

CHANGES TO FINANCIAL REPORTING STANDARD (“FRS”) 24 - RELATED PARTY DISCLOSURES



BACKGROUND

The Accounting Standards Board (ASC) has recently issued a revised version of FRS 24 Related Party Disclosures in January 2010.

SCOPE

FRS 24 (2010) clarifies that it applies to both consolidated and separate financial statements of a parent, venturer or investor and to the entity's individual financial statements.

GOVERNMENT-RELATED ENTITIES

In a significant change from the currently effective FRS 24 (2005), FRS 24 (2010) provides a partial exemption from related party disclosures by 'government-related' entities. A government-related entity is defined as "... an entity that is controlled, jointly controlled or significant controlled by a government."

FRS 24 (2005) requires disclosures of transactions between government-related entities. This has previously raised concerns among entities, especially those which operate in jurisdictions where government control is pervasive. This is because they face difficulties in identifying all related parties which are also controlled by the same government. The volume of disclosures could thus be very significant.

FRS 24 (2010) is not intended to fundamentally revise the requirements of FRS 24 (2005) but, in a bid to reduce the volume of disclosures, FRS 24 (2010) provides a partial exemption for such entities from disclosing related party transactions and outstanding balances, including commitments, with:

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

In this context, the definition of "government" includes government, government agencies and similar bodies whether local, national or international.

The exemption does not apply to relationships between an entity and an individual in his capacity as an investor or key management personnel.

For example, transactions with an individual investor who has control over the holding company of the reporting entity is subject to full disclosure requirements by the reporting entity even if the holding company is controlled by the same government controlling the reporting entity.

DISCLOSURES

FRS 24 (2010) divides disclosures for "all entities" and for "government-related entities".

The disclosures required for "all entities" are in substance the same as the disclosures in the existing standard with minor changes made to certain paragraphs to clarify their meaning and to carry-forward wording in the revised definitions.

If the partial exemption for government-related entities is applied, the following disclosures are required:

- Name of the government and the nature of its relationship with the reporting entity;
- Information in sufficient detail to give an understanding of:
- The nature and amount of each individually significant transaction; and
- A qualitative or quantitative description of other transactions that are collectively, but not individually, significant.

Factors that an entity must consider in determining the level of detail to be provided include the closeness of the related party relationship, and the significance of the transaction such as whether it is

- significant in terms of size;
- carried out on non-market terms;
- outside normal day-to-day operations;
- disclosed to regulatory or supervisory authorities;
- reported to senior management;
- subject to shareholder approval.

DEFINITION OF RELATED PARTY

The definition of a “related party” has been amended to clarify the meaning of a related party and to eliminate previous inconsistencies.

The changes include the following:

- Where an investor has a subsidiary and an associate, the subsidiary and associate are regarded as related parties in their respective separate or individual financial statements;
- An inconsistency has been removed so that, when considering investments held by individuals rather than entities, two associates are not regarded as being related parties simply because one person has significant influence over one entity, and a close family member of that person has significant influence over another entity;
- The criteria for investments held by key management personnel has changed, so that where key management personnel of a reporting entity have control or joint control over other entities, disclosures are required in both the financial statements of the reporting entity and the financial statements of the other entities;
- In any circumstances where a person or entity has joint control over a second entity, and joint control or significant influence over a third entity, then the second and third entities are regarded as related to each other;
- References to an associate and a joint venture include their subsidiaries; and
- Two entities are not related parties by virtue of a member of key management personnel of one entity having significant influence over another entity.

The definition of a ‘close member of the family’ has also been amended to include a person’s spouse or domestic partner and children.

Other changes are limited to simplifying the definition in order to clarify the intended meaning and eliminate inconsistencies.

OTHER AMENDMENTS

FRS 24 (2010) requires disclosure of commitments, including the terms and conditions of the commitment, the nature of the consideration to be provided in settlement and the details of any guarantees given or received.

EFFECTIVE DATE AND TRANSITION

The revised standard is effective, on a retrospective basis, for annual periods beginning on or after 1 January 2011. Earlier application is permitted, either in full or only for the partial exemption in paragraphs 25-27 for government-related entities. If the whole standard, or the partial exemption, is applied for a period beginning before 1 January 2011, this early adoption is required to be disclosed.



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