New Zealand Equivalent to International Accounting Standard 24

Related Party Disclosures (NZ IAS 24)

Issued November 2004 and incorporates amendments up to and including 30 November 2008

This Standard was issued by the Financial Reporting Standards Board of the New Zealand Institute of Chartered Accountants and approved by the Accounting Standards Review Board in November 2004 under the Financial Reporting Act 1993. This Standard is a Regulation for the purpose of the Regulations (Disallowance) Act 1989.

This Standard, on adoption, supersedes Statement of Standard Accounting Practice No. 22 *Related Party Disclosures* (SSAP-22).

NZ IAS 24

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New Zealand Equivalent to International Accounting Standard 24 *Related Party Disclosures* (NZ IAS 24) is set out in paragraphs 1-24. NZ IAS 24 is based on International Accounting Standard 24 *Related Party Disclosures* (IAS 24) (2003) initially issued by the International Accounting Standards Committee (IASC) and subsequently revised by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 24 should be read in the context of its objective and the IASB's Basis for Conclusions on IAS 24, the New Zealand *Preface* and the New Zealand Equivalent to the IASB *Framework for the Preparation and Presentation of Financial Statements* (NZ *Framework*). NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any additional material is shown with grey shading. The paragraphs are denoted with "NZ" and identify the types of entities to which the paragraphs apply.

This Standard uses the terminology adopted in International Financial Reporting Standards (IFRSs) to describe the financial statements and other elements. NZ IAS 1 *Presentation of Financial Statements* (as revised in 2007) paragraph 5 explains that entities other than profit-oriented entities seeking to apply the Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves. For example, profit/loss may be referred to as surplus/deficit and capital or share capital may be referred to as equity.

HISTORY OF AMENDMENTS

Table of Pronouncements – NZ IAS 24 *Related Party Disclosures*

This table lists the pronouncements establishing and substantailly amending NZ IAS 24. The table is based on amendments approved as at 30 November 2008.

Pronouncements	**Date approved (ASRB approval)**	**Early operative date**	**Effective date (annual reporting periods… on or after …)**
NZ IAS 24 *Related Party Disclosures*	Nov 2004 (Approval 16)	1 Jan 2005	1 Jan 2007
Amendment to NZ IAS 19 *Employee Benefit: Actuarial Gains and Losses, Group Plans and Disclosures*	April 2005 Approval 50)	1 Jan 2006 Early application encouraged	1 Jan 2007
Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to IFRSs Financial Reporting Standards Reporting Regime (Framework for Differential Reporting)	Jun 2005 (Approval 62)	1 Jan 2005	1 Jan 2007
Amendment to the *Framework for Differential Reporting*	Dec 2005 (Approval 76)	1 Jan 2005	1 Jan 2007
NZ IAS 1 *Presentation of Financial Statements* (revised 2007)	Nov 2007 (Approval 94)	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs (2008-1)	April 2008 (Approval 101)	Early application permitted	1 June 2008

Table of Amended Paragraphs in NZ IAS 24		
Paragraph affected	**How affected**	**By … [paragraph]**
Paragraph 9	Amended	Minor Amendments (2008-1) [April 2008]
Paragraph 19	Amended	NZ IAS 1 [Nov 2007]
Paragraph 20	Amended	Amendment to NZ IAS 19 *Employee Benefit: Actuarial Gains and Losses, Group Plans and Disclosures* [April 2005]

Introduction to NZ IAS 24

This Standard sets out the criteria for identifying related party relationships in order to ensure that financial statements contain the disclosures necessary to enable a user to assess the impact on the financial position of transactions and balances with such parties.

It includes:

(a) definitions to assist in identifying related parties;

(b) disclosure requirements in respect of transactions with related parties:

In adopting IAS 24 for application as NZ IAS 24 the following changes have been made to the requirements of IAS 24. NZ IAS 24:

(a) defines the term public benefit entity (paragraph NZ 9.1);

(b) includes guidance exempting from disclosure, transactions between entities that are part of the Crown reporting entity, where such transactions are related party transactions only by virtue of being subject to control or significant influence by the Crown. The exemption does not apply to transactions where disclosure is required to enable users to assess the risks and opportunities facing an entity, nor to transactions with key management personnel (paragraphs NZ 17.1 to NZ 17.4).

Profit-oriented entities that comply with NZ IAS 24 will simultaneously be in compliance with IAS 24.

Public benefit entities applying paragraphs NZ 17.1 to NZ 17.4 may not comply with IAS 24.

Differential Reporting

Qualifying entities are given a concession to the requirements of this Standard (as identified in the Standard).

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Related Party Disclosures (NZ IAS 24)

OBJECTIVE

1 The objective of this Standard 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.

SCOPE

2 This Standard shall be applied in:

(a) identifying related party relationships and transactions;

(b) identifying outstanding balances between an entity and its related parties;

(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and

(d) determining the disclosures to be made about those items.

3 This Standard requires disclosure of related party transactions and outstanding balances in the separate financial statements of a parent, venturer or investor presented in accordance with NZ IAS 27 *Consolidated and Separate Financial Statements.*

4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

Qualifying Entities

NZ 4.1 Entities which qualify for differential reporting concessions in accordance with the *Framework for Differential Reporting for Entities Applying the New Zealand Equivalents to International Financial Reporting Standards Reporting Regime* (2005) are not required to comply with the disclosure requirements in this Standard denoted with an asterisk (*).

PURPOSE OF RELATED PARTY DISCLOSURES

5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In these circumstances, the entity's ability to affect the financial and operating policies of the investee is through the presence of control, joint control or significant influence.

6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

7 The profit or loss 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 entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another – for example, a subsidiary may be instructed by its parent not to engage in research and development.

8 For these reasons, knowledge of related party transactions, outstanding balances and relationships may affect assessments of an entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

DEFINITIONS

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

Related party **A party is related to an entity if:**

(a) directly, or indirectly through one or more intermediaries, the party:

(i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(ii) has an interest in the entity that gives it significant influence over the entity; or

(iii) has joint control over the entity;

(b) the party is an associate (as defined in NZ IAS 28 *Investments in Associates*) of the entity;

(c) the party is a joint venture in which the entity is a venturer (see NZ IAS 31 *Interests in Joint Ventures*);

(d) the party is a member of the key management personnel of the entity or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

A *related party transaction* is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

***Close members of the family of an individual* are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:**

(a) the individual's domestic partner and children;

(b) children of the individual's domestic partner; and

(c) dependants of the individual or the individual's domestic partner.

***Compensation* includes all employee benefits (as defined in NZ IAS 19 *Employee Benefits*) including employee benefits to which NZ IFRS 2 *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:**

(a) short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;

(b) post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;

(c) other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;

(d) termination benefits; and

(e) share-based payment.

***Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

***Joint control* is the contractually agreed sharing of control over an economic activity.**

***Key management personnel* are those persons having authority and responsibility for planning, directing and controlling the activities of the**

entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Significant influence **is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.**

Public Benefit Entities

NZ 9.1 The following term is used in this Standard with the meaning specified.

Public benefit entities **are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.**

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 not necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common, notwithstanding (d) and (f) in the definition of "related party".

(b) two venturers simply because they share joint control over a joint venture.

(c) (i) providers of finance,

(ii) trade unions,

(iii) public utilities, and

(iv) government departments and agencies,

simply by virtue of their normal dealings with an entity (even though they may affect the freedom of action of an entity or participate in its decision-making process); and

(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

DISCLOSURE

12 Relationships between parents and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

13 To enable users of financial statements to form a view about the effects of related party relationships on an entity, it is appropriate to disclose the related party relationship when control exists, irrespective of whether there have been transactions between the related parties.

14 The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in NZ IAS 27, NZ IAS 28 and NZ IAS 31, which require an appropriate listing and description of significant investments in subsidiaries, associates and jointly controlled entities.

15 When neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the entity discloses the name of the next most senior parent that does so. The next most senior parent is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.

***16 An entity shall disclose key management personnel compensation in total and for each of the following categories:**

(a) short-term employee benefits;

(b) post-employment benefits;

(c) other long-term benefits;

(d) termination benefits; and

(e) share-based payment.

17 If there have been transactions between related parties, an entity shall disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements in paragraph 16 to disclose key management personnel compensation. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances and:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received;

(c) provisions for doubtful debts related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Public Benefit Entities

NZ 17.1 Paragraph 17 applies in respect of transactions between related parties subject to common control or significant influence by the Crown, other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that entity at arm's length in the same circumstances.

NZ 17.2 Entities to which this exemption may apply include the following:

(a) government departments;

(b) Crown entities;

(c) Offices of Parliament; and

(d) state-owned enterprises.

NZ 17.3 The Crown reporting entity comprises many entities that transact with each other on a regular basis. It is not the objective of this Standard to require such entities to disclose as related party transactions, material transactions with other entities in the Crown reporting entity only because of their relationship being subject to common control or significant influence by the Crown. Requiring disclosure of such transactions would result in voluminous disclosures that would not assist users of the financial statements to assess the financial performance, financial position, nor the risks and opportunities facing an entity. For example, schools and New Zealand Post are entities within the Crown reporting entity. However, disclosure of information by a school about purchasing stamps from New Zealand Post does not provide users with useful information.

NZ 17.4 In determining which transactions, outstanding balances and unrecognised items qualify for this exemption, consideration should be given to paragraph NZ 17.1 in its entirety and the overall objective of this Standard as set out in paragraphs 5 to 8. Paragraph NZ 17.1 does not provide a blanket exemption for entities within the Crown reporting entity. Where the entity is subject to control or significant influence by a related party within the Crown reporting entity, any disclosures required in relation to key management personnel under paragraph 18(f) of this Standard are not eligible for the exemption on the grounds of common public ownership.

18 The disclosures required by paragraph 17 shall be made separately for each of the following categories:

(a) the parent;

(b) entities with joint control or significant influence over the entity;

(c) subsidiaries;

(d) associates;

(e) joint ventures in which the entity is a venturer;

(f) key management personnel of the entity or its parent; and

(g) other related parties.

19 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 18 is an extension of the disclosure requirement in NZ IAS 1 *Presentation of Financial Statements* for information to be presented either in the statement of financial position or in the notes. The categories are extended to provide a more comprehensive analysis of related party balances and apply to related party transactions.

20 The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);

(b) purchases or sales of property and other assets;

(c) rendering or receiving of services;

(d) leases;

(e) transfers of research and development;

(f) transfers under licence agreements;

(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);

(h) provision of guarantees or collateral; and

(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

Particiaption by a parent or subsidiary in a defined benefit plan that shares risks between group entities is a transaction between related parties (see paragraph 34B of NZ IAS 19).

21 Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

22 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

EFFECTIVE DATE

23 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.

WITHDRAWAL OF OTHER PRONOUNCEMENTS

24 [Paragraph 24 is not reproduced. The withdrawal of previous IASB pronouncements is not relevant to this Standard.]

APPENDIX

Amendment to IAS 30

This amendment in this appendix shall be applied for annual periods beinning on or after 1 January 2005. If an entity applies this Standard for an earlier period, this amendment shall be applied for that earlier period.

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The amendment contained in this appendix when this Standard was issued in 2003 has been omitted, as IAS 30 was superseded by IFRS 7 in August 2005.