



## LKAS 24 - Related Party Disclosures

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## Why is there a standard for Related Party Disclosures?

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### 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.

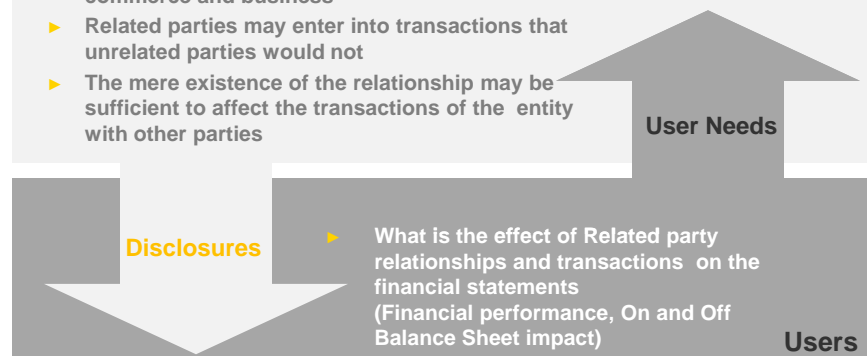
There are no specific recognition or measurement requirements for related party transactions. LKAS 24 only discusses disclosures

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## Purpose of LKAS 24

### 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



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## Definitions

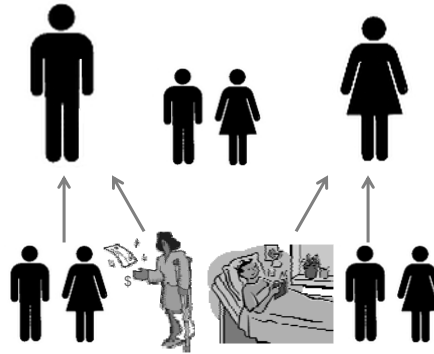
- ▶ A **related party transaction** is a transfer of resources, services or obligations *between* a reporting entity and a related party, regardless of whether a price is charged.
- ▶ A **related party** is a person or entity that is related to the entity that is preparing its financial statements (referred to as the 'reporting entity').
- ▶ **9(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 over 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.

Contd...

## 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) **dependants** of that person or that person's spouse or domestic partner.



- ▶ 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.

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## 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



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## What is a RP under LKAS 24?

- ▶ **9(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**.
  - ▶ (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.
  - ▶ (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).

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## Definitions

- ▶ **Compensation** includes all employee benefits (as defined in LKAS 19 Employee Benefits) including employee benefits to which SLFRS 2 Share-based Payment applies.
- ▶ 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.
- ▶ **Compensation includes:**
- ▶ (a) **short-term employee benefits**, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) 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**.

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## Note

- ▶ In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
- ▶ (para12) 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.

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## Note

- ▶ 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 venturers **simply because** they share joint control over 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 significantly 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.

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- ▶ An entity may be dependent, economically or operationally, on another entity. E.g. major customer, supplier, financier.
- ▶ This dependency **does not itself** create a related party relationship.
- ▶ However, the transactions in the ordinary course of business between related parties are disclosed. For e.g. a banking entity discloses transactions with its finance provider or deposits made by subsidiary that is part of the same group, even if the services are provided on the same terms as to unrelated customers.

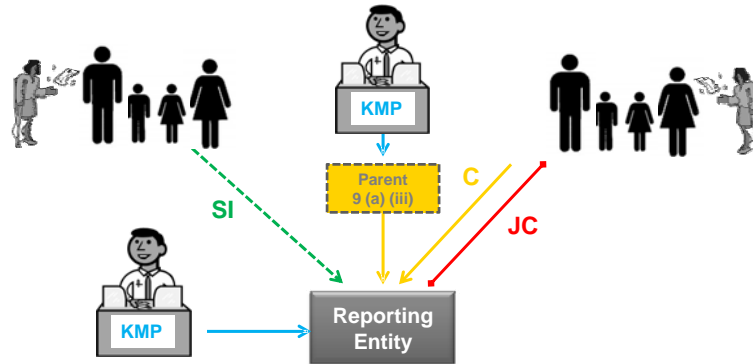
# Illustrations

## Related Party Definition: Can you capture all?

- ▶ **In summary RP definition includes:**
  - ▶ **Persons**
  - ▶ **Entities**
    - ▶ That controls, influences or joint controls a Reporting Entity
    - ▶ That is controlled, influenced or joint controlled by a Reporting Entity
  - ▶ **Entities connected with persons**

## Persons

- ▶ 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** over 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.



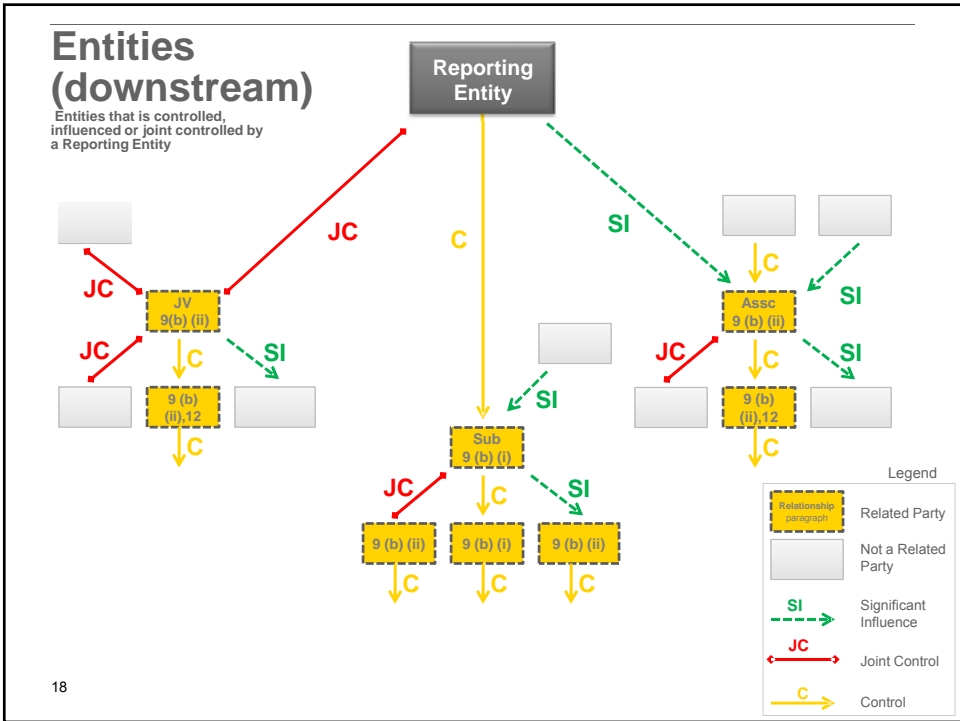
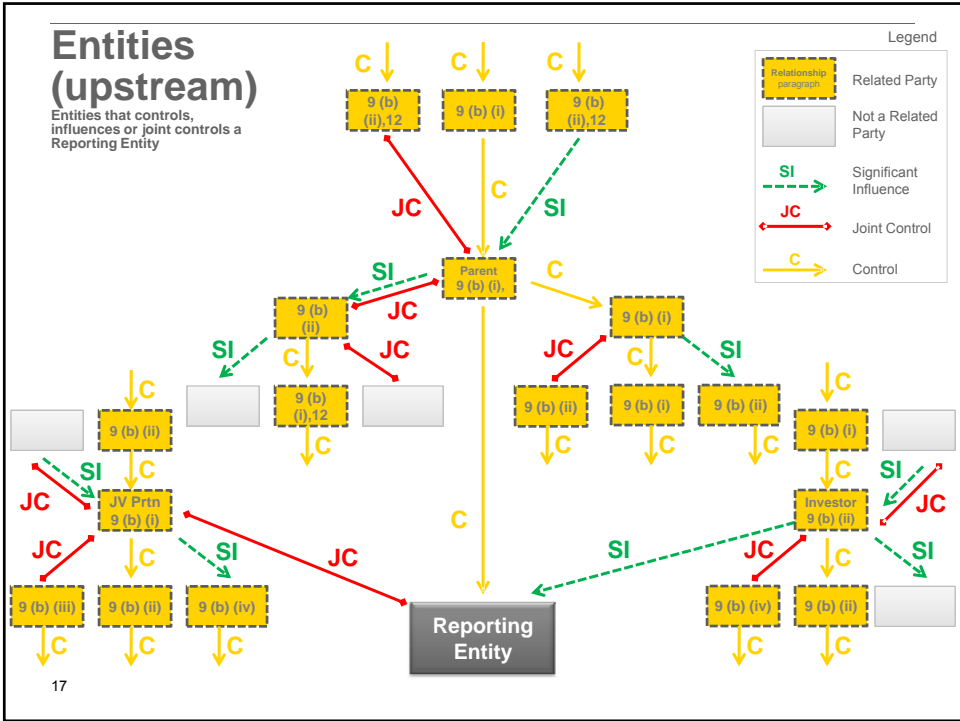
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## Entities

- ▶ 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**.
  - ▶ (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.

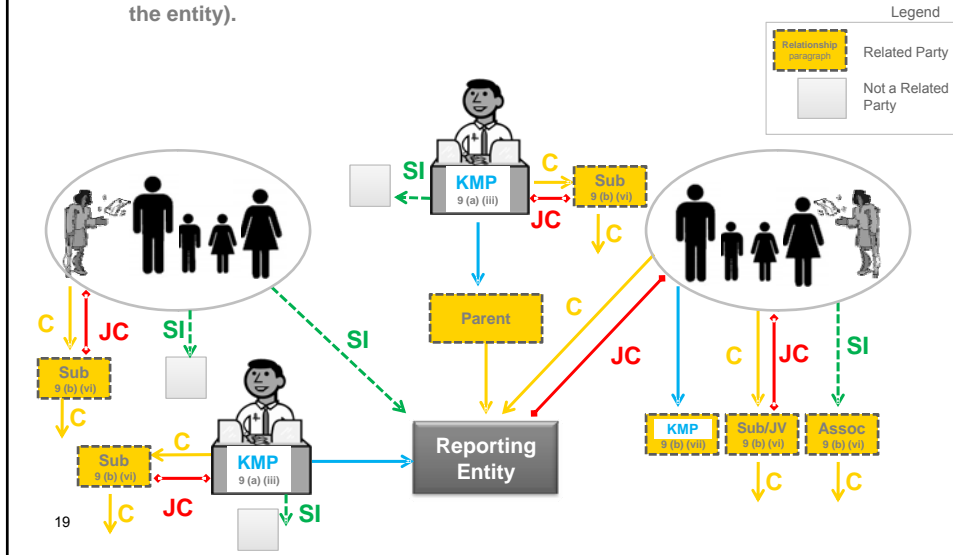
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## Entities connected with Persons

- ▶ (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).



## 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
- ▶ 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 each "person-wise" "entity-wise" or "entity related via a person-wise" to be disclosed

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## 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
- ▶ 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.

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## 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.

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## Special considerations

- ▶ **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.

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## Special considerations

- ▶ **For 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.

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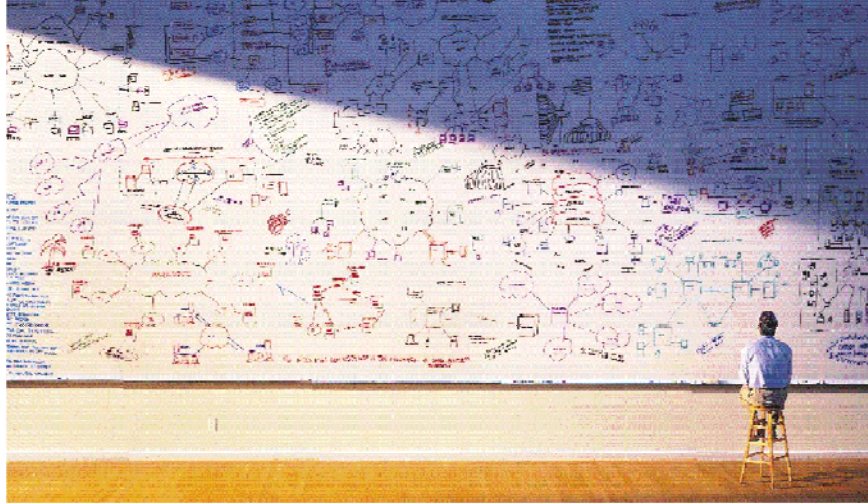
# Exercise

# Summary

## Summary

- ▶ Related party relationships are those involving control (direct or indirect), joint control or significant influence
- ▶ Key management personnel and their close family members are parties related to an entity
- ▶ There are no specific recognition or measurement requirements for related party transactions.
- ▶ Any related party transaction is required to be disclosed, not only the non-arms-length transactions.
- ▶ The disclosure of related party relationships between a parent and its subsidiaries is required, even if there have been no transactions between them.
- ▶ No disclosure is required in the consolidated financial statements of intra-group transactions eliminated in preparing those statements.
- ▶ Comprehensive disclosures of related party transactions are required for each category of related party relationship.
- ▶ Key management personnel compensation is disclosed in total and is analyzed by component
- ▶ In certain instances, government-related entities are allowed to provide less detailed disclosures on related party transactions.
- ▶ If there is no process to capture the related party transactions, an entity is unable to provide a complete disclosure.

## Real life scenario !



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**Thank you.**