

# IAS Plus Update.

## IASB issues amendments to IAS 24

On 4 November 2009, the International Accounting Standards Board (IASB) issued amendments to IAS 24 *Related Party Disclosures*. The revised Standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarifies the definition of a related party.

The revised Standard is effective for annual periods beginning on or after 1 January 2011. The revised Standard requires retrospective application. Therefore, in the year of initial application, disclosures for the comparative period will need to be restated.

Earlier application is permitted, either of the whole revised Standard or of the partial exemption for government-related entities. If an entity applies either the whole Standard or the partial exemption for a period beginning before 1 January 2011, it is required to disclose that fact.

### Partial exemption for government-related entities

The previous version of IAS 24 contained no specific exemption for government-related entities. Many entities, particularly in an environment where government control is pervasive, found it problematic in practice to identify all government-related entities, and to quantify all related party transactions and balances with those entities.

As a result, the revised Standard provides a partial exemption from the disclosure requirements of IAS 24 for government-related entities. Specifically, under a new paragraph 25, a reporting entity is exempt from the general disclosure requirements set out in paragraph 18 of IAS 24 in relation to related party transactions and outstanding balances (including commitments) with:

- a government that has control, joint control or significant influence over the reporting entity; and
- 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.

In this context, government refers to government, government agencies and similar bodies whether local, national or international.

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[iasplus@deloitte.com.hk](mailto:iasplus@deloitte.com.hk)  
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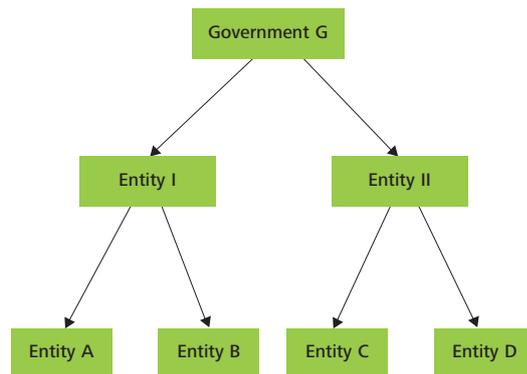
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Johannesburg  
London  
Paris

Jan Peter Larsen  
Andreas Barckow  
Graeme Berry  
Veronica Poole  
Laurence Rivat

[dk\\_iasplus@deloitte.dk](mailto:dk_iasplus@deloitte.dk)  
[iasplus@deloitte.de](mailto:iasplus@deloitte.de)  
[iasplus@deloitte.co.za](mailto:iasplus@deloitte.co.za)  
[iasplus@deloitte.co.uk](mailto:iasplus@deloitte.co.uk)  
[iasplus@deloitte.fr](mailto:iasplus@deloitte.fr)

The diagram below illustrates the exemption.

**Example 1 – Exemption from the general disclosures under IAS 24**



Government G directly or indirectly controls Entities I and II and Entities A, B, C and D.

In the financial statements of Entity A, the exemption in paragraph 25 applies to:

- transactions with Government G; and
- transactions with Entities I and II and Entities B, C and D.

However, where a reporting entity is exempt from the general disclosure requirements in accordance with paragraph 25, the revised Standard requires the reporting entity to disclose the following information about the transactions and related outstanding balances, as set out in a new paragraph 26:

- the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);
- the following information in sufficient detail about:
  - the nature and amount of each individually significant transaction; and
  - for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

Regarding the level of detail to be disclosed in relation to transactions that are collectively (but not individually) significant, the revised Standard states that the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction should be considered. Examples of factors to be considered are whether the transaction:

- is significant in terms of size;
- is carried out on non-market terms;
- is beyond normal day-to-day business operations (e.g. purchases and sales of businesses);

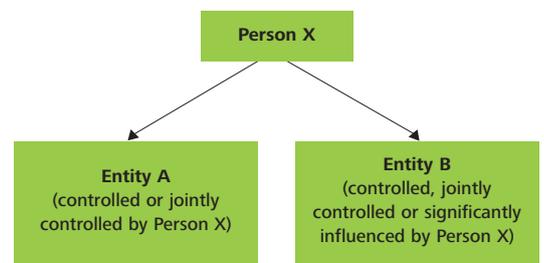
- has been disclosed to regulatory or supervisory authorities;
- has been reported to the senior management; and
- requires shareholders' approval.

The revised Standard contains some illustrative examples in relation to the application of the revised requirements (see paragraph IE3 in the *Illustrative Examples* of IAS 24 for details).

**Revised definition of a related party**

The revised definition of a related party is set out in full in the Appendix to this newsletter. The revised Standard simplifies the definition of a related party, clarifies its intended meaning and eliminates a number of inconsistencies. The following are some examples of related parties under the revised Standard.

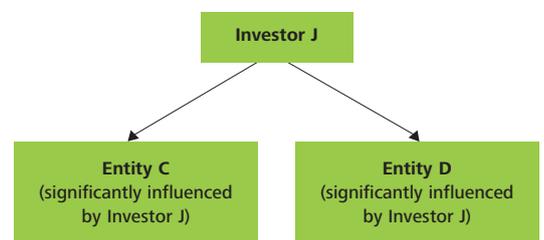
**Situation 1 – Person as an investor**



Person X has control or joint control over Entity A. Person X has control, joint control or significant influence over Entity B.

The revised Standard states that Entity A and Entity B are related parties for the purposes of the financial statements of both entities.

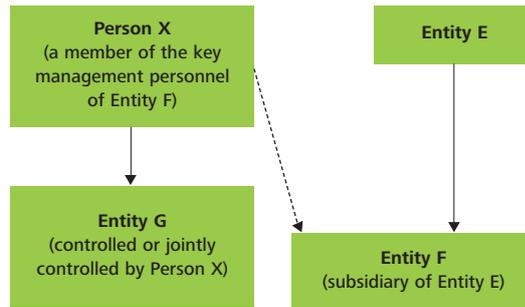
**Situation 2 – Two associates of an investor**



Entity C and Entity D are associates of Investor J.

The revised Standard makes it clear that Entity C and Entity D are not related parties of each other. The Board explained in the Basis for Conclusions that common investment in two associates is not sufficient to conclude that the two associates are related parties.

**Situation 3 – Investments of members of key management personnel**

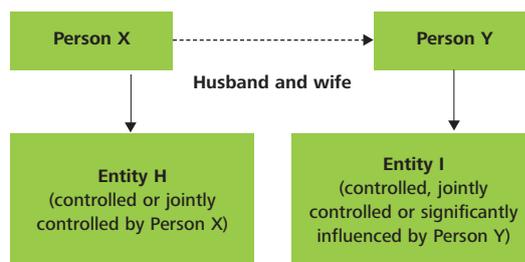


Entity G is controlled or jointly controlled by Person X. Person X is a member of the key management personnel of Entity F.

Under the revised Standard, Entity F (i.e. the entity managed by Person X) is a related party of Entity G for the purposes of the financial statements of Entity G. The IASB noted that the previous version of IAS 24 treated some investees of the key management personnel of a reporting entity as related parties to the reporting entity. However, the previous version of the Standard did not include the reciprocal of such a situation. Therefore, to remove the inconsistency, the definition of a related party has been revised to ensure that Entity F and Entity G are treated as related parties in the financial statements of Entity F and Entity G.

**Note:** The outcome will be the same if Person X is a member of key management personnel of Entity E and not Entity F.

**Situation 4 – Close members of the family holding investments**



Person X and Person Y are husband and wife. Person X has control or joint control over Entity H while Person Y has control, joint control or significant influence over Entity I.

The revised Standard states that Entity H and Entity I are related parties for the purposes of the financial statements of both entities.

In addition, the revised Standard states that, in relation to the definition of a related party, references to “an associate” and “a joint venture” include subsidiaries of the associate and subsidiaries of the joint venture.

Therefore, an associate’s subsidiary and the investor that has significant influence over the associate are related to each other.

**Appendix**

**Revised definition of a related party**

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in IAS 24 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 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.

(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. 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).

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