *only if such terms can be substantiated*.

- ▶ Disclose KMP compensation in total and for each of the following categories
 - ▶ (a) short-term employee benefits;
 - ▶ (b) post-employment benefits;
 - ▶ (c) other long-term benefits;
 - ▶ (d) termination benefits; and
 - ▶ (e) share-based payment.

Disclosures under LKAS 24

- ▶ Compensation includes all employee benefits (LKAS 19 + SLFRS 2)
- ▶ Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.
- ▶ It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.

Disclosures under LKAS 24

▶ Compensation includes:

- ▶ (a) short-term employee benefits, such as
 - ▶ wages, salaries and social security contributions (e.g EPF, ETF, MSPS), paid annual leave and paid sick leave, profit-sharing and bonuses , and
 - ▶ non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- ▶ (b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- ▶ (c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- ▶ (d) termination benefits; and
- ▶ (e) share-based payment.

Disclosures under LKAS 24:

Special considerations

For Government related entities:

▶ Government-related entities:

- ▶ Government refers to government, government agencies and similar bodies whether local, national or international.
 - ▶ A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.
-
- ▶ A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with:
 - ▶ (a) a government that has control, joint control or significant influence over the reporting entity; and
 - ▶ (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Disclosures under LKAS 24:

Special considerations

▶ Government-related entities:

- ▶ If a reporting entity applies the exemption, it shall disclose the following about the transactions and related outstanding balances :
 - ▶ (a) the name of the government and the nature of its relationship with the reporting entity (ie control, joint control or significant influence);
 - ▶ (b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
 - ▶ (i) the nature and amount of each individually significant transaction; and
 - ▶ (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Disclosures under LKAS 24:

Special considerations

- ▶ Government-related entities:
- ▶ In using its judgment to determine the level of detail to be disclosed, the reporting entity shall consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction such as whether it is:
 - ▶ (a) significant in terms of size;
 - ▶ (b) carried out on non-market terms;
 - ▶ (c) outside normal day-to-day business operations, such as the purchase and sale of businesses;
 - ▶ (d) disclosed to regulatory or supervisory authorities;
 - ▶ (e) reported to senior management;
 - ▶ (f) subject to shareholder approval.

Effective date and transition:

- ▶ 01 January 2012
- ▶ Consequential amendments resulting from SLFRS 10,11 and 12, shall apply when the entity applies those standards.

Thank you for your attention.

The views expressed in this presentation are those of the presenter.



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