Commission Regulation (EU) No 632/2010 of 19 July 2010 amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8 (Text with EEA relevance)

COMMISSION REGULATION (EU) No 632/2010

of 19 July 2010

amending Regulation (EC) No 1126/2008 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Accounting Standard (IAS) 24 and International Financial Reporting Standard (IFRS) 8

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[(1)], and in particular Article 3(1) thereof,

Whereas:

(1) By Commission Regulation (EC) No 1126/2008[(2)] certain international standards and interpretations that were in existence at 15 October 2008 were adopted.

(2) On 4 November 2009, the International Accounting Standards Board (IASB) published a revised International Accounting Standard (IAS) 24 *Related Party Disclosures*, hereinafter 'revised IAS 24'. The aim of the changes introduced by the revised IAS 24 is to simplify the definition of a related party while removing certain internal inconsistencies and provides some relief for government-related entities in relation to the amount of information such entities need to provide in respect to related party transactions.

(3) The consultation with the Technical Expert Group (TEG) of the European Financial Reporting Advisory Group (EFRAG) confirms that the revised IAS 24 meets the technical criteria for adoption set out in Article 3(2) of Regulation (EC) No 1606/2002. In accordance with Commission Decision 2006/505/EC of 14 July 2006 setting up a Standards Advice Review Group to advise the Commission on the objectivity and neutrality of the European Financial Reporting Advisory Group's (EFRAG's) opinions[(3)], the Standards Advice Review Group considered EFRAG's opinion on endorsement and advised the Commission that it is well-balanced and objective.

(4) The adoption of the revised IAS 24 implies, by way of consequence, amendments to International Financial Reporting Standard (IFRS) 8 in order to ensure consistency between international accounting standards.

Changes to legislation: *There are outstanding changes not yet made to Commission Regulation (EU) No 632/2010. Any changes that have already been made to the legislation appear in the content and are referenced with annotations. (See end of Document for details) View outstanding changes*

(5) Regulation (EC) No 1126/2008 should therefore be amended accordingly.

(6) The measures provided for in this Regulation are in accordance with the opinion of the Accounting Regulatory Committee,

HAS ADOPTED THIS REGULATION:

Article 1

The Annex to Regulation (EC) No 1126/2008 is amended as follows:

1. International Accounting Standard (IAS) 24 is replaced by the revised IAS 24 as set out in the Annex to this Regulation;

2. International Financial Reporting Standard (IFRS) 8 is amended as set out in the Annex to this Regulation.

Article 2

Each company shall apply IAS 24 and amendment to IFRS 8, as set out in the Annex to this Regulation, at the latest, as from the commencement date of its first financial year starting after 31 December 2010.

Article 3

This Regulation shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 19 July 2010.

For the Commission

The President

José Manuel BARROSO

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ANNEX

INTERNATIONAL ACCOUNTING STANDARDS

IAS 24	**IAS 24 *Related Party Disclosures***
IFRS 8	**Amendment to IFRS 8 *Operating Segments***

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International Accounting Standard 24
Related Party Disclosures

OBJECTIVE

1 The objective of this Standard is to ensure that an entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

SCOPE

2 **This Standard shall be applied in:**

(a) **identifying related party relationships and transactions**;

(b) **identifying outstanding balances, including commitments, between an entity and its related parties**;

(c) **identifying the circumstances in which disclosure of the items in (a) and (b) is required; and**

(d) **determining the disclosures to be made about those items**.

3 **This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of a parent, venturer or investor presented in accordance with IAS 27 *Consolidated and Separate Financial Statements*. This Standard also applies to individual financial statements.**

4 Related party transactions and outstanding balances with other entities in a group are disclosed in an entity’s financial statements. Intragroup related party transactions and outstanding balances are eliminated in the preparation of consolidated financial statements of the group.

PURPOSE OF RELATED PARTY DISCLOSURES

5 Related party relationships are a normal feature of commerce and business. For example, entities frequently carry on parts of their activities through subsidiaries, joint ventures and associates. In those circumstances, the entity has the ability to affect the financial and operating policies of the investee through the presence of control, joint control or significant influence.

6 A related party relationship could have an effect on the profit or loss and financial position of an entity. Related parties may enter into transactions that unrelated parties would not. For example, an entity that sells goods to its parent at cost might not sell on those terms

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to another customer. Also, transactions between related parties may not be made at the same amounts as between unrelated parties.

7 The profit or loss and financial position of an entity may be affected by a related party relationship even if related party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the entity with other parties. For example, a subsidiary may terminate relations with a trading partner on acquisition by the parent of a fellow subsidiary engaged in the same activity as the former trading partner. Alternatively, one party may refrain from acting because of the significant influence of another—for example, a subsidiary may be instructed by its parent not to engage in research and development.

8 For these reasons, knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

DEFINITIONS

9 **The following terms are used in this Standard with the meanings specified:**

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(a) **A person or a close member of that person's family is related to a reporting entity if that person:**

- (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.**

(b) **An entity is related to a reporting entity if any of the following conditions applies:**

- (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).**

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A *related party transaction* is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

***Close members of the family of a person* are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:**

(a) **that person's children and spouse or domestic partner;**

(b) **children of that person's spouse or domestic partner; and**

(c) **dependants of that person or that person's spouse or domestic partner.**

***Compensation* includes all employee benefits (as defined in IAS 19 *Employee Benefits*) including employee benefits to which IFRS 2 *Share-based Payment* applies. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Compensation includes:**

(a) **short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;**

(b) **post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;**

(c) **other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;**

(d) **termination benefits; and**

(e) **share-based payment.**

***Control* is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.**

***Joint control* is the contractually agreed sharing of control over an economic activity.**

***Key management personnel* are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.**

***Significant influence* is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies. Significant influence may be gained by share ownership, statute or agreement.**

***Government* refers to government, government agencies and similar bodies whether local, national or international.**

A *government-related entity* is an entity that is controlled, jointly controlled or significantly influenced by a government.

10 In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.