

IAS / IND AS 24 RELATED PARTY DISCLOSURES

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WHY – disclosure of related party transactions

- ❖ Creates awareness to stakeholders of transactions that may have affected the financial performance and position
- ❖ Highlights transactions devoid of any economic or commercial substance.
- ❖ Such disclosure is an assessment of an entity's performance and financial position and risks and opportunities facing the entity.
- ❖ Related party transactions viz. borrowings, loans to key management personnel etc. *often concealed with shareholders*, have significantly distorted results and financial position leading to serious problems

Scope And Applicability

- ❖ IND AS 24 shall be applied in
 - ✓ Identifying related party transactions;
 - ✓ Identifying outstanding balances, including commitments, between an entity and its related party
 - ✓ Determining disclosures to be made for those items

- ❖ The standard requires disclosure of related party transactions and outstanding balances, both in the consolidated financial statements and separate financial statements of a parent, or investors with joint control of, or significant influence over, an investee, presented in accordance with IND AS 110, or IND AS 27.

- ❖ This standard shall also be applicable to individual financial statements

The important aspects

- ❖ IND AS 24 (revised) **is disclosure standard**
- ❖ Substance over form
- ❖ Close members of the family vis-à-vis relatives
- ❖ Special Purpose Entities-> IND AS 24 treats the same as in the case of subsidiaries
- ❖ Exemption from disclosure to entities in case of conflict with the duties of confidentiality or if prohibited by the statute *
- ❖ Post Employment benefit plans of the reporting entity

Important Terms

- ❖ REPORTING ENTITY is the entity
 - preparing its separate financial statements; OR
 - the Group headed by the parent company, in case the entity is the parent company and is preparing consolidated financial statements

 - ❖ RELATED PARTY TRANSACTIONS
transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged
- Transactions with a party that is UNRELATED at the time of transaction is NOT a related party transaction
- ❖ KEY MANAGEMENT PERSONNEL
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

Important Terms

❖ CLOSE FAMILY MEMBERS of a person

are those family members who may be expected to influence, or be influenced by, that person in dealings with the entity

THEY INCLUDE:-

- The person's children (including step children), spouse or domestic partner;
- Children (including step children) of the person's spouse or domestic partner;
- Dependants of the person or the person's spouse or domestic partner

IND AS 24 uses the rule – based definition of “Relative” in the Companies Act 1956, (now Companies Act 2013) though inclusion domestic partner, children of the domestic partner and dependants of the domestic partner have been retained in IND-AS

Important Terms

❖ CONTROL / SIGNIFICANT INFLUENCE used in this standard are defined in IND AS110, IND AS 111, IND AS 28 and have the same meaning as defined in those IND ASs

❖ ASSOCIATE / JOINT VENTURE

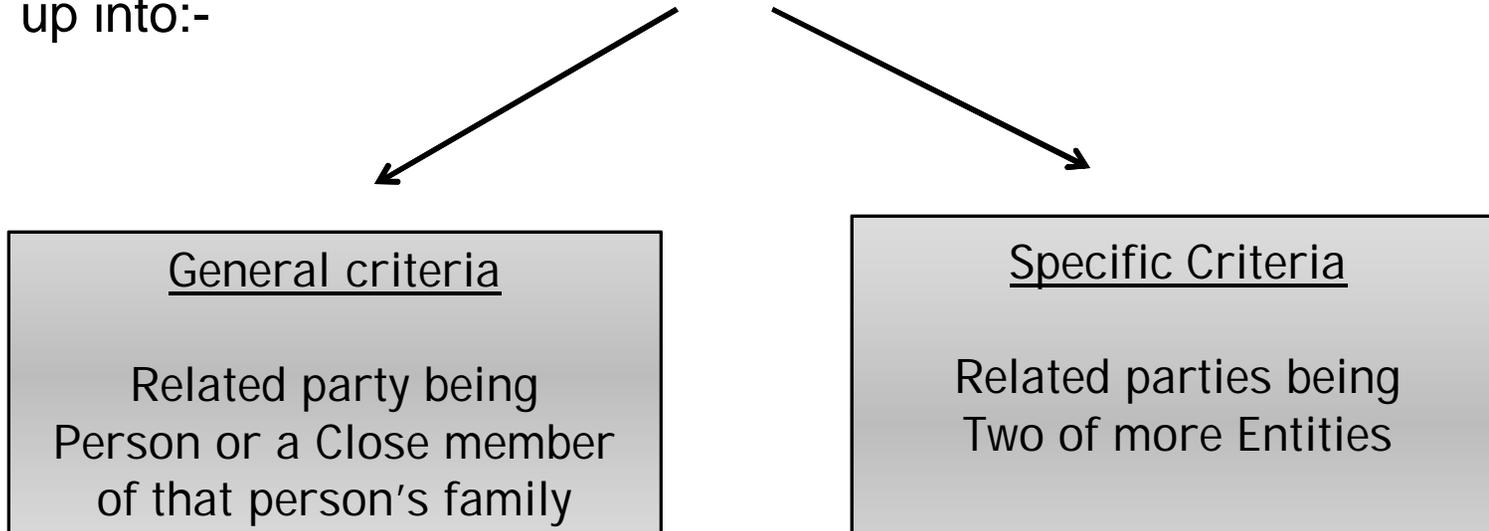
Associate – Entity over which an investor has significant influence BUT is neither a subsidiary nor a joint venture of the investor entity

Joint Venture – Contractual arrangement, in which 2 or more parties undertake an economic activity which is subject to a joint control of the activity

in the context of related party transactions, the term associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture

WHO ARE RELATED PARTIES TO THE REPORTING ENTITY

- ❖ Related party can be a person (including a close member of that person's family), an entity, or an unincorporated business
- ❖ The identification of related party **to a reporting entity** can be split up into:-



PERSONS

Person or A Close member of the Person's family

IS a related party to the reporting entity IF THAT PERSON :-

- Has Control OR joint control over the reporting entity;
- has significant influence over the reporting entity;
- Is a member of the Key management personnel of the reporting entity OR of a parent of the reporting entity.

TWO ENTITIES UNDER COMMON CONTROL / SIGNIFICANT INFLUENCE OF PERSONS OR COMMON Key Management Personnel

- ❑ An entity is related to the reporting entity, IF
 1. The person, controlling / having significant influence over the reporting entity or is a member of key management personnel of the reporting entity, also controls the other entity
 2. The person controlling the reporting entity, has significant influence over the other entity or is a member of key management personnel of the other entity
 3. the entity or any member of the group of which it is a part provides key management personnel services to the reporting entity or to the parent of the reporting entity **NEW**

GROUP

- ❑ All Entities in a Group, whether incorporated or unincorporated, will be related parties to one another
- ❑ Parent entity, its subsidiaries and fellow subsidiaries are all related to **each other**
- ❑ Common Control – entities subject to common control from the same source are effectively included in the definition of related party

ASSOCIATES and JOINT VENTURES

- Investors** and their **associates** are related parties
- Venturers** and their **Joint Ventures** are related parties
- An entity being a **Joint Venture** of a third entity and the other entity being an **associate** of the same third party, are related parties
- Two entities being joint ventures of the same third party are related parties
- A **reporting entity** and an **associate or a joint venture**, of another entity which is a member of the group of which the reporting entity is also a member.
- A **reporting entity** and **subsidiaries** of its associate or joint ventures, are related parties

POST EMPLOYMENT BENEFIT PLANS

- ❑ Pension funds and similar post employment funds for the benefit of employees of the entity (or any entity that is a related party to the entity), **are related parties to the entity and also includes** pension funds whose membership is open to some, but NOT all employees
- ❑ If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity
- ❑ Pension fund that is operated for the benefit of employees in a GROUP is a related party of each entity within the group whose employees participate in the fund

WHO are NOT RELATED PARTIES

- ❖ Two entities simply because they have a Director or other member of KMP **in common** OR
Two entities because a member of Key management personnel of one entity has significant influence over the other entity
- ❖ Two venturers simply because they share joint control over a joint venture
- ❖ Two associates of the same investor are not related parties
- ❖ Departments and agencies of a Government that does not control, jointly control, or significantly influence the reporting entity, providers of finance (banks), trade unions, public utilities simply by virtue of their normal dealings with an entity
- ❖ Customer, supplier, franchisor, distributor or general agent with whom an entity transacts, significant volume of business.

CASE STUDY



Case Study 1

Whether Entity A & Entity B are related parties under IAS 24

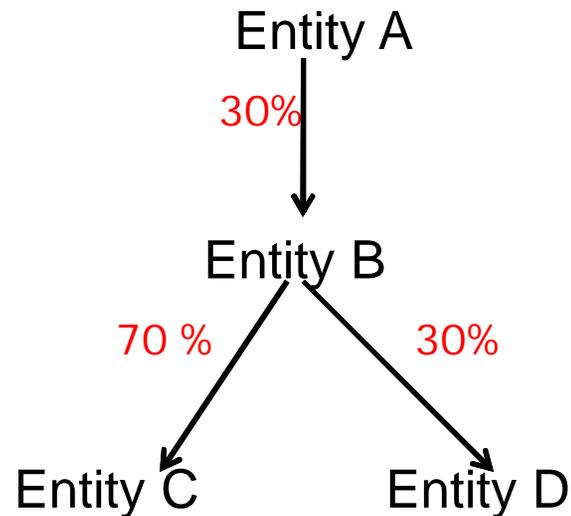


Person	Reporting Entity - A	Other Entity – B	Whether A & B are related parties
MR X	Control	Control	
MR X	Significant Influence	Significant Influence	
MR X	Member of KMP	Member of KMP	
MR X	Significant Influence	Control	
MR X	Significant Influence	KMP	
MR X	Control	Significant Influence	
MR X	KMP	Significant Influence	

Case Study 2



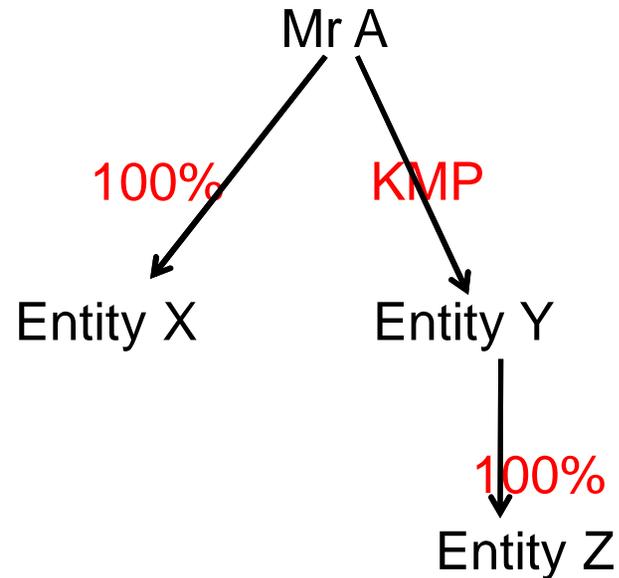
Entity A owns 30% of Entity B. B holds 70% of entity C (subsidiary) and 30% in entity D (associate) – Identify the related parties ?



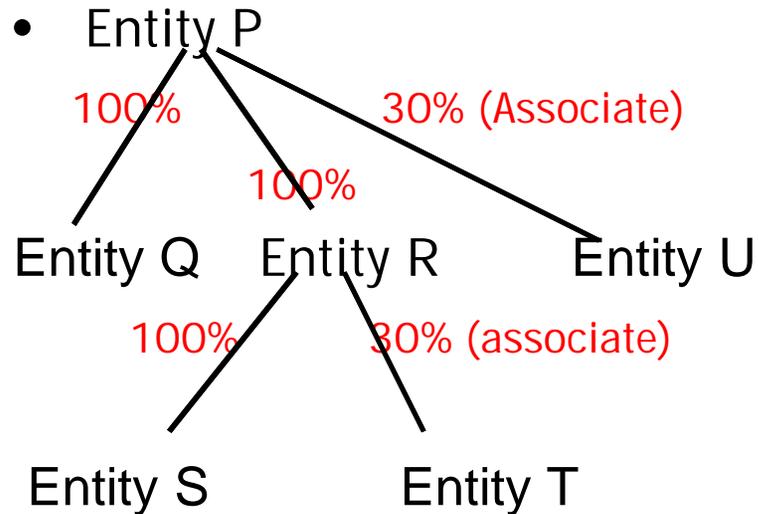
Case Study 3



Mr A owns 100% of Entity X. he is also a member of KMP of Entity Y.
Entity Y owns all the share capital of Entity Z.
Identify the related parties?



Case Study 4



- Please list out related parties in P's separate & Consolidated Financial statements.
- Whether entity T and Entity U are related parties ?

DISCLOSURE

- ❖ Under IND AS 24 disclosure is required ONLY in respect of transactions during the year **for which the entities are related**.

- ❖ In case of related party transactions between Parent & Subsidiary
 - ❑ IND AS 24 requires disclosure of parent (or ultimate controlling entity) AND subsidiary relationships even if NO transactions have taken place
 - ❑ NO need of disclosure of related party transactions that get eliminated on consolidation
 - ❑ Where the reporting entity's parent or its ultimate controlling entity **do not produce** consolidated financial statements for public use, the name of the next most senior parent that does so shall also be disclosed

- ❖ Where control exists, IND AS 24, requires disclosure of related party relationships, whether or NOT there have been transactions between the parties

- ❖ Details of balances Due to, or From, related parties at the **Balance Sheet date** including information on bad and doubtful debts

DISCLOSURE in financial statements

- ❖ COMPENSATION to Key Management Personnel – the same should be given in total and for each of the following categories
 - Short term employee benefits
 - Post employment benefits
 - Other long term benefits
 - Termination benefits
 - Share based payments

- ❖ Related party transactions should be broadly classified and presented separately for each of the following categories
 - The parent
 - Entities with joint control or significant influence over the entity
 - Subsidiaries
 - Associates and Joint ventures
 - KMP of the entity and its parent
 - Other related parties

FOR ALL RELATED PARTY TRANSACTIONS

Items of 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

EXEMPTION from Disclosure requirements

- ❖ Transactions eliminated on consolidation in consolidated Financial statements, disclosure is not required of any transactions or balances between group entities that have been eliminated on consolidation.

The following however need to be STILL disclosed:-

- ✓ disclosure of control – relationship between parent and subsidiaries, in the consolidated financial statements
 - ✓ such related party transactions, in the separate financial statements of the subsidiary and the controlling entity
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- ❖ Parties that are NOT necessarily related
 - ❖ Duties of Confidentiality
disclosure requirements laid down by the standard do not apply, where they conflict with the reporting entity's duties of confidentiality as specifically required by statute or other competent authority or regulator

EXEMPTION from Disclosure requirements

❖ Government related entities –

the standard provides an exemption from the disclosure requirements 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 GOVT has control, joint control or significant influence over both the reporting and the other entity

AS-18 also exempts disclosure of related party transactions by a reporting state controlled enterprise with another state controlled enterprise

PCFRC
IFRS standards public SMEs
reporting financial Big
statements private
GAAP
Little

GAAP Differences

PARTICULARS	IAS – 24	IND-AS 24	AS 18
APPLICABILITY	Applies to all entities including un incorporated entities	Similar to IFRS 8	Standard specifies specific category of entities to which As 18 is applicable
SPECIAL PURPOSE ENTITIES (SPEs)	Treats SPEs as subsidiaries for the purposes of related party disclosures	Similar to IFRS 8	AS 18 is silent on this aspect
RELATIVES	Term relative is replaced by “Close members of the person’s family) which is wider in scope and covers domestic partners also	IND-AS 24 uses the rule based definition of term relative as prescribed by the companies Act	The term relative covers, spouse, son, daughter, brother, sister, mother and father.

GAAP Differences

PARTICULARS	IAS – 24	IND-AS 24	AS 18
KEY MANAGEMENT PERSONNEL	KMP includes Non executive Directors also and covers KMP of the parent company	Similar to IFRS – companies Act 2013 has listed persons who are included in the definition of KMP	Does not include Non Executive Directors, unless they participate in operating activities of the entity KMP of the parent not specified
POST EMPLOYMENT BENEFIT PLANS	Are covered under related party transactions	Similar to IFRS 8	Not covered
CONFIDENTIALITY OF INFORMATION	IAS 24 provides no such exemption from disclosures	Exempts disclosures if conflicts with duties of confidentiality under statute	Exempts disclosures if conflicts with duties of confidentiality under statute

GAAP Differences

PARTICULARS	IAS – 24	IND-AS 24	AS 18
COMPENSATION TO KEY MANAGEMENT PERSONNEL	shall be disclosed <u>in total</u> and for each of the following categories (a) short term benefits, (b) post employment benefits © other long term benefits (d) termination benefits and (e) Share based payments	Similar to IFRS	No such detailed disclosure under AS 18

GAAP Differences

PARTICULARS	IAS – 24	IND-AS 24	AS 18
PRESENTATION OF RELATED PARTY TRANSACTIONS	Separately for (a) parent; (b) Joint Ventures; © Associates (d) Subsidiaries; (e) Key management personnel of the entity or its parent (f) entities having joint control or significant influence over the entity (g) Other related parties	Similar to IFRS	No such detailed disclosure under AS 18



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