

**PROPOSED STATUTORY
BOARD FINANCIAL
REPORTING STANDARD**

**ED SB-FRS
24**

EXPOSURE DRAFT

Related Party Disclosures

*Comments to be received by **25 March 2011***

This exposure draft *Related Party Disclosures* is issued by the Accountant-General's Department Financial Reporting Branch for comment only and does not necessarily represent the views of Accountant-General's Department Financial Reporting Branch. The proposals may be modified in the light of the comments received before being issued as a Statutory Board Financial Reporting Standard (SB-FRS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **25 March 2011** preferably by email to AGD_ASSB_Feedback@agd.gov.sg or addressed to:

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CONTENTS

paragraphs

**STATUTORY BOARD FINANCIAL REPORTING STANDARD 24
*RELATED PARTY DISCLOSURES***

OBJECTIVE	1
SCOPE	2–4
PURPOSE OF RELATED PARTY DISCLOSURES	5–8
DEFINITIONS	9–12
DISCLOSURES	
All entities	13–24
Government-related entities	25–27
EFFECTIVE DATE AND TRANSITION	28

**APPENDIX
*Amendment to SB-FRS 108 Operating Segments***

ILLUSTRATIVE EXAMPLES

Statutory Board Financial Reporting Standard 24

Related Party Disclosures

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 SB-FRS 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.

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 SB-FRS 19 *Employee Benefits*) including employee benefits to which SB-FRS 102 *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.

- 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 SB-FRS 27, SB-FRS 28 *Investments in Associates* and SB-FRS 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 SB-FRS 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.

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

ED SB-FRS 24

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 SB-FRS 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.**
- 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.**
- 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;

* SB-FRS 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.

ED SB-FRS 24

- (d) disclosed to regulatory or supervisory authorities;
 - (e) reported to senior management;
 - (f) subject to shareholder approval.
- 27A Paragraph 9 of SB-FRS 24 provides a definition of related party. The Government does not exert control over certain entities that would be deemed as related parties under paragraph 9 of SB-FRS 24. For example, the Government acts as shareholder to Temasek Holdings Pte Ltd and its group of companies, and requires returns from its investments in them. These companies however operate independently of the Government. **In view of this, for purposes of complying with the requirements of paragraph 18 of SB-FRS 24, the disclosure of transactions with related parties other than Ministries, Organs of State and other Statutory Boards, are not required unless there are circumstances to indicate that these transactions are unusual and their disclosure would be of interest to readers of the financial statements, e.g. transaction not carried out in normal course of business, not on market terms etc.**
- 27B In **exceptional circumstances**, disclosure of certain significant related party transactions could be detrimental to the national interest. Under such circumstances, Statutory Boards are exempted from disclosing the particular related party transaction. Statutory Boards that intend to exercise this exemption should update the Accountant-General before the end of the financial year to which the relevant transaction relates to.

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.

Appendix

Amendment to SB-FRS 108 *Operating Segments*

- A1 Paragraph 34 is amended as follows (new text is underlined and deleted text is struck through) and paragraph 36B is added.
- 34 An entity shall provide information about the extent of its reliance on its major customers. If revenues from transactions with a single external customer amount to 10 per cent or more of an entity's revenues, the entity shall disclose that fact, the total amount of revenues from each such customer, and the identity of the segment or segments reporting the revenues. The entity need not disclose the identity of a major customer or the amount of revenues that each segment reports from that customer. For the purposes of this SB-FRS, a group of entities known to a reporting entity to be under common control shall be considered a single customer, However, judgement is required to assess whether and a government (national, state, provincial, territorial, ~~local or foreign~~ including government agencies and similar bodies whether local, national or international) and entities known to the reporting entity to be under the control of that government ~~shall be~~ are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities.
- 36B SB-FRS 24 *Related Party Disclosures* (as revised in 2011) amended paragraph 34 for annual periods beginning on or after 1 January 2011. If an entity applies SB-FRS 24 (revised 2011) for an earlier period, it shall apply the amendment to paragraph 34 for that earlier period.

Illustrative examples

The following examples accompany, but are not part of, SB-FRS 24 Related Party Disclosures. They illustrate:

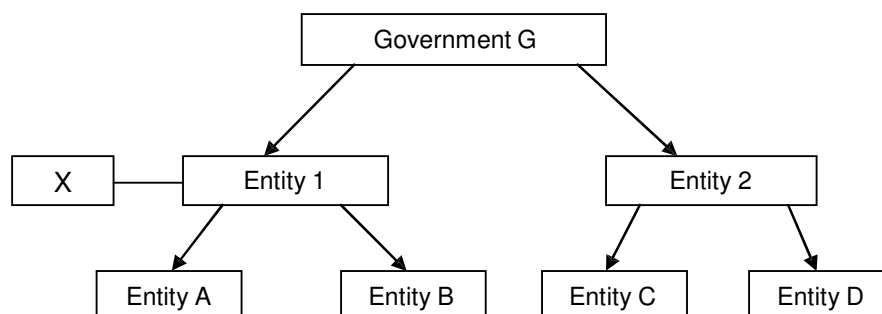
- the partial exemption for government-related entities; and
- how the definition of a related party would apply in specified circumstances.

In the examples, references to 'financial statements' relate to the individual, separate or consolidated financial statements.

Partial exemption for government-related entities

Example 1 – Exemption from disclosure (paragraph 25)

IE1 Government G directly or indirectly controls Entities 1 and 2 and Entities A, B, C and D. Person X is a member of the key management personnel of Entity 1.



IE2 For Entity A's financial statements, the exemption in paragraph 25 applies to:

- transactions with Government G; and
- transactions with Entities 1 and 2 and Entities B, C and D. However, that exemption does not apply to transactions with Person X.

Disclosure requirements when exemption applies (paragraph 26)

IE3 In Entity A's financial statements, an example of disclosure to comply with paragraph 26(b)(i) for **individually** significant transactions could be:

*Example of disclosure for individually significant transaction carried out on **non-market terms***

On 15 January 20X1 Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, sold a 10 hectare piece of land to another government-related utility company for CU5 million. * On 31 December 20X0 a plot of land in a similar location, of

* In these examples monetary amounts are denominated in 'currency units (CU)'.

a similar size and with similar characteristics, was sold for CU3 million. There had not been any appreciation or depreciation of the land in the intervening period. See note X [of the financial statements] for disclosure of government assistance as required by SB-FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and notes Y and Z [of the financial statements] for compliance with other relevant SB-FRSs.

Example of disclosure for individually significant transaction because of size of transaction

In the year ended December 20X1 Government G provided Entity A, a utility company in which Government G indirectly owns 75 per cent of outstanding shares, with a loan equivalent to 50 per cent of its funding requirement, repayable in quarterly instalments over the next five years. Interest is charged on the loan at a rate of 3 per cent, which is comparable to that charged on Entity A's bank loans.[†] See notes Y and Z [of the financial statements] for compliance with other relevant SB-FRSs.

Example of disclosure of collectively significant transactions

In Entity A's financial statements, an example of disclosure to comply with paragraph 26(b)(ii) for **collectively** significant transactions could be:

Government G, indirectly, owns 75 per cent of Entity A's outstanding shares. Entity A's significant transactions with Government G and other entities controlled, jointly controlled or significantly influenced by Government G are [a large portion of its sales of goods and purchases of raw materials] or [about 50 per cent of its sales of goods and about 35 per cent of its purchases of raw materials].

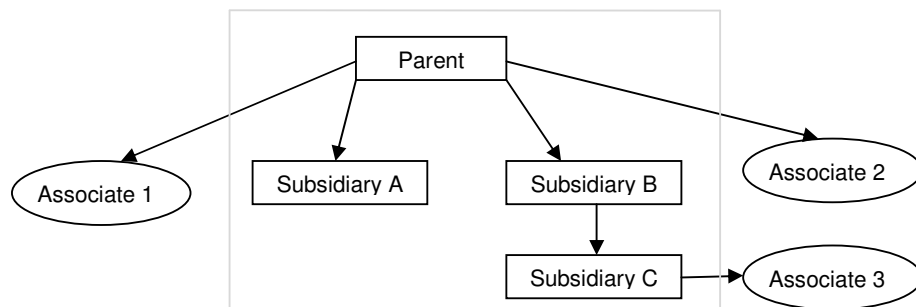
The company also benefits from guarantees by Government G of the company's bank borrowing. See note X [of the financial statements] for disclosure of government assistance as required by SB-FRS 20 *Accounting for Government Grants and Disclosure of Government Assistance* and notes Y and Z [of the financial statements] for compliance with other relevant SB-FRSs.

Definition of a related party

*The references are to subparagraphs of the definition of a **related party** in paragraph 9 of SB-FRS 24.*

Example 2 – Associates and subsidiaries

IE4 Parent entity has a controlling interest in Subsidiaries A, B and C and has significant influence over Associates 1 and 2. Subsidiary C has significant influence over Associate 3.

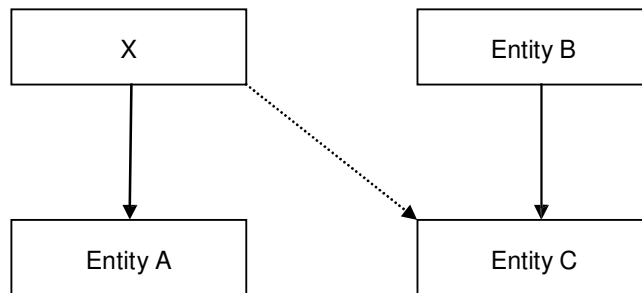


† If the reporting entity had concluded that this transaction constituted government assistance it would have needed to consider the disclosure requirements in SB-FRS 20.

- IE5 For Parent's separate financial statements, Subsidiaries A, B and C and Associates 1, 2 and 3 are related parties. [*Paragraph 9(b)(i) and (ii)*]
- IE6 For Subsidiary A's financial statements, Parent, Subsidiaries B and C and Associates 1, 2 and 3 are related parties. For Subsidiary B's separate financial statements, Parent, Subsidiaries A and C and Associates 1, 2 and 3 are related parties. For Subsidiary C's financial statements, Parent, Subsidiaries A and B and Associates 1, 2 and 3 are related parties. [*Paragraph 9(b)(i) and (ii)*]
- IE7 For the financial statements of Associates 1, 2 and 3, Parent and Subsidiaries A, B and C are related parties. Associates 1, 2 and 3 are not related to each other. [*Paragraph 9(b)(ii)*]
- IE8 For Parent's consolidated financial statements, Associates 1, 2 and 3 are related to the Group. [*Paragraph 9(b)(ii)*]

Example 3 – Key management personnel

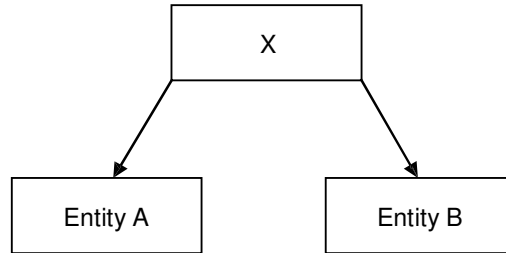
- IE9 A person, X, has a 100 per cent investment in Entity A and is a member of the key management personnel of Entity C. Entity B has a 100 per cent investment in Entity C.



- IE10 For Entity C's financial statements, Entity A is related to Entity C because X controls Entity A and is a member of the key management personnel of Entity C. [*Paragraph 9(b)(vi)–(a)(iii)*]
- IE11 For Entity C's financial statements, Entity A is also related to Entity C if X is a member of the key management personnel of Entity B and not of Entity C. [*Paragraph 9(b)(vi)–(a)(iii)*]
- IE12 Furthermore, the outcome described in paragraphs IE10 and IE11 will be the same if X has joint control over Entity A. [*Paragraph 9(b)(vi)–(a)(iii)*] (If X had only significant influence over Entity A and not control or joint control, then Entities A and C would not be related to each other.)
- IE13 For Entity A's financial statements, Entity C is related to Entity A because X controls A and is a member of Entity C's key management personnel. [*Paragraph 9(b)(vii)–(a)(i)*]
- IE14 Furthermore, the outcome described in paragraph IE13 will be the same if X has joint control over Entity A. The outcome will also be the same if X is a member of key management personnel of Entity B and not of Entity C. [*Paragraph 9(b)(vii)–(a)(i)*]
- IE15 For Entity B's consolidated financial statements, Entity A is a related party of the Group if X is a member of key management personnel of the Group. [*Paragraph 9(b)(vi)–(a)(iii)*]

Example 4 – Person as investor

IE16 A person, X, has an investment in Entity A and Entity B.



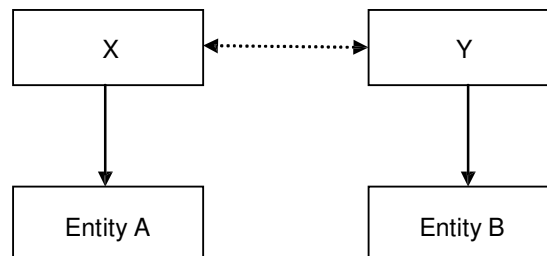
IE17 For Entity A's financial statements, if X controls or jointly controls Entity A, Entity B is related to Entity A when X has control, joint control or significant influence over Entity B. [*Paragraph 9(b)(vi)–(a)(i) and 9(b)(vii)–(a)(i)*]

IE18 For Entity B's financial statements, if X controls or jointly controls Entity A, Entity A is related to Entity B when X has control, joint control or significant influence over Entity B. [*Paragraph 9(b)(vi)–(a)(i) and 9(b)(vi)–(a)(ii)*]

IE19 If X has significant influence over both Entity A and Entity B, Entities A and B are not related to each other.

Example 5 – Close members of the family holding investments

IE20 A person, X, is the domestic partner of Y. X has an investment in Entity A and Y has an investment in Entity B.



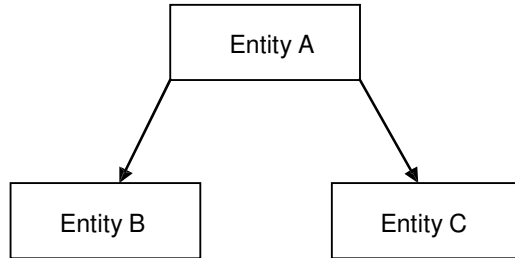
IE21 For Entity A's financial statements, if X controls or jointly controls Entity A, Entity B is related to Entity A when Y has control, joint control or significant influence over Entity B. [*Paragraph 9(b)(vi)–(a)(i) and 9(b)(vii)–(a)(i)*]

IE22 For Entity B's financial statements, if X controls or jointly controls Entity A, Entity A is related to Entity B when Y has control, joint control or significant influence over Entity B. [*Paragraph 9(b)(vi)–(a)(i) and 9(b)(vi)–(a)(ii)*]

IE23 If X has significant influence over Entity A and Y has significant influence over Entity B, Entities A and B are not related to each other.

Example 6 – Entity with joint control

IE24 Entity A has both (i) joint control over Entity B and (ii) joint control or significant influence over Entity C.



IE25 For Entity B's financial statements, Entity C is related to Entity B. [*Paragraph 9(b)(iii) and (iv)*]

IE26 Similarly, for Entity C's financial statements, Entity B is related to Entity C. [*Paragraph 9(b)(iii) and (iv)*]