

Exposure Draft

Accounting Standard (AS) 24

Related Party Disclosures

Last date for the comments: 31st October, 2017



Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

Exposure Draft

Accounting Standard (AS) 24

Related Party Disclosures

(The Indian Accounting Standards (Ind AS), as notified by the Ministry of Corporate Affairs in February, 2015, have been applicable to the specified class of companies. For other class of companies, i.e., primarily the unlisted entities having net worth less than Rs. 250 crores, Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, have been applicable. However, the Ministry of Corporate Affairs has requested the Accounting Standards Board of The Institute of Chartered Accountants of India (ICAI) to upgrade Accounting Standards, as notified under Companies (Accounting Standards) Rules, 2006, to bring them nearer to Indian Accounting Standards. Accordingly, the Accounting Standards Board, ICAI, initiated to upgrade these standards which will be applicable to all companies having net-worth less than Rs. 250 crores including non-corporate entities. While formulating these Accounting Standards, the Accounting Standards Board, ICAI, decided to maintain the consistency with the paragraph numbers and with the numbering of Standards of the Indian Accounting Standards).

Following is the Exposure Draft of the Accounting Standard (AS) 24, Related Party Disclosures, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment

Comments can be submitted using one of the following methods so as to receive not later than 31st October, 2017:

- 1. Electronically: Visit the following link
<http://www.icaai.org/comments/asb/>*
- 2. Email: Comments can be sent at commentsasb@icai.in*
- 3. Postal: Secretary, Accounting Standards Board,
The Institute of Chartered Accountants of India, ICAI Bhawan,
Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002*

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

*(This Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold italic type indicate the main principles.)*

This Accounting Standard is not Mandatory for non-corporate entities falling in Level III, as defined in Appendix 1 to this Compendium 'Applicability of Accounting Standards to Various Entities'.

Objective

1. The objective of this Standard is to establish requirements for disclosure of:
 - (a) related party relationships;
 - (b) transactions between a reporting entity and its related parties; and
 - (c) outstanding balances, including commitments, with such related parties

Scope

2. **This Standard shall be applied in identifying & reporting related party relationships and transactions between a reporting entity and its related parties. The requirements of this Standard apply to the financial statements of each reporting entity as also to consolidated financial statements presented by a holding company.**
 - 3 **This Standard applies only to related party relationships described in paragraph 3A.**
- 3A This Standard deals only with related party relationships described in (a) to (e) below:
- (a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the reporting entity (this includes holding companies, subsidiaries and fellow subsidiaries);
 - (b) associates and joint ventures of the reporting entity and the investing party or venturer in respect of which the reporting entity is an associate or a joint venture;
 - (c) individuals owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them control or significant influence over the entity, and relatives of any such individual;

- (d) key management personnel and relatives of such personnel; and
 - (e) entities over which any person described in (c) or (d) is able to exercise significant influence. This includes entities owned by directors or major shareholders of the reporting entity and entities that have a member of key management in common with the reporting entity.
- 4 No disclosure is required in consolidated financial statements in respect of intra-group transactions. Disclosure of transactions between members of a group is unnecessary in consolidated financial statements because consolidated financial statements present information about the holding and its subsidiaries as a single reporting entity.
- 4A Related party disclosure requirements as laid down in this Standard do not apply in circumstances where providing such disclosures would conflict with the reporting entity's duties of confidentiality as specifically required in terms of a statute or by any regulator or similar competent authority.
- 4B In case a statute or a regulator or a similar competent authority governing an entity prohibit the entity to disclose certain information which is required to be disclosed as per this Standard, disclosure of such information is not warranted. For example, banks are obliged by law to maintain confidentiality in respect of their customers' transactions and this Standard would not override the obligation to preserve the confidentiality of customers' dealings.

The Related Party Issue

- 5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on separate parts of their activities through subsidiaries or associates and acquire interests in other entities - for investment purposes or for trading reasons - that are of sufficient proportions for the investing entity to be able to control or exercise significant influence on the financial and/or operating decisions of its investee.
- 6 Without related party disclosures, there is a general presumption that transactions reflected in financial statements are consummated on an arm's-length basis between independent parties. However, that presumption may not be valid when related party relationships exist because related parties may enter into transactions which unrelated parties would not enter into. Also, transactions between related parties may not be effected at the same terms and conditions as between unrelated parties. Sometimes, no price is charged in related party transactions, for example, free provision of management services and the extension of free credit on a debt. In view of the aforesaid, the resulting accounting measures may not represent what they usually would be expected to represent. Thus, a related party relationship

could have an effect on the financial position and operating results of the reporting entity.

- 7 The operating results 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 reporting entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the holding company of a fellow subsidiary engaged in the same trade as the former partner. Alternatively, one party may refrain from acting because of the control or significant influence of another - for example, a subsidiary may be instructed by its holding company not to engage in research and development.
- 8 Because there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required by this Standard.
- 8A Sometimes, transactions would not have taken place if the related party relationship had not existed. For example, a company that sold a large proportion of its production to its holding company at cost might not have found an alternative customer if the holding company had not purchased the goods.

Definitions

9. The following terms are used in this Standard with the meanings specified:

Related party - parties are considered to be related if at any time during the reporting period one party has the ability to control the other party or exercise significant influence over the other party in making financial and/or operating decisions.

Related party transaction - a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.

Key management personnel - those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting entity.

Relative – in relation to an individual, means the spouse, son, daughter, brother, sister, father and mother who may be expected to influence, or be influenced by, that individual in his/her dealings with the reporting entity.

Holding company - a company having one or more subsidiaries.

Subsidiary – as defined in AS 110, *Consolidated Financial Statements*

Fellow subsidiary - a company is considered to be a fellow subsidiary of another company if both are subsidiaries of the same holding company.

State-related entity - an entity that is controlled, jointly controlled or significantly influenced by the Central, State, and/or any local Government(s).

The terms ‘control’, ‘significant influence’, ‘associate’, ‘joint control’ and ‘joint-venture’ are defined in relevant Accounting Standards and are used in this Standard with the meanings specified in those Accounting Standards.

- 9A Key management personnel are those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting entity. For example, in the case of a company, the managing director(s), whole time director(s), manager, and any person in accordance with whose directions or instructions the board of directors of the company is accustomed to act, are usually considered key management personnel.
- 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 deemed not to be related parties:
- (a) two companies simply because they have a director in common, notwithstanding paragraph 3(d) or (e) above (unless the director is able to affect the policies of both companies in their mutual dealings);
 - (b) a single customer, supplier, franchiser, distributor, or general agent with whom an entity transacts a significant volume of business merely by virtue of the resulting economic dependence; and
 - (c) the parties listed below, in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of the entity or participate in its decision-making process):
 - (i) providers of finance;
 - (ii) trade unions;

(iii) public utilities;

(iv) government departments and government agencies including government sponsored bodies.

12 [Refer Appendix 1]

Disclosure

All entities

13 The statutes governing an entity often require disclosure in financial statements of transactions with certain categories of related parties. In particular, attention is focused on transactions with the directors or similar key management personnel of an entity, especially their remuneration and borrowings, because of the fiduciary nature of their relationship with the entity.

14 Name of the related party and nature of the related party relationship where control exists shall be disclosed irrespective of whether or not there have been transactions between the related parties.

14A Where the reporting entity controls, or is controlled by, another party, this information is relevant to the users of financial statements irrespective of whether or not transactions have taken place with that party. This is because the existence of control relationship may prevent the reporting entity from being independent in making its financial and/or operating decisions. The disclosure of the name of the related party and the nature of the related party relationship where control exists may sometimes be at least as relevant in appraising an entity's prospects as are the operating results and the financial position presented in its financial statements. Such a related party may establish the entity's credit standing, determine the source and price of its raw materials, and determine to whom and at what price the product is sold.

15 The requirements to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in AS 27, *Separate Financial Statements*, and AS 112, *Disclosure of Interests in Other Entities**.

16-17A [Refer Appendix 1]

18. If there have been transactions between related parties, during the existence of a related party relationship, the reporting entity shall disclose the following:

* AS 27 and AS 112 is under formulation.

- (i) the name of the transacting related party;**
- (ii) a description of the relationship between the parties;**
- (iii) a description of the nature of transactions;**
- (iv) amount of the transactions ;**
- (v) any other elements of the related party transactions necessary for an understanding of the financial statements;**
- (vi) the amounts of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and**
- (vii) amounts written off or written back in the period in respect of debts due from or to related parties.**

18A Paragraph 18(v) requires disclosure of ‘any other elements of the related party transactions necessary for an understanding of the financial statements’. An example of such a disclosure would be an indication that the transfer of a major asset had taken place at an amount materially different from that obtainable on normal commercial terms.

19-20 [Refer Appendix 1]

21 The following are examples of the related party transactions in respect of which disclosures may be made by a reporting entity:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property, plant & equipment & other assets;
- (c) rendering or receiving of services;
- (d) agency arrangements;
- (e) leasing or hire purchase arrangements;
- (f) transfer of research and development;
- (g) licence agreements;
- (h) finance (including loans and equity contributions in cash or in kind);
- (i) commitments;

- (j) guarantees and collaterals; and
 - (k) management contracts including for deputation of employees.
- 22 Participation by a parent or subsidiary in a defined benefit plan that shares risk between group entities is a transaction between related parties (see paragraph 42 of AS 19, *Employee Benefits*).
- 23 [Refer Appendix 1]
- 24 Items of a similar nature may be disclosed in aggregate by type of related party except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the reporting entity. Type of related party means each related party relationship described in paragraph 3A.**
- 24A Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, items of a similar nature may be disclosed in aggregate by type of related party. However, this is not done in such a way as to obscure the importance of significant transactions. Hence, purchases or sales of goods are not aggregated with purchases or sales of property, plant and equipment. Nor a material related party transaction with an individual party is clubbed in an aggregated disclosure
- 24B (a) Materiality primarily depends on the facts and circumstances of each case. In deciding whether an item or an aggregate of items is material, the nature and the size of the item(s) are evaluated together. Depending on the circumstances, either the nature or the size of the item could be the determining factor. As regards size, for the purpose of applying the test of materiality as per this paragraph, ordinarily a related party transaction, the amount of which is in excess of 10% of the total related party transactions of the same type (such as purchase of goods), is considered material, unless on the basis of facts and circumstances of the case it can be concluded that even a transaction of less than 10% is material. As regards nature, ordinarily the related party transactions which are not entered into in the normal course of the business of the reporting entity are considered material subject to the facts and circumstances of the case.
- (b) The manner of disclosure required by paragraph 18, read with paragraph 24, is illustrated in the Appendix A to the Standard.

State –related entities

- 25 A reporting entity is exempt from the disclosure requirements of**

paragraph 18 in relation to related party transactions and outstanding balances, including commitments with:

- (a) State-related entity that has control or joint control of, or significant influence over, the reporting entity; and**
- (b) Another entity that is a related party because the state-related entity has control or joint control of, or significant influence over, both the reporting entity and the other entity.**

26. If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances & commitments referred to in paragraph 25:

- (a) the name of the state-related entity and the nature of its relationship with the reporting entity(i.e., control, joint control or significant influence);**
- (b) the nature and amount of transaction on aggregate basis to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.**

Appendix A

Illustration

Note: This illustration does not form part of the Accounting Standard. Its purpose is to assist in clarifying the meaning of the Accounting Standard.

The manner or disclosures required by paragraphs 18 and 24 of AS 24 is illustrated as below. It may be noted that the format given below is merely illustrative in nature and is not exhaustive.

	Holding Company	Subs- diaries	Fellow Subsi- diaries	Assoc- iates	Key Manag- ement Personnel	Relatives Total of Key Manage- ment Personnel
Purchases of goods						
Sale of goods						
Purchase of property plant & equipment & other assets						
Sale of property, plant and equipment and other asset						
Rendering of services						
Receiving of services						
Agency arrangements						
Leasing or hire purchase arrangements						
Transfer of research and development						
License agreements Finance (including loans and equity contributions in cash or in kind)						

Commitments

Guarantees and
collaterals

Management contracts
including for deputation of
employees

Note:

Name of related parties and description of relationship:

- | | |
|---|---|
| 1. Holding Company | A Ltd. |
| 2. Subsidiaries | B Ltd. and C (P) Ltd. |
| 3. Fellow Subsidiaries | D Ltd. and Q Ltd.
X Ltd., Y Ltd. and Z (P)
Ltd. |
| 4. Associates | Mr. Y and Mr. Z |
| 5. Key Management Personnel | Mrs. Y (wife of Mr. Y), |
| 6. Relatives of Key Management
Personnel | Mr. F (father of Mr. Z) |

Appendix 1

Note: This Appendix is not a part of the Indian Accounting Standard. The purpose of this Appendix is only to bring out the major differences, if any, between Indian Accounting Standard (Ind AS) 24, Related Party Disclosures and the Accounting Standard (AS) 24, Related Party Disclosures.

Comparison with Ind AS 24, Related Party Disclosures

1. The definition of 'related party' is much wider in Ind AS 24 as compared to AS 24. Ind AS 24 defined Government-related entity and AS 24 defines State-related entity. Accordingly, paragraphs 25 and 26 and related heading have been modified in AS 24.
2. Ind AS 24 covers key management personnel (KMP) of the parent. Ind AS 24 also covers the entity, or any member of a group of which it is a part, providing key management personnel services to the reporting entity or to the parent of the reporting entity. AS 24 covers KMP of the entity only.
3. AS 24 specifically mention that because there is an inherent difficulty for management to determine the effect of influences which do not lead to transactions, disclosure of such effects is not required. This is not specifically mention in Ind AS. Paragraph 8A is added in AS 24 to explain this which is not there in Ind AS 24,
4. Paragraph 9A is added in AS 24 to explain key management personnel which is not there in Ind AS 24.
5. Under Ind AS 24 there is extended coverage in case of joint ventures. Two entities are related to each other in both their financial statements, if they are either co-venturers or one is a venturer and the other is an associate. Whereas as per AS 24, co-venturers or co-associates are not related to each other. Accordingly, related paragraph 12 is not included in AS 24. However, paragraph number is retained in AS 24 in order to maintain the consistency with the paragraph numbers of the Ind AS 24.
6. AS 24, as compared to Ind AS 24, does not include additional disclosure as to the name of the next most senior parent which produces consolidated financial statements for public use since it is felt that it is not relevant for non-Ind AS compliant companies. Accordingly, paragraph 16 of Ind AS 24 with reference to next most senior parent is not included in AS 24. However, paragraph number is retained in AS 24 in order to maintain the consistency with the paragraph numbers of the Ind AS 24.
7. Ind AS 24 requires extended disclosures for compensation of KMP under different categories. AS 24 does not specifically require so. Accordingly, paragraphs 17 and 17A are not included in AS 24.

8. Paragraph 19 of Ind AS 24 requires disclosure of related party transactions for different categories separately. Such disclosure is not required in AS 24 and, accordingly, paragraph 19 and 20 are not included in AS 24.
9. Ind AS requires disclosure of transactions made on terms equivalent to those in arm's length transactions if such terms can be substantiated. AS 24 does not require such disclosure. Accordingly, paragraph 23 is not included in AS 24.
10. Appendix A has been included in AS 24 to describe the manner of disclosures required by paragraph 18 read with paragraph 24.