

SECTION PS 2200

related party disclosures

Basis for Conclusions

Related party disclosures, Section PS 2200 (March 2015)

Withdrawal of disclosure of related party transactions by not-for-profit organizations, Section PS 4260 (December 2016)

FOR THOSE NOT-FOR-PROFIT ORGANIZATIONS THAT APPLY THE PSA HANDBOOK WITH SECTIONS PS 4200 TO PS 4270 WHO CHOOSE NOT TO EARLY ADOPT THIS SECTION, see Section PS 4260 in Archived Pronouncements.

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PURPOSE AND SCOPE

- .01 This Section defines a related party and establishes disclosures required for related party transactions.
- .02 This Section does not deal with:
 - (a) restructuring transactions;
 - (b) for consolidated financial statements, transactions that are eliminated on consolidation and those with entities accounted for under the modified equity method; and
 - (c) disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered.
- .03 It is expected that reasonable efforts would be made to identify related party transactions. This may involve adopting policies and procedures designed to ensure that these transactions are appropriately identified, measured and disclosed in the financial statements.
- .04 Not all related party relationships or transactions occurring between related parties are required to be disclosed. Disclosure is generally required when related party transactions have occurred at a value different from that which would have been arrived at if the parties were unrelated. However, not all of these transactions are reportable under this Section. Only those transactions that have or could have a material financial effect on the financial statements are disclosed.

DEFINITIONS

- .05 The following terms are used in this Section with the meanings specified:
 - (a) **Commonly controlled entities** are all public sector entities that comprise a government's reporting entity (see GOVERNMENT REPORTING ENTITY, Section PS 1300).
 - (b) **Control** is the power of a public sector entity to govern the financial and operating policies of another entity with expected benefits or the risk of loss to the public sector entity from the other's activities (see the indicators of control in GOVERNMENT REPORTING ENTITY, Section PS 1300).
 - (c) **Key management personnel** are those individuals having authority and responsibility for planning, directing and controlling the activities of the entity.
 - (d) A **related party** exists when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members. 1

- (e) A **related party transaction** is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. 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.
- (f) **Shared control** occurs when two or more entities are bound by a contractual arrangement that specifies the agreed sharing of the ongoing power to determine financial and operating policies (see the characteristics of shared control in INTERESTS IN PARTNERSHIPS, Section PS 3060).

IDENTIFYING A RELATED PARTY

- .06 A related party can be an entity or an individual.
- .07 From the perspective of the entity that is reporting, parties related to it typically include those:
 - (a) entities that control it, share control of it or it controls;
 - (b) entities that are subject to common control;
 - (c) entities that it shares control of with other commonly controlled entities;
 - (d) entities that are subject to shared control by other commonly controlled entities;
 - (e) entities that it shares control of with other entities;
 - (f) entities that are subject to shared control by other commonly controlled entities and other entities;
 - (g) individuals who are members of key management personnel or close family members of those individuals; and
 - (h) entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.
- .08 When two entities have a member of key management personnel in common, it is necessary to consider the level of influence the individual has over the decision-making process of both entities and the likelihood that the individual is able to affect the policies of both entities in their mutual dealings. For example, a member of key management personnel of the entity that is reporting may serve as a board member of a not-for-profit organization. This individual, in their role as a board member, could participate in the financial and operating policy decisions of the entity. In such a case, it may be determined that the two entities are related.
- .09 Parties that share control of an entity are not necessarily related. The determination of whether the parties that share control are related would be based on the definition of a related party. For example, if two or more parties that share control of an entity are under common control, they would be related.

Key management personnel

- .10 The determination of whether an individual is included in key management personnel requires judgment. Key management personnel could include:
 - (a) directors or members of the governing body of the entity, where that body has authority and responsibility for planning, directing and controlling the activities of the entity; and
 - (b) senior management of the entity, including the chief executive or permanent head and senior management group who have the day-to-day responsibility for managing the entity's activities and operations, and who have been delegated authority and executive powers to implement the planning, directing and controlling decisions and initiatives of the governing body.
- .11 An entity may also be related if a member of key management personnel holds an ownership interest that allows the individual to govern or share the power to determine the ongoing financial and operating decisions of that entity.

Close family members of key management personnel

- .12 The determination of whether an individual would be identified as a close family member requires judgment. Close family members of key management personnel normally include an individual's spouse and those dependent on either the individual or the individual's spouse.
- .13 An entity may also be related if a close family member of key management holds an ownership interest that allows the individual to govern or share the power to determine the ongoing financial and operating decisions of that entity.

DISCLOSURE

- .14 Entities prepare financial statements to provide users with information that meets the qualitative characteristics in Chapter 7 of the Conceptual Framework for demonstrating accountability for the resources entrusted to the entity and for decision-making purposes. Typically, transactions between two willing parties are recognized in financial statements at the amount of cash or cash equivalents paid or received, which is generally the fair value ascribed to them when they took place. [Former paragraph PS 2200.14, amended by the Conceptual Framework, retained in Archived Pronouncements.]
- .15 Disclosing sufficient information about the terms and conditions of related party transactions and the relationship underlying them is important for accountability and decision-making purposes. It enables users to assess the effect that they have had, or, if not recognized, may have had, on an entity's reported financial position and changes in it.

- .16 In some cases, it may be difficult to determine whether transactions occurring between related parties have or could have a material financial effect on the financial statements. Factors to consider in determining whether information about transactions occurring between related parties would be disclosed include, but are not limited to, the following:
- (a) whether the transactions are undertaken on different terms and conditions that it is reasonable to expect would have been adopted if the parties were dealing at arm's length in the same circumstances;
 - (b) the materiality of the effect the transactions, individually or taken as a whole, have or could have on the entity's financial position and changes in financial position reported in financial statements;
 - (c) the relevance of the information to the decisions of users and their evaluation of the financial effect or potential financial effect of the transactions on the financial statements of the entity;
 - (d) the contribution the information would have to users' understanding of the operating environment and the financial statements of the entity; and
 - (e) the need for the information to enable users to compare the entity's financial position and changes in financial position reported in financial statements with that of other entities.

For example, for users to understand the environment within which the entity that is reporting operates, it may be necessary to disclose information about goods and services the entity received from a related party at no cost.

- .17 *An entity should disclose:*
- (a) *adequate information about the nature of the relationship with related parties involved in related party transactions;*
 - (b) *the types of related party transactions that have been recognized;*
 - (c) *the amounts of the transactions recognized classified by financial statement category;*
 - (d) *the basis of measurement used;*
 - (e) *the amount of outstanding balances and the terms and conditions attached to them;*
 - (f) *contractual rights and contractual obligations with related parties, separate from other contractual rights and contractual obligations;*
 - (g) *contingent assets and contingent liabilities involving related parties, separate from other contingent assets and contingent liabilities; and*
 - (h) *the types of related party transactions that have occurred for which no amount has been recognized.*

Items of a similar nature should be disclosed in aggregate. [APRIL 2017] [Former paragraphs PS 2200.17(f)-(g), amended by 2019-2020 annual improvements, retained in Archived Pronouncements.]

- .18 Judgment is required to determine the level of detail to be disclosed. Factors that would be considered in making the determination include, but are not limited to:
- (a) the significance of the transactions, individually or taken as a whole, in terms of size; and
 - (b) whether the transactions were carried out on non-market terms.
- .19 Items of a similar nature would be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. Judgment is required to determine whether it is necessary to disclose information that is already reported on the face of the financial statements or in other notes to the financial statements. It may be necessary to disclose information about these transactions for users to understand their effect on an entity's financial position and changes in it.
- .20 An exchange of goods or services between related parties that has not been given accounting recognition is a related party transaction. Such transactions could have a material effect on the financial position and changes in financial position reported in financial statements. An entity would disclose information about related party transactions that have occurred for which no amount has been recognized in sufficient detail to enable users of its financial statements to understand the operating environment.
- .21 The information would include either a qualitative or quantitative indication of the extent of unrecognized related party transactions. When only qualitative information is disclosed about unrecognized related party transactions, it may be difficult for users to determine the terms and conditions under which they might have been transacted had the parties been unrelated. However, an explanation about the transactions helps users of financial statements detect and explain possible differences or evaluate their significance to the changes in financial position reported in the financial statements of the entity.

TRANSITIONAL PROVISIONS

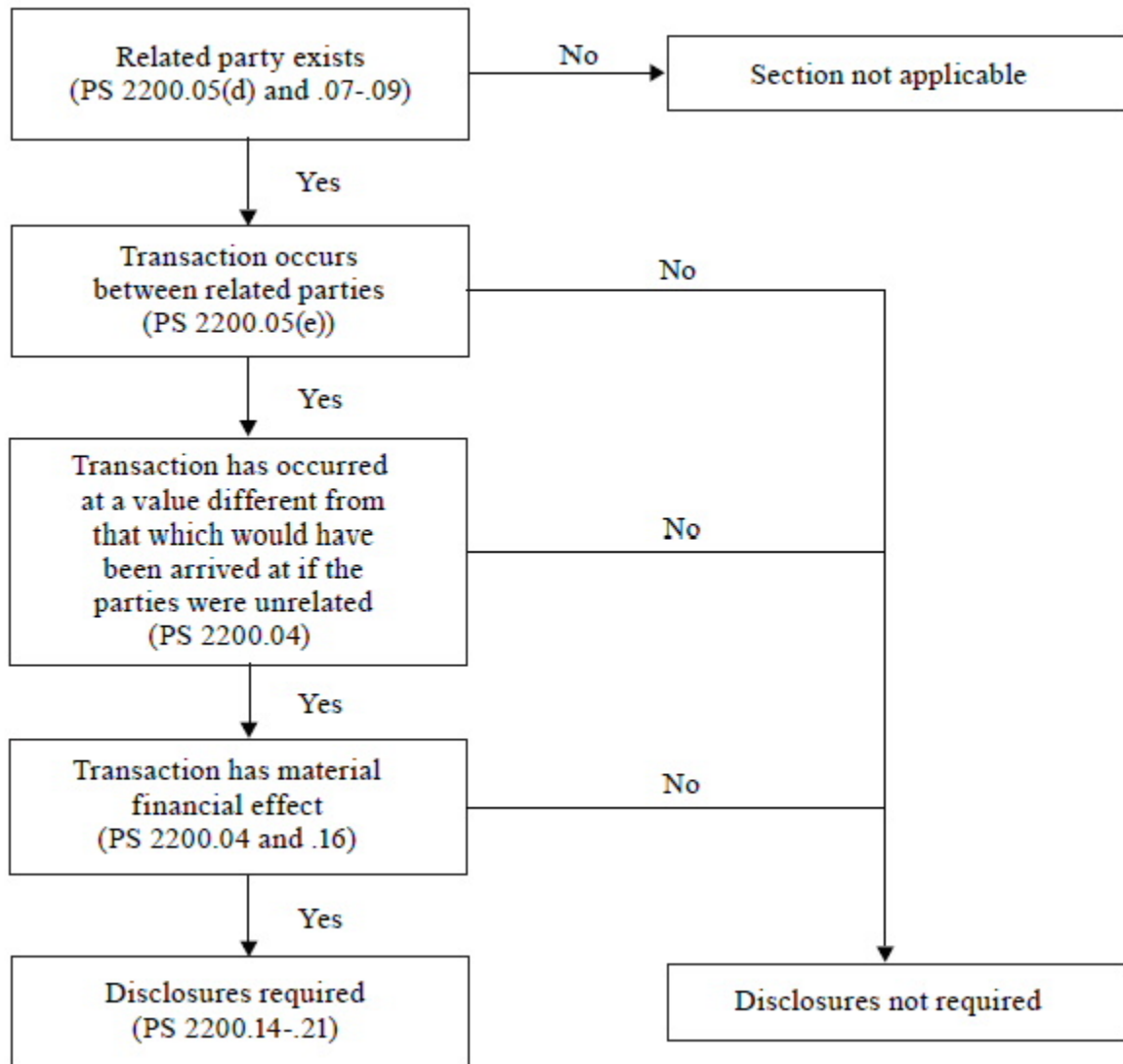
- .22 This Section applies to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted. This Section would be applied prospectively.

APPENDIX A

DECISION TREE — SCOPE OF APPLICABILITY

The following decision tree has been prepared to illustrate the accounting treatment specified in this Section. The decision tree is illustrative only and matters of principle relating to particular situations should be decided in the context

of the Section. While illustrative, this Appendix is a primary source of GAAP, as identified in GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, paragraph PS 1150.03(d)(iii).



Footnotes

1. In the case of a not-for-profit organization that applies the PSA Handbook with Sections PS 4200 to PS 4270, a related party would also include when one party has significant influence over the other, two or more parties are subject to common significant influence, or a not-for-profit organization has an economic interest in another not-for-profit organization. (Further discussion of the definitions of significant influence and economic interest is presented in REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, Section PS 4250.)

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