

This accounting policy paper is based
on IPSAS 20 Related Party
Disclosures, as adopted by the
Treasury of the Republic of Cyprus.

Related Party Disclosures

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TABLE OF CONTENTS

1. INTRODUCTION	2
1.1 Principal Issues	2
1.2 Objectives	2
1.3 Scope	2
1.4 Definitions.....	3
2. DISCLOSURE	4
2.1 Disclosure of Control.....	4
2.2 Disclosure of Related Party Transactions	5
2.3 Disclosures relating to Key Management Personnel	6
3. TRANSITIONAL PROVISIONS	6
4. EFFECTIVE DATE.....	7
5. REFERENCES	7

1. INTRODUCTION

1.1 PRINCIPAL ISSUES

Principal issues in disclosing related party information:

- Which parties control or significantly influence the reporting entity?
- What information should be disclosed about transactions with those parties?

1.2 OBJECTIVES

The objective of this accounting policy is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity.

The aim of this policy is to provide technical accounting guidance for the preparation of financial statements, so as to enable the financial statements to give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

This accounting policy shall be applied in disclosing information about related party relationships and certain transactions with related parties.

1.4 DEFINITIONS

Close members of the family of an individual are close relatives of the individual or members of the individual's immediate family who can be expected to influence, or be influenced by, that individual in their dealings with the entity. The following immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of an individual:

- a) A spouse, a domestic partner, dependent child, or relative living in a common household;
- b) A grandparent, parent, nondependent child, grandchild, brother or sister; and
- c) The spouse of a domestic partner of a child, a parent-in-law, a brother-in-law or a sister-in-law.

Key management personnel are:

- a) All directors or members of the governing body of the entity; and
- b) Other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:
 - i. Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member;
 - ii. Any key advisors of that member; and
 - iii. Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.

Oversight means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.

Related party - parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- i. Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;
- ii. Associates, meaning entities over which the investor has significant influence;
- iii. Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;

- iv. Key management personnel, and close members of the family of key management personnel; and
- v. Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (iii) or (iv), or over which such a person is able to exercise significant influence.

In considering the related party relationship, attention should be paid to the substance of the relationship and not merely to its legal form.

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest (in accordance with the definition in the accounting policy of Investments in Associates and Joint Ventures), statute, or agreement.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. DISCLOSURE

2.1 DISCLOSURE OF CONTROL

Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.

The entity shall disclose the names of any controlled entities, the name of the immediate controlling entity, and the name of the ultimate controlling entity, where applicable.

2.2 DISCLOSURE OF RELATED PARTY TRANSACTIONS

The entity shall disclose information about transactions between related parties, other than transactions that would occur within normal operating relationships, on terms and conditions no more or less favourable than those which it is reasonable to expect for such transactions when dealing at arm's length basis.

Examples of related party transactions that may lead to disclosures by the reporting entity are: rendering or receiving of services, purchases or transfers/ sales of goods, property or other assets, agency agreements, leasing agreements, license agreements, transfer of research and development, financial support, guarantees and collaterals etc.

The reporting entity shall disclose:

- a) The **nature of the related party relationships**, for example whether the relationship is one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;
- b) The **types of transactions** that have occurred, including a description of the transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/ or balances;
- c) The **elements of the transactions** necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes. Such information includes a summary of the broad terms and conditions of transactions with related parties, disclosure of how these terms and conditions differ from those normally associated with similar transactions with unrelated parties and information about amounts or appropriate proportions of outstanding items.

Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary to provide relevant and reliable information for decision-making and accountability purposes.

Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, as consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure.

2.3 DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

The entity shall disclose:

- a) The **aggregate remuneration** of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;
- b) The **total amount of all other remuneration and compensation** provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:
 - i. Key management personnel; and
 - ii. Close members of the family of key management personnel; and
- c) In respect of **loans that are not widely available** to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:
 - i. The amount of loans advanced during the period and terms and conditions thereof;
 - ii. The amount of loans repaid during the period;
 - iii. The amount of the closing balance of all loans and receivables; and
 - iv. Where the individual is not a director or a member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.

The above information shall be disclosed irrespective of whether or not they have occurred on an arm's length basis consistent with the operating conditions that apply in respect of the entity.

3. TRANSITIONAL PROVISIONS

No transitional exemptions are elected to be applied on the adoption of IPSAS 20 "Related Party Disclosures".

4. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2023.

5. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 20 Related Party Disclosures

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

The Applicability of IPSASs