

New Zealand Equivalent to International Accounting Standard 24

Related Party Disclosures (NZ IAS 24)

Issued November 2009 and incorporates amendments up to and including 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 12 *Disclosure of Interests in Other Entities*

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 NZ IAS 24 *Related Party Disclosures* (issued in 2004).

NZ IAS 24

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NZ IAS 24

New Zealand Equivalent to International Accounting Standard 24 *Related Party Disclosures* (NZ IAS 24) is set out in paragraphs 1–29 and the Appendix. NZ IAS 24 is based on International Accounting Standard 24 *Related Party Disclosures* (IAS 24) as revised by the International Accounting Standards Board (IASB) in 2009. All the paragraphs have equal authority but retain the IASB 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 and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (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 substantially amending NZ IAS 24. The table is based on amendments approved as at 30 June 2011 other than consequential amendments resulting from early adoption of NZ IFRS 10 *Consolidated Financial Statements*, NZ IFRS 11 *Joint Arrangements* and NZ IFRS 12 *Disclosure of Interests in Other Entities*.

Pronouncements	Date approved (ASRB approval)	Early operative date	Effective date (annual reporting periods... on or after ...)
NZ IAS 24 <i>Related Party Disclosures</i>	Nov 2009 (Approval 125)	Early application permitted	1 Jan 2011
Minor Amendments to NZ IFRSs	July 2010 (Approval 132)	Immediate	Immediate

Table of Amended Paragraphs in NZ IAS 24		
Paragraph affected	How affected	By ... [date]
Introduction	Amended	Minor Amendments [July 2010]

Introduction

- IN1 New Zealand Equivalent to International Accounting Standard 24 *Related Party Disclosures* (NZ IAS 24) requires a reporting entity to disclose:
- (a) transactions with its related parties; and
 - (b) relationships between parents and subsidiaries irrespective of whether there have been transactions between those related parties.
- IN2 The International Accounting Standards Board revised IAS 24 in 2009 by:
- (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.
 - (b) providing a partial exemption from the disclosure requirements for government-related entities.
- IN3 In making those revisions, the IASB did not reconsider the fundamental approach to related party disclosures contained in IAS 24 (as revised in 2003).

New Zealand specific changes

- IN 4 In adopting IAS 24 for application as NZ IAS 24 the following changes have been made in respect of public benefit entities to the requirements of IAS 24. NZ IAS 24:
- (a) defines the term public benefit entity (paragraph NZ 9.1);
 - (b) provides an exemption for a public benefit reporting entity from certain disclosure requirements relating to certain Ministers of the Crown (paragraph NZ 25.1)
 - (c) prescribes the disclosure requirements about the transactions and related outstanding balances if the exemption referred to in paragraph NZ 25.1 is applied (paragraph NZ 26.1).
- IN 5 In adopting IAS 24 for application as NZ IAS 24 the following changes have been made in respect of entities qualifying for differential reporting concessions to the requirements of IAS 24. NZ IAS 24:
- (a) defines the term qualifying entity (paragraph 4.1);
 - (b) provides a concession to the disclosure requirements of this Standard (as identified in the Standard).

Compliance with IAS 24

- IN 6 Profit-oriented entities, other than qualifying entities applying any differential reporting concessions, that comply with NZ IAS 24 will simultaneously be in compliance with IAS 24. Public benefit entities using the “NZ” paragraphs in the Standard that specifically apply to public benefit entities may not simultaneously be in compliance with IAS 24. Whether a public benefit entity will be in compliance with IAS 24 will depend on whether the “NZ” paragraphs provide additional guidance for public benefit entities or contain requirements that are inconsistent with the corresponding IASB Standard and will be applied by the public benefit entity.

New Zealand Equivalent to International Accounting Standard 24

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, including commitments, with such parties.

Scope

- 2 **This Standard shall be applied in:**
- (a) **identifying related party relationships and transactions;**
 - (b) **identifying outstanding balances, including commitments, 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 relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with NZ IAS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual 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 those circumstances, the entity has the ability to affect the financial and operating policies of the investee 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 an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its 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:**
- A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').**
- (a) **A person or a close member of that person's family is related to a reporting entity if that person:**
- (i) **has control or joint control over the reporting entity;**
 - (ii) **has significant influence over the reporting entity; or**
 - (iii) **is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.**

- (b) **An entity is related to a reporting entity if any of the following conditions applies:**
- (i) **The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).**
 - (ii) **One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).**
 - (iii) **Both entities are joint ventures of the same third party.**
 - (iv) **One entity is a joint venture of a third entity and the other entity is an associate of the third entity.**
 - (v) **The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.**
 - (vi) **The entity is controlled or jointly controlled by a person identified in (a).**
 - (vii) **A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).**

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

***Close members of the family of a person* are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:**

- (a) **that person's children and spouse or domestic partner;**
- (b) **children of that person's spouse or domestic partner; and**
- (c) **dependants of that person or that person's spouse or 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.

Government refers to government, government agencies and similar bodies whether local, national or international.

A **government-related entity** is an entity that is controlled, jointly controlled or significantly influenced by a government.

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 related parties:
 - (a) two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

- (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) departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity, 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).
 - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, simply by virtue of the resulting economic dependence.
- 12 In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture. Therefore, for example, an associate's subsidiary and the investor that has significant influence over the associate are related to each other.

Disclosures

All entities

- 13 **Relationships between a parent and its subsidiaries shall be disclosed irrespective of whether there have been transactions between them. An entity shall disclose the name of its parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.**
- 14 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.
- 15 The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in NZ IAS 27, NZ IAS 28 *Investments in Associates* and NZ IAS 31 *Interests in Joint Ventures*.
- 16 Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.
- *17 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.**

18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- (a) **the amount of the transactions;**
- (b) **the amount of outstanding balances, including commitments, 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.**

19 The disclosures required by paragraph 18 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.**

20 The classification of amounts payable to, and receivable from, related parties in the different categories as required in paragraph 19 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.

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- 21 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;
 - (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts* (recognised and unrecognised); and
 - (j) settlement of liabilities on behalf of the entity or by the entity on behalf of that related party.
- 22 Participation 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).
- 23 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.
- 24 **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.**

Government-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) **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.**

* NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines executory contracts as contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

Public Benefit Entities

NZ 25.1 A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances, including commitments, with any Minister of the Crown or close member of that Minister's family who meets the definition of a related party in accordance with paragraph 9(a)(iii) because they are a member of the key management personnel of the parent of the reporting entity, except for any Minister of the Crown (or close member of that Minister's family) with portfolio responsibility for the reporting entity during the time they had portfolio responsibility.

- 26** If a reporting entity applies the exemption in paragraph 25, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph 25:
- (a) the name of the government and the nature of its relationship with the reporting entity (ie 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) the 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. Types of transactions include those listed in paragraph 21.

Public Benefit Entities

NZ 26.1 If a reporting entity applies the exemption in paragraph NZ 25.1, it shall disclose the following about the transactions and related outstanding balances referred to in paragraph NZ 25.1 in sufficient detail to enable users of the entity's financial statements to understand the exempted related party transactions:

- (i) the nature and amount of each individually significant transaction with reference to the factors outlined in paragraph 27; and
- (ii) for other transactions that are collectively, but not individually significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21.

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- 27 In using its judgement to determine the level of detail to be disclosed in accordance with the requirements in paragraph 26(b), the reporting entity shall 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.

Effective date and transition

- 28 An entity shall apply this Standard retrospectively for annual periods beginning on or after 1 January 2011. Earlier application is permitted, either of the whole Standard or of the partial exemption in paragraphs 25–27 for government-related entities. If an entity applies either the whole Standard or that partial exemption for a period beginning before 1 January 2011, it shall disclose that fact.

Withdrawal of NZ IAS 24 (2004)

- 29 This Standard supersedes NZ IAS 24 *Related Party Disclosures* (as issued in 2004).

Appendix Amendment to NZ IFRS 8 *Operating Segments*

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2011. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.

The amendments contained in this appendix when this Standard was issued in 2009 have been incorporated into the relevant pronouncements published in this volume.

FRSB Basis for Conclusions

Basis for Conclusions – Exemption for Public Benefit Entities

This Basis for Conclusions—Exemption for Public Benefit Entities accompanies, but is not part of, NZ IAS 24.

Introduction

- NZBC1 This Basis for Conclusions summarises the considerations of the Financial Reporting Standards Board (FRSB) in reaching its conclusion on the exemption contained in NZ IAS 24 paragraphs NZ 25.1 and NZ 26.1 for public benefit entities (“the exemption”). It sets out the background and rationale for the exemption. In proposing the exemption, individual FRSB members gave greater weight to some factors than to others.
- NZBC2 On transition to New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs), the FRSB determined that an exemption would apply regarding disclosure of transactions between related parties subject to common control or significant influence by the Crown, that would occur within a normal supplier or client/recipient relationship on normal terms and conditions as their disclosure would result in voluminous disclosures which would not assist users of the financial statements. Hence, paragraphs NZ 17.1 to NZ 17.4 were inserted into NZ IAS 24 (as approved by the ASRB in 2004) for public benefit entities.
- NZBC3 The NZ specific PBE paragraphs NZ 17.1 to NZ 17.4 became redundant with the proposed changes by the IASB in Exposure Draft *Relationships with the State*, when it determined that the issue highlighted by New Zealand was pertinent to most jurisdictions.
- NZBC4 However, the FRSB noted that in the IASB’s rewording and clarification of the related party definition, Ministers of the Crown determined to be key management personnel of the Government (the parent), are explicitly determined to be related parties, of each entity within the Government Reporting Entity. Without an exemption, this clarification could result in voluminous disclosures within individual reporting entity financial statements about Ministers’ routine transactions with entities within the Government Reporting Entity.
- NZBC5 Accordingly, the FRSB proposed the insertion of New Zealand specific paragraph NZ 25.1, providing an exemption for any Minister of the Crown (or close member of that Minister’s family) who meets the definition of a related party because the Minister or close family member is a member of the key management personnel of the parent of the reporting entity in accordance with paragraph 9(a)(iii) of NZ IAS 24. However, that exemption does not apply to Ministers who have portfolio responsibility for the reporting entity (are members of the key management personnel of the reporting entity itself). The FRSB noted that judgment will be required to determine whether a Minister of the Crown is a member of the key management personnel of the reporting entity.

Paragraph NZ 26.1 clarifies that the application of NZ 25.1 does not exempt disclosures detailing the nature and amount of individually significant transactions, nor does it exempt a qualitative and quantitative indication of the extent of collective transactions. Paragraph NZ 26.1 also clarifies that reference should be made to the factors detailed in paragraph 27, to assist with making the required disclosures.

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