

# Straight away

## IFRS bulletin from PricewaterhouseCoopers

### **IAS 24 amendment to relax disclosures of transactions between government-related entities and clarify related-party definition**

#### **What is the issue?**

The amendment:

1. Removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities; and
2. Clarifies and simplifies the definition of a related party.

#### **Government-related entities**

Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government.

The previous version of IAS 24 did not contain any specific guidance for government-related entities. They were therefore required to disclose transactions with the government and other government-related entities. This requirement was onerous in territories where government control is pervasive; it placed a significant burden on entities to identify related-party transactions and collect the information required to make the disclosures. For example, a government-controlled railway was theoretically required to disclose details of its transactions with the post office. This information is not necessarily useful to users of the financial statements but is costly and time-consuming to collect.

The financial crisis widened the range of entities subject to the related-party disclosure requirements. The financial support provided by governments to financial institutions in many countries means that the government now controls or significantly influences some of those entities. A government-controlled bank, for example, would be required to disclose details of its transactions deposits and commitments with all other government-controlled banks and with the central bank.

The amendment introduces an exemption from all of the disclosure requirements of IAS 24 for transactions between government-related entities and the government, and all other government-related entities. Those disclosures are replaced with a requirement to disclose:

- (a) the name of the government and the nature of their relationship; and
- (b) (i) the nature and amount of any individually-significant transactions; and  
(ii) the extent of any collectively-significant transactions qualitatively or quantitatively.

This is a significant relaxation of the disclosure requirements and should be of substantial benefit to government-related entities. The complexity and volume of the disclosures in the financial statements and the costs of record-keeping will be reduced. The new disclosures will provide more meaningful information about the nature of an entity's relationship with the government and material transactions.

## Definition of a related party

The previous definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove the inconsistencies and to make it simpler and easier to apply.

The amended definition means that some entities will be required to make additional disclosures. For example, a subsidiary is now required to disclose transactions with an associate of its parent. An entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

The amendment will make the definition of a related party easier to apply, but some entities will be required to make additional disclosures

## Am I affected?

The amendment will affect the disclosures required in the financial statements of all government-related entities. The disclosure burden will be significantly reduced and replaced with more useful summarised information and details of significant transactions.

The revised definition of a related party will mean that some entities will have more related parties and will be required to make additional disclosures. The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates and entities with shareholders that are involved with other entities.

## What do I need to do?

The revised standard is effective for annual periods beginning on or after 1 January 2011; earlier application is permitted, for either the entire standard or the government-related entity exemption.

Management of government-related entities should consider immediately whether to adopt the amendment in 2009. Early adoption is likely to be attractive for many entities, but management that intends to adopt early should also consider the revised disclosure requirements and put in place procedures to collect the required information.

Management of other entities should consider the revised definition to determine whether any additional disclosures will be required and put in place procedures to collect that information.

You should talk to your regular PwC contact to assess if you are impacted by the government-related entity amendment or the revised definition.

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