

Australian Accounting Standard

AAS 22

May 1993

Related Party Disclosures

Prepared by the **Australian Accounting Research Foundation** and by the **Australian Accounting Standards Board**

Issued by the
Australian Accounting Research Foundation
on behalf of the **Australian Society of Certified**
Practising Accountants and **The Institute**
of Chartered Accountants in Australia

The Australian Accounting Research Foundation was established by the Australian Society of Certified Practising Accountants and The Institute of Chartered Accountants in Australia and undertakes a range of technical and research activities on behalf of the accounting profession as a whole. A major responsibility of the Foundation is the development of Statements of Accounting Concepts and Australian Accounting Standards.

Copies of this Standard are available for purchase from the offices of the Australian Accounting Research Foundation, 211 Hawthorn Road, Caulfield, Victoria 3162, Australia.

COPYRIGHT

© 1993 Australian Accounting Research Foundation. The copying of this Standard is only permitted in certain circumstances. Enquiries should be directed to the offices of the Australian Accounting Research Foundation.

ISSN 1034-3717

CONTENTS

	<i>Paragraphs</i>
PREFACE	
ACCOUNTING STANDARD	
Citation	1
Accounting Standards and Commentary	2
Application and Operative Date	3-5
Statement of Purpose	6-9
Application of Materiality	10-12
Definitions	13
Reporting entities	14-15
Control	16-19
Significant influence	20-22
Related parties	23-25
Directors	26-28
Common control	29
Disclosures relating to Directors	
Names of directors	30
Remuneration of directors	31-32
Retirement benefits of directors	33
Loans to directors	34-35
Other transactions of directors	36-43
Disclosures relating to the Wholly-Owned Group	44-46
Disclosures relating to Other Related Parties	47-52
Classes of related parties	53
Related party transactions	54-59
Disclosure of Controlling Entities	60-61
Comparative Information	62
COMPATIBILITY WITH INTERNATIONAL ACCOUNTING STANDARD IAS 24	

APPENDICES

- 1 Examples of Entities that Would Normally Be Related Parties
- 2 Summary of Related Party Transactions Disclosures
- 3 Illustration of the Wholly-Owned Group Definition

PREFACE

This May 1993 issue of Australian Accounting Standard AAS 22 "Related Party Disclosures" supersedes that Standard as issued in May 1992.

Application of the Standard

Except when Accounting Standards operative under the Corporations Law apply, this Standard applies to general purpose financial reports of each private sector reporting entity in relation to its first reporting period that ends on or after 30 June 1993 and later reporting periods.

Development of the Standard

Issue of this revised Standard follows consideration of responses received to the Australian Accounting Standards Board's request in September 1992 for comments on implementation experience with the corresponding Accounting Standard AASB 1017: Related Party Disclosures. Interested parties were invited to make submissions by the close of January 1993.

Main Features of the Standard

The Standard prescribes disclosures about related party relationships and related party transactions and resulting balances. Related parties of the reporting entity are basically divided into several groups: directors (broadly defined), the "wholly-owned group", and "other related parties".

Specific disclosures are required in relation to directors of the entity, including their remuneration and retirement benefits, loans to directors, share and share option transactions, and other transactions. The level of detail required to be disclosed about director-related transactions varies. For example, some transactions may be disclosed by general description if certain conditions are satisfied.

When disclosure merely by general description is not appropriate, specific details of director-related transactions are required, including the type of transaction, the nature of the terms and conditions, the aggregate amounts recognised and the names of directors concerned.

Disclosures relating to transactions with entities in the wholly-owned group are more limited; aggregate amounts are not required, for example. The term "wholly-owned group" is defined in the Standard, with Appendix 3 illustrating its meaning.

The disclosures specified in relation to transactions with other related parties are similar to those required for "other transactions" of directors. The level of detail required also varies.

The Standard also requires disclosure of the identity of certain controlling entities.

Major Features of the Revision to the Standard

The major revisions to the previous Standard are:

- (a) amendment and extension of the conditions for disclosure of "other transactions" of directors and director-related entities by general description;
- (b) inclusion of specific disclosure requirements for share and share option transactions with and holdings of directors of the reporting entity and their director-related entities; and
- (c) exclusion of share and share option transactions with directors of controlled entities and of other related parties, and their director-related entities.

The revised Standard also provides commentary explaining the intention of the amendments.

Disclosure by general description

Disclosure by general description rather than by specific detail was required by the previous Standard for certain director-related transactions that occurred within a normal employee or customer relationship on terms and conditions no more favourable than those available on similar transactions to other employees or customers. The revised Standard now specifically includes transactions within supplier relationships as potentially subject to disclosure by general description.

The conditions to be satisfied before disclosure by general description is appropriate have been amended in the revised Standard to refer to terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arms' length in similar circumstances.

Additional conditions are included in the revised Standard. Disclosure by general description should not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report or the discharge of accountability by the management or governing body. Furthermore, the transactions should be trivial or domestic in nature. Commentary explains trivial transactions as those of little or no interest to the users of the financial report. Balances resulting from transactions that are to be disclosed by general description are also to be so disclosed.

Share and share option disclosures

Under the previous Standard, share and share option transactions with directors of the entity and of related parties, and their director-related entities, were subject to the general disclosure requirements. These transactions include dividends, new issues and share buy-backs. The revised Standard includes specific disclosure requirements relating to share and share option transactions with and holdings of directors of the reporting entity and their director-related entities. Such transactions with and holdings of directors of controlled entities and of other related parties, and their director-related entities, are not required to be disclosed.

The specific requirements include disclosure of the aggregate numbers of shares and share options acquired and disposed of during the reporting period by directors of the reporting entity and their director-related entities, classified by issuing entity and class of share or option. The nature of the terms and conditions are to be disclosed if more favourable than arm's-length terms and conditions. Disclosure is also required of the aggregate number and class of shares and share options held directly, indirectly or beneficially as at the reporting date.

AUSTRALIAN ACCOUNTING STANDARD

AAS 22 "RELATED PARTY DISCLOSURES"

Citation

- 1 This Standard may be cited as Australian Accounting Standard AAS 22 "Related Party Disclosures".

Accounting Standards and Commentary

STANDARDS

- 2 **The accounting standards set out in this Standard are shown in bold print. Commentary is shown in normal print immediately after the accounting standards to which it relates, as an aid to the interpretation of those accounting standards.**

Application and Operative Date

STANDARDS

- 3 **This Standard:**
- (a) **applies to general purpose financial reports of each private sector reporting entity to which Accounting Standards operative under the Corporations Law do not apply, in relation to its first reporting period that ends on or after 30 June 1993 and later reporting periods;**
 - (b) **may be applied by an entity specified in paragraph 3(a) to a reporting period that ends before 30 June 1993; and**
 - (c) **when operative, supersedes Australian Accounting Standard AAS 22 "Related Party Disclosures" as issued in May 1992.**
- 4 **An entity which is not a reporting entity shall, when it prepares a financial report which it purports to be a general purpose financial report, apply this Standard as if it is a reporting entity.**

COMMENTARY

- 5 Accounting Standards operative under the Corporations Law apply to companies and to other entities required by legislation, ministerial directive or other government authority to apply such Standards. Private sector reporting entities which are not required to apply Accounting Standards operative under the Corporations Law are required to apply this Standard.

Statement of Purpose

STANDARDS

- 6 **The purpose of this Standard is to require disclosure in the financial report of information relating to the relationships of the reporting entity with related parties and transactions with related parties, including the remuneration and retirement benefits of directors, loans received by directors and other director-related transactions.**

COMMENTARY

- 7 The existence of a related party relationship may expose a reporting entity to risks, or provide opportunities, which would not have existed in the absence of the relationship. Related party relationships may, therefore, have a material effect on the performance, financial position, and financing and investing of a reporting entity. Consistent with Statement of Accounting Concepts SAC 2 "Objective of General Purpose Financial Reporting", which states that general purpose financial reports shall provide information useful to users for making and evaluating decisions about the allocation of scarce resources, users of the financial report need to be informed of related party relationships and transactions. Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist.
- 8 A material effect on performance, financial position, and financing and investing may occur as a result of transactions taking place between related parties where such transactions would not have occurred, or would not have occurred on the same basis, in the absence of the related party relationship. Such an effect may also occur as a result of one of the related parties directing the other party to transact with a particular party or to transact on particular terms and conditions. Furthermore, one party may direct the other not to transact with certain other entities, and this also could have a material effect on the performance, financial position, and financing and investing of a reporting entity.

- 9 Whether a related party relationship exists needs to be determined in the light of the prevailing circumstances. In considering each possible related party relationship, attention will need to be directed to the substance of the relationship and not merely its legal form.

Application of Materiality

STANDARDS

- 10 **The accounting standards set out in this Standard shall, in accordance with Australian Accounting Standard AAS 5 "Materiality in Financial Statements", apply to the financial report where such application is of material consequence. Director-related disclosures required by this Standard are deemed material regardless of the quantum of the amounts involved. Other information relating to related parties is material if its omission, non-disclosure or misstatement has the potential to adversely affect:**
- (a) **decisions about the allocation of scarce resources made by users of the financial report; or**
 - (b) **the discharge of accountability by the management or governing body of the entity.**

COMMENTARY

- 11 The assessment of materiality in relation to related party transactions is not limited to consideration of the measured amount of the transactions involved, but is also concerned with the nature of the transactions. Transactions of the same or similar nature will need to be considered in aggregate as well as individually in assessing the materiality of the transactions.
- 12 The view adopted in this Standard is that all director-related transactions are material by reason of their nature and are therefore required to be disclosed (in varying degrees of detail) regardless of the quantum of the amounts involved. The application of materiality in determining the disclosure of information relating to related parties requires an assessment of whether the information is useful to users of the financial report in making and evaluating decisions about the allocation of scarce resources. Thus, for example, the disclosure of particulars of individual related party transactions pursuant to paragraph 49 requires an assessment of the level of detail necessary for such decisions or evaluations.

Definitions

STANDARDS

13 **In this Standard:**

"business undertaking" means any financial or business undertaking or scheme that is carried on by means of or through an unincorporated association, a joint venture, partnership or trust;

"capacity" means ability or power, whether direct or indirect, and includes ability or power that is presently exercisable as a result of, by means of, in breach of, or by revocation of, any of or any combination of the following:

- (a) trusts;
- (b) relevant agreements; and
- (c) practices;

whether or not enforceable;

"control" means the capacity of an entity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in pursuing the objectives of the controlling entity;

"director" means:

- (a) any person that directs an entity in its financial and operating activities independently or in concert with others (regardless of whether known by that title);
- (b) any person occupying or acting in the position of director of an entity, by whatever name called and whether or not validly appointed to occupy or duly authorised to act in the position; or
- (c) any person in accordance with whose directions or instructions the directors of an entity are accustomed to act;

"director-related entities" means, in relation to particular directors, the spouses of such directors, relatives of such directors or spouses, and any other entity under the joint or several control or significant influence of such directors, spouses or relatives;

"economic entity" means a group of entities comprising the parent entity and each of the entities that it controls;

"entity" means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives;

"fair value" means the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction;

"general purpose financial report" means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs;

"ownership interest" means the percentage of capital of an entity held, whether such capital is held directly or indirectly;

"parent entity" means an entity which controls another entity;

"recognised" means reported on, or incorporated in amounts reported on, the face of the profit and loss or other operating statement or of the statement of financial position (whether or not further disclosure of the item is made in notes thereto);

"related party" means, in relation to an entity:

- (a) any other entity that, at any time during the reporting period, has control or significant influence over the entity;**
- (b) any other entity that, at any time during the reporting period, is subject to control or significant influence by the entity;**
- (c) any other entity that, at any time during the reporting period, is controlled by the same entity that controls the entity — referred to as a situation in which entities are subject to common control;**

- (d) any other entity that, at any time during the reporting period, is controlled by the same entity that significantly influences the entity;**
- (e) any other entity that, at any time during the reporting period, is significantly influenced by the same entity that controls the entity;**
- (f) any director of the entity or any of their director-related entities; or**
- (g) any director of any other entity identified as a related party under any of paragraphs (a) to (e), or any of their director-related entities;**

but excludes any other entity (except those identified as a related party under paragraph (f)) where the related party relationship results solely from normal dealings of:

- (h) financial institutions;**
- (i) authorised trustee corporations;**
- (j) fund managers;**
- (k) trade unions;**
- (l) statutory authorities;**
- (m) government departments; or**
- (n) local governments;**

"relative" means, in relation to a person, the parent or remoter lineal ancestor, son, daughter or remoter issue, or brother or sister of the person;

"reporting date" means the end of the reporting period to which the financial report relates;

"reporting entity" means an entity (including an economic entity) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources;

"retirement" means retirement from office, loss of office, resignation from office, or death whilst holding office;

"significant influence" means the capacity of an entity to affect substantially (but not control) either, or both, of the financial and operating policies of another entity; and

"wholly-owned group" means:

- (a) in relation to an entity which is a wholly-owned controlled entity, the group of entities comprising:
 - (i) the ultimate parent entity which has an ownership interest of 100% in the entity; and**
 - (ii) the wholly-owned controlled entities of that parent entity; or****
- (b) in relation to an entity which is not a wholly-owned controlled entity, the group of entities comprising that entity and the wholly-owned controlled entities of that entity.**

Reporting entities

COMMENTARY

- 14 Paragraphs 19 to 37 of Statement of Accounting Concepts SAC 1 "Definition of the Reporting Entity" provide guidance for determining whether an entity is a reporting entity. An entity is not a reporting entity merely because it prepares a financial report pursuant to legislation or some other requirement.
- 15 Miscellaneous Professional Statement APS 1 "Conformity with Statements of Accounting Concepts and Accounting Standards" requires general purpose financial reports to be prepared in accordance with Accounting Standards and Statements of Accounting Concepts. APS 1 also requires that to the extent of any incompatibility between an Accounting Standard and a Statement of Accounting Concepts, the requirements of the Standard prevail.

Control

COMMENTARY

- 16 A related party relationship would be established through the existence of control by one entity over another. The existence of

the relationship and the types of transactions between the parent entity and its controlled entities will need to be disclosed in the financial reports of each entity in accordance with the requirements of this Standard.

- 17 Any of the following factors would normally indicate the existence of control by one entity of another entity:
- (a) the capacity to dominate the composition of the board of directors or governing board of another entity;
 - (b) the capacity to appoint or remove all or a majority of the directors or governing members of another entity;
 - (c) the capacity to control the casting of a majority of the votes cast at a meeting of the board of directors or governing board of another entity;
 - (d) the capacity to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of another entity, irrespective of whether the capacity is held through shares or options; and
 - (e) the existence of a statute, agreement, or trust deed, or any other scheme, arrangement or device, which, in substance, gives an entity the capacity to enjoy the majority of the benefits and to be exposed to the majority of the risks of that entity, notwithstanding that control may appear to be vested in another party.

Since the holding of an ownership interest usually entitles the investor to an equivalent percentage interest in the voting rights of the investee, a majority ownership interest would normally, though not necessarily, be accompanied by the existence of control. However, it is the voting rights rather than the ownership interest that provide the potential for control.

- 18 The indicators of control outlined in paragraph 17 need to be distinguished from the circumstance where control of a particular entity is jointly held by two or more unrelated entities such that none unilaterally controls that entity. In this case none of the entities would qualify as one which controlled the entity, although each may have significant influence over the entity.
- 19 The definition of "control" is such that, on rare occasions, an entity may appear to be under the control of two unrelated entities. An example of this would occur where one entity exercises dominance of the decision-making in relation to the operating policies of

another entity while another entity simultaneously possesses the capacity to dominate decision-making without exercising that power during the reporting period. However the concept of control employed in this Standard is defined in terms of dominance of both the financial and operating policy decisions, which implies a singular line of power. In the example cited in this paragraph, if neither of the entities is in the position of absolute dominance over the third entity, the relationship would be one of joint control determined by implicit agreement, rather than control.

Significant influence

COMMENTARY

- 20 A related party relationship would also be established through the existence of significant influence by one entity over another. The existence of the relationship and any transactions between the related parties will need to be disclosed in the financial reports of each entity in accordance with the requirements of this Standard.
- 21 Factors which would normally indicate whether a related party relationship based on significant influence exists would be the extent of ownership interest between the entities; participation in decisions on the distribution or retention of the significantly influenced entity's profits; and participation in other ways in policy-making decisions of that entity.
- 22 Economic dependence, where one entity is dependent on another entity in that it relies on the latter for a significant volume of its business, would be unlikely to constitute control, but together with other factors may give rise to significant influence.

Related parties

COMMENTARY

- 23 The term "entity" includes a group of entities comprising a controlling entity and each of its controlled entities operating together to pursue objectives consistent with those of the controlling entity. Thus, an entity external to a group of entities which is a related party of an entity within the group is also a related party of the group.
- 24 Two entities would not be related parties only because they have directors in common. Furthermore, except in the case of entities that are related parties under any of paragraphs (c) to (e) of the definition of "related party" in paragraph 13, two entities that are

related parties of a third entity are not thereby related parties of each other: there must be a related party relationship between the two entities themselves. For example, entities are not related parties by virtue of being significantly influenced by the same investor. In addition, trusts with beneficiaries that are related parties of an entity would also be related parties of the entity where the beneficiaries control or significantly influence the trusts.

- 25 The definition of "related party" in paragraph 13 also excludes entities from being treated as related parties where the related party relationship results solely from normal dealings of certain types of entities, as listed in the definition. Either of the entities involved in such a related party relationship may be the entity that is one of the listed types. Normal dealings of a party that is one of the listed types of entities would comprise transactions entered into in the course of that party's operations on terms and conditions not materially different from those on similar transactions undertaken or which would be undertaken by that party with other, unrelated entities. However, the exclusion in the definition of "related party" would not apply if a related party relationship results from other dealings between an entity and such a party. For example, if one entity has control or significant influence over the other entity otherwise than through normal dealings, such as by way of ownership of capital, the entities are related parties. When the exclusion in the definition does not apply, the full requirements of this Standard would apply to all the transactions between the entities.

Directors

COMMENTARY

- 26 Directors holding office at any time during the reporting period are included in the definition of "related party" because they hold positions of great responsibility within an entity. Therefore, directors need to be subject to a high level of accountability through disclosure in the financial report of their transactions with the entity. In accordance with paragraph 25, the normal dealings exclusion in the "related party" definition does not apply to directors of the reporting entity or to their director-related entities.
- 27 Directors of the reporting entity comprise, in relation to the financial report of an entity, the directors of the entity, and, in relation to the consolidated financial report of an economic entity, the directors of the economic entity. In normal circumstances, the directors of the economic entity comprise the directors of the entity which is the parent entity in the economic entity. Normally, the directors of entities controlled by the parent entity in the economic

entity are not directors, as defined in this Standard, of the economic entity.

- 28 Directors include directors and alternate directors of entities, trustees, and liquidators in relation to the entities they have responsibility for liquidating. Former directors are also to be regarded as directors in respect of transactions with an entity that relate to their former position as a director. For example, benefits paid to a former director after the person has resigned from office would need to be included in the disclosures if the benefits paid relate to the previous related party relationship.

Common control

COMMENTARY

- 29 Entities subject to common control are included in the definition of "related party" because, while there may be no direct relationship between the controlled entities, the controlling entity could cause these other entities to transact or not to transact with one another. The relationship could therefore have a material effect on the performance, financial position, and financing and investing of the controlled entities.

Disclosures relating to Directors

Names of directors

STANDARDS

- 30 **The financial report shall disclose the name of each person holding the position of director of the reporting entity at any time during the reporting period, or, where a consolidated financial report is presented, the consolidated financial report shall disclose the name of each person holding the position of director of the parent entity in the economic entity at any time during the reporting period.**

Remuneration of directors

STANDARDS

- 31 **The financial report shall disclose, in respect of all directors of the reporting entity, the aggregate amount of remuneration directly or indirectly received or receivable for the reporting period, whether as a director or otherwise, and including any fees, salaries, bonuses or commissions, from:**

- (a) **the reporting entity or any related party in connection with the management of the reporting entity; and**

- (b) **the reporting entity in connection with the management of any related party;**

but excluding any amount to which paragraph 33 applies.

COMMENTARY

- 32 The amount of a director's remuneration will need to be determined on the basis of the cost of the remuneration to the entity or the related party.

Retirement benefits of directors

STANDARDS

- 33 **The financial report shall disclose the aggregate of amounts paid during the reporting period to a superannuation plan or other entity by:**
 - (a) **the reporting entity or any related party in connection with the retirement of directors of the reporting entity; and**
 - (b) **the reporting entity in connection with the retirement of directors of any related party.**

Loans to directors

STANDARDS

- 34 **The financial report shall disclose the aggregate amount of all loans in existence at the reporting date that have been made, guaranteed or secured:**
 - (a) **by the reporting entity or any related party to a director of the reporting entity or a director-related entity of that director; and**
 - (b) **by the reporting entity to a director of any related party or a director-related entity of that director.**
- 35 **Where the reporting entity or any related party has made loans to a director or director-related entity referred to in paragraph 34(a) or the reporting entity has made loans to a director or director-related entity referred to in paragraph 34(b), the financial report shall disclose the following in respect of those loans:**

- (a) the aggregate amount of loans made during the reporting period and the names of the directors concerned, classified by nature of the terms and conditions; and
- (b) the aggregate amount of repayments received during the reporting period and the names of the directors concerned, classified by nature of the terms and conditions.

Other transactions of directors

STANDARDS

- 36 **Where there have been transactions concerning shares or share options during the reporting period with directors of the reporting entity or their director-related entities as holders of shares or share options of any entity in the economic entity, the financial report shall disclose the following in respect of those transactions:**
- (a) the aggregate number of shares and share options acquired by those directors and their director-related entities, classified by issuing entity and class of share or option;
 - (b) the aggregate number of shares and share options disposed of by those directors and their director-related entities, classified by issuing entity and class of share or option; and
 - (c) the nature of the terms and conditions of each different type of transaction if on terms and conditions more favourable than those which it is reasonable to expect the issuing entity would have adopted if dealing with the holder at arm's length in the same circumstances.
- 37 **The financial report shall disclose the aggregate number of shares and share options held as at the reporting date directly, indirectly or beneficially by directors of the reporting entity or their director-related entities in any entity in the economic entity, classified by issuing entity and class of share or option.**
- 38 **Subject to paragraph 40 and excluding transactions subject to any of paragraphs 31 to 37, where there have been transactions during the reporting period with directors of the reporting entity or their director-related entities, the financial report shall disclose the following in respect of those transactions:**

- (a) each different type of transaction;**
- (b) the nature of the terms and conditions of each different type of transaction; and**
- (c) for each combination of type of transaction and nature of terms and conditions:**
 - (i) the names of the directors concerned; and**
 - (ii) the aggregate amount recognised.**

39 Subject to paragraph 40, the financial report shall disclose the following:

- (a) the aggregate amounts of the following items of revenue or expense included in the determination of the operating result/profit or loss before income tax for the reporting period that resulted from transactions with directors of the reporting entity or their director-related entities, and including amounts related to loans subject to paragraph 35:**
 - (i) interest revenue;**
 - (ii) dividend revenue;**
 - (iii) interest expense; and**
 - (iv) provisions for doubtful receivables and write-downs of receivables;**
- (b) the aggregate amounts receivable from and payable to directors of the reporting entity or their director-related entities recognised as at the reporting date, excluding loans subject to paragraph 34, classified into current and non-current categories;**
- (c) the aggregate amount of the provisions for doubtful receivables recognised as at the reporting date in respect of the receivables disclosed pursuant to paragraph 39(b), classified into current and non-current categories;**
- (d) the aggregate amount of the provisions for doubtful receivables recognised as at the reporting date in respect of the loans subject to paragraph 34, classified into current and non-current categories; and**

- (e) **for any other benefits:**
 - (i) **derived during the reporting period by directors of the reporting entity or their director-related entities;**
 - (ii) **resulting from transactions undertaken during the reporting period or earlier with the reporting entity; and**
 - (iii) **not otherwise required to be disclosed by this Standard;**
- the names of the directors concerned and the aggregate amount recognised.**

- 40 **Transactions with and amounts receivable from and payable to directors of the reporting entity or their director-related entities which:**
- (a) **occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in the same circumstances;**
 - (b) **do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the management or governing body, if disclosed in the financial report only by general description; and**
 - (c) **are trivial or domestic in nature;**

shall be excluded from the detailed disclosures required by paragraphs 38 and 39. Such transactions and amounts receivable or payable shall be disclosed in the financial report by general description.

COMMENTARY

- 41 Transactions between a reporting entity and its directors are normally subject to the control or significant influence of the directors concerned, and thus may be conducted only because of the related party relationship. Directors hold a position of fiduciary responsibility in relation to a reporting entity, and thus need to be

accountable to those who provide resources to the entity, through disclosure of their transactions with the entity. Examples of such transactions include services provided or received, property and equipment leased to or from an entity in the economic entity, sales, purchases or transfers of assets at fair value or otherwise, loans made, and borrowings repaid.

- 42 Share and share option transactions with directors of the reporting entity and their director-related entities as holders of shares or share options are subject to specific disclosure requirements. Such transactions include dividends, share and share option issues, sales and purchases of shares or options of another entity in the economic entity, and share buy-backs. The Standard requires disclosure only of transactions undertaken by the reporting entity (including, for consolidated financial reports, any entity in the economic entity). Thus, share and share option transactions between directors and other entities, whether on-market or otherwise, are not required to be disclosed. In application to the consolidated financial report of an economic entity, paragraphs 36 and 37 require disclosures in connection with shares and share options of any entity in the economic entity, including controlled entities, and not only those of the parent entity in the economic entity.
- 43 Transactions with and amounts receivable from and payable to directors and their director-related entities which are subject to paragraphs 38 or 39 are to be disclosed by general description when the conditions set out in paragraph 40 are satisfied. These conditions include the transactions being carried out under terms and conditions no more favourable than those which it is reasonable to expect would have applied if the transaction was at arm's length, or balances receivable or payable resulting from such transactions, and the transactions or balances being trivial or domestic in nature. Transactions or balances are trivial in nature when they are of little or no interest to the users of the financial report in making and evaluating decisions about the allocation of scarce resources. Transactions or balances are domestic in nature when they are related to the director's personal household activities.

Disclosures relating to the Wholly-Owned Group

STANDARDS

- 44 **Where there have been transactions during the reporting period with related parties in the wholly-owned group, the financial report shall disclose the following in respect of those transactions:**
- (a) **each different type of transaction; and**

- (b) the nature of the terms and conditions of each different type of transaction.

45 The financial report shall disclose the following in relation to related parties in the wholly-owned group:

- (a) the aggregate amounts of the following items of revenue or expense included in the determination of the operating result/profit or loss before income tax for the reporting period that resulted from transactions with related parties:
 - (i) interest revenue;
 - (ii) dividend revenue;
 - (iii) interest expense; and
 - (iv) provisions for doubtful receivables and write-downs of receivables;
- (b) the aggregate amounts receivable from and payable to related parties recognised as at the reporting date, classified into current and non-current categories;
- (c) the aggregate amount of the provisions for doubtful receivables from related parties recognised as at the reporting date, classified into current and non-current categories; and
- (d) any ownership interest in each related party.

46 Where a consolidated financial report is presented for an economic entity, the disclosure requirements set out in paragraphs 44 and 45 shall not apply to such a report in respect of those transactions between a parent entity and its controlled entities or between entities controlled by the same parent entity that have been eliminated for consolidation purposes.

Disclosures relating to Other Related Parties

STANDARDS

47 In paragraphs 48 to 50, "other related parties" means related parties other than directors of the entity, their director-related entities and entities in the wholly-owned group.

48 **Subject to paragraph 51 and excluding transactions concerning shares or share options with directors of other related parties and their director-related entities as holders of shares or share options of any entity in the economic entity, where there have been transactions during the reporting period with other related parties, the financial report shall disclose the following in respect of those transactions:**

- (a) **each different type of transaction;**
- (b) **the nature of the terms and conditions of each different type of transaction; and**
- (c) **for each combination of type of transaction and nature of terms and conditions:**
 - (i) **the classes of related parties involved, classes being determined according to the nature of the related party relationship; and**
 - (ii) **the aggregate amount recognised.**

49 **Where transactions with other related parties are individually material, particulars of those individual transactions, including the identities of related parties involved, the terms and conditions of the transactions, and the aggregate amounts recognised shall be disclosed in the financial report.**

50 **Subject to paragraph 51, the financial report shall disclose the following in relation to other related parties:**

- (a) **the aggregate amounts of the following items of revenue or expense included in the determination of the operating result/profit or loss before income tax for the reporting period that resulted from transactions with related parties, for each class of related party:**
 - (i) **interest revenue;**
 - (ii) **dividend revenue;**
 - (iii) **interest expense; and**
 - (iv) **provisions for doubtful receivables and write-downs of receivables;**
- (b) **the aggregate amounts receivable from and payable to related parties recognised as at the reporting date,**

classified into current and non-current categories for each class of related party;

- (c) the aggregate amount of the provisions for doubtful receivables from related parties recognised as at the reporting date, classified into current and non-current categories for each class of related party;**
- (d) any ownership interest in each related party; and**
- (e) for any other benefits:**
 - (i) derived during the reporting period by related parties;**
 - (ii) resulting from transactions undertaken during the reporting period or earlier with the reporting entity; and**
 - (iii) not otherwise required to be disclosed by this Standard;**

the classes of related parties involved and the aggregate amount recognised.

51 Transactions with and amounts receivable from and payable to directors of related parties or their director-related entities which:

- (a) occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those which it is reasonable to expect the entity would have adopted if dealing with the director or director-related entity at arm's length in the same circumstances;**
- (b) do not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the management or governing body, if disclosed in the financial report only by general description; and**
- (c) are trivial or domestic in nature;**

shall be excluded from the detailed disclosures required by paragraphs 48 and 50. Such transactions and

amounts receivable or payable shall be disclosed in the financial report by general description.

- 52 **Where a consolidated financial report is presented for an economic entity, the disclosure requirements set out in paragraphs 48 to 50 shall not apply to such a report in respect of those transactions between a parent entity and its controlled entities or between entities controlled by the same parent entity that have been eliminated for consolidation purposes.**

Classes of related parties

COMMENTARY

- 53 Related parties will need to be divided into classes according to the nature of the related party relationship. Without limiting the classes that may be disclosed in the financial report, the related party classes of an entity would normally comprise:

- (a) directors of the entity, and their director-related entities;
- (b) entities in the wholly-owned group, which includes wholly-owned entities controlled by the entity; and
- (c) as "other related parties" classes:
 - (i) directors of related parties, who are not directors of the entity, and their director-related entities;
 - (ii) parent entities which are not part of the wholly-owned group;
 - (iii) entities subject to common control which are not part of the wholly-owned group;
 - (iv) entities controlled by the entity which are not part of the wholly-owned group, that is, partly-owned controlled entities;
 - (v) entities subject to significant influence; and
 - (vi) additional related parties.

Related party transactions

COMMENTARY

- 54 Related party transactions are a common feature of the activities of many entities. Some examples of common types of transactions between related parties are: sales, purchases and transfers of property; services received or furnished; use of assets by lease or otherwise; inter-entity loans; provision of credit facilities; guarantees; maintenance of bank balances as compensating balances for the benefit of another; and options.
- 55 Related party transactions are frequently conducted as part of an entity's normal operations and are accounted for at normal commercial values. In other circumstances, the amounts ascribed to related party transactions may be more or less than their fair values or may not be recognised at all; for example, administrative services provided by an entity to a related party free of charge. Transactions between related parties are considered to be related party transactions even though they may not be recognised.
- 56 To the extent that transactions have not been conducted at fair value between an entity and its related parties or to the extent that they are conducted only because of the related party relationship, the performance, financial position, and financing and investing of the entity may be materially different from that which would have been the case had the transactions taken place at fair value, or had they not occurred at all.
- 57 Knowledge of the nature of related party transactions and the relationship between the transacting parties may therefore affect the perceptions held by users of the financial report with respect to the risks and opportunities facing a reporting entity.
- 58 Where the reporting entity has had transactions with a particular class of related party and the transactions were of different types (for example, supply of raw materials and purchase of management services), it will be necessary to identify each different type of transaction considered to be relevant to users of the financial report. Similarly, where the reporting entity has had transactions with a particular class of related party, some of which have been conducted on a certain set of terms and conditions and others which have been conducted on different sets of terms and conditions (for example, on a normal commercial basis and free of charge), it will be necessary to disclose each set of terms and conditions. Disclosure, for each combination of type of transaction and nature of terms and conditions, of the aggregate amount recognised for that combination that involved related parties would assist users of

the financial report to better understand the effects of the related party transactions on the reporting entity. The conducting of transactions free of charge would be disclosed under the terms and conditions requirement. Such transactions are not to be measured for inclusion in aggregate amount disclosures.

- 59 Disclosure of details of particular transactions with individual related parties would frequently be too voluminous to be easily understood. Accordingly, information would normally be aggregated by type of transaction, nature of terms and conditions, and class of related party. However, disclosure on an individual basis may be more informative when there are significant transactions with specific related parties.

Disclosure of Controlling Entities

STANDARDS

- 60 **The financial report shall disclose the identity of the ultimate holding company or controlling business undertaking in the wholly-owned group (if any), and, if different, the identity of the ultimate Australian holding company or controlling business undertaking and, if different, the identity of the ultimate holding company or controlling business undertaking.**

COMMENTARY

- 61 The disclosure of certain controlling entities is considered to be relevant to users of the financial report since the performance, financial position, and financing and investing of the reporting entity may be materially different from that which would have existed in the absence of the control relationship.

Comparative Information

STANDARDS

- 62 **The financial report shall disclose information for the preceding corresponding reporting period which corresponds to the disclosures specified for the reporting period, except in respect of the following:**
- (a) **the financial report for the reporting period to which this Standard is first applied, if impracticable, in which case the disclosures specified in the superseded Standard for the preceding corresponding reporting period shall be disclosed;**

- (b) **the first financial report after the establishment of the entity; and**
- (c) **the first consolidated financial report after the entity becomes a parent entity.**

*COMPATIBILITY WITH
INTERNATIONAL ACCOUNTING STANDARD IAS 24*

The accounting standards set out in this Standard are consistent with those set out in IAS 24 "Related Party Disclosures".

The following Appendices form part of the commentary and are provided for illustrative purposes only.

APPENDIX 1

EXAMPLES OF ENTITIES THAT WOULD NORMALLY BE RELATED PARTIES

This Appendix presents examples of related party relationships on the basis of the definitions in paragraph 13.

Related parties of a reporting entity would normally include:

- (a) entities that, directly or indirectly, through one or more intermediaries, control or are controlled by the reporting entity;
- (b) entities that are controlled by the same entity that controls the reporting entity;
- (c) entities that are controlled by the same entity that significantly influences the reporting entity;
- (d) entities that are significantly influenced by the same entity that controls the reporting entity;
- (e) entities that significantly influence the reporting entity or are significantly influenced by the reporting entity;
- (f) directors, trustees or liquidators of the reporting entity;
- (g) spouses and other close members of the family of any persons described in (f);
- (h) individuals and close members of the family of such individuals that have significant influence or control over the reporting entity through an ownership interest in the reporting entity; and
- (i) superannuation plans of which the reporting entity is manager or trustee.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely its legal form.

APPENDIX 2

SUMMARY OF RELATED PARTY TRANSACTIONS DISCLOSURES

This Appendix presents a summarised list of the disclosures required by this Standard in relation to transactions with related parties. It does not list the non-transactions based disclosures, and does not include all of the detail necessary for preparing disclosures that comply with the Standard. The disclosures listed are summarised for the major types of related party.

Directors of the reporting entity

- 1 Remuneration of directors
Aggregate amount (paragraph 31).
- 2 Retirement benefits of directors
Aggregate amount (paragraph 33).
- 3 Loans to directors
 - (a) Aggregate amount receivable at the reporting date (paragraph 34).
 - (b) Aggregate amounts of loans made and repayments received, and names of directors concerned, by nature of terms and conditions (paragraph 35).

Directors of the reporting entity and their director-related entities

- 4 Shares and share options
 - (a) Aggregate number of shares and share options acquired and disposed of, by issuing entity and class of share or option (paragraphs 36(a) and (b)).
 - (b) Nature of terms and conditions of such transactions when more favourable than if at arm's length (paragraph 36(c)).
 - (c) Aggregate number held as at the reporting date, by issuing entity and class of share or option (paragraph 37).

[Note exclusion for certain transactions and balances: to be disclosed by general description — paragraph 40]

- 5 Other transactions
Aggregate amounts and names of directors concerned by type of transaction and nature of terms and conditions (paragraph 38).
- 6 Revenues and expenses
Aggregate amounts of interest revenue (including interest revenue from loans to directors), interest expense, dividend revenue and doubtful debts expense (paragraph 39(a)).
- 7 Assets and liabilities
- (a) Aggregate amounts of receivables (excluding loans to directors) and payables, classified into current and non-current (paragraph 39(b)).
 - (b) Aggregate amounts of provisions for doubtful debts, classified into current and non-current:
 - (i) for loans to directors (paragraph 39(d)); and
 - (ii) for other receivables (paragraph 39(c)).
- 8 Other benefits
Aggregate amount and names of directors concerned (paragraph 39(e)).

Entities in the wholly-owned group

[Note exemptions for consolidated financial reports — paragraph 46]

- 9 Transactions
Description of types of transactions and nature of terms and conditions (paragraph 44).
- 10 Revenues and expenses
Aggregate amounts of interest revenue, interest expense, dividend revenue and doubtful debts expense (paragraph 45(a)).
- 11 Assets and liabilities

- (a) Aggregate amounts of receivables and payables, classified into current and non-current (paragraph 45(b)).
- (b) Aggregate amount of provision for doubtful debts, classified into current and non-current (paragraph 45(c)).
- (c) Ownership interests (paragraph 45(d)).

Other related parties

[Note exclusion for certain transactions and balances of directors and their director-related entities: to be disclosed by general description — paragraph 51]

[Note exemptions for consolidated financial reports — paragraph 52]

12 Transactions

Aggregate amounts and classes of related parties involved by type of transaction and nature of terms and conditions; or specific details (paragraphs 48 and 49).

13 Revenues and expenses

Aggregate amounts of interest revenue, interest expense, dividend revenue and doubtful debts expense, by class of related party (paragraph 50(a)).

14 Assets and liabilities

- (a) Aggregate amounts of receivables and payables, by class of related party; classified into current and non-current (paragraph 50(b)).
- (b) Aggregate amounts of provisions for doubtful debts, by class of related party; classified into current and non-current (paragraph 50(c)).
- (c) Ownership interests (paragraph 50(d)).

15 Other benefits

Aggregate amount and classes of related parties involved (paragraph 50(e)).

APPENDIX 3

ILLUSTRATION OF THE WHOLLY-OWNED GROUP DEFINITION

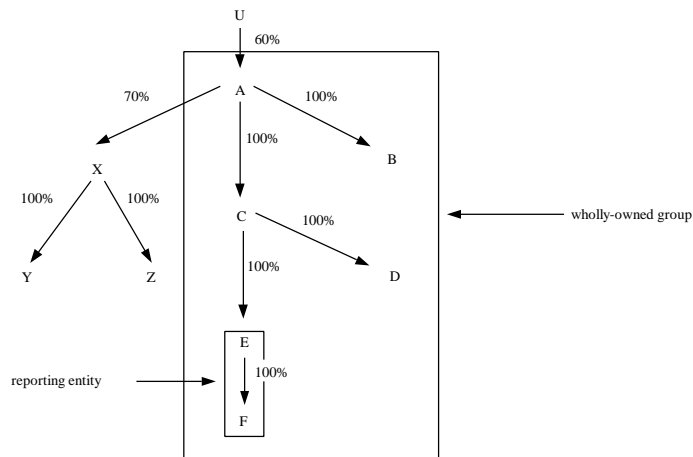
This Appendix illustrates the meaning of the definition of "wholly-owned group" in paragraph 13 by reference to an example organisational structure that is not intended to represent any existing economic entity. It is assumed in this Appendix that the entity that holds the majority of or whole of the ownership interest in another entity controls that entity.

For convenience, the definition in paragraph 13 is duplicated here:

"wholly-owned group' means:

- (a) in relation to an entity which is a wholly-owned controlled entity, the group of entities comprising:
 - (i) the ultimate parent entity which has an ownership interest of 100% in the entity; and
 - (ii) the wholly-owned controlled entities of that parent entity; or
- (b) in relation to an entity which is not a wholly-owned controlled entity, the group of entities comprising that entity and the wholly-owned controlled entities of that entity".

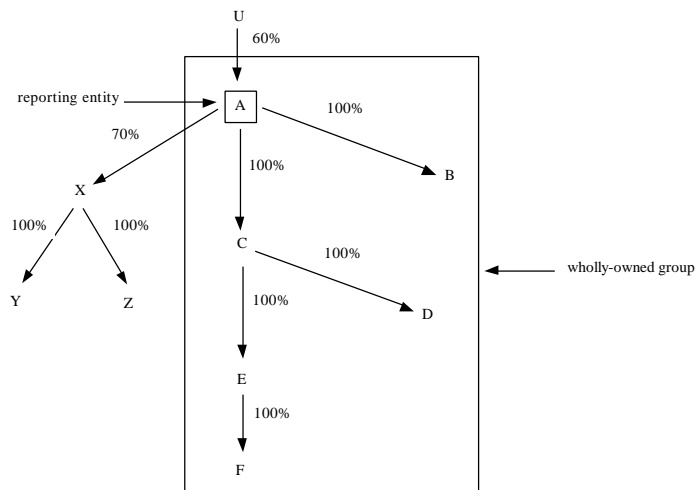
Example 1



In this example, the economic entity consisting of entities E and F is assumed to be the reporting entity. As the economic entity is a wholly-owned entity controlled by entity C, paragraph (a) of the definition of "wholly-owned group" is relevant.

The ultimate parent entity with an ownership interest of 100% in E and F is entity A. Therefore the wholly-owned group for the reporting entity consists of entity A and the wholly-owned controlled entities of A, being B, C, D, E and F. Entities X, Y and Z are not part of the wholly-owned group because they are not wholly-owned controlled entities of A.

Example 2

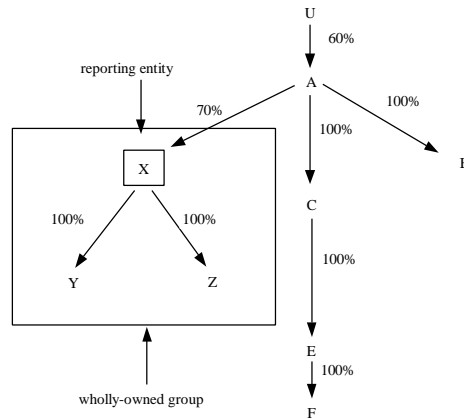


In this example, entity A is taken to be the reporting entity. As A is not a wholly-owned controlled entity, paragraph (b) of the definition of "wholly-owned group" is relevant.

The wholly-owned group for the reporting entity consists of entity A itself and its wholly-owned controlled entities, being B, C, D, E and F.

Examples 1 and 2 illustrate that the composition of the wholly-owned group is the same for each of the entities A, B, C, D, E and F and for each economic entity consisting of combinations of those entities. The reach of the "wholly-owned group" definition does not therefore depend on the position of the entity within a structure of wholly-owned controlled entities.

Example 3



In this example, entity X is taken to be the reporting entity. As X is not a wholly-owned controlled entity, paragraph (b) of the definition of "wholly-owned group" is relevant.

The wholly-owned group for the reporting entity consists of entity X itself and its wholly-owned controlled entities, being Y and Z. None of the other entities in the organisational structure are included in the wholly-owned group, as entity X is not a wholly-owned entity. The composition of the wholly-owned group is the same for each of the entities X, Y and Z.