International Accounting Standard 24

Related Party Disclosures

This version includes amendments resulting from IFRSs issued up to 17 January 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Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.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:

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

CONTENTS

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

(c) dependants of the individual or the individual's domestic partner.

Compensation **includes all employee benefits (as defined in IAS 19** ***Employee Benefits*****) including employee benefits to which IFRS 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.

Control **is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

Joint control **is the contractually agreed sharing of control over an economic activity.**

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.**

Significant influence **is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.**

10 In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

11 In the context of this Standard, the following are not necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of 'related party'.

(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) government departments and agencies,

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, merely by virtue of the resulting economic dependence.

Disclosure

12 **Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.**

13 To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

14 The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, IAS 28 and IAS 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.

15 When neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the entity discloses the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

16 **An entity shall disclose key management personnel 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.

17 **If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:**

(a) the amount of the transactions;

(b) the amount of outstanding balances 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.

18 The disclosures required by paragraph 17 shall be made separately for each of the following categories:

(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.

19 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 18 is an extension of the disclosure requirement in IAS 1 *Presentation of Financial Statements* for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

20 The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services;

(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral; and

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Participation by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of IAS 19).

21 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.

22 Items of a 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.

Effective date

23 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

23A An entity shall apply the amendments in paragraph 20 for annual periods beginning on or after 1 January 2006. If an entity applies the amendments to IAS 19 Employee Benefits—*Actuarial Gains and Losses, Group Plans and Disclosures* for an earlier period, these amendments shall be applied for that earlier period.

Withdrawal of IAS 24 (reformatted 1994)

24 This Standard supersedes IAS 24 *Related Party Disclosures* (reformatted in 1994).

Appendix
Amendment to IAS 30

This amendment in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, this amendment shall be applied for that earlier period.

* * * * *

The amendment contained in this appendix when this Standard was issued in 2003 has been omitted, as IAS 30 was superseded by IFRS 7 in August 2005.

Approval of IAS 24 by the Board

International Accounting Standard 24 *Related Party Disclosures* was approved for issue by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Hans-Georg Bruns	
Anthony T Cope	
Robert P Garnett	
Gilbert Gélard	
James J Leisenring	
Warren J McGregor	
Patricia L O'Malley	
Harry K Schmid	
John T Smith	
Geoffrey Whittington	
Tatsumi Yamada	

Basis for Conclusions on IAS 24 *Related Party Disclosures*

This Basis for Conclusions accompanies, but is not part of, IAS 24.

Introduction

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 24 *Related Party Disclosures* in 2003. Individual Board members gave greater weight to some factors than to others.

BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 24. 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 Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within existing standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.

BC3 Because the Board's intention was not to reconsider the fundamental approach to related party disclosures established by IAS 24, this Basis for Conclusions does not discuss requirements in IAS 24 that the Board has not reconsidered.

Management compensation

BC4 The previous version of IAS 24 had no exemption for the disclosure of key management personnel compensation. In developing the Exposure Draft, the Board proposed that the disclosure of management compensation, expense allowances and similar items paid in the ordinary course of business should not be required because:

(a) the approval processes for key management personnel compensation in some jurisdictions remove the rationale for related party disclosures;

(b) privacy issues arise in some jurisdictions where accountability mechanisms other than disclosure in financial statements exist; and

(c) requiring these disclosures placed weight on the determination of 'key management personnel' and 'compensation', which was likely to prove contentious. In addition, comparability of these disclosures would be unlikely until measurement requirements are developed for all forms of compensation.

BC5 However, some respondents to the Exposure Draft objected to the proposed exemption because they were concerned that information relating to management compensation is relevant to users' information needs and that an exemption based on 'items paid in the ordinary course of business' could lead to abuse. Establishing a disclosure exemption on such a criterion without a definition of the terms could lead to exempting other transactions with management from being disclosed, because they could all be structured as 'compensation paid in the ordinary course of an entity's operations'. Respondents argued that such an exemption could lead to abuse because it could potentially apply to any transactions with management.

BC6 The Board was persuaded by the respondents' views on the Exposure Draft and decided that the Standard should require disclosure of key management personnel compensation because:

(a) the principle underpinning the requirements in IAS 24 is that transactions with related parties should be disclosed, and key management personnel are related parties of an entity.

(b) key management personnel compensation is relevant to decisions made by users of financial statements when it represents a material amount. The structure and amount of compensation are major drivers in the implementation of the business strategy.

(c) the benefit of this information to users of financial statements largely outweighs the potential lack of comparability arising from the absence of recognition and measurement requirements for all forms of compensation.

BC7 The Board believes that although some jurisdictions have processes for approving compensation for key management personnel in an attempt to ensure an arm's length result, it is clear that some jurisdictions do not. Furthermore, although approval processes for management compensation may involve other parties such as shareholders or investors, key management personnel may still have a significant input. In addition, the Board noted that disclosing key management personnel compensation would improve transparency and comparability, thereby enabling users of financial statements to make a better assessment of the impact of such compensation on the entity's financial position and profit or loss. The Board also noted that the definition of key management personnel and the guidance on compensation in IAS 19 *Employee Benefits* are sufficient to enable entities to disclose the relevant information.

Related party disclosures in separate financial statements

BC8 The previous version of IAS 24 exempted disclosures about related party transactions in:

(a) parent financial statements when they are made available or published with the consolidated statements; and

(b) financial statements of a wholly-owned subsidiary if its parent is incorporated in the same country and provides consolidated financial statements in that country.

BC9 In the Exposure Draft the Board proposed to continue exempting separate financial statements of parents and financial statements of wholly-owned subsidiaries from disclosures about any related parties in specified circumstances. It proposed that disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or the financial statements of a wholly-owned subsidiary would not be required, but only if those statements were made available or published with consolidated financial statements for the group.

BC10 The Board decided to retain this exemption for the Exposure Draft so that entities that are required by law to produce financial statements available for public use in accordance with International Financial Reporting Standards in addition to the group's consolidated financial statements would not be unduly burdened. The Board noted that in some circumstances, users can find sufficient information for their purposes regarding a subsidiary from either its financial statements or the group's consolidated financial statements. In addition, the users of financial statements of a subsidiary often have, or can obtain access to, more information. The Board also noted that users should be aware that amounts recognised in the financial statements of a wholly-owned subsidiary can be affected significantly by the subsidiary's relationship with its parent.

BC11 Respondents to the Exposure Draft objected to this exemption, on the grounds that disclosure of related party transactions and outstanding balances is essential information for external users who need to be aware of the level of support provided by related parties. The respondents also argued that financial statements prepared in accordance with International Financial Reporting Standards could be presented on a stand-alone basis. Therefore, financial statements prepared on the basis of this proposed exemption would not achieve a fair presentation without related party disclosures.

BC12 The Board was persuaded by those arguments and decided to require the disclosure of related party transactions and outstanding balances in separate financial statements of a parent, investor or venturer in addition to the disclosure requirements in IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures.*

BC13 The Board noted that the financial statements of an entity that is part of a consolidated group may include the effects of extensive intragroup transactions. Indeed, potentially all of the revenues and expenses for such an entity may derive from related party transactions. The Board concluded that the disclosures required by IAS 24 are essential to understanding the financial position and financial performance of such an entity and therefore should be required for separate financial statements presented in accordance with IAS 27.

BC14 The Board also believed that disclosure of such transactions is essential because the external users need to be aware of the interrelationships between related parties, including the level of support provided by related parties, to assist external users in their economic decisions.

