

*10th IFRS Study Group Meeting
ICAI, BKC*

**Indian Accounting Standard(Ind AS) 24
Related Party Disclosure**

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Today's Agenda:

- ❑ Significance of Related Party disclosure
- ❑ Objective & Scope
- ❑ Important Terms & Concepts
- ❑ Overview of Key differences
- ❑ Disclosure of relationship and transactions
- ❑ Case Studies

Significance of RPT disclosure

Significance of Related Party disclosure: *(Para 5 to 8)*

- Awareness to stakeholders of transactions that may have affected the financial performance and position
- Highlights the transactions devoid of any economical or commercial substance
- Such disclosures affects the assessment of entity's operations including assessment of risk and opportunities facing an entity
- One of the highly debated and discussed provision of Companies Act,2013
- Has always been the important disclosure from the GAAP as well as from the perspective of statutory authorities (Income Tax, TP Officers etc.)

Objective and Scope

Objective and Scope: (Para 1 to Para 4)

▪ **Objective:**

- disclosure in the financials statement about the transactions with the related party
- Draw the attention to the fact that the financial position or profit or loss may be affected due to existence of related parties

▪ **Scope:**

- Identifying the RPR & RPT;
- Identifying the O/s Balances, including *commitments*, between an entity and its RP; and
- Determining the disclosure to be made about the RP & RPT

**Disclosure of RPT both in CFS as well as SFS
(Ind AS-110 & Ind AS-27)**

Important Terms & Concepts

Important Terms & Concepts: (Para 1 to Para 4)

▪ **Related Party:**

- A Person or an Entity that is related to the “reporting entity” (RE)

▪ **A Person or a close member of that person’s family is RP if:**

- Person has control or joint control of the RE
- Person has SI over RE
- Member of KMP or RE or of Parent of RE

▪ **Close Family members:**

- *Members who are expected to influence or be influenced by that person in dealings with RE “including”:*
 - *Children, spouse or domestic partner, brother, sister, father & mother*
 - *Children of that person’s spouse or domestic partner; and*
 - *Dependents of that person or that person’s spouse or domestic partner*

Important Terms & Concepts:

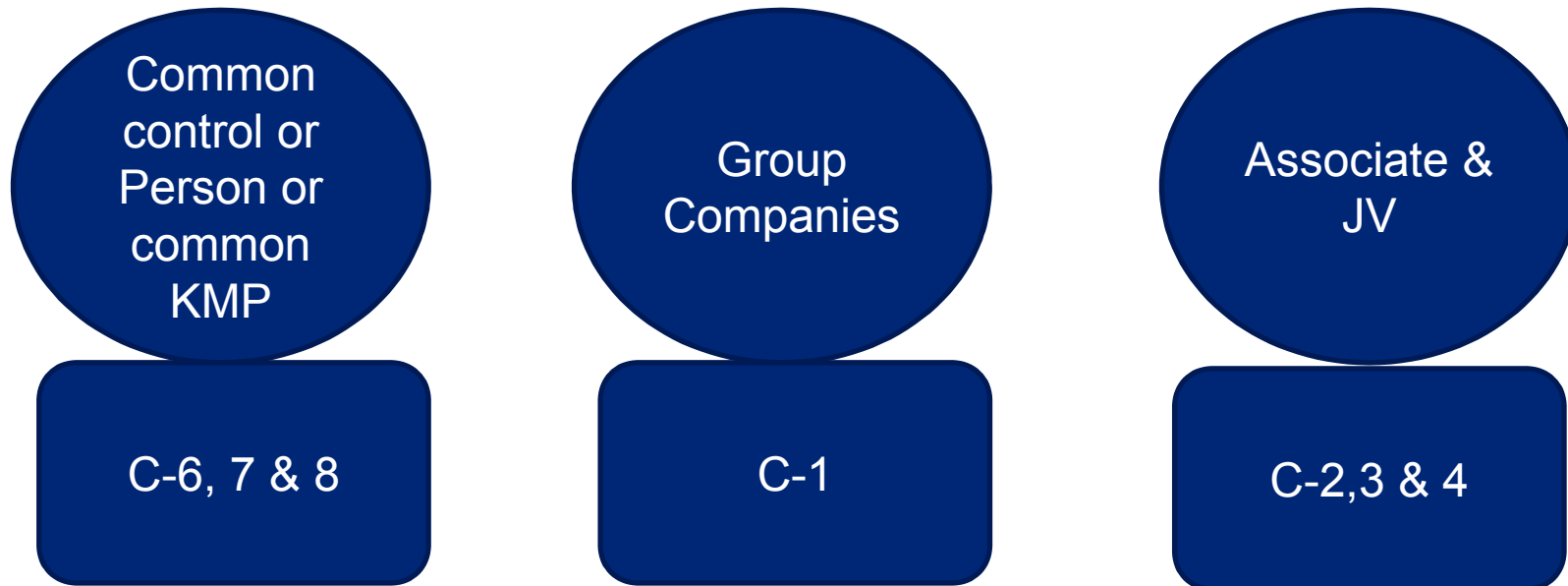
- *An entity is related to RE if any of the 8 conditions satisfied*

Sr.No.	Conditions
1.	Entity and the reporting entity are the members of the same group
2.	One entity is an associate or JV of other entity
3.	Both the entities are JV's of the same third party
4.	One entity is a JV of a third party and the other entity is an associate of the third party
5.	The entity is a post employment benefit plan of employees of either the reporting entity or an entity related to the reporting entity
6.	The entity is controlled or jointly controlled by a person identified in above slide
7.	Person has SI over the entity or is a member of KMP of the entity (or of a parent of the entity)

Important Terms & Concepts:

- *An entity is related to RE if any of the 8 conditions satisfied*

Sr.No.	Conditions
8.	The entity, or any member of a group of which it is part, provides KMP services to the RE or parent of RE



Did you get it? Case-1 Associate & Subsidiary of an Investor

Situations	Solution
<p>.Entity P controls Entity S and has SI over Entity A.</p> <p>AS-18- In S's FS whether S & A are related party? In A's FS whether S & A are related party?</p>	
<p>Ind AS-24- In S's FS whether S & A are related party? In A's FS whether S & A are related party?</p>	

Did you get it? Case-2 Investments of KMP

Situations	Solution
<p>Mr. X holds is Managing Director in Entity A and has investments in the following Entity</p> <p>Entity B- Control Entity C- SI Entity D- JC</p> <p>AS-18-</p> <ul style="list-style-type: none">▪ In A's FS whether A & other companies are related party?▪ In other companies FS whether A is a related party?	
<p>Ind AS-24</p> <ul style="list-style-type: none">▪ In A's FS whether A & other companies are related party?▪ In other companies FS whether A is a related party?	

Did you get it? Case-3 Two associates

Situations	Solution
<p>Entity P has SI over Entity A and Entity B.</p> <p>AS-18-</p> <ul style="list-style-type: none">▪ Whether from the perspective of P, A & B are related party? <p>Ind AS-24-</p> <ul style="list-style-type: none">• Whether from the perspective of P, A & B are related party?	
<p>Mr. X has SI over entity A and relative of Mr. X has SI over entity B.</p> <p>AS-18-</p> <ul style="list-style-type: none">▪ Whether entity A & entity B are related party? <p>Ind AS-24-</p> <ul style="list-style-type: none">▪ Whether entity A & entity B are related party?	

Did you get it? Case-4 Indirect Associates/JV's

Situations	Solution
<p>Entity P has control over Entity R and Entity R has SI over Entity S.</p> <p>AS-18-</p> <ul style="list-style-type: none">▪ Whether Entity P and Entity S are related party? <p>Ind AS-24-</p> <ul style="list-style-type: none">▪ Whether Entity P and Entity S are related party?	
<p>Entity P has SI over Entity R and Entity R control Entity S.</p> <p>AS-18-</p> <ul style="list-style-type: none">▪ Whether entity P & entity S are related party? <p>Ind AS-24-</p> <ul style="list-style-type: none">▪ Whether entity P & entity S are related party?	

“NOT” related parties:

- *Two entities simply*
 - because they have a Director or other member of KMP in common
 - because a member of KMP of one entity has SI over the other entity

- *Two ventures because they share joint control over a JV*

- *Two associates of the same investor are not related parties*

- *Providers of finance, trade unions, public utilities departments and agencies of a government simply by virtue of their normal dealing even though they may affect the freedom of action or participate in its decision making process.*

Case Study- 5

Question- Whether entity A & entity B are related parties under Ind AS-24?

Person	Reporting entity-A	Other Entity-B	Yes/No
Mr. A	Control	Control	
Mr. A	SI	SI	
Mr. A	Member of KMP	Member of KMP	
Mr. A	SI	Control	
Mr. A	SI	KMP	
Mr. A	Control	SI	
Mr. A	KMP	Si	

Disclosure of relationship and transactions:

- Disclosure is required ONLY in respect of transactions during the year for **which the entities are related**

- RPT between Parents & Subsidiary:
 - Disclosure of parent AND subsidiary requires even if no transactions have taken place
 - No need for disclosure of the transactions that get eliminated on consolidation

- Compensation to KMP: compensation in following category need to be disclosed
 - Short term employee benefit
 - Post employment benefit
 - Other long term benefit
 - Termination benefit
 - Share based payments

Disclosure of relationship and transactions:

- Duties of confidentiality:
 - Disclosure requirements laid down by the standard do not apply, where they conflict with the reporting entity's duties of confidentiality as specifically required by statute or other competent authority

- RPT should be classified and presented separately for each of the following categories:
 - The parent
 - Entities with JC or SI over the entity
 - Subsidiaries
 - Associates and JV
 - KMP of the entity
 - Other RP

- Government related entities-exemption from disclosure requirement:
 - a government that has control, JC or SI over RE
 - Another entity where the same government has control, JC or SI over RE and other entity

Ind AS Vs. IGAAP

Topic	IND-AS-24	IGAAP-18
Applicability	Applies to all entities including un incorporated entities.	Specifies specific categories to which AS-18 is applicable.
Relative	Rule based definition of the term relative as prescribed by the Companies Act,2013 Inclusion of Domestic partner	Term relative covers spouse, son, daughter, mother and father.
KMP	KMP includes Non-executive directors and KMP of Parent company	Does not include Non-executive directors and KMP of parent entity.
Disclosures- Compensation to KMP	Detailed category for compensation to KMP has been prescribed	No such detailed disclosure in AS-18.

Ind AS Vs. IGAAP

Topic	IND-AS-24	IGAAP-18
Post-employment benefit plans	Post employment benefit plan of the entity or of a related party of the entity is considered as a related party	Not considered as related parties
Definition of close family member	Close member= Relative as per Co's Act, 2013 + That person's domestic partner	Only relatives are defined and close member has not been mentioned in AS.

Thank You