

ASSURANCE AND ACCOUNTING

ASPE - IFRS: A Comparison

Related Party Transactions

In this publication we will examine the key differences between Accounting Standards for Private Enterprises (ASPE) and International Financial Reporting Standards (IFRS) in regards to related party transactions with a focus on:

- How to measure related party transactions; and
- What an entity needs to disclose.

References

| ASPE | IFRS |
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| <ul style="list-style-type: none"> • Section 3831 - <i>Non-monetary Transactions</i> • Section 3840 - <i>Related Party Transactions</i> • Section 3856 - <i>Financial Instruments</i> | <ul style="list-style-type: none"> • IAS 24 - <i>Related Party Disclosures</i> • IFRIC 17 - <i>Distributions of Non-cash Assets to Owners</i> |

Overview of Major Differences

IFRS and ASPE have some similarities in terms of defining related parties and related party transactions. However, there are some major differences in the requirements of the standards such as:

- Section 3840, *Related Party Transactions*, provides specific guidance on measurement and disclosure of related party transactions, while IAS 24, *Related Party Disclosures*, only provides guidance on disclosure and an entity looks to other IFRS for guidance on measurement.
- The disclosure requirements for related parties and related party transactions are significantly more extensive under IFRS compared to ASPE.
- Section 3840 does not apply to management compensation arrangements, while IAS 24 requires disclosure of key management personnel compensation.
- Distributions of non-cash assets to owners are measured differently under ASPE than under IFRS.



ASPE-IFRS differential rating scale



Scope & Definitions

Generally, IFRS and ASPE have similar requirements in relation to the scope and the definitions in the related party standards. However, some significant differences do exist.

| ASPE | IFRS |
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| <p>Section 3840 provides guidance on the measurement and disclosure of related party transactions.</p> <p>Effective for fiscal years beginning on or after January 1, 2021, unless earlier application applied, Section 3840 provides guidance on the measurement of non-financial items in a related party transaction and disclosure of related party transactions.</p> <p>The Section does not apply to:</p> <ul style="list-style-type: none"> • Management compensation arrangements, including employee future benefits accounted for under Section 3462, expense allowances and other similar payments, including loans and receivables, to individuals, in the normal course of business; and • Transactions between an enterprise preparing non-consolidated financial statements and subsidiaries: <ul style="list-style-type: none"> ○ That are only controlled through means other than voting interests, potential voting interests, or a combination thereof; and ○ For which control is the only basis for the related party relationship. • The measurement, recognition or derecognition of a financial asset originated or acquired, or a financial liability issued or assumed in a related party transaction, accounted for under Section 3856.¹ | <p>IAS 24 only provides guidance on disclosure of related parties and related party transactions.</p> <p>The standard is applied in identifying related party relationships, transactions, and outstanding balances (including commitments) between an entity and its related parties. IAS 24 provides guidance on the circumstances in which disclosure of these items is required and on the details of the related disclosures.</p> |
| <p>Under ASPE, related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management and immediate family members.</p> <p>A related party transaction is defined as a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.</p> | <p>IAS 24 defines a related party as a person, including management and close family members, or entity that is related to the entity that is preparing its financial statements via control (direct or indirect), joint control or significant influence.</p> <p>A related party transaction is defined as a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.</p> |

Recognition and Measurement

The focus of the IFRS and ASPE standards on related party transactions is very different. Section 3840 contains specific recognition, measurement and disclosure requirements, whereas IAS 24 contains only disclosure guidance.

¹ Effective for fiscal years beginning on or after January 1, 2021. Earlier application is permitted.

Under Section 3840, the term related party transaction and references to items transferred shall be read to refer to non-financial items transferred in a related party transaction. Financial instruments transferred in a related party transaction shall be measured in accordance with Section 38562.

| ASPE | IFRS |
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| <p>Generally, related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount, which is the amount of consideration paid or received as established and agreed to by the related parties.</p> <p>Related party transactions not meeting this criterion, or other specific criteria in Section 3840, are measured at the carrying amount of the item transferred, or cost of services provided, as recognized in the accounts of the transferor.</p> <p>However, when a financial instrument is created or transferred in a related party transaction and the transaction is between an entity and a person or entity whose sole relationship with the entity is in the capacity of management, the transaction is accounted for in accordance with Section 3856, <i>Financial Instruments</i>.</p> | <p>The general recognition and measurement principles in IFRS apply (as appropriate) to related party transactions, unless a specific scope exclusion exists.</p> <p>Some standards include specific references to related party transactions, while other standards do not have specific guidance. For example, IFRS 3, <i>Business Combinations</i>, specifically excludes a combination between entities or businesses under common control. Therefore, an entity is required to determine an accounting policy, as no specific guidance is provided in IFRS.</p> |

Distribution of Non-cash Assets to Owners

Distributions of non-cash assets to owners are measured differently under ASPE than under IFRS.

| ASPE | IFRS |
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| <p>Section 3831 requires a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation to be measured at the carrying amount of the non-monetary assets or liabilities (i.e. net assets) transferred.</p> <p>These transfers do not give rise to a gain or loss in the financial statements of the transferor, except for any impairment loss recognized at the time of disposal.</p> | <p>IFRIC 17 provides specific guidance on how to account for distributions of assets other than cash (non-cash assets), or when there is a choice of non-cash assets or cash, as dividends to its owners acting in their capacity as owners.</p> <p>A dividend payable is recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. A liability to distribute non-cash assets is recorded at the fair value of the assets to be distributed.</p> <p>When an entity settles the dividend payable, it recognizes the difference, if any, between the carrying amount of the assets distributed and the carrying amount of the dividend payable as a separate line item in profit or loss.</p> |

Disclosures

While the disclosure requirements of ASPE are similar to those under IFRS, the IFRS disclosure requirements are more extensive.

| ASPE | IFRS |
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| <p>An enterprise is required to disclose information about related party relationships only when transactions occur with related parties.</p> <p>An explanation of how significant influence, joint control or control is exercised between the reporting enterprise and a related party is required when describing the relationship. It is desirable for such an explanation to include the percentage ownership between the transacting parties, the extent of representation on the board of directors of either party, or details of management contracts between the parties, depending upon the factor that establishes the relationship.</p> | <p>Under IFRS, an enterprise is required to disclose information in relation to parents and subsidiary relationships irrespective of whether there have been transactions between those related parties.</p> <p>Disclosures required are:</p> <ul style="list-style-type: none"> • The name of the entity's parent and, if different, the ultimate controlling party; • If neither the entity's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent (i.e. the first parent in the group above the immediate parent that produces consolidated financial statements available for public use) that does produce consolidated financial statements available for public use. <p>The identification of related party relationships between parents and subsidiaries is in addition to the disclosure requirements in IAS 27, <i>Separate Financial Statements</i>, and IFRS 12, <i>Disclosure of Interests in Other Entities</i>, which require an appropriate listing and description of significant investments in subsidiaries, associates and joint ventures.</p> |
| <p>An enterprise should disclose the following information about its transactions with related parties:</p> <ul style="list-style-type: none"> • A description of the relationship between the transacting parties; • A description of the transaction(s), including those for which no amount has been recognized; • The recognized amount of the transactions classified by financial statement category; • The measurement basis used; • Amounts due to or from related parties and the terms and conditions relating thereto; • Contractual obligations with related parties, separate from other contractual obligations; and • Contingencies involving related parties, separate from other contingencies. | <p>Paragraph IAS 24.18 requires an enterprise to disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, the following information should be disclosed:</p> <ul style="list-style-type: none"> • Key management personnel compensation and amounts incurred by the entity for the provision of key management personnel services provided by a separate management entity; • The nature of the related party relationship; • The amount of the transactions; • The amount of outstanding balances and: <ul style="list-style-type: none"> ○ Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and ○ Details of any guarantees given or received; • Provisions for doubtful debts related to the amount of outstanding balances; and • The expense recognized during the period in respect of bad or doubtful debts due from related parties. |
| <p>Under ASPE there is no requirement for the disclosures above to be grouped into categories of related parties.</p> | <p>The disclosures above for transactions between related parties are required to be made separately for each of the following:</p> <ul style="list-style-type: none"> • The parent; • Entities with joint control or significant influence over the entity; • Subsidiaries; • Associates; |

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| | <ul style="list-style-type: none"> • Joint ventures in which the entity is a joint venturer; • Key management personnel of the entity or its parent; and • Other related parties. <p>However, items with a similar nature may be disclosed in an aggregated form, except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.</p> |
| ASPE does not contain a disclosure exemption for related party transactions that occur with a government or government-related entities. | <p>A reporting entity is exempt from the disclosure requirements of paragraph 18 in relation to related party transactions and outstanding balances (including commitments), with a government that has control or joint control of, or significant influence over, the reporting entity and another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.</p> <p>Instead, the reporting entity must disclose the name of the government and the nature of its relationship with the reporting entity, the nature and amount of each individually significant transaction and a qualitative or quantitative indication of the extent of other transactions that are collectively significant.</p> |
| Section 3840 does not apply to management compensation arrangements such as employee future benefits, expense allowances, and other similar payments, including loans and receivables, to individuals in the normal course of operations. | <p>IFRS requires disclosure of key management personnel compensation in total, and for each of the following categories:</p> <ul style="list-style-type: none"> • Short-term employee benefits; • Post-employment benefits; • Other long-term benefits; • Termination benefits; and • Share-based payment. <p>If an entity obtains key management personnel services from another entity (the management entity), the entity is not required to provide the above disclosures to the compensation paid or payable by the management entity to the management entity's employees or directors.</p> |

Conclusion

The principles relating to accounting for related party transactions under ASPE and IFRS have few similarities, with clear differences arising for measurement and disclosure. If you require further guidance on related party transactions under ASPE or IFRS, please contact your local BDO Canada LLP office. If you are considering the adoption of a new standard, learn how our BDO [Accounting Advisory Services Team](#) can help you with the transition.

To learn more about the differences between standards, view our [ASPE-IFRS: A Comparison Series](#).

The information in this publication is current as of July 31st, 2020.

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