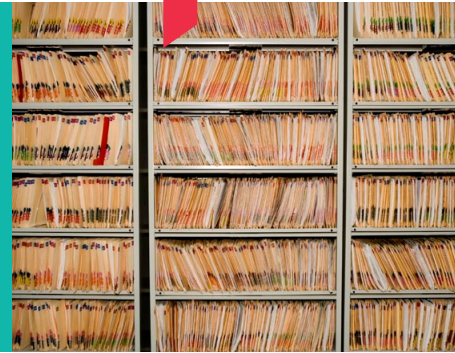


INTERNATIONAL FINANCIAL REPORTING BULLETIN 2010/01 IAS 24 RELATED PARTY DISCLOSURES



Background

The International Accounting Standards Board has issued a revised version of IAS 24 *Related Party Disclosures*. This follows two exposure drafts, which were issued in February 2007 and December 2008.

Requirements

In a significant change from the existing IAS 24, the revised standard provides a partial exemption from related party disclosures by 'government-related' entities. In other respects, changes are limited to simplifying the definition of a related party in order to clarify the intended meaning and eliminate inconsistencies.

The main changes from the previous version of IAS 24 are as follows:

Scope

The standard now requires disclosure of commitments and clarifies that it applies to consolidated financial statements of a parent, venturer or investor and to an entity's individual financial statements.

Partial exemption for government-related entities

The most significant change is in relation to government-related entities. A government-related entity is defined as:

'...an entity that is controlled, jointly controlled or significantly influenced by a government.'

The previous version of IAS 24 did not contain any exemption for such entities. Some entities, in particular those in jurisdictions where government control is pervasive, found it difficult to comply with the requirements of the standard, as it was not straightforward to identify all of the related party transactions and balances that were required to be disclosed. In addition, the volume of disclosures required could be very significant.

As a means of dealing with these practical difficulties, the revised standard provides a partial exemption. This exempts a reporting entity, that is a government-related entity, from the disclosure of 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, the definition of 'government' includes government, government agencies and similar bodies whether local, national or international.

Certain disclosures are still required, and are outlined in the 'Disclosures' section below.

STATUS

Final

EFFECTIVE DATE

Annual periods beginning on or after 1 January 2011

ACCOUNTING IMPACT

Provides a partial exemption from the disclosure requirements of IAS 24 for entities that are controlled, jointly controlled or significantly influenced by a state in relation to other state-controlled entities. Amends and clarifies the definition of a related party.

Revised definition of a related party

The definition of related party has been amended in order to clarify its meaning and to eliminate previous inconsistencies. The changes include:

- It has been clarified that, where an investor has a subsidiary and an associate, for the purposes of the associate's separate or individual financial statements, the subsidiary is regarded as a related party of the associate as well as the investor;
- The definition of a related party has been amended such that in the circumstances in the bullet point above, for the purposes of the subsidiary's separate or individual financial statements, the associate is a related party;
- An inconsistency has been removed in order that, when considering investments held by individuals rather than entities, two associates are not regarded as being related parties simply because one person has significant influence over one entity, and a close family member of that person has significant influence over another entity;
- The criteria for investments held by key management personnel have been changed, so that where the key management personnel of a reporting entity have control or joint control over other entities, disclosures are required in both the financial statements of the reporting entity and the financial statements of the other entities.
- In any circumstances where a person or entity has joint control over a second entity, and joint control or significant influence over a third entity, then the second and third entities are regarded as being related to each other.

Other amendments have been made to the definition of a related party which clarify that:

- References to an associate and a joint venture include their subsidiaries; and
- Two entities are not related parties by virtue of a member of key management personnel of one entity having significant influence over another entity.

The definition of a 'close member of the family' has also been amended to state that these 'include' a person's spouse or domestic partner and children, rather than 'may include'.

Disclosures

The revised standard divides the disclosures into disclosures for 'all entities' and for 'government-related entities'.

The disclosures required for 'all entities' are substantially the same as the disclosures in the previous standard with minor changes having been made to certain paragraphs to clarify their meaning and to carry forward the wording changes in the revised definitions.

For government-related entities, if the partial exemption referred to above is applied, the following disclosures are required:

- The name of the government and the nature of its relationship with the reporting entity;
- Information in sufficient detail to give an understanding of:
 - The nature and amount of each individually significant transaction; and
 - A qualitative or quantitative description of other transactions that are collectively, but not individually, significant.

Factors that an entity is required to consider in determining the level of detail to be provided under the second main bullet point above include the closeness of the related party relationship, and the significance of the transaction such as whether it is

- significant in terms of size;
- carried out on non-market terms;
- outside normal day-to-day operations;
- disclosed to regulatory or supervisory authorities;
- reported to senior management;
- subject to shareholder approval.

Effective date and transition

The revised standard is effective for annual periods beginning on or after 1 January 2011, with retrospective application. Earlier application is permitted, either in full or only for the partial exemption in paragraphs 25-27 for government-related entities. If the whole standard, or the partial exemption, is applied for a period beginning before 1 January 2011, this early adoption is required to be disclosed.

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