

CHANGES TO DEFINITION OF 'RELATED PARTY' – some key points¹:

NEW DEFINITION	PREVIOUS DEFINITION
<p>3.9.2.7 A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Section of the Code referred to as the 'reporting entity').</p> <p>(a) A person or a close member of that person's family is related to a reporting entity if that person:</p> <ul style="list-style-type: none"> (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. <p>(b) An entity is related to a reporting entity if any of the following conditions apply:</p> <ul style="list-style-type: none"> (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). 	<p>3.9.2.7 Related party – parties are considered to be related if one party has the ability to control the other party or 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:</p> <ul style="list-style-type: none"> • entities that the authority directly, or indirectly through one or more intermediaries: <ul style="list-style-type: none"> ○ controls, or is controlled by (eg subsidiaries) ○ has an interest in that gives it significant influence over the entity, or ○ has joint control over • associates • joint ventures in which the authority is a venturer • an entity that has an interest in the authority that gives it significant influence over the authority • key management personnel, and close members of the family of key management personnel • entities that are controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, key management personnel, and close members of the family of key management personnel, and • post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

¹ See Code Update for full details (www.cipfa.org.uk/pt/cipfalasaac/download/2011-12_Code_Update.pdf)

NEW DEFINITION	PREVIOUS DEFINITION
<p>3.9.2.13 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common <u>or the fact that a member of key management personnel of one entity has significant influence over the other entity</u> does not necessarily create a related party relationship.</p>	<p>3.9.2.13 Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.</p>
<p>3.9.2.14 In the context of this section of the Code, the following are deemed not to be related parties:</p> <ul style="list-style-type: none"> • providers of finance in the course of their business in that regard and • trade unions; • Public utilities • Departments and agencies of a government that does not control, jointly control or significantly influence the reporting entity; <p>in the course of their normal dealings with an authority by virtue only of those dealings, and</p> <ul style="list-style-type: none"> • an entity with which the relationship is solely that of an agency. 	<p>3.9.2.14 In the context of this section of the Code, the following are deemed not to be related parties:</p> <ul style="list-style-type: none"> • providers of finance in the course of their business in that regard and trade unions; in the course of their normal dealings with an authority by virtue only of those dealings, and • an entity with which the relationship is solely that of an agency.
<p>3.9.2.16 <i>(New paragraph)</i> <u>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.</u></p>	

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