International Accounting Standard 24

Related Party Disclosures

This version includes amendments resulting from IFRSs issued up to 31 December 2008.

IAS 24 *Related Party Disclosures* was issued by the International Accounting Standards Committee in July 1984, and reformatted in 1994.

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In December 2003 the IASB issued a revised IAS 24.

Since then, IAS 24 has been amended by the following IFRSs:

- *Actuarial Gains and Losses, Group Plans and Disclosures* (Amendment to IAS 19) (issued December 2004)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007).*

* effective date 1 January 2009

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International Accounting Standard 24 *Related Party Disclosures* (IAS 24) is set out in paragraphs 1–24 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 24 should be read in the context of its objective and the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Introduction

IN1 International Accounting Standard 24 *Related Party Disclosures* (IAS 24) replaces IAS 24 *Related Party Disclosures* (reformatted in 1994) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged.

IN2 The International Accounting Standards Board developed this revised IAS 24 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.

IN3 For IAS 24 the Board's main objective was to provide additional guidance and clarity in the scope of the Standard, the definitions and the disclosures for related parties. The wording of the Standard's objective was amended to clarify that the entity's financial statements should contain the disclosures necessary to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with them. The Board did not reconsider the fundamental approach to related party disclosures contained in IAS 24.

The main changes

IN4 The main changes from the previous version of IAS 24 are described below.

Scope

IN5 The Standard requires disclosure of the compensation of key management personnel.

IN6 State-controlled entities are within the scope of International Financial Reporting Standards, ie those that are profit-oriented are no longer exempted from disclosing transactions with other state-controlled entities.

Purpose of related party disclosures

IN7 Discussions on the pricing of transactions and related disclosures between related parties have been removed because the Standard does not apply to the measurement of related party transactions.

Definitions

IN8 The definition of 'related party' has been expanded by adding:

- parties with joint control over the entity;
- joint ventures in which the entity is a venturer; and

- post-employment benefit plans for the benefit of employees of an entity, or of any entity that is a related party to that entity.

IN9 The Standard adds a definition of 'close members of the family of an individual' and clarifies that non-executive directors are key management personnel.

IN10 The Standard clarifies that two venturers are not related parties simply because they share joint control over a joint venture.

Disclosure

IN11 The Standard further clarifies the disclosure requirements about:

- outstanding balances with related parties together with their terms and conditions including whether they are secured, and the nature of the consideration to be provided in settlement.
- details of any guarantees given or received.
- provisions for doubtful debts.
- the settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

IN12 The Standard clarifies that an entity discloses that the terms of related party transactions are equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.

IN13 Other new disclosures required include the following:

- the amounts of transactions and outstanding balances with respect to related parties. Disclosure of proportions of transactions and outstanding balances is no longer sufficient.
- the expense recognised during the period in respect of bad or doubtful debts due from related parties.
- classification of amounts payable to, and receivable from, related parties into different categories of related parties.
- the name of the entity's parent and, if different, the ultimate controlling party. If neither of these two parties produces financial statements available for public use, the name of the next most senior parent that does so is required.

International Accounting Standard 24
Related Party Disclosures

Objective

1 The objective of this Standard is 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 with such parties.

Scope

2 This Standard shall be applied in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

3 This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 ***Consolidated and Separate Financial Statements*****.**

4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

Purpose of related party disclosures

5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In these circumstances, the entity's ability to affect the financial and operating policies of the investee is through the presence of control, joint control or significant influence.

6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

7 The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with

a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.

8 For these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

Definitions

9 **The following terms are used in this Standard with the meanings specified:**

Related party **A party is related to an entity if:**

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) the party is an associate (as defined in IAS 28 *Investments in Associates***) of the entity;**

(c) the party is a joint venture in which the entity is a venturer (see IAS 31 *Interests in Joint Ventures***);**

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A *related party transaction* **is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.**

Close members of the family of an individual **are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:**

(a) the individual's domestic partner and children;

(b) children of the individual's domestic partner; and