



HKAS 24 (Revised) Related Party Disclosures

HKICPA Standard Setting Department Staff Summary (March 2010)

This HKICPA Standard Setting Department Staff Summary is intended for general guidance only. This Staff Summary has not been reviewed by the HKICPA Financial Reporting Standards Committee. The HKICPA and its staff DO NOT accept any responsibility or liability, and DISCLAIM all responsibility and liability, in respect of the summary and any consequences that may arise from any person acting or refraining from action as a result of any materials in the Summary. Members of the HKICPA and other users of financial reporting standards should read the full Standard in the HKICPA Members' Handbook (<http://www.hkicpa.org.hk/ebook/main.php>) to fully understand the implications of the Standard.

The HKICPA Standard Setting Department welcomes your comments and feedback, which should be sent to commentletters@hkicpa.org.hk.

Introduction

1. HKAS 24 (Revised) *Related Party Disclosures* simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The revised Standard is effective 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 relation to government-related entities. In the year of initial application, disclosures for the comparative period need to be restated.

Reasons for revising HKAS 24

2. The objective of the Hong Kong Institute of Certified Public Accountants (HKICPA) in revising HKAS 24 is to maintain international convergence arising from the revision of IAS 24 *Related Party Disclosures* by the International Accounting Standards Board (IASB).
3. The IASB revised IAS 24 in response to concerns that the previous disclosure requirements and the definition of a 'related party' were too complex and difficult to apply in practice because it lacked symmetry. As a result, there were situations in which only one party to a transaction was required to make related-party disclosures.
4. Moreover, the extant version of IAS 24 did not contain any exemption for government-related entities, thus it was difficult for those entities to identify all related party relationships and results in extensive disclosures for transactions that were not impacted by such a related party relationship.

Main features of HKAS 24 (Revised)

Providing a partial exemption for government-related entities

5. The revised Standard introduces a partial exemption from the disclosure requirements of HKAS 24 for government-related entity (that is, an entity that is controlled, jointly controlled or significantly influenced by a government, and government refers to government, government agencies and similar bodies

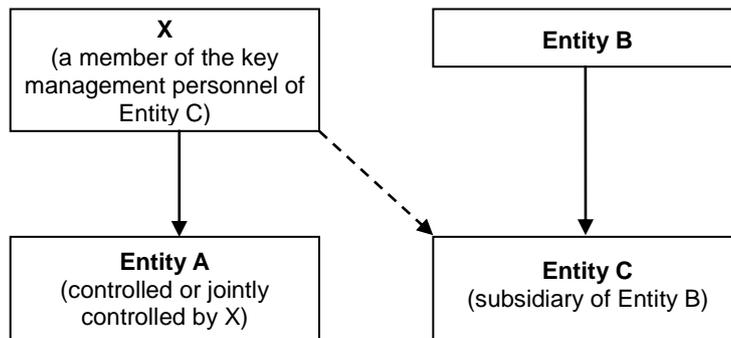
whether local, national or international) that is costly to gather and of less value to users. However, a government-related entity that applies exemption from the disclosure requirements contained in paragraph 18 of the Standard is required to disclose the followings:

- (a) The name of the government and the nature of its relationship with the reporting entity;
- (b) The nature and amount of each individually significant transaction; and a qualitative and quantitative indication of extent for other transactions that are collectively, but not individually, significant.

Clarifies and simplifies the definition of a related party

6. The revised Standard clarifies the intended meaning of a related party and eliminates a number of inconsistencies. The following illustrations are some examples of related parties under the revised Standard:

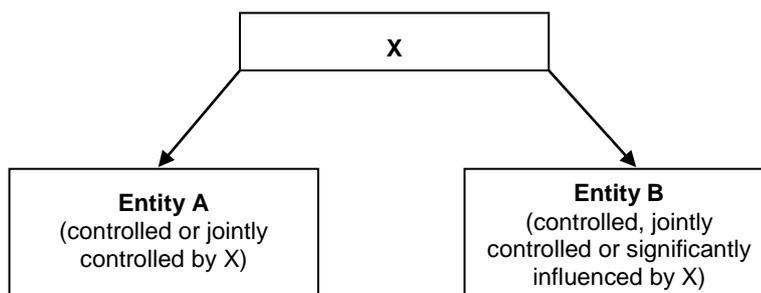
(a) Key management personnel



Under the revised Standard, Entity C is a related party of Entity A for the purposes of the financial statements of Entity A, while in the extant version of HKAS 24, it is only the reciprocal of this relationship be treated as a related party (that is, Entity A is a related party for the purposes of the financial statements of Entity C).

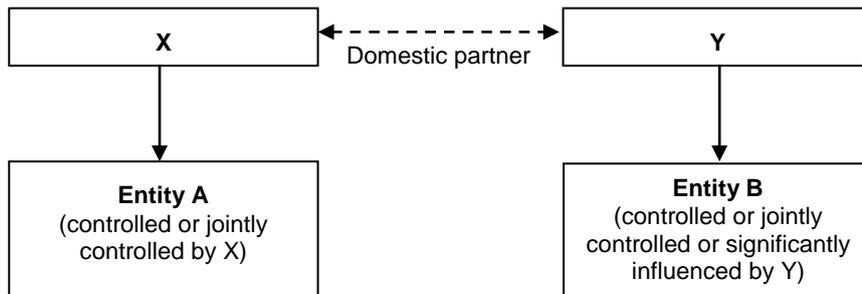
Therefore, the definition of a related party has been revised so as to remove the inconsistency stated as per above by ensuring that Entity A and Entity C are treated as related parties in the financial statements of Entity A and Entity C.

(b) Person as investor



Under the revised Standard, Entity A and Entity B are related parties for the purposes of the financial statements of both parties. Moreover, the revised Standard also makes it clear in paragraph BC25 that common investment in two associates is not sufficient to conclude that the two associates are related parties.

(c) Close members of the family holding investments



Under the revised Standard, Entity A and Entity B are related parties for the purposes of the financial statements of both entities.

7. In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.
8. The revised Standard also explicitly states that commitments to do something (including executory contracts) are regarded as examples of transactions that need to be disclosed if a related party relationship has been identified.

Other references on IAS 24 (Revised)

1. Deloitte IAS Plus on amendments to IAS 24
<http://www.iasplus.com/iasplus/0911ias24.pdf>
2. Ernst & Young "Supplement to IFRS outlook" on Amendments to IAS 24
[http://www.ey.com/Publication/vwLUAssets/Supplement_59_GL_IFRS/\\$FILE/Supplement_59_GL_IFRS.pdf](http://www.ey.com/Publication/vwLUAssets/Supplement_59_GL_IFRS/$FILE/Supplement_59_GL_IFRS.pdf)
3. KPMG IFRS Briefing Sheet on IAS 24
http://www.kpmg.com.hk/en/virtual_library/Audit/IFRS_briefingsheet/IFRSBS09158.pdf
4. PricewaterhouseCoopers HKFRS News on Amendments to IAS 24
http://www.pwchk.com/webmedia/doc/633930942230867536_hkfrs_news_nov2009.pdf

(March 2010)