

Technical Session

Ind AS 24

Related Party Disclosures



Agenda

1. Learning Objective
2. AS18 Related Party Disclosure Quick recap
3. Objective and Scope
4. Identification of related parties
5. Disclosure Requirements



Learning objectives – upon completion you will understand

Major changes as compared to AS18



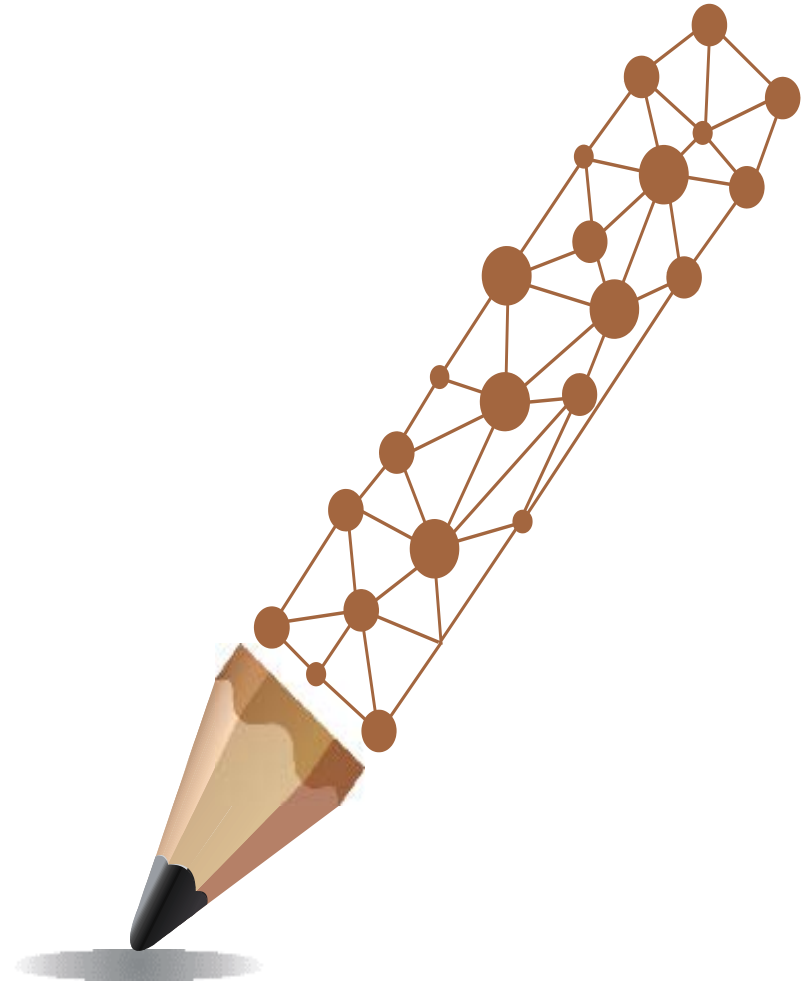
Objective and scope of Ind AS 24



Identification of related parties



Minimum disclosure requirements
for related party transactions and
balance with related parties

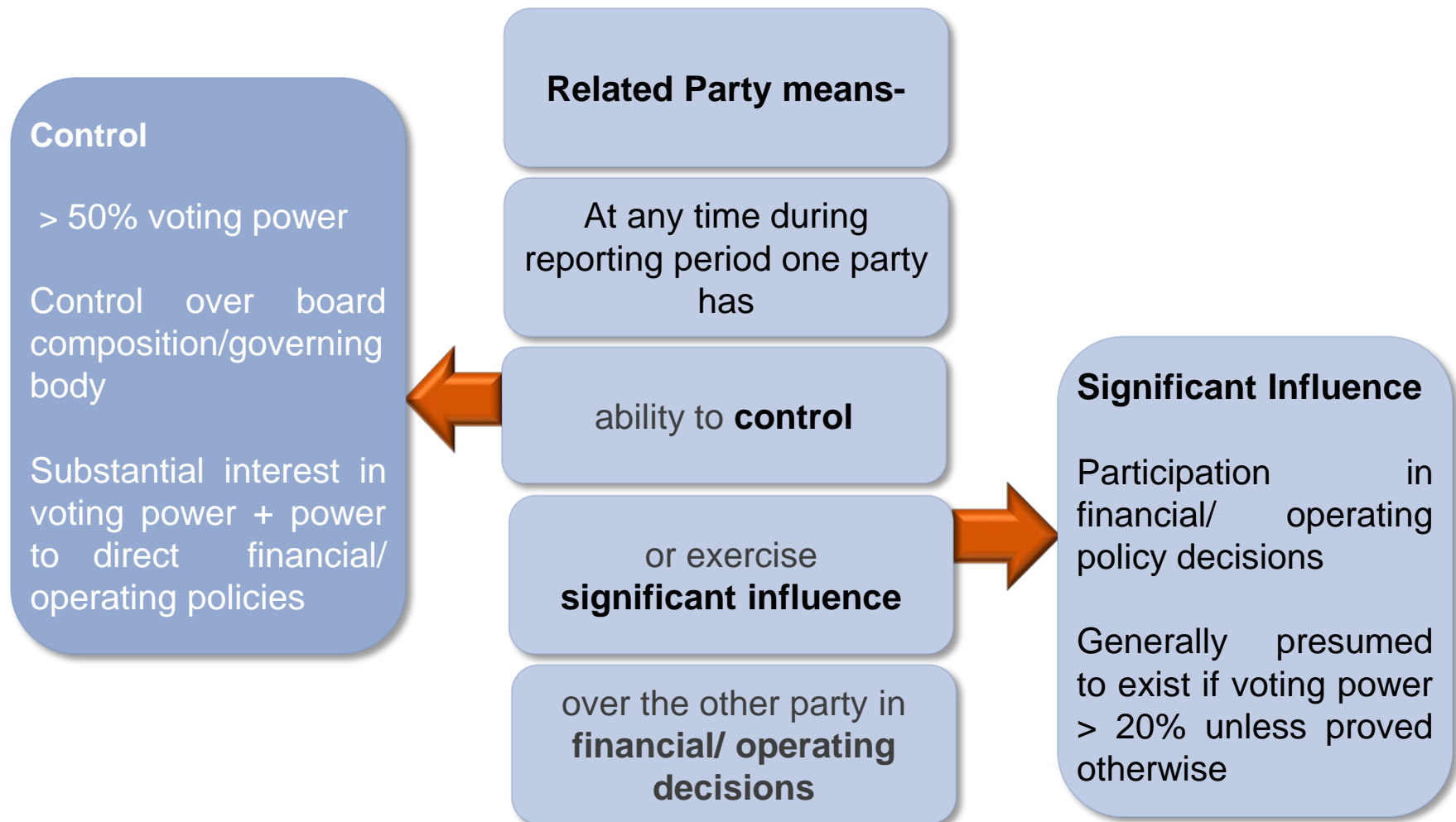




AS18 Related Party Disclosures - Quick recap

AS 18 Related Party Disclosure(1/3)

Establishes disclosure requirements of “related party relationships” and “transactions” between a reporting enterprise and its related parties



Related party relationships includes

- Holding, subsidiaries and fellow subsidiaries
- Associates and joint ventures ; Investing party/venturer for which the entity is an associate/JV
- Individuals having control or significant influence over enterprise and their relatives
- Key management personnel and their relatives
- Non executive director not to be a KMP unless he has the authority & responsibility for planning, directing & controlling the activities
- Enterprise owned by directors of reporting enterprise or individuals in the third bullet above
- Enterprises having a common key management personnel

AS 18 Related Party Disclosure(3/3)

Deemed exclusions	Disclosures
<ul style="list-style-type: none">▪ Two companies simply because they have a common director▪ Single customer, supplier, franchisee, distributor or general agent with whom there is significant business volume▪ Provider of finance; trade unions; public utilities; Govt. departments/ agencies▪ If disclosure is prohibited by statute or regulator or similar competent authority▪ State-controlled enterprises w.r.t to relationship and transactions with other state-controlled enterprises	<ul style="list-style-type: none">▪ Name of Related Party and Nature of Relationship where control exists irrespective of there being transactions▪ Nature of Transaction▪ Volume of transaction▪ Outstanding items on balance sheet date and provision for doubtful debts due from such parties▪ Write offs or write-backs during the reporting period of dues from/to related parties▪ Other elements of related party transactions necessary for understanding



Ind-AS 24: Objective and Scope

Objective

To ensure that 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, including commitments, with such parties.

Scope

Ind AS 24 provides guidance on-

- Identification of –
 - related party relationships and transactions
 - outstanding balances, including commitments, between an entity and its related parties
- Disclosure requirements
 - Consolidated financial statements
 - Separate and individual financial statements of a parent, venturer or investor

A photograph of two women in a workshop or craft store. The woman on the left, with dark hair tied back and wearing a beige t-shirt and a white apron, is looking towards the right. The woman on the right, with brown hair in a ponytail and wearing a dark grey blazer, is leaning over a green table, holding a yellow pencil and looking at a small white electronic device. The background is filled with shelves of various items, including jars, containers, and framed pictures.

Identification of related parties

Definition

Related Party - A related party is a “person” or “entity” that is related to the entity that is preparing its financial statements

Person

A **person or a close member of that person's family** is related to a reporting entity, if that person:

- has control or joint control over the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting **entity or of a parent of the reporting entity**

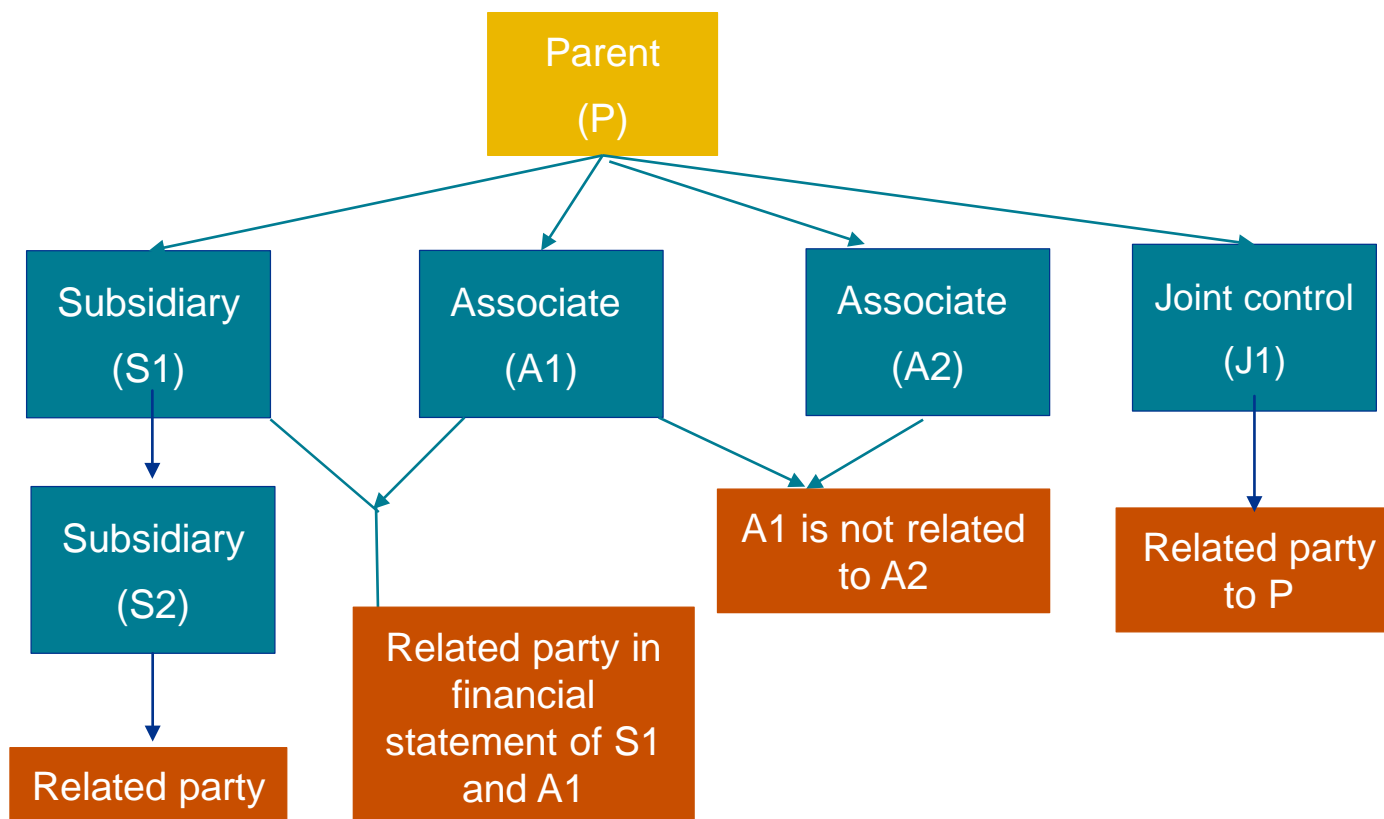
Entity

An **entity** is related to a reporting entity if any of the following conditions applies:

- They are the members of the same group (parent/ subsidiary/ fellow subsidiary).
- One entity is an associate or joint venture of the other entity (or another entity in the same group).
- Both entities are joint ventures of the same third party
- one is joint venture of a third party and the other entity is an associate of the third party
- 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.
- The entity is controlled or jointly controlled by a person (as identified in left column)

Direct Control, Joint control and Significant influence

Direct Control, Joint control and Significant influence example:



Relatives vs. Close family members

AS 18: Relatives

- Spouse
- Son; Daughter
- Brother, Sister, Father and Mother

Ind-AS 24: Close members of family

Family members including

- Spouse/ domestic partner
- Children of the person or of spouse or of domestic partner
- Dependents of the person or of spouse or of domestic partner
- Brother, Sister, Father and Mother (Carve In)

who may be expected to influence the person or be influenced by the person in their dealing with the entity



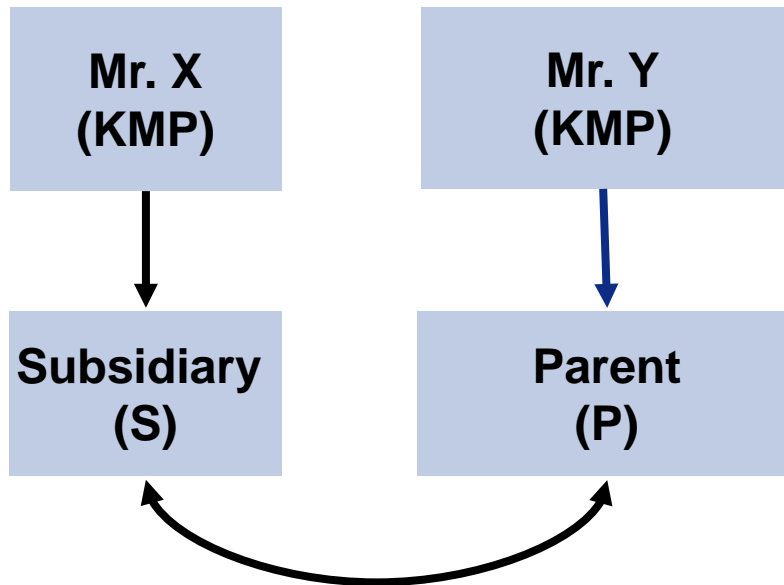
Key Management Personnel – Ind-AS 24

Key management personnel are those persons that have the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly

Includes directors (both executive and non-executive) of an entity

Relationship also includes key management personnel of the entity's parent to the extent that they have authority and responsibility for planning, directing and controlling the activities of the entity.

Extended definition of KMP



▪ AS 18:

- ✓ Mr. X is related in S' financial statements
- ✗ Mr. Y is not related in S' financial statements

▪ Ind-AS 24

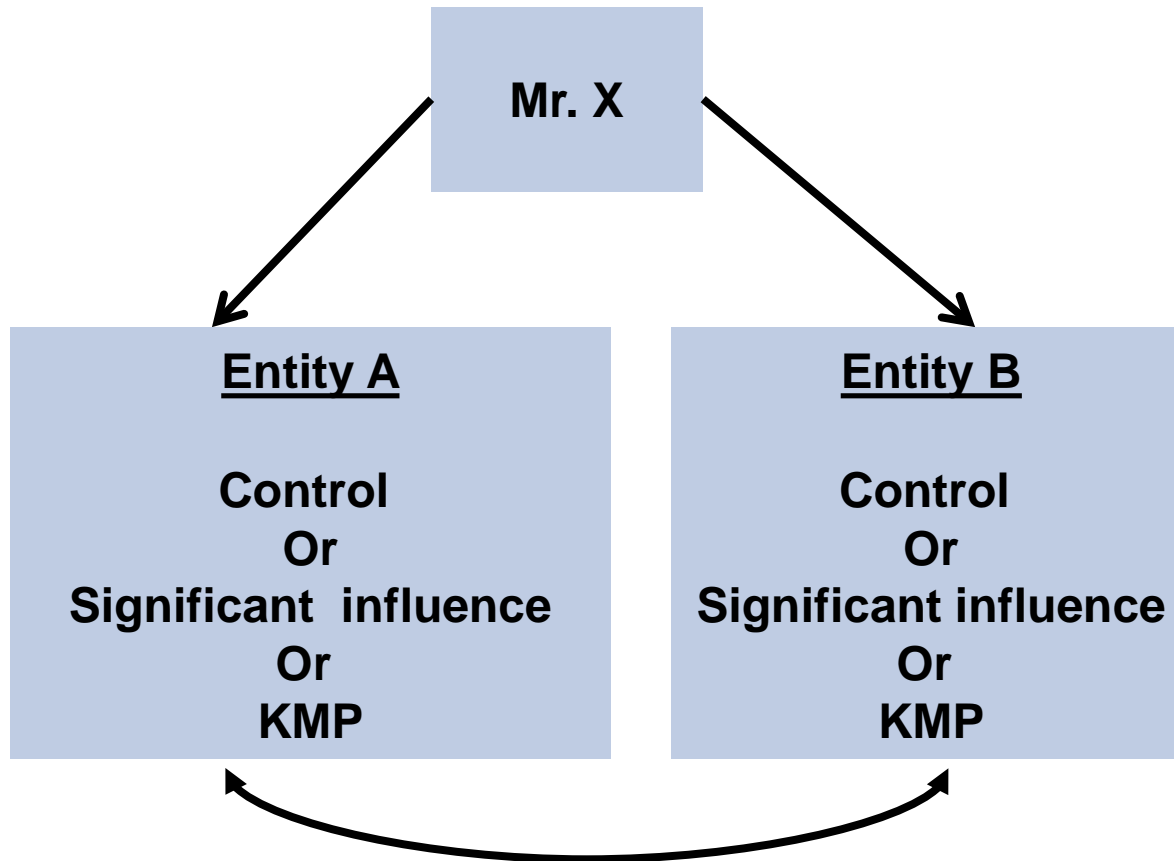
- ✓ Both Mr. X and Mr. Y are related in S' financial statements
- ✗ Mr. X is not related in P' financial statements

Differences: when individuals are stakeholders

AS-18	<ul style="list-style-type: none">▪ Related if:<ul style="list-style-type: none">▪ <i>common individual having significant influence</i>▪ <i>common individual being key management personnel [except if excluded under para 4(a)]</i>
Ind-AS 24	<ul style="list-style-type: none">▪ Not related if:<ul style="list-style-type: none">▪ <i>common person having significant influence</i>▪ <i>common person being key management personnel</i>▪ Need control or joint control by a person in one entity to be related to the other entity



AS 18 Para 3(c)(d)(e)



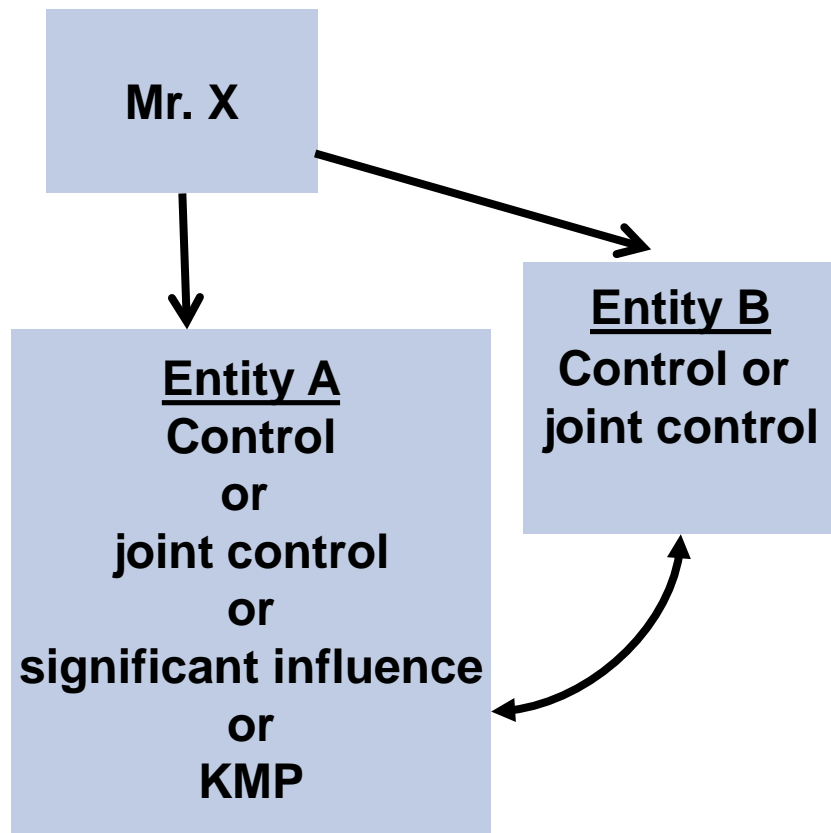
AS 18:

- ✓ A and B are related to each other in both their financial statements

Individuals are stakeholders– Ind-AS 24

Ind-AS 24 Paras 9(a)(i)(ii)(iii) and 9(b)(vi);

Ind-AS 24 Paras 9(a)(i) and 9(b)(vii)

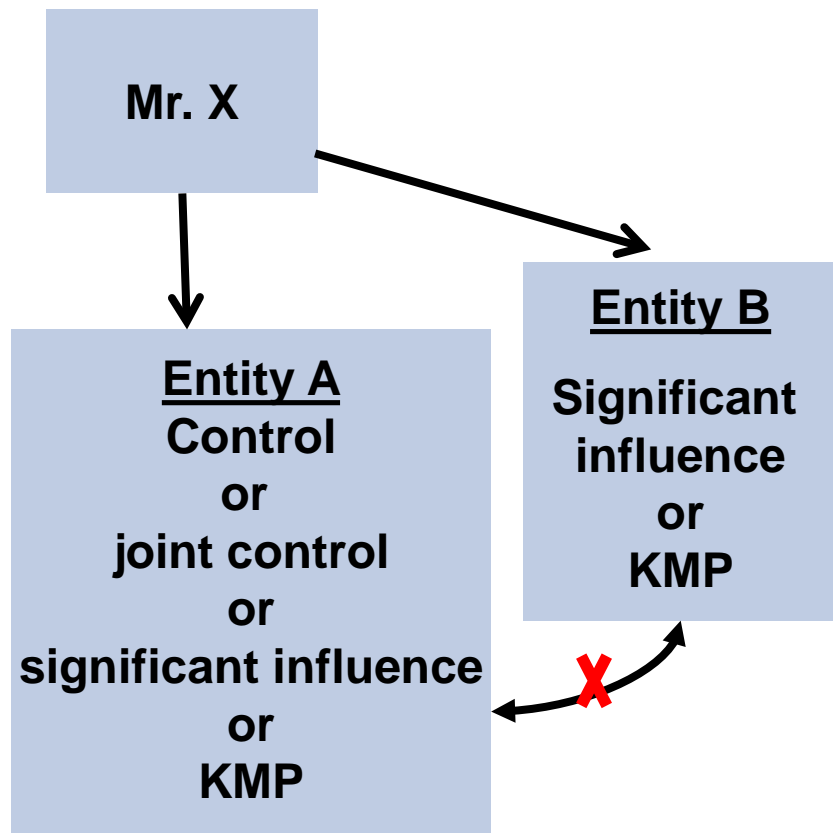


Ind-AS 24: A and B are related to each other in their financial statements

Individuals are stakeholders– Ind-AS 24

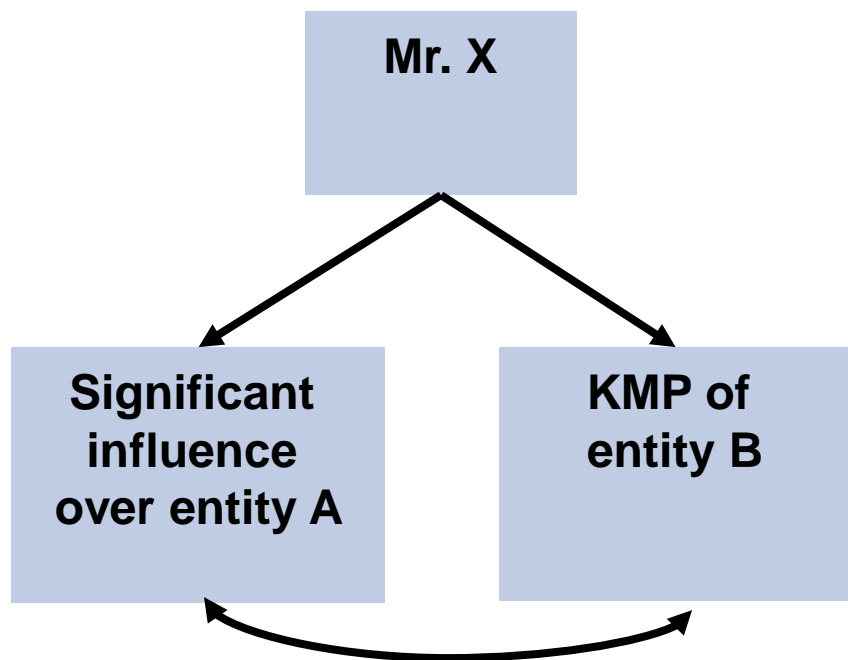
Ind-AS 24 Paras 9(a)(i)(ii)(iii) and 9(b)(vi);

Ind-AS 24 Paras 9(a)(i) and 9(b)(vii)



Ind-AS 24: A and B are not related to each other in their financial statements

Differences: When individuals are stakeholders



✓ : under AS 18

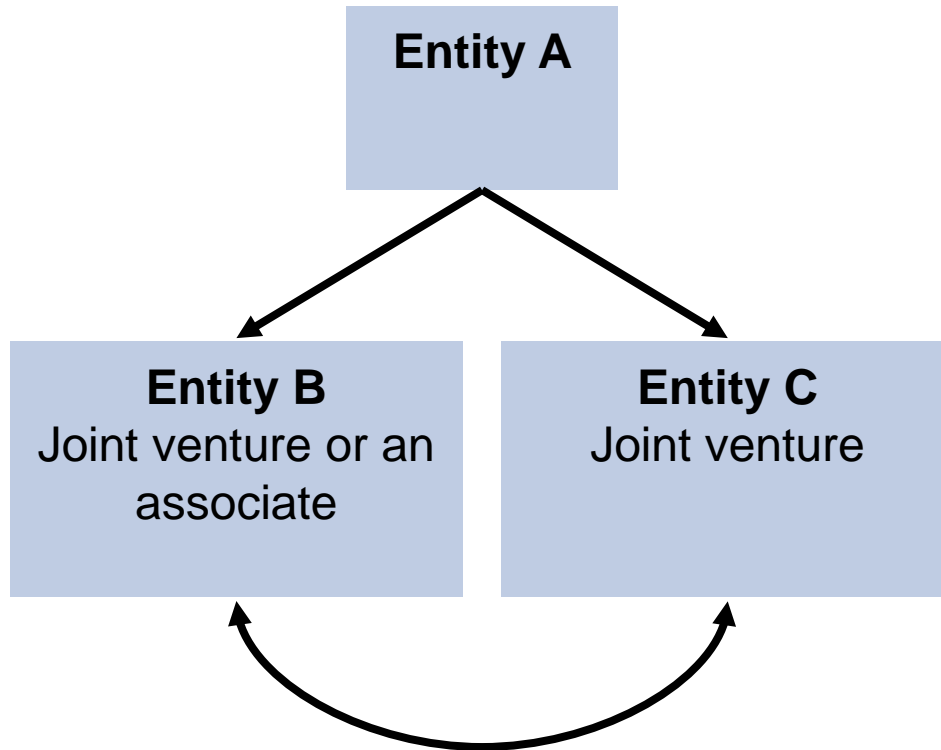
✗ : under Ind-AS 24

■ AS 18:

- ✓ A and B are related to each other in both their financial statements

■ Ind-AS 24:

- ✗ An entity in which a person has significant influence, would not be related to other just because that person is a KMP of the other entity



- **AS 18:**
 - ✗ Co ventures or co associates are not related to each other.
- **Ind-AS 24:**
 - ✓ B and C are related to each other in both their financial statements **if they are either co-ventures or one is a venture and the other is an associate.**
 - ✗ Co-associates are not related to each other under Ind-AS 24 aswell

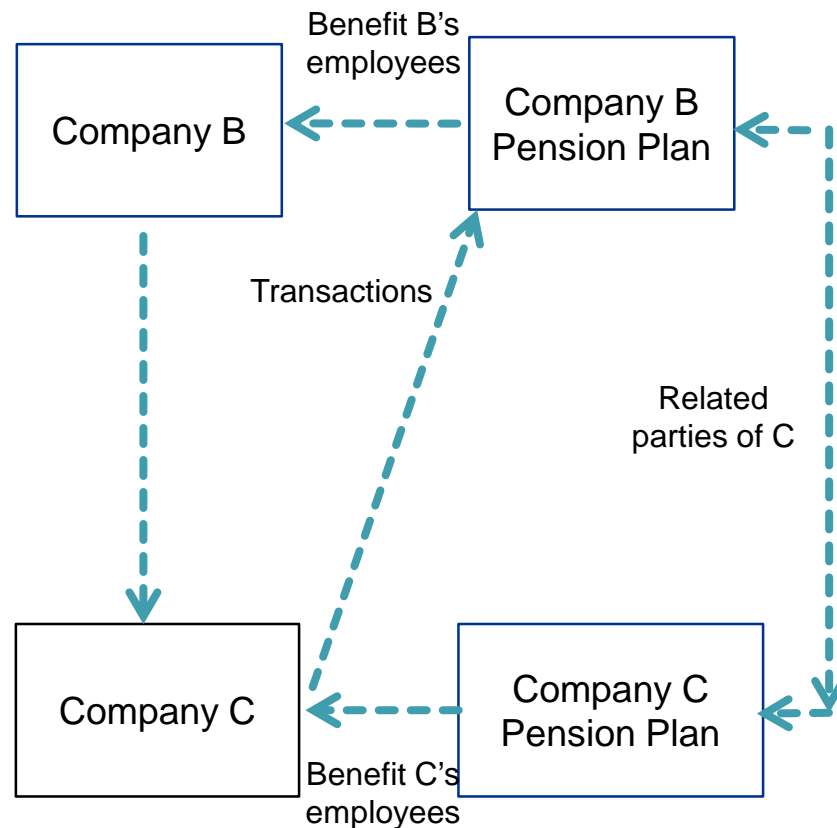
Post-employment benefit plans

Related parties include post-employment benefit plans that benefit an entity's employees or the employees of any entity that is a related party of the reporting entity.

Example-

Company B has significant influence over Company C. B and C each have a pension plan for the benefit of their respective employees. In addition, C transacts with B's pension plan in the ordinary course of business. Accordingly, both pension plans are related parties of C and thus, C discloses transactions with:

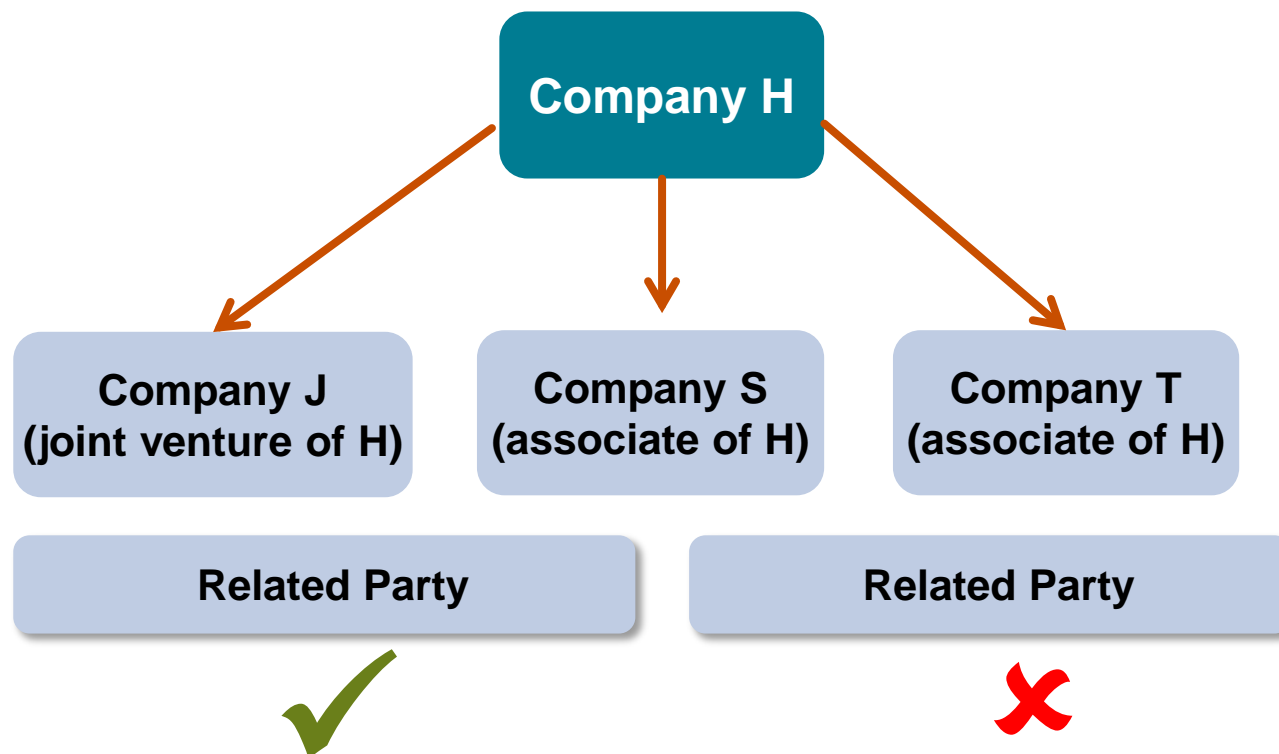
- its own pension plan because it provides benefits to its employees; and
- B's pension plan because it provides benefits to the employees of a related party (being B).



Case Studies



Case study-1

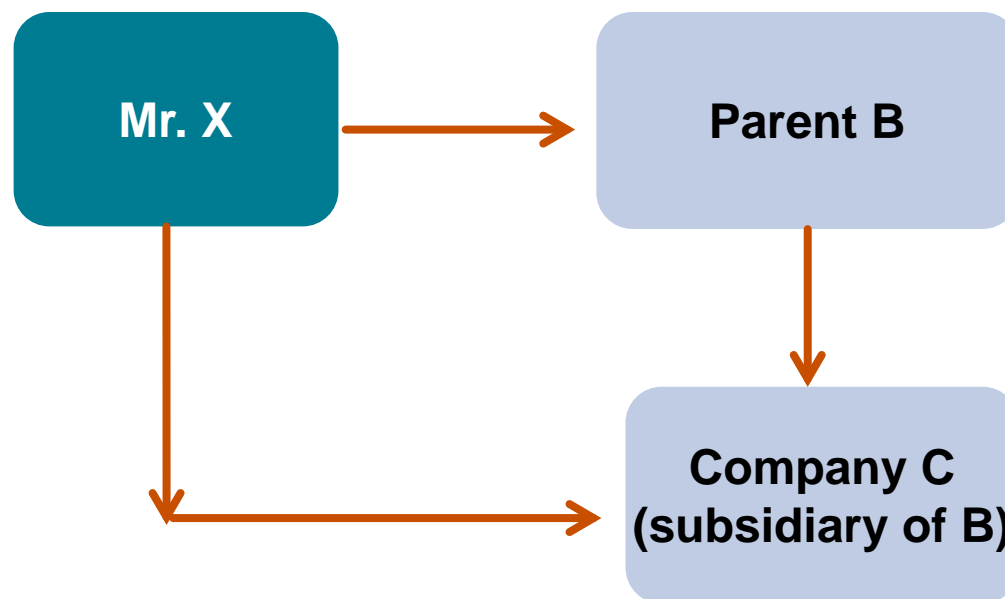


- Company J is a joint venture of Company H, and H has significant influence over Company S.
- The indirect relationship between J and S meets the definition of a related party relationship.

- H has significant influence over Company T.
- The indirect relationship between S and T does not meet the definition of a related party relationship because there is no control or joint control between H and S or T

Case study-2

Mr. X a KMP of Parent B. He also acts as a director of Subsidiary C and has the authority to control the activities of C. C does not reimburse B for the director's services.

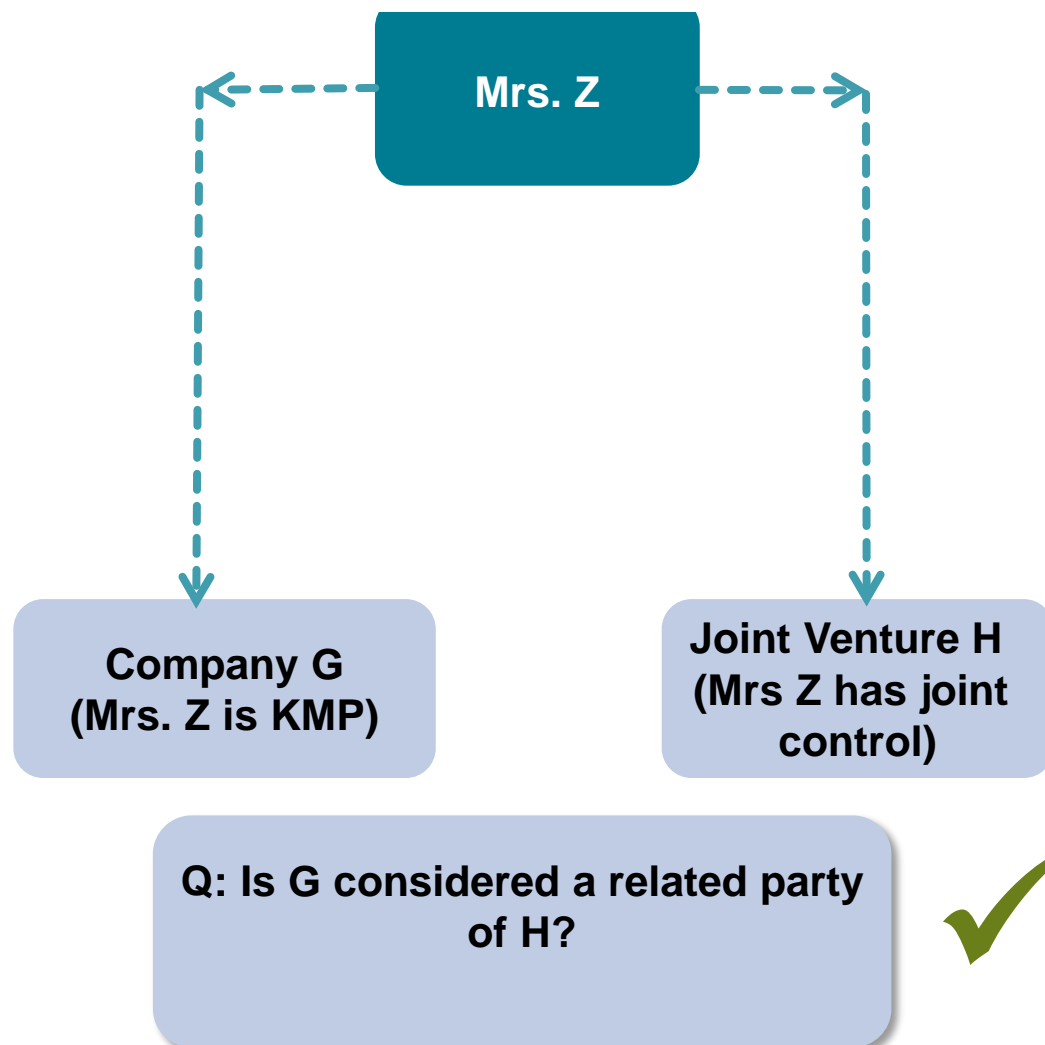


Q: Whether Mr. X is KMP of C as well?



Case study-3

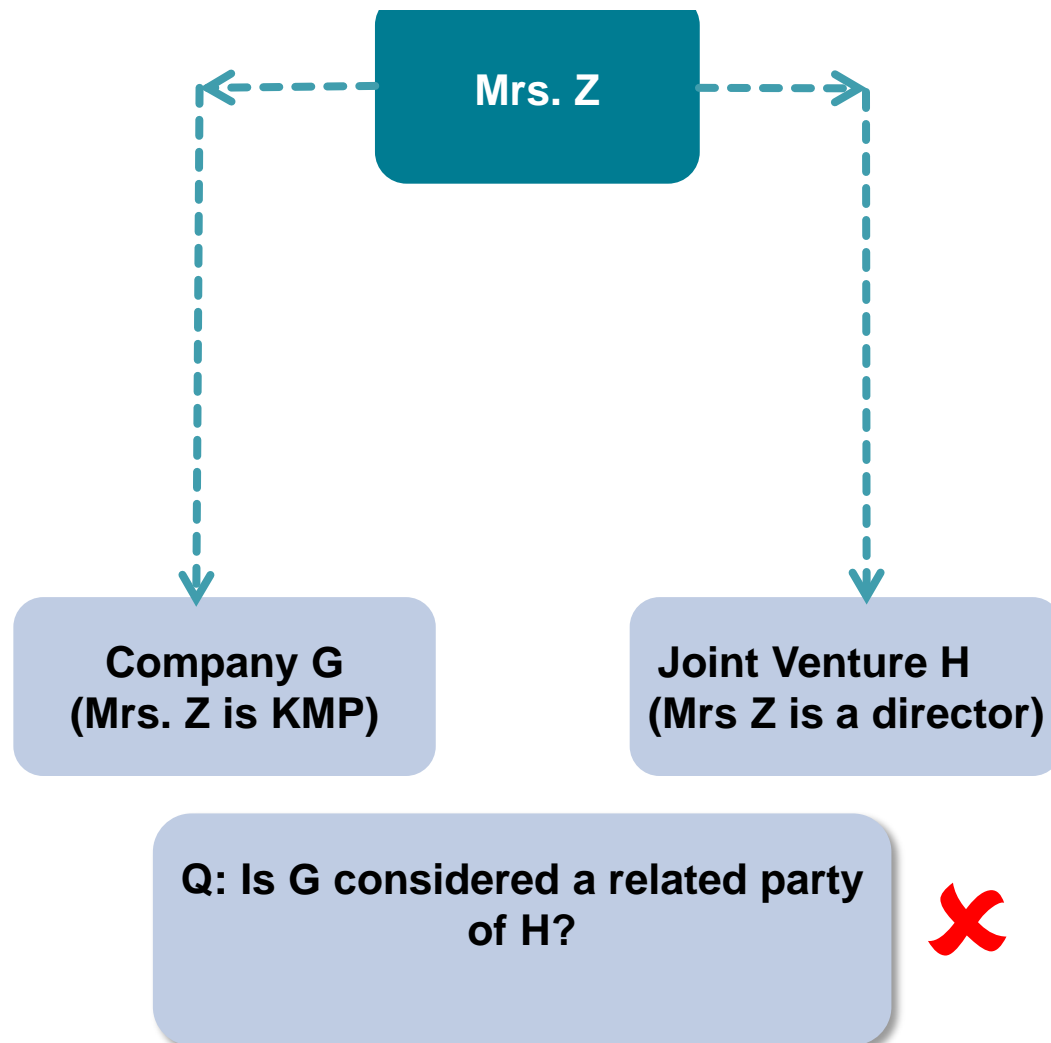
Entities under Control of KMP



- Mrs Z is a director of Company G and considered to be key management personnel of G. Mrs Z has joint control over Joint Venture H.
- Entities under the control or joint control of key management personnel (or their close family members) are also related parties of the reporting entity

Case study-4

Entities under Control of KMP



- Mrs Z is a director of Company G and considered to be key management personnel of G. Mrs Z is a director of Joint Venture H.
- Two entities are not related parties simply because they have a director or other member of key management personnel in common

Not related parties

Parties are not related just because they:

- **Have a director in common**
- **Share joint control over a joint venture**
- **Have normal business dealings with the entity as:**
 - **Providers of finance**
 - **Trade unions**
 - **Governments, agencies or utilities**
- **Are major customer, supplier, agent, franchiser, distributor etc.**



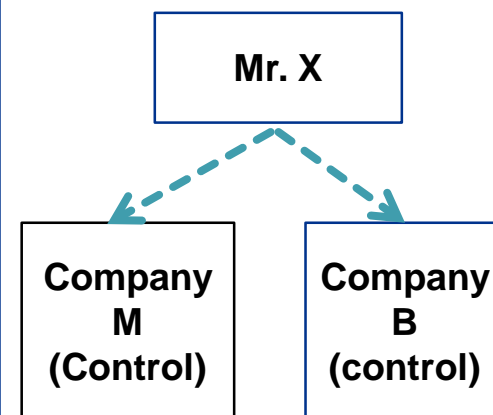


Disclosures

- Parent / subsidiary **related party relationships** are disclosed irrespective of whether there have been any transactions between the parties
- An entity discloses the **name of the entity's parent** and, if different, the **ultimate controlling party**
- If neither the parent's nor the ultimate controlling party's financial statements available for public use → disclose the name of the next most senior parent with financial statements available for public use

Example- Control Relationships

- Company M and Company B are owned and controlled by the same person, Mr X, and have the same directors. Both M and B have numerous subsidiaries. B holds shares in M, but not enough to give B control over M. M does not hold any shares in B.
- In its own financial statements, M discloses only its relationships with X and with M's own subsidiaries. M is not required to describe its relationship with B or any of B's subsidiaries if there have been no transactions with these entities. However, any transactions with B or its subsidiaries are disclosed as related party transactions.





- The **nature and types of transactions** with related parties are disclosed, including
- Nature of related party relationship and information regarding the transactions and **outstanding balances**; including
 - Amount of the transactions (*appropriate proportion no longer allowed*)
 - Amount of outstanding balances and their terms/conditions and guarantees
 - Allowance and expenses for doubtful debts
- Disclosures shall be **made separately for** each of the following category of related parties
 - the parent;
 - entities with joint control of, or significant influence over, the entity;
 - subsidiaries;
 - associates;
 - joint ventures in which the entity is a joint venturer;
 - key management personnel of the entity or its parent; and
 - other related parties.

Carve Out from IAS 24: As per Ind AS 24, disclosures, which conflict with duties of confidentiality (under a statute/ regulatory or similar requirement), are not required to be made. There is no such concession under IAS 24



- Key management personnel compensation in total and under the following categories:
 - Short-term employee benefits
 - Post-employment benefits
 - Other long-term benefits
 - Termination benefits
 - Share-based payments

Except where an entity obtains key management personnel services from another entity (the 'management entity')

- Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed

AS-18	Para 10 defines state-controlled enterprise as <i>“an enterprise which is under the control of the Central Government and/or any State Government(s)”</i>
Ind-AS 24	<p>As per Ind-AS 24:</p> <ul style="list-style-type: none">▪ 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.

Disclosures for Government related entities

AS-18	As per para 9 “No disclosure is required in the financial statements of state-controlled enterprises as regards related party relationships with other state-controlled enterprises and transactions with such enterprises.”
Ind-AS-24	Although detailed disclosures are exempt with regard to the transactions of a government related entity with the government and other government related entities, following disclosures are required: <ul style="list-style-type: none">- Name of the government and nature of relationship- For each individually significant transaction: nature and amount- For other transactions: a qualitative or quantitative indication of their extent.

Principles to remember

- Related party relationships under Ind AS 24 are symmetrical, i.e., if A is related to B for the purpose of B's financial statements, then B also is related to A in A's financial statements.
- All direct relationships involving control, joint control or significant influence are related party relationships.
- **Significant influence and KMP relationships are treated as the same level of "closeness". These relationships are not as close as a relationship of control or joint control.**
- Relationships between a reporting entity and a corporate investor and between a reporting entity and an individual investor are treated in the same manner.
- An individual and close members of that individual's family are treated as one party in analysing related party relationships.
- A post-employment benefit plan for employees of the reporting entity or any entity that is a related party of the reporting entity is considered to be a related party of the reporting entity.

Thank You

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