

New Zealand Society of Accountants

STATEMENT OF STANDARD
ACCOUNTING PRACTICE NO. 22
1988

RELATED PARTY DISCLOSURES

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*This Statement should be read in the context of
the Explanatory foreword to Statements of Standard Accounting Practice.*

1 INTRODUCTION

1.1 The purpose of this Statement is to establish criteria for the disclosure of relationships between a reporting entity and its related parties, and of transactions with those parties.

1.2 This Statement does not include as a related party a single customer, supplier, franchiser, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

2 APPLICATION

2.1 The Standard in this Statement applies to all external financial statements.

2.2 This Statement of Standard Accounting Practice becomes operative for financial statements covering periods commencing on or after 1 January 1989.

3 DEFINITIONS

The following terms are used in this Statement with the meanings specified:

3.1 *Related party.* Parties are considered to be related if one party has the ability,

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directly or indirectly, to control or exercise significant influence over the other party in making operating, investing and financing decisions to the extent that one of the parties might be prevented from fully pursuing its own separate interests. Parties are also considered to be related when they are subject to common outside control or significant influence. In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely to the legal form.

3.2 *Control* is the power to govern directly or indirectly the financial and operating policies of another party so as to obtain benefits from the activities of that party.

3.3 *Significant influence* means the capacity of one party to influence the financial and operating policies of another party. (This concept and that of *control* are more fully discussed in paragraphs 3.6 and 4.1 to 4.7 of SSAP-8, *Accounting for Business Combinations*.)

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

4 DISCUSSION

The Related Party Issue

4.1 Entities generally enter into transactions on an arm's length basis, the interests of each party being completely independent. However, transactions often take place between parties who, because of their relationship, are not independent of one another — a related party relationship.

4.2 Related party relationships are a normal feature of commerce and business. For example, companies frequently carry on separate aspects of their activities through subsidiaries and/or associates and acquire interests in these other companies that are of sufficient proportions to allow the investing company to exercise significant influence over the commercial decisions of its investee.

4.3 A related party relationship may have a material effect on the commercial activities of a reporting entity and consequently its financial position. This may occur as a result of transactions taking place between the parties which would not have occurred in the absence of the related party relationship; or as a result of one of the related parties directing the other party to transact, or not to transact, with another party. The existence of a related party relationship may also expose a reporting entity to risks, or provide opportunities or restrictions which would not have existed in the absence of the relationship.

4.4 The performance 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

reporting entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of another entity engaged in the same trade as the former 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 certain activities.

Identification of Related Parties

4.5 This Statement applies where a related party relationship exists at any time during the reporting period. If the relationship has ceased to exist at balance date this fact should be disclosed.

4.6 In considering each possible related party relationship, attention should be directed to the substance of the relationship and not merely to the legal form. Related parties of a reporting entity would normally include:

- (a) entities that directly, or indirectly through one or more intermediaries, exercise control, or are controlled by, or are under common control with, the reporting entity; and similarly the corresponding set of entities when the relationship is based on significant influence. (Included are holding companies, subsidiaries and associates and fellow subsidiaries and associates, joint ventures and other contractual arrangements.);
- (b) individuals and their close family members or controlled trusts owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over that entity. (Close members of the family of an individual are those that may be expected to influence, or be influenced by, that person in their dealings with an entity.);
- (c) key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the reporting entity including directors and officers of companies and close members of the families of such individuals; and
- (d) entities in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (b) or (c) or over which such a person is able to exercise significant influence. (This includes entities owned by directors or major shareholders of the reporting entity and entities that have a member of key management in common with the reporting entity.)

4.7 Even though they may circumscribe the freedom of action of an entity or participate in its decision-making process, the following parties when acting in the course of their normal dealings with the reporting entity are not necessarily regarded as related parties:

- (a) providers of finance;
- (b) trade unions;
- (c) government departments and statutory boards and corporations.

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General

4.8 It is sometimes argued that related party transactions which have not been conducted at fair value ought to be remeasured and the remeasured amounts separately disclosed so that users will be better able to assess the effects of these transactions on the financial statements of the reporting entity. This Statement allows but does not require remeasurement.

4.9 There is a general presumption that transactions between related parties may not be at arm's length. Reporting entities should not imply that related party transactions were conducted on an arm's length basis unless such representations can be substantiated.

4.10 Interchanges of goods or services between related parties are considered to be related party transactions even though they may not have been given accounting recognition. For example, an enterprise may provide another with management services without charge. Disclosure should include a brief explanation of such transactions and the fact that no charge had been made.

Disclosures

4.11 The disclosures required under this Statement are additional to disclosures required by other Statements of Standard Accounting Practice and relevant statutory requirements.

4.12 The following are examples of situations where related party transactions may lead to disclosures by a reporting entity in the period which they affect:

- purchases or sales of goods (finished or unfinished)
- purchases or sales of property and other assets
- rendering or receiving of services
- agency arrangements
- leasing arrangements
- transfer of research and development
- licence agreements
- finance (including loans and equity contributions in cash or in kind)
- guarantees and collaterals
- management contracts
- taxation grouping arrangements.

4.13 This Statement requires disclosure of all related party relationships which have given rise to material related party transactions. Materiality should be determined in accordance with SSAP-6, *Materiality in Financial Statements*. In particular, both the nature and relative value of such transactions should be considered in assessing materiality.

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4.14 Where there have been material transactions between the reporting entity and its related parties at any time during the reporting period there should be disclosed:

- (a) the identity of each related party involved and the nature of the relationships;
- (b) the types of transactions involved;
- (c) the recorded value of the transactions with related parties expressed either in dollar terms or as a percentage of the value of all transactions of each type for the period;
- (d) the total of outstanding balances arising from related party transactions identified as to types of transactions together with an indication of the terms of settlement for these balances;
- (e) total debts with related parties that have been written off or forgiven during the reporting period.

4.15 Items of 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 reporting entity.

4.16 When the reporting entity is controlled by another party, there should be disclosure of the name of that related party and also, if applicable, the name of the entity ultimately controlling that party. This information should be disclosed irrespective of whether any transactions have taken place.

4.17 Group financial statements present information regarding the parent, subsidiaries and associates as a single reporting entity. It is therefore not necessary to disclose in the group financial statements those transactions between the members of the group which have been eliminated in preparing those statements.

5 STANDARD ACCOUNTING PRACTICE

Related Party Disclosures

The Standards set out in the following paragraphs should be read in the context of the foregoing paragraphs of this Statement and the Explanatory Foreword to Statements of Standard Accounting Practice issued by the Council of the New Zealand Society of Accountants.

5.1 Where there have been material transactions between the reporting entity and its related party or parties, at any time during the reporting period, there should be disclosed:

- (a) the identity of each related party involved and the nature of the relationships;
- (b) the types of transactions involved;
- (c) the recorded value of the transactions with related parties expressed either in dollar terms or as a percentage of the value of all transactions of each type for the period;

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- (d) the total of outstanding balances arising from related party transactions identified as to types of transactions together with an indication of the terms of settlement for these balances;
- (e) total debts with related parties that have been written off or forgiven during the reporting period.

5.2 When the reporting entity is controlled by another entity, there should be disclosure of the name of that related party and also, if applicable, the name of the entity ultimately controlling that party.

5.3 Where transactions take place at nil or nominal value, disclosure should include a brief description of such transactions and the fact that no charge had been made.