



HM TREASURY

Financial Reporting Advisory Board Paper

IAS 24 – RELATED PARTY DISCLOSURES

Issue:	The application of IAS 24 <i>Related Party Disclosures</i> to entities and other funds, accounts and flows covered by the IFRS-based Government Financial Reporting Manual (FReM).
Impact on guidance:	The proposed text in Annex A relates to the IFRS-based FReM.
IAS/IFRS adaptation?	No.
IPSAS compliant?	As IPSAS 20 <i>Related Party Disclosures</i> predates the current version of IAS 24, the proposals in this paper are based on the requirements of IAS 24.
Interpretation for the public sector context?	Yes: (1) In line with the current arrangements for FRS 8, there is no requirement to provide details of transactions with other entities within government. (2) Charitable NDPBs will follow the guidance in the Charities' SORP (3) The requirement in IAS 24 to disclose details of the remuneration of key management personnel is satisfied by the preparation of a remuneration report. (4) Pending the outcome of discussions, ministers are not to be regarded as related parties.
Impact on budgetary regime?	None: IAS 24 relates only to disclosures.
Alignment with National Accounts	N/A: IAS 24 relates only to disclosures.
Impact on Estimates?	None: IAS 24 relates only to disclosures.
Recommendation:	The FRAB is invited to consider the application of IAS 24 and the proposed wording for the IFRS-based FReM, and to note the exclusion of ministers from the scope of the disclosures pending further discussion.
Timing:	Not yet known: depends on future decision on date for moving to EU-adopted IFRS.

DETAIL

Background

1. The current version of IAS 24 *Related Party Disclosures* was issued in December 2003, and became effective for financial periods ending on or after 1 January 2005. It is similar to FRS 8 in requiring an entity to disclose transactions with related parties. The main differences are:

- Whereas FRS 8 requires the disclosure of transactions only when they are material (as defined), IAS 24 has no similar exemptions. However, IAS 1 *Presentation of Financial Statements* addresses the question of materiality and we consider that, in practice, the concept of materiality as defined in FRS 8 will apply to disclosures under IAS 24 (see paragraph 3 below);
- FRS 8 does not require the disclosure in an entity's own accounts of transactions between that entity and its related parties where these are eliminated on consolidation, and where the consolidated accounts are publicly available. No such exemption applies in IAS 24;
- IAS 24 requires the disclosure of the remuneration paid to senior managers. FRS 8 does not require the disclosure of emoluments in respect of services as an employee, although this information is provided in the remuneration report of departments etc.

2. As there has long been a question over the application of FRS 8 to ministers (including members of their close families), departmental resource accounts and accounts prepared by other entities have never disclosed transactions between entities and their relevant ministers. This paper proposes a continuation of this arrangement pending the outcome of consultation with Australia and New Zealand (which are considering similar issues relating to the implementation of IAS 24) and, if necessary, with ministers.

Impact on disclosures in resource and other accounts

3. The requirements of IAS 24 are different only in detail from those in FRS 8 and, as currently proposed, there should be little impact on the disclosures in resource and other accounts. Although there is no explicit reference to materiality in IAS 24, it (as with other standards) applies only to material items. Materiality is defined in IAS 1 *Presentation of Financial Statements* as "omissions or misstatements of items are material if they could, individually or collectively influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances [emphasis added]. The size or nature of the item, or a combination of both could be the determining factor." It does not seem unreasonable to interpret "surrounding circumstances" to mean that materiality should be judged from the viewpoint of both the entity and the individual – which is consistent with the definition of materiality in FRS 8. In other words, it seems likely that materiality will be judged against the same criteria as are currently used.

IAS/IFRS compliance

4. The proposals are an *interpretation* of IAS 24 to the extent that,

- Disclosures of transactions with related parties other than individuals may be restricted to the name of the entity's parent department (if any) and a note of the main entities within government with which the entity has had dealings (that is, no information about those transactions need be given). Full details of transactions with individuals will, however, be given. This approach is that currently applied to FRS 8, and addresses the practical problem that because, in principle, the list of related party transactions could be excessively large, restricting the information simply to the names of the main entities with which the department or body has had dealings enables the disclosures to be kept to manageable proportions;
- Charitable non-departmental public bodies shall follow the disclosure requirements for related party transactions given in the Charities SORP;
- The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the Remuneration Report;
- Pending the outcome of further discussions, a department's ministers (including members of their close family) are not to be regarded as being related parties of that department or its sponsored bodies;
- Although not strictly an interpretation of IAS 24, the IFRS-based FReM will note that the definition of "materiality" in IAS 1 means that the effect of a related party transaction should be judged from the viewpoint of both the entity and of the individual.

IPSAS compliance

5. IPSAS 20 *Related party disclosures* was issued in October 2002, and thus predates the current version of IAS 24 (see paragraph 1). It differs in a number of respects from IAS 24, but there appear to be no plans to amend it to reflect the requirements of IAS 24:

- The definition in IPSAS 20 of "remuneration of key management personnel" is less comprehensive than that of "compensation" in IAS 24;
- The requirements in IPSAS 20 for the disclosure of the remuneration of key management personnel are more comprehensive than those in IAS 24;
- With the exception of the disclosures on remuneration and other transactions with key management personnel, IPSAS 20 restricts the disclosure with related parties to those which are not on normal terms and conditions
- IPSAS 20 uses terminology more suitable to public sector entities, such as "entity" rather than "enterprise" and "members of the governing body" rather than "directors".

6. As IPSAS 20 is based on an earlier version of IAS 24, this paper proposes the adoption of IAS 24 rather than IPSAS 20.

Proposed text for the IFRS-based Government Financial Reporting Manual

7. See Annex A for the proposed amendments to the IFRS-based FReM.

Impact on the budgetary regime

8. There will be no impact on the budgetary regime, as IAS 24 relates only to disclosures.

Summary and recommendation

9. This paper concerns the implementation of IAS 24 which requires the disclosure of transactions with related parties. The FRAB is invited to comment on the proposals to interpret IAS 24 and on the proposed wording for the IFRS-based FReM. The FRAB's attention is also drawn to the fact that the question of the position of ministers and members of their close family is still under discussion.

HM Treasury
11 December 2006

PROPOSED TEXT FOR THE IFRS-BASED GOVERNMENT FINANCIAL REPORTING MANUAL

IAS 24 Related Party Disclosures

Applicability

IAS 24 Related Party Disclosures applies as interpreted.

Objectives of IAS 24

The objective of IAS 24 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.

Interpretations of IAS 24 for the public sector context

The following interpretations of IAS 24 for the public sector context apply:

- Although entities to which this Manual applies should disclose transactions with individuals who are regarded as related parties in accordance with the requirements of IAS 24, other disclosures may be restricted to the name of the parent department (if any) and a note of the main entities within government with which the entity has had dealings (that is, no information about those transactions need be given). Suggested wording for the disclosures is given in Annex 00;
- Charitable non-departmental public bodies shall follow the disclosure requirements for related party transactions given in the Charities SORP;
- The requirement to disclose the compensation paid to management, expense allowances and similar items paid in the ordinary course of an entity's operations will be satisfied by the disclosures made in the Remuneration Report;
- Pending the outcome of discussions, ministers and members of their close family are not to be regarded as "related parties";
- In considering materiality, regard should be had of the definition in IAS 1 which requires materiality to be judged "in the surrounding circumstances". Materiality should thus be judged from the viewpoint of both the entity and the individual.

Note on related party transactions

This annex suggests forms of words that might be used by entities to which the interpretations of IAS 24 apply.

[either] The Department is the parent of the agencies [and other bodies, if appropriate] shown in note x and sponsor of the non-departmental public bodies shown in note x. These bodies are regarded as related parties with which the Department has had various transactions during the year.

[or] [Name of body] is a [category of body: for example, executive agency] of [name of department]. [Name of department] is regarded as a related party. During the year, [name of body] has had a [significant] number of transactions with the Department and with other entities for which the Department is regarded as the parent Department, viz:

[list of main other agencies, trading funds, non-departmental public bodies and other bodies sponsored by or the responsibility of the parent Department.]

[and] In addition, [name of department or body] has had [a number of] [various] transactions with other government departments and other central government bodies. Most of these transactions have been with [name of main entities].

[either]: During the year, no Board member, key manager or other related party has undertaken any transactions with [name of department or body] during the year.

[or] During the year [name of department or body] entered into the following transactions with [give name and type of related party (for example, Board member etc.)]. Details of the transactions are as follows:

[information about the nature of the transaction(s); the amount of the transaction(s); the amount of any outstanding balances and their terms and conditions, including whether they are secured and the nature if the consideration to be provided in settlement, and details of any guarantees given or received; provisions for doubtful debts related to the amount of the outstanding balances; and the expense recognised during the period in respect of bad or doubtful debts due from related parties].