

AS 18 – Notes

Definition of related party (definitive / exhaustive list)

- a) Holding companies, subsidiaries and fellow subsidiaries
- b) Associates, joint venture, investing party (associate) or venturer (joint venture)
- c) Individuals having control or significant influence over the entity and relatives of such individuals
- d) Key Management Personnel (KMP) and their relatives
- e) Entities over which persons mentioned in (c) and (d) is able to exercise significant influence. This includes enterprises owned by directors or major shareholders and entities that have common KMP.

Note: A party is considered to be related if any of the above are satisfied at anytime during the reporting period.

Disclosure requirements under AS 18

- a) Name of the related party
- b) Description of the relationship
- c) Description of nature of transactions
- d) Volume of transactions either in terms of amount or proportion
- e) Related party balances outstanding as at the balance sheet date along with provision for doubtful debts on such balances if any
- f) Amounts written off or written back in respect of balances due from / to related parties.

Note 1: Points (a) and (b) above should be disclosed whether or not transactions have taken place in respect of parties related through control.

Note 2: Remuneration to KMP should be considered as a related party transaction.

Key definitions

Related party transactions: Transfer of resources or obligations between related parties regardless of **whether or not the price is charged.**

Control: Control means:

- a) Ownership over more than 50% of voting power
- b) Control over composition of board of directors or any corresponding governing body (non-company)
- c) Substantial interest in voting power ($\geq 20\%$) and power to direct financial and / or operating policies of the entity

Significant influence: Participation in the financial and / or operating policies of the enterprise but not control of these policies. A party holding 20% or more voting power in the entity is

presumed to have significant influence unless proved otherwise. Similarly, a party having less than 20% of voting power is presumed to not have significant influence unless proved otherwise.

Significant influence can be exercised through:

- a) Representation on BoD
- b) Participation in policy making process
- c) Material inter-company transactions
- d) Interchange of managerial personnel
- e) Dependence on technical information

Key Management Personnel: Those persons who have the authority and responsibility for planning, directing and controlling the activities of the reporting entity.

Example: Managing director, whole-time director, manager and any other person in accordance with whose instructions the BoD is accustomed to act.

Note: Non-executive director is not a related party unless he/she satisfied the definition of KMP.

Relative:

- a) Spouse
- b) Son
- c) Daughter
- d) Father
- e) Mother
- f) Sister
- g) Brother

who may be expected to be influenced by or influence that individual in relation to his/her dealings with the entity.

Joint control: It is contractually agreed sharing of power to govern financial and operating policies of an economic activity.

Other points

- a) Following are not deemed to be related parties:
 - a. Entities with common directors
 - b. A single customer, vendor, franchiser, distributor or general agent merely by virtue of economic dependence
 - c. Providers of finance
 - d. Trade Unions
 - e. Public Utilities
 - f. Government departments and agencies

- b) Related party disclosure requirements do not apply in circumstances where providing such disclosures would conflict with the entity's duty of confidentiality as required by the statute. (Example – banks are obliged to maintain confidentiality in respect of transactions with their customers)
- c) No disclosure is required in consolidated financial statements in respect of intra-group transactions.
- d) No disclosure is required in FS of state-controlled enterprises with respect to related party relationships and transactions with other state-controlled enterprises.