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RELATED PARTY DISCLOSURES



ACCOUNTING
STANDARDS
BOARD

FINANCIAL REPORTING
EXPOSURE DRAFT

For the convenience of respondents in compiling their responses, the text of the questions in the Preface on which particular comments are invited (pages 13 and 14) can be downloaded (in Word format) from the 'Related party disclosures' page in the Current Projects section of the ASB Website (www.asb.org.uk).

For ease of handling, we prefer comments to be sent (in Word format) by email to:

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Comments may also be sent in hard copy form to:

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Comments should be despatched so as to be received no later than 16 September 2002. All replies will be regarded as on the public record and may be copied to the IASB and other standard-setters, unless confidentiality is requested by the commentator.

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RELATED PARTY DISCLOSURES



ACCOUNTING
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[Draft] Financial Reporting Standard • is set out in paragraphs 1 - 20A.

The Statement of Standard Accounting Practice, which comprises the paragraphs set in bold type, should be read in the context of the Objective, the definitions set out in paragraph 9 and also of the Foreword to Accounting Standards and the Statement of Principles for Financial Reporting currently in issue.

The explanatory paragraphs contained in the [draft] FRS shall be regarded as part of the Statement of Standard Accounting Practice insofar as they assist in interpreting that statement.

This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.

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PREFACE

- 1 This Financial Reporting Exposure Draft (FRED) is issued as part of the Accounting Standards Board's programme to bring about convergence between UK Accounting Standards and International Financial Reporting Standards (IFRS^{*}). It sets out for comment a proposed UK accounting standard, based on a proposed IFRS. The ASB proposes to issue a UK standard based on this draft, which will replace FRS 8 'Related Party Disclosures'.
- 2 The International Accounting Standards Board (IASB) has recently published for comment a proposed revision of IAS 24 'Related Party Disclosures'. The main changes to the present IAS 24 proposed by the IASB are summarised on pages 29-30. The exposure draft is based on the proposed revised text. The differences that the ASB proposes for the UK are summarised in paragraph 11 and are highlighted in the text.

Main changes proposed to existing UK requirements

- 3 A comparison of the disclosures required by the proposals in the exposure draft and the existing requirements of FRS 8 is set out below.

Scope of the standards—exemptions from disclosure

- 4 A comparison of the exemptions from disclosure requirements is given in the table below.

^{*} The IASB intends to designate its future standards as International Financial Reporting Standards, or IFRS. Standards issued prior to 2002 are identified as International Accounting Standards, or IAS. In this Preface, the term IFRS is used to refer to both IFRS and IAS.

FRS 8

Consolidated financial statements: transactions or balances between group entities that have been eliminated on consolidation

Parent's own financial statements: where they are presented together with its consolidated financial statements

Subsidiary undertakings, 90 per cent or more of whose voting rights are controlled within the group, are exempted from disclosing transactions with group entities or investees of the group qualifying as related parties, provided that the consolidated financial statements in which the subsidiary is included are publicly available

Pension contributions paid to a pension fund (however, disclosure is required by FRS 17)

FRED 25

An equivalent exemption is included

An equivalent exemption is included

Financial statements of *wholly-owned* subsidiaries that are made available or published with consolidated financial statements for the group to which the subsidiary belongs are not required to disclose related party transactions and outstanding balances*

No equivalent exemption is included

* Six members of the IASB disagree with the proposed exemption from related party disclosures in separate financial statements of a parent or wholly-owned subsidiary.

Emoluments in respect of services as an employee of the reporting entity*	Management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations
Disclosures do not override an entity's duties of confidentiality arising by operation of law (for example, banker/client confidentiality)	No equivalent exemption is included. However, the exposure draft does not require disclosure of the names of transacting related parties

Definition of related parties

- 5 A comparison of the definitions of related parties is given in the table below. FRS 8 identifies various parties that are related parties and other parties that are presumed to be related parties (where the presumption may be rebutted in certain circumstances). The parties identified in the exposure draft's definition are all considered to be related parties. The lists are broadly equivalent, except that the exposure draft makes no reference to shadow directors or to persons acting in concert to exercise control or influence.

* In the UK, extensive disclosure requirements relating to directors' remuneration are contained in the Companies Act 1985 and, for listed companies, in the Listing Rules of the UK Listing Authority. It is anticipated that requirements relating to the disclosure of directors' remuneration in the annual reports of UK listed companies that prepare their consolidated financial statements in accordance with adopted IASs under the proposed Regulation from 2005 (see paragraph 15 below) will be separate from the requirements of the adopted IASs.

- 6 FRS 8 deals more comprehensively than the exposure draft with the notion of influence that would trigger related party status. The exposure draft identifies a relationship where a party has an interest that gives it significant influence over an entity (significant influence being defined as the power to participate in the financial and operating policy decisions of an entity). FRS 8 describes the level of influence over the financial and operating policies as being such that the party subject to influence might be inhibited from pursuing at all times its own separate interests. FRS 8 also accords related party status to transacting parties that are subject to common influence from the same source to such an extent that one of the parties has subordinated its own separate interests.

FRS 8

FRED 25

Relationships

The relationships and the parties listed below are all related parties

Parties are in a direct or indirect control relationship

Equivalent

Parties are subject to common control from the same source

Equivalent

One party has influence over the financial and operating policies of the other party to such an extent that that other party might be inhibited from pursuing at all times its own separate interests

A party has an interest that gives it significant influence

Parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties has subordinated its own separate interests

Does not deal with such circumstances

Parties that are deemed to be related parties

Parties that are related parties

Associates and joint ventures

Equivalent

Investor or venturer in respect of which the entity is an associate or a joint venture

Equivalent

Directors (including shadow directors) of the entity and directors of its ultimate and intermediate parent undertakings

Members of the key management personnel of the entity or its parent, including any director (whether executive or otherwise) or officer *are* related parties

Pension funds for the benefit of the entity's employees or of any entity that is a related party of the entity

Equivalent

<i>Parties that are presumed to be related parties (presumption may be rebutted)</i>	<i>Parties that are related parties</i>
Key management of the entity and its parent undertakings	See above – key management personnel are related parties
A person owning or able to exercise control over 20 per cent or more of the entity's voting rights, whether directly or through nominees	No specific equivalent, but any party that has an interest that gives it significant influence is considered to be a related party
Persons acting in concert to exercise control or influence	No equivalent
An entity managing or managed by the entity under a management contract	No equivalent
Close members of the family of individuals that are referred to as related parties	Close members of the family of individuals that are referred to as related parties are considered to be related parties
Partnerships, companies, trusts or other entities in which any individual (or member of the close family) referred to as related parties has a controlling interest	An entity in which any individual referred to as a related party owns a controlling or jointly controlling interest in, or significant influence over, the voting power is a related party

Disclosures

Disclosure of control

- 7 Where an entity is controlled by another party, FRS 8 requires the following disclosures:
- the related party relationship;
 - the name of that party and, if different, that of the ultimate controlling party; and
 - if the controlling party or ultimate controlling party is not known, that fact should be disclosed.

In contrast, the international exposure draft merely requires disclosure of relationships between parents and subsidiaries; it does not require a controlling party to be named.

- 8 In developing FRS 8, the ASB took the view that disclosure of the identity, as well as the existence, of a controlling party is relevant information for users. Therefore, the ASB proposes that the revised UK standard should include the requirement to disclose the names of controlling parties.

Disclosure of transactions

- 9 FRS 8 requires disclosures in respect of material transactions with related parties. Guidance is given on materiality; transactions are material when their disclosure might reasonably be expected to influence decisions made by the users of general purpose financial statements. The guidance also addresses the perspective

that needs to be taken when a transaction has been undertaken directly or indirectly with an individual in a position to influence, or accountable for stewardship of, the entity (for example, a director or substantial shareholder). The exposure draft does not specifically address materiality in the context of the disclosure requirements.

- 10 The disclosure requirements are broadly comparable, as illustrated in the table below. The notable exception is that FRS 8 requires the names of transacting related parties to be disclosed; the exposure draft does not require names to be disclosed, but it does require disclosures with categories of related parties.

FRS 8	FRED 25
Names of transacting related parties	Not required
Description of the relationship	Nature of the relationship
Description of the transactions	Information about the transactions
Amounts involved	Yes
Any other elements necessary for an understanding of the financial statements	Information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements

Amounts due to or from related parties	In addition, disclosure of the terms and conditions, the nature of the consideration and details of any guarantees given or received
Provisions for doubtful debts	Yes
Amounts written off in respect of debts due to or from related parties	Expense recognised in respect of bad or doubtful debts due from related parties
	The above disclosures should be made separately for each of the following categories: the parent, entities with joint control or significant influence over the entity, subsidiaries, associates, joint ventures in which the entity is a venturer, key management personnel of the entity or its parent, and other related parties

Differences between proposed UK requirements and proposed IFRSs

- 11 The text of the exposure draft is the same as the proposed IAS 24 with the following exceptions:
 - (a) Paragraphs 13A and 13B have been added to preserve the requirement in UK accounting standards* for the names of controlling parties to be disclosed (see paragraph 8 above).

* Paragraphs 5 and 18 of FRS 8.

- (b) The [draft] FRS includes a paragraph on scope, applying the standard to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt.
- (c) References to IFRSS have been removed or replaced with references to relevant UK accounting standards.

Amendments to other UK standards

- 12 The replacement of FRS 8 by the standard set out in the exposure draft would not require any changes to other UK standards or UITF Abstracts.

Implementation

- 13 The ASB proposes to issue a standard based on the proposals in the FRED, and withdraw FRS 8, at the same time as the IASB issues the revised IAS 24, which it plans to do in the first quarter of 2003. The ASB expects to incorporate into the new UK standard any changes the IASB makes to the revised IAS 24, unless those changes are a significant departure from the requirements proposed in the exposure draft.
- 14 The ASB is not aware of any reason for an extended implementation period or for special transitional arrangements.

UK law, EU law and international standards

- 15 EU Ministers have proposed that from 1 January 2005, all listed companies in the EU should prepare their consolidated financial statements in accordance with adopted international accounting standards. A draft Regulation to this effect is at a late stage of negotiation and EU Ministers are expected to approve it shortly. The intention is that IFRSs will form the basis of those adopted international accounting standards.
- 16 After wide discussion with interested parties, the ASB has indicated its intention to pursue a programme of work to align UK accounting standards with IFRSs wherever practicable. The effect of this is that the substance of IFRSs will apply in the UK not only to the group financial statements of listed companies but also to individual financial statements and unlisted companies. However, the ASB will consider the option of retaining a UK standard, or modifying an IFRS in its wider application, for example if it appears likely that the cost of extending an unmodified IFRS more widely would exceed the benefit.
- 17 The Government has said that it may wish to extend the Regulation to individual financial statements and unlisted companies from 2005 or later. Ministers intend to consult on this once the Regulation is agreed.
- 18 There are extensive statutory requirements regarding disclosure of related party transactions and relationships. The location of the principal statutory requirements is given in Appendix 1.
- 19 There are also disclosure obligations under the Listing Rules of the UK Listing Authority. The location of these requirements is given in Appendix II.

Questions for respondents

- 20 The ASB is requesting comments on any aspect of the FRED by 16 September 2002—the same date as the IASB has set for comments on its proposed revisions to IAS 24.
- 21 The ASB would welcome comments in particular on the following:
 - ASB(i) Do you agree with the proposal to issue a new standard in the UK on related party disclosures, once the new IAS 24 is approved by the IASB?
 - ASB(ii) Do you believe that the ASB should consider any transitional arrangements?
 - ASB(iii) Do you believe that an accounting standard should require disclosure of the name of a controlling party and, if different, that of the ultimate controlling party? If the new IAS 24 does not require disclosure, do you believe that a new UK standard should require this disclosure as set out in paragraphs 13A and 13B of the [draft] FRS?
 - ASB(iv) Do you believe that an accounting standard should require disclosure of the names of transacting related parties?
 - ASB(v) Should the definition of related parties specifically refer to shadow directors? Should it also refer to persons acting in concert?
 - ASB(vi) Do you believe that an accounting standard should specify that disclosure is required of *material* related party transactions and give more guidance on materiality in the context of such transactions?

ASB(vii) Are there any other aspects of the draft standard that the ASB should request the IASB to review when finalising the revised IAS 24?

22 The IASB has asked commentators to respond to the following questions on the proposed changes to IAS 24:

IASB(i) Do you agree that the Standard should not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations (see paragraph 2)?

'Management' and 'compensation' would need to be defined, and measurement requirements for management compensation would need to be developed, if disclosure of these items were to be required. If commentators disagree with the Board's proposal, the Board would welcome suggestions on how to define 'management' and 'compensation'.

IASB(ii) Do you agree that the Standard should not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs (see paragraph 3)?

The exposure draft published here is based on the IASB's proposed text. The complete IASB document will be available from its website, www.iasb.org.uk.

Like the IASB's text, the text here is presented 'clean', ie without highlighting the IASB's proposed changes to its existing standards. However, the ASB is proposing a small number of changes to the IASB's text. These are highlighted by strikethrough of text to be deleted, by underlining of words to be added and by sidelining against altered text.

[DRAFT] FINANCIAL REPORTING STANDARD ¥

Objective

The objective of this Standard is to prescribe the disclosure of information about related party relationships and about transactions and outstanding balances between an entity and its related parties.

Scope

1. *This Standard shall be applied in:*

- (a) *identifying related party relationships, and transactions and outstanding balances between an entity and its related parties;***
- (b) *identifying the circumstances in which disclosure of the items in (a) is required in general purpose financial statements; and***
- (c) *determining the disclosures to be made about those items.***

1A. *This Standard applies to all financial statements that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure), except that reporting entities applying the Financial Reporting Standard for Smaller Entities currently applicable are exempt. [ASB].*

- 2. *This Standard does not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations.***
- 3. *This Standard does not require disclosure of related party transactions and outstanding balances in the separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements for the group to which that entity belongs.***

4. Related party transactions and outstanding balances with other entities in a group are disclosed in an entity's separate financial statements unless such disclosures are exempted under paragraph 3. Intra-group related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

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 subsidiary or associated entities and acquire interests in other entities for investment purposes or for trading reasons that are of sufficient proportions that the investor can control or jointly control its investee, or can exercise significant influence over the financial and operating decisions of its investee.
6. A related party relationship could have an effect on the profit or loss, financial position and cash flows of an entity. Related parties may enter into transactions that unrelated parties would not enter into. 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, financial position and cash flows 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, it:*
 - (i) *controls, or 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) *it is an associate (as defined in FRS 9, Associates and Joint Ventures ~~IAS 28, Accounting for Investments in Associates~~) of the entity;*
- (c) *it is a joint venture in which the entity is a venturer (see FRS 9, Associates and Joint Ventures ~~IAS 31, Financial Reporting of Interests in Joint Ventures~~);*
- (d) *it is a member of the key management personnel of the entity or its parent, that is, 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) or officer of that entity;*
- (e) *it is a close member of the family of any individual referred to in subparagraph (a) or (d);*
- (f) *it is an entity in which a controlling or jointly controlling interest in, or significant influence over, the voting power is owned, directly or indirectly, by any individual referred to in (d) or (e); or*

- (g) *it 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.

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.

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.

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 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.*
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, notwithstanding subparagraphs (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, 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.

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 where control exists, irrespective of whether there have been transactions between the related parties.

13A. When the reporting entity is controlled by another party, there should be disclosure of the related party relationship and the name of that party and, if different, that of the ultimate controlling party. If the controlling party or ultimate controlling party of the reporting entity is not known, that fact should be disclosed. This information should be disclosed irrespective of whether any transactions have taken place between the controlling parties and the reporting entity. [ASB]

13B. If the reporting entity is controlled by another party, that fact is relevant information, irrespective of whether transactions have taken place with that party, because the control relationship prevents the reporting entity from being independent. Indeed, the existence and identity of the controlling party may sometimes be at least as relevant in appraising an entity's prospects as are the performance and financial position presented in its financial statements. The controlling party may establish the entity's credit standing, determine the source and price of its raw materials, determine the products it sells, to whom and at what price, and may affect the source, calibre and even the primary concern and allegiance of its management. [ASB]

14. 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. 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.***

15. *The disclosures in paragraph 14 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.***

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

- ¥ purchases or sales of goods (finished or unfinished);
- ¥ purchases or sales of property and other assets;
- ¥ rendering or receiving of services;
- ¥ leases;
- ¥ transfers of research and development;
- ¥ transfers under licence agreements;
- ¥ transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- ¥ provision of guarantees or collateral; and
- ¥ settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

17. Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such disclosures can be substantiated.
18. *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.*
19. Transactions with associates accounted for under the equity method and joint ventures accounted for under either proportionate consolidation or the equity method are not fully eliminated in preparing financial statements. Therefore, they are disclosed as related party transactions unless the exemption in paragraph 3 is used.

Effective Date

20. *The accounting practices set out in this Standard should be regarded as standard in respect of accounting periods ending on or after [date to be inserted after exposure]. Earlier adoption is encouraged. This Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2003. Earlier adoption is encouraged.*
- 20A *This Standard supersedes FRS 8 Related Party Disclosures [following publication in final form]. [ASB]*

APPENDIX I

NOTE ON LEGAL REQUIREMENTS

Great Britain

- 1 The following table lists only the main statutory provisions relating to related party disclosures.

Companies Act 1985

section 231	Disclosure required in notes to accounts: related undertakings
Schedule 5	Disclosure of information: related undertakings
<i>Part I</i>	<i>Companies not required to prepare group accounts</i>
<i>Part II</i>	<i>Companies required to prepare group accounts</i>
section 232	Disclosure required in notes to accounts: emoluments and other benefits of directors and others
section 741	Director and shadow director
Schedule 6	Disclosure of information: emoluments and other benefits of directors and others
section 234	Duty to prepare directors report
Schedule 7	Matters to be dealt with in directors report
Schedule 4	Form and content of company accounts
<i>Part I</i>	
<i>Section B</i>	<i>The required formats for accounts</i>
<i>paragraph 50</i>	<i>Guarantees and other financial commitments</i>
<i>paragraph 59A</i>	<i>Guarantees and other financial commitments in favour of group undertakings</i>

Schedule 4A <i>paragraph 21</i>	Form and content of group accounts <i>Consolidated balance sheet and profit and loss account formats for associated undertakings and for other participating interests.</i>
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Special provisions relating to banking and insurance companies and groups are contained in Schedules 9 and 9A respectively.

Northern Ireland

- 2 The statutory requirements in Northern Ireland are identical with those in Great Britain. The following table shows the provisions in the Companies (Northern Ireland) Order 1986 that correspond to the following provisions in the Companies Act 1985 (see paragraph 1 above).

<i>Great Britain</i>	<i>Northern Ireland</i>
section 231	Article 239
Schedule 5 <i>Parts I and II</i>	Schedule 5 <i>Parts I and II</i>
section 232	Article 240
section 741	Article 9
Schedule 6	Schedule 6
section 234	Article 242
Schedule 7	Schedule 7
Schedule 4 <i>Part 1 Section B paragraphs 50 and 59A</i>	Schedule 4 <i>Part I Section B paragraphs 50 and 59A</i>

Schedule 4A
paragraph 21

Schedule 4A
paragraph 21

Banking companies and groups

Schedule 9

Schedule 9

Insurance companies and groups

Schedule 9A

Schedule 9A as amended by
the Companies (1986 Order)
(Insurance Companies
Accounts) Regulations
(Northern Ireland) 1994.

Republic of Ireland

- 3 The following table shows the provisions in the European Communities (Companies: Group Accounts) Regulations 1992, and the Companies Acts 1963 to 2001 that correspond to the provisions in the Companies Act 1985 (see paragraph 1 above).

Great Britain

Republic of Ireland

section 231	regulation 36	1992 Regulations
Schedule 5 <i>Parts I and II</i>	section 16	Companies (Amendment) Act 1986
	regulation 44	1992 Regulations
	schedule, paragraphs 4, 18-22	1992 Regulations
section 232	section 191	Companies Act 1963
section 741	section 27	Companies Act 1990

Schedule 6	schedule, paragraph 16 sections 41-43 schedule, paragraph 17	1992 Regulations Companies Act 1990 1992 Regulations
section 234	section 158	Companies Act 1963
Schedule 7	sections 13, 14 and 16 section 63 regulation 37 section 90	Companies (Amendment) Act 1986 Companies Act 1990 1992 Regulations Company Law Enforcement Act 2001
Schedule 4 <i>Part 1</i> <i>Section B</i>	schedule, paragraphs 1-3	Companies (Amendment) Act 1986
<i>paragraph 50</i>	schedule, paragraph 36	Companies (Amendment) Act 1986
<i>paragraph 59A</i>	schedule, paragraph 45A	Companies (Amendment) Act 1986
Schedule 4A <i>paragraph 21</i>	schedule, paragraph 2	1992 Regulations
<i>Banking companies and groups</i>		
Schedule 9	European Communities (Credit Institutions: Accounts) Regulations 1992	
<i>Insurance companies and groups</i>		
Schedule 9A	European Communities (Insurance Undertakings: Accounts) Regulations 1996	

APPENDIX II

NOTE ON UK LISTING AUTHORITY REQUIREMENTS

The Listing Rules published by the UK Listing Authority deal with related party transactions, which are defined somewhat differently from those in the [draft] FRS, albeit with a large degree of overlap. Chapter 11 Transactions with related parties defines related party transactions and sets out the requirements and exceptions for such transactions. Further disclosure requirements in respect of related parties are contained in Chapter 12 Financial Information .

SUMMARY OF MAIN CHANGES PROPOSED BY THE IASB

The main changes proposed to IAS 24 are:

- ✚ to add proposed paragraph 2, which states that the Standard does not require disclosure of management compensation, expense allowances and similar items paid in the ordinary course of an entity's operations.
- ✚ to incorporate the examples of related parties in paragraph 3 of IAS 24 into the definition of related party in proposed paragraph 9.
- ✚ to remove paragraph 4(d), which exempted financial statements of state-controlled enterprises from disclosing transactions with other state-controlled enterprises.
- ✚ to make the following changes to the definitions in proposed paragraph 9:
 - ✚ to add the following parties to the definition of related party :
 - ✚ parties with joint control over the entity;
 - ✚ joint ventures in which the entity is a venturer; and
 - ✚ post-employment benefit plans for the benefit of employees of the entity, or of any entity that is a related party of the entity.
 - ✚ to clarify in the definition of related party that non-executive directors are key management personnel.
 - ✚ to add a definition of close members of the family of an individual .
- ✚ to add proposed paragraph 11(b) to indicate that two venturers are not related parties simply because they share joint control over a joint venture.
- ✚ to remove paragraphs 11—16 of IAS 24, which discuss the methods used to price transactions between related parties. The Standard does not require remeasurement of related party transactions.

¥ to add to paragraph 19 of IAS 24 the following example of transactions that are disclosed if they are with a related party:

¥ settlement of liabilities on behalf of the entity or by the entity on behalf of another party (see proposed paragraph 16).

¥ to amend paragraphs 22 and 23 of IAS 24 so that it no longer is sufficient to disclose proportions of transactions and outstanding balances in respect of related parties — instead, the amounts must be disclosed (see proposed paragraph 14).

¥ to add to paragraphs 22 and 23 of IAS 24 the following disclosures about outstanding balances with related parties:

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

¥ details of any guarantees given or received; and

¥ provisions for doubtful debts (see proposed paragraph 14).

¥ to add to paragraphs 22 and 23 of IAS 24 a requirement to disclose the expense recognised during the period in respect of bad or doubtful debts due from related parties (see proposed paragraph 14).

¥ to add proposed paragraph 15, which is a requirement transferred from paragraph 72 of IAS 1, Presentation of Financial Statements, to subclassify amounts payable to, and receivable from, different categories of related parties. The categories to be disclosed would be extended to provide a more comprehensive analysis of these related party balances and would also apply to related party transactions.

¥ to add proposed paragraph 17, which states that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such disclosures can be substantiated.

¥ to remove paragraph 23(c) of IAS 24, which indicated that disclosure normally would be made of pricing policies in respect of related party transactions.

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