Related party relationships and transactions with such parties are an integral part of day-to-day business for many entities. Users of financial statements are likely to be interested in the existence of these relationships and in transactions between such parties when they assess the operations, financial performance and position of an entity, and any potential impact of related party relationships.

The accounting definition of a related party in IAS 24 Related Parties is quite far-reaching and the exercise of determining the relationships that are caught in the “related-party web” and which ones are not has been complicated in some cases. What complicates matters further is that the related party definition includes inconsistencies and at times it does not apply equally to all parties under consideration.

In some countries, pervasive government control has added further complexity, making it difficult to identify all related party relationships. Where relationships are identified, they can result in extensive disclosures, and significant costs to the entity. From a user’s perspective voluminous disclosures about immaterial transactions can obscure those transactions that were affected by a related party relationship.

To respond to these concerns, the IASB has revised certain aspects of IAS 24.

The good news is that the inconsistencies in the definition of a related party have been removed and the disclosure requirements for government-related entities have been modified such that the disclosures going forward would focus on individually or collectively significant transactions and related outstanding balances.

However, most changes in standards involve some reviews of, and changes to, internal systems and record keeping. To assist in working through this review process, this publication highlights the changes made to IAS 24 and provides some helpful insights, examples and practical application tips.

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About this publication

This publication has been produced jointly by the KPMG International Standards Group (part of KPMG IFRG Limited) and the Department of Professional Practice of KPMG in Hong Kong.

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Content

Our First Impressions publications are prepared upon the release of a new IFRS, interpretation or other significant amendment to the requirements of IFRSs. They include a discussion of the key elements of the new requirements and highlight areas that may impact or change practice. Examples are provided to assist in assessing the impact of implementation.

This edition of First Impressions considers the revised version of IAS 24 Related Party Disclosures issued in November 2009. Other aspects of IAS 24 are dealt with in Insights into IFRS, our practical guide to IFRSs.

The text of this publication is referenced to the revised IAS 24 (hereafter referred to as “IAS 24 (2009)”), and to selected other IFRSs in issue at 1 November 2009. References in the left-hand margin identify the relevant paragraphs.

In most cases further analysis and interpretation will be needed in order for an entity to apply IFRSs to its own facts, circumstances and individual transactions. Further, the information contained in this publication is based on the initial observations of the KPMG International Standards Group, and these observations may change as practice develops.

Future updates to KPMG’s views and additional interpretative guidance and examples on IAS 24 (2009) might be included in Insights into IFRS, our practical guide to IFRSs.

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We have a range of publications that can assist you further, including Insights into IFRS, IFRS compared to U.S. GAAP, and illustrative financial statements for interim and annual reporting under IFRSs. Technical information is available at www.kpmgifrg.com.

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1. Overview of major changes

- Modified requirements for entities under control, joint control or significant influence of a government (“government-related entities”) in respect of certain related party disclosures.

- Related party relationships made symmetrical between each of the related parties, i.e., if A is related to B for the purpose of B’s financial statements, then B also is related to A in A’s financial statements.

- New relationships included in the definition of a related party (which are illustrated in detail in section 3.1):
  1. In the individual and/or separate financial statements of a subsidiary, any associate of the controlling shareholder (see 3.1.1).
  2. In the financial statements of an entity controlled or jointly controlled by a member of another entity’s key management personnel (KMP), the entity managed by that KMP (see 3.1.2).
  3. In the financial statements of an entity jointly controlled or significantly influenced by a close family member of an individual investor, any entity jointly controlled by that individual investor.
  4. In the financial statements of an entity significantly influenced by an individual investor, another entity controlled or jointly controlled by the same person and vice versa (see 3.1.3).

- Two entities are no longer related if one of them is under significant influence of a person and the other is:
  1. Under significant influence of that person’s close family member (see 3.1.4).
  2. Managed by that person in his capacity as KMP.

- Clarification that references to associates and joint ventures include the subsidiaries of those associates and joint ventures.

- Relationships between a reporting entity and a corporate investor and between a reporting entity and an individual investor are treated in the same manner.

- The reference to “significant voting power” was removed from the definition.

- More detailed disclosures are required in relation to commitments.

- IFRS 8 Operating Segments no longer regards all government-related entities as a single customer by default.

- The effective date is annual periods beginning on or after 1 January 2011. Early application is permitted.

Other changes made to IAS 24 are covered in section 5.
2. Background

Although IFRSs are not written for public-sector entities, it is not uncommon for a government-related entity to prepare financial statements in accordance with IFRSs. For example, government-related entities would include privatised businesses, such as privatised utility or infrastructure businesses, in situations in which the government directly or indirectly continues to hold a significant stake in the business. Another example would include wholly-owned government entities which have raised debt financing from the private sector. In both cases IFRS financial statements may be required to satisfy the information needs of the private-sector investors. Also, even without private-sector financing, wholly-owned government entities may be operated in accordance with commercial principles and therefore adopt IFRSs as an appropriate financial reporting framework for their operations.

The currently effective requirement of IAS 24 Related Party Disclosures to disclose transactions between government-related entities has raised concerns amongst IFRS users. In particular in countries, where direct or indirect government ownership extends into many commercial areas of the economy, entities face difficulties identifying which transaction counterparties also are controlled by the same government. For example, the government may have ownership in factories, hotels, department stores and restaurants, as well as in the more typical areas of strategic national importance such as airlines, utilities and the banking system. In addition, concerns have been expressed about the cost and benefit of potentially voluminous information being disclosed regarding transactions that may not have been impacted by a related party relationship, but is required because of ownership by the government.

However, this issue is not isolated to such countries. For instance, in Europe and the U.S. many private-sector financial institutions have become government-related entities for the first time when governments took significant and sometimes controlling equity interests in them during the global financial crisis, broadening considerably the range of entities to which those financial institutions would now be regarded as related.

There also were concerns by IFRS users in respect of the definition of a “related party” in IAS 24 (2003), particularly, that it was too complex, lacked symmetry and included some inconsistencies.

In response to these concerns, in February 2007 the IASB published an Exposure Draft (ED) of Proposed Amendments to IAS 24 Related Party Disclosures – State-controlled Entities and the Definition of a Related Party (“the 2007 ED”). In respect of this ED, the Board did not intend to revise fundamentally the requirements of IAS 24, but limited the scope of this project to the related party disclosure exemption for government-related entities and to some improvements to the definition of a related party.

There were subsequently some revisions to the proposals in respect of the disclosure exemption for government-related entities, which were issued in December 2008 in the ED of Proposed Amendments to IAS 24 Related Party Disclosures – Relationships with the State (“the 2008 ED”).

The final standard resulting from the EDs was issued on 4 November 2009.
Insight – disclosure exemption
Although this project often has been referred to as the disclosure exemption for government-related entities, we note that such entities are not fully exempted from providing related party information in their financial statements, as IAS 24 (2009) requires them to provide certain information about individually or collectively significant transactions with the government or other government-related entities. In addition, such entities still are required to provide full related party disclosures in respect of transactions arising from any other related party relationship (e.g., key management personnel).

Management of government-related entities will need to exercise judgement in determining whether a transaction with the government or another government-related entity is individually or collectively significant or insignificant as the standard provides no quantitative thresholds. This might require certain amendments to internal procedures and record keeping.

Insight – related parties
The definition of a related party has been amended to remove some inconsistencies and to make it symmetrical. While the symmetry will make the standard more straightforward, all entities will need to re-assess their related party relationships. This may require the collection and disclosure of additional information, especially in respect of other investments and roles of individual investors and their close family members. This may be a challenge.
3. **Revised definition of a related party**

The following diagram provides examples of some related party relationships and highlights the major changes made to the definition of a related party. These and other changes are discussed in more detail in section 3.1.
3.1 Relationships included and excluded

This section addresses changes made to the definition of a related party. The details of each particular change are illustrated using diagrams, which should be considered separately from the diagram on page 7. However, where relevant the change is referenced back to the diagram on page 7. These diagrams are intended to isolate each change made to the definition of a related party and are not meant to illustrate all related party relationships under IAS 24 (2009).

3.1.1. An associate and a subsidiary of an investor

On the diagram on page 7, this is represented by a relationship between the reporting entity and Entity P3 (associate of Parent).

Under IAS 24 (2003), when an associate of an investor prepares its individual or separate financial statements it treats that investor in its financial statements as a related party. If the investor has subsidiaries, then these subsidiaries also are treated as related to the associate, because they form part of the group, which has significant influence over that associate. Conversely, if a subsidiary of the investor prepares its individual or separate financial statements, then the above mentioned associate does not meet the definition of a related party under IAS 24 (2003). We note however, that in our view under IAS 24 (2003) it is preferable to treat joint ventures and associates of the parent or ultimate parent as related parties to a subsidiary, unless it is clear that the relationship has no current or potential impact on the entity’s operations or results. This view is reflected in our publication Insights into IFRS in paragraph 5.5.30.60.

**IAS 24 (2003)**

In S’s individual / separate financial statements

- **Entity P**
  - Control or joint control
  - Significant influence

- **S**
  - Not related to each other

In A’s individual / separate financial statements

- **Entity P**
  - Control or joint control
  - Significant influence

- **A**
  - Related to each other

**IAS 24.BC21-24** Under IAS 24 (2009), this asymmetry has been removed. IAS 24 (2009) treats the relationship between a subsidiary and an associate of the same entity, in respect of the individual and/or separate financial statements of both the subsidiary and the associate, as a related party relationship. In addition, because IAS 24 (2009) treats corporate and individual investors in a similar way, the same rule applies to two entities, in one of which an individual investor has control or joint control and in the other significant influence.
**First Impressions: Revised IAS 24 Related Party Disclosures**

**November 2009**

**IAS 24 (2009)**

In S’s individual / separate financial statements

![Diagram showing relationships between entities under IAS 24 (2009)]

Insight

This change in the definition of a related party under IAS 24 (2009) will not impact associates of a parent; however it may be a challenge for subsidiaries. Management of subsidiaries is unlikely to possess full information on investments of its parent; therefore it might need to obtain this from the parent. In addition, considering that “associates” also include subsidiaries of these associates, additional information might be required from the associates on the investments controlled by them. Subsidiaries might need to amend their record keeping to track the related party transactions with the associates of their parent, subsidiaries of those associates and all post-employment benefit funds for the benefit of employees of the associates and their subsidiaries.

**3.1.2. Investments of key management personnel (KMP)**

Under IAS 24 (2003), if a member of KMP of a reporting entity is an investor, then its investments (e.g., subsidiaries, joint ventures or associates) are considered to be related to the reporting entity in its financial statements. Conversely, if an investee of that KMP prepares its financial statements, then the entity managed by that member of KMP is not regarded as a related party of the investee.

**IAS 24 (2003)**

In A’s financial statements

![Diagram showing relationships between entities under IAS 24 (2003)]

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Under IAS 24 (2009), this asymmetry has been removed, thus IAS 24 (2009) treats the relationship between an entity managed by a person and an entity under control or joint control of that person as a related party relationship in respect of both sets of financial statements.

**Insight – significant influence**
We note that for related party disclosure purposes, investments of KMP no longer include entities in which that person has significant influence. This is because significant influence is regarded in the same way as the relationship between an entity and a member of KMP, i.e., the relationship is not as close as one of control or joint control (see further discussion in 3.1.4).

**Insight – additional information from individual investors**
Although this change in the definition of a related party removes some inconsistencies and makes the related party relationships symmetrical, it may prove to be a challenge in practice, because it would require certain additional personal information about roles and/or investments held by individual investors in other entities.

**3.1.3 Other investments of an individual investor in a reporting entity**
Under IAS 24 (2003), if a person has joint control over a reporting entity and a close member of that person’s family has joint control or significant influence over another entity, then the second entity is treated as a related party of the reporting entity. However, the definition does not include relationships between two investees of the same individual, unless control exists over both. Under IAS 24 (2009), this inconsistency has been removed.

On the diagram on page 7, this is represented by a relationship between the reporting entity and Entity X1 (controlled by Mr. X) and between the reporting entity and Entity X2 (jointly controlled by Mr. X).
3.1.4 Two associates

On the diagram on page 7, this is represented by entities K3 and B3.

IAS 24 (2003) does not treat two associates of a corporate investor as related parties to each other. However, if an individual investor has significant influence over one entity and a close member of that individual investor’s family has significant influence over another entity, then these two entities would be treated as related parties.

In addressing these inconsistencies, the Board concluded that

- common significant influence is not sufficiently strong to create a related party relationship (i.e., similar to the case when two entities have a KMP in common, which is consistent with IAS 24 (2003)); and
- a corporate investor and an individual investor are treated in the same manner.

Therefore, the definition of a related party has been amended to exclude these relationships.
We consider this to be a positive change in the definition, as it removes inconsistencies between the application by a corporate and an individual investor. It also might result in reduced disclosures in certain cases.

3.2 Practical application tips

Direct relationships

**Principles to remember**
- Related party relationships under IAS 24 (2009) are symmetrical, i.e., if A is related to B for the purpose of B’s financial statements, then B also is related to A in A’s financial statements.
- All direct relationships involving control, joint control or significant influence are related party relationships.
- Significant influence and KMP relationships are treated as the same level of “closeness.” These relationships are not as close as a relationship of control or joint control.
- Relationships between a reporting entity and a corporate investor and between a reporting entity and an individual investor are treated in the same manner.
- An individual and close members of that individual’s family are treated as one party in analysing related party relationships.
- Members of the same group (i.e., parent and all subsidiaries) are treated as one party in respect of the reporting entity in analysing related party relationships.
- A post-employment benefit plan for employees of the reporting entity or any entity that is a related party of the reporting entity is considered to be a related party of the reporting entity.
- Whenever a list of related parties changes as a result of the application of IAS 24 (2009), entities need to re-assess their qualifying insurance policies for the purposes of IAS 19 Employee Benefits, as the definition in IAS 19 is impacted by the definition of a related party.
Indirect relationships

**Principles to remember**
- Presence of control or joint control in one leg of an indirect relationship leads to a related party relationship – see illustration below.
- Significant influence and KMP relationships are treated as the same level of “closeness.” These relationships are not as close as a relationship of control or joint control.
- An individual and close members of that individual’s family are treated as one party in analysing related party relationships.
- Whenever a list of related parties changes as a result of the application of IAS 24 (2009), entities need to re-assess their qualifying insurance policies for the purposes of IAS 19 as the definition in IAS 19 is impacted by the definition of a related party.

The red colour is used to indicate control or joint control, the presence of which in one leg leads to a related party relationship. The green colour is used for significant influence or a KMP relationship. Two green legs (i.e., significant influence or KMP relationships) do not result in a related party relationship.
4. **Related party disclosure requirements for government-related entities**

IAS 24 (2009) introduces modified disclosure requirements for government-related entities to enable them to limit the extent of details for disclosures about related party transactions with government or other government-related entities. The entities within scope of this amendment are exempted from the disclosures required by paragraph 18 of IAS 24 (2009) in respect of certain related party transactions. Instead, the entities should provide disclosures required by paragraph 26 of IAS 24 (2009) for these related party transactions. Such disclosures are expected to focus on those transactions in which the relationship with government may have played a role in either the occurrence of the transaction or its terms and conditions. These amendments are discussed in more detail in this section.

The following diagram highlights the government-related entities, which might be in scope of the exemption, and compares the related party disclosure requirements for such entities under IAS 24 (2003) and IAS 24 (2009).

Section 4.1 provides more detailed information about the scope of the modified disclosure requirements.

IAS 24 (2009) defines “government” as “government, government agencies and similar bodies whether local, national or international” and “a government-related entity” as “an entity that is controlled, jointly controlled or significantly influenced by the government.” The definition of
“government” is consistent with the one in IAS 20 Accounting for Government Grants and Disclosure of Government Assistance.

4.1 Scope of the exemption from IAS 24.18 for government-related entities

The modified disclosure requirements relate to transactions and outstanding balances, including commitments, of government-related entities with:

(a) a government that has control, joint control or significant influence over the reporting entity; and
(b) 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.

**Insight – entities in scope**

The exemption from the full related party disclosures seems to be a far-reaching exemption as a result of the broad definition of “government-related entities,” and the interrelationship with the general definition of a related party as it applies to indirect relationships. For example, it seems entity E (refer to diagram on page 14) is in the scope of the exemption, because Government 1 has indirect control over it.

Therefore direct or indirect government control, joint control or significant influence could bring entities in the scope of the exemption regardless of any other related party relationships between them. However, as indicated in the example to IAS 24 (2009), the modified disclosure requirements do not apply to the relationships between an entity and an individual in their capacity as an investor or as a KMP. Continuing the example above, this could mean that in Entity E’s financial statements, the modified disclosure requirements apply to transactions with: Government 1; Entities A, B, S, C, F, D, G, H, M, K, L, N; and the newly acquired banks. The modified disclosure requirements would not apply to transactions with Mr. X, Ms. Z, or Entity R.

Similarly it seems L falls into the scope of the modified disclosure requirements, although it is controlled by an individual investor and D only has significant influence over L. This is because D itself is controlled by Government 1 and hence any of D’s interests in this fact pattern could be considered as being indirectly held by the Government.

Conversely, Government 1 only has significant influence over S. It would seem that only entities controlled by S (i.e., N) could be given the “government-related” status, consistent with the guidance in paragraph 12 of IAS 24 (2009). Accordingly, R is not regarded as being government-related as the influence of Government 1 over S is insufficient to assert that Government 1 also has significant influence, as defined, over R. In such cases transactions between R and S are subject to the full disclosure requirements of IAS 24 (2009).

**Insight – entities related to the “same government”**

In almost all countries there will be multiple levels of governing public bodies, e.g., at city, provincial, state and perhaps federal levels. However, there may be significant differences from one country to the next as to the relationships between these bodies and the extent to which one body is said to be under the control, joint control or significant influence of another body in the same country. Given this, the identification of entities which are related to the “same government” may not be straightforward.

For example, in countries with a federal structure, if a federal government is independent of the state government, then an entity controlled by the state government may not be a related party of an entity controlled at the federal level, even though both are controlled by government
bodies in the same country. In such cases, transactions between the two entities would be subject to the full disclosure requirements of IAS 24 (2009).

Conversely, two entities controlled by different federal government bodies, for example, one by the Department of Public Heath and one by the Department of Education, would seem to meet the criteria set out in the standard as these entities are under the control of the same federal government. In such cases, any transactions between the entities would fall within the scope of the modified disclosure requirements.

We note that the assessment of whether or not one government body controls another may be challenging, therefore the identification of entities which are related to the reporting entity because they are subject to control, joint control or significant influence by the “same government” may require careful consideration of the specific facts and circumstances.

Insight – government-related individuals and their related parties

As stated earlier, the modified disclosure requirements do not apply to individuals. For example, in E’s financial statements (refer to diagram on page 14), transactions between E and Mr. X, who is a member of KMP of E’s parent - C, are not eligible for the exemption. This also means that the modified disclosure requirements do not apply to an individual investor who has control, joint control or significant influence over a reporting entity or who is a member of KMP of the reporting entity or its parent (i.e., to any of the persons identified in part (a) of the definition of “related party” or to any of the entities identified in part (b)(vi) and (vii)). For example, transactions with close family members of KMP of a government-related entity or with entities over which KMP has at least joint control would be subject to the full disclosure requirements by that government-related entity.

In such cases, the only grounds for non-disclosure would be immateriality in accordance with IAS 1 Presentation of Financial Statements. For example, if Entity Q is a state-owned petroleum company, it is highly likely that individuals at any level in the chain of controlling entities and Government bodies above Q and their families will be entering into transactions with Q on a daily basis simply by filling up their vehicles at one of Q’s gas stations and paying the standard pump price. Such transactions, however, are clearly immaterial to the operations of Q. On the other hand, sale of a division of Q’s operations to a private company controlled by a director of Q would generally be regarded as material, as a result of both the value of the transaction and its nature. Therefore, determining whether or not transactions are immaterial will require application of judgement to the specific facts and circumstances in accordance with the definition of “material”.

Insight – consolidation procedures

We note that when a government-related entity prepares its consolidated financial statements, it is still subject to the requirements of IAS 27 Consolidated and Separate Financial Statements, i.e., it is required to identify all transactions between the group entities, which are eliminated for consolidation purposes. The revisions made to related party disclosure requirements for government-related entities under IAS 24 (2009) do not affect the consolidation requirements.
4.2 Modified disclosure requirements

Although the scope of the modified disclosure requirements could be broad, the entities in scope are not fully exempted from providing related party information in their financial statements as IAS 24 (2009) requires certain related party disclosures. Such disclosures are intended to meet the objective of IAS 24 by putting users of the entity's financial statements on notice that certain transactions or relationships could have an impact on the entity's operations or performance. They are not intended to require the reporting entity to identify every government-related entity nor to quantify every transaction with such entities as this would negate the exemption.

The following disclosures are required when an entity applies the modified disclosures:

(a) the name of the government and the nature of its relationship with the reporting entity (i.e., control, joint control or significant influence);
(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:
   (i) nature and amount of each individually significant transaction; and
   (ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent.

The amendments do not include any quantitative indications or “bright lines” concerning the meaning of “significant.” However, it is noted in the standard that in determining the information to be disclosed, the reporting entity should consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction, such as whether it is:

(a) significant in terms of size;
(b) carried out on “non-market” terms;
(c) outside normal day-to-day business operations, such as the purchase and sale of businesses;
(d) disclosed to regulatory or supervisory authorities;
(e) reported to senior management;
(f) subject to shareholder approval.

The Illustrative Examples to IAS 24 (2009) include two examples of “individually significant transactions”:

(a) non-market terms – the sale of a piece of land for considerably more than its fair value to a government-related entity; and
(b) size – a substantial loan from government.

The Illustrative Examples also include examples of collectively significant transactions:

(a) where a large proportion of the reporting entity’s sales and purchases of raw materials are with government-related entities; and
(b) where government has given guarantees over the reporting entity’s borrowings.

**Insight – highest level of government**

Entities qualifying for the modified disclosure requirements are required to disclose the name of the related government. The disclosure relates to the basis on which the reporting entity considers itself to be “government-related,” being the same basis on which it judges whether other entities are related to it by virtue of being related to that same government. The disclosure therefore should focus on identifying the highest level of government which has control, joint control or significant influence over the entity.
As noted in section 4.1, in practice judgement may be required when identifying the relevant “government” when the entity operates in a country with multiple levels of government.

**Insight – disclosure of individually or collectively significant transactions**

The modified disclosure requirements seem to mitigate the impact of the broad scope of the exemption as discussed in section 4.1. That is, even though a government-related entity may be exempt from the full disclosure requirements in IAS 24 (2009) in respect of any transactions with any other entities related to the same government, including its own investees, the financial statements of such entity should still contain sufficient information on transactions with those related entities when those transactions are significant to the reporting entity’s financial statements.

**IAS 24.27**

Judgement will be required to determine whether a transaction is individually or collectively significant or whether it is insignificant. This will include assessment of both quantitative factors and qualitative factors such as whether the transaction is on non-market terms or otherwise outside the normal day-to-day operations.

In this regard, it might be useful for entities to establish criteria that they would apply consistently in order to determine whether transactions are individually or collectively significant. These would generally be similar to criteria that an entity would establish to ensure that certain large or otherwise unusual transactions, or concentrations of risk are brought to the attention of management.

**Insight – extent of disclosure for collectively, but not individually, significant transactions**

Entities need to exercise judgement in deciding how much quantitative or qualitative information to disclose when transactions are collectively, but not individually, significant. For example, in the Illustrative Example attached to IAS 24 (2009), two approaches are illustrated for disclosure of the collectively significant sales of goods to and purchases of raw materials from other government-related entities:

- “a large portion of its sales of goods and purchases of raw materials”; or
- “about 50 percent of its sales of goods and about 35 percent of its purchases of raw materials.”

Both disclosures give an indication of the extent of these collectively significant transactions, but one can argue that the version with percent amounts is more informative for the user.

As a result, management needs to determine how much quantitative or qualitative information is sufficient for the user in order to enable them to understand the effect of related party transactions on the entity’s financial statements.

Generally, the more the transactions are clearly significant to the entity, and / or the greater the likelihood that the transactions were affected by the existence of the related party relationship, the greater the need for more detailed information. The information to be disclosed is more likely to be in the form of quantitative data in order to satisfy the principles of IAS 24 (2009). For example, quantitative information concerning collectively significant sales to government-related entities would be far more relevant for a state-owned aircraft manufacturer which currently was the primary supplier of aircraft for the state-owned airline and air force, than it would be for a state-owned electricity company which supplied electricity to all homes and businesses in a geographical region, irrespective of whether those businesses were government-related or not.
4.3 Illustrative disclosures

For the purpose of illustrating the modified disclosure requirements for government-related entities, we refer to the diagram on page 14.

For the purpose of example disclosures, the reporting entity is entity E. It also is assumed that the nature of E’s business is the selling of electronic equipment, and providing installation and consulting services. In addition to selling to various private-sector enterprises, E also sells to government agencies and departments.

The following examples seek to illustrate a variety of disclosures that E might make under paragraph 26 of IAS 24, depending on the extent and nature of E’s transactions with other government-related entities identified in the diagram on page 14. In providing disclosures entities need to assess the appropriate level of detail so that voluminous disclosures do not mask important information that may affect an assessment of the entity’s results of operations and financial condition.

Example 1: Individually significant transaction because of size of transaction
Entity E is indirectly controlled by Government 1. In 2009 Government 1 entered into a procurement agreement with E, such that E would act as the sole supplier of electronic equipment to Government 1’s various agencies and departments for a term of three years from 2010 to 2012, with an agreed bulk discount of 10 percent compared to list prices that E would generally charge on individual orders. The aggregate sales value under the agreement for the year ended 31 December 2011 amounted to CU 35 million (2010: CU 28 million). As at 31 December 2011, the aggregate amounts due from Government 1 amounted to CU 1 million (2010: CU 3 million) and are payable under normal credit terms of 30 days’ credit.

Example 2: Individually significant transaction carried out on “non-market” terms
Entity E is indirectly controlled by Government 1. On 30 December 2010, Government 1 appointed E to be the sole installer of software developed by Government 1 which enterprises are required to use in order to submit online import and export trade related documents for government processing. The appointment lasts for a term of five years from 2011 to 2015. Under the agreement, Government 1 will reimburse E for the cost of each installation. However, E will not be entitled to earn a margin above cost for this activity. The aggregate sales value under the agreement for the year ended 31 December 2011 amounted to CU 35 million (2010: CU 28 million). As at 31 December 2011, the aggregate amounts due from Government 1 amounted to CU 1 million (2010: CU 3 million) and are payable under normal credit terms of 30 days’ credit.

Example 3: Individually significant transaction outside normal day-to-day business operations
Entity E is indirectly controlled by Government 1. Pursuant to an agreement dated 1 January 2011, E and Government 1 agreed to participate and co-operate with a third party consortium in the development, funding and operation of a research and development centre. E will also sub-lease a floor in its headquarter building as an administrative office for the joint operation. As at 31 December 2011, E’s capital invested in the venture amounted to CU 70 million and total lease payments of CU 1 million were received as rental income.
**Example 4: Individually significant transaction subject to shareholder approval**

Entity E is indirectly controlled by Government 1. E currently owns 40 percent of Entity K, with the remaining 60 percent owned by Government 1 (25 percent) and Entity H, a party indirectly controlled by Government 1 (as to 35 percent). On 1 December 2011, E entered into a sale and purchase agreement (“the Agreement”) with Government 1 and H, such that E will buy their shares in K at CU 1 per share, at a total consideration of CU 60 million. The terms in the Agreement are subject to independent shareholders approval at the extraordinary general meeting to be held on 1 February 2012. Upon the completion of the proposed acquisition, K will become a wholly-owned subsidiary of E.

**Example 5: Collectively, but not individually, significant transactions**

Entity E is indirectly controlled by Government 1. E operates in an economic regime dominated by entities directly or indirectly controlled by Government 1 through its government authorities, agencies, affiliations and other organisations (collectively referred to as “government-related entities”). E has transactions with other government-related entities including but not limited to sales and purchase of goods and ancillary materials, rendering and receiving services; lease of assets; depositing and borrowing money; and use of public utilities.

These transactions are conducted in the ordinary course of E’s business on terms comparable to those with other entities that are not government-related. E has established procurement policies, pricing strategy and approval process for purchases and sales of products and services, which are independent of whether the counterparties are government-related entities or not.

For the year ended 31 December 2011, management estimates that the aggregate amount of E’s significant transactions with other government-related entities are at least 50 percent of its sales of equipment and between 30 to 40 percent of its purchase of materials.
5. Other changes

5.1 Disclosure of commitments

IAS 24 (2009) expanded the list of transactions that require disclosure by including commitments to do something if a particular event occurs or does not occur in the future, including executory contracts.

**Insight – more disclosures**

IAS 24 (2003) did not explicitly refer to commitments. Furthermore, commitments are normally treated as executory contracts and hence not recognised in the financial statements, so entities would not necessarily have made disclosures under IAS 24 (2003) about some commitments in respect of related parties to the level required by IAS 24 (2009).

The requirement to disclose commitments, which are not recorded in the financial statements, may necessitate some changes to accounting systems and record keeping to ensure compliance with this requirement. Management should plan in advance for the collection of this information prior to the effective date of IAS 24 (2009), as comparative information also will be required.

**Insight – definition of commitments**

Commitments are not defined in IFRSs. Paragraph 9 of IAS 39 defines a firm commitment as a “binding agreement for the exchange of a specified quantity of resources at a specified price on a specified future date or dates.” However, a general definition of “commitment” does not exist. It might be useful for management to agree on a working definition for commitments, taking into account all types of commitments, not only those that might result in an outflow of resources.

5.2 IFRS 8 disclosure about major customers

The current requirements of paragraph 34 of IFRS 8 to treat as a single customer a group of entities known to a reporting entity to be under the control of the same government was reconsidered by the Board as part of its deliberations of IAS 24 (2009). This reconsideration was done by the Board as there were concerns that it was not practicable or meaningful to regard all entities controlled by the same government as a single customer in a country in which state control is pervasive. The Board decided that an amendment would be consistent with the Board’s proposal to provide relief from disclosure of transactions with an entity that has not influenced or been influenced by the reporting entity.

The amended paragraph 34 of IFRS 8 requires exercising judgement to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In doing so it requires the reporting entity to consider the extent of economic integration between those entities.

**Insight – extent of economic integration**

IFRSs do not provide a definition or guidance on how to determine the extent of economic integration between entities. Therefore, determining whether the extent of economic integration between any number of entities under control by the same government is sufficient to regard those entities as being a “single customer” will require careful consideration of facts and circumstances on a case-by-case basis.
One factor to consider could be the proximity of the relationship between customers which are known to be government-controlled entities. For example, entities in the same closely held group.

Another factor to consider could be centrally controlled operations. For example, if tenders or supply contracts for sales to those government-controlled entities are required to be submitted via a central department responsible for budget allocation or other procurement policies, then this could indicate a level of economic integration of the entities indicative of customer concentration risk.

In addition, past events or circumstances may provide an indication that common government control has resulted in economic integration of these customers, so it might be appropriate to regard them as a “single customer” for IFRS 8 purposes.

5.3 Scope of IAS 24 (2009)

The scope of IAS 24 (2009) has been amended to clarify that the standard applies to individual, separate and consolidated financial statements.

Insight

With this clarification and with the introduction of the notion of symmetry, more disclosures may be required in separate and individual financial statements than was previously the case.
6. Effective date and transitional requirements

IAS 24.28 IAS 24 (2009) specifies *retrospective* application for annual periods beginning on or after 1 January 2011.

IAS 24 (2009) may be applied earlier. In addition, an entity may choose to apply the revised standard in full or in part in respect of the disclosure exemption for government-related entities only. If IAS 24 (2009) is applied earlier in whole or in part, then this fact should be disclosed.

**Insight**

Entities may early adopt all amendments (i.e., the revised definition of a related party and the disclosure exemption for government-related entities) or just the disclosure exemption for government-related entities. However, entities cannot early adopt the revised definition on its own without adopting all other changes.

Although the standard allows early adoption, entities might need some time to re-assess the list of their related parties and adjust their internal systems to be able to comply with IAS 24 (2009) fully, including information for the comparative period.

Management will need to consider the impact of the modified disclosure requirements, especially considering that there is no exemption from disclosure of information that could prejudice a party or cause competitive damage or erosion of shareholders’ value.
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