

# Technical factsheet

## Related party disclosures

### Contents

1. Introduction	1
2. Legislative requirements	1
3. Accounting standards and definitions	7
4. Disclosure requirements	8
5. Examples	10
6. Checklist	12
7. More information	13

### 1. INTRODUCTION

This factsheet provides guidance on the collection and disclosure of related party transactions within statutory financial statements. It will consider the provisions within the Companies Act 2006, and the accounting and disclosure requirements within the related accounting regulations and FRS 102, *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

### 2. LEGISLATIVE REQUIREMENTS

The provisions are contained within three pieces of legislation:

#### A. Companies Act 2006

##### *Part 10 A: Company's directors*

This part of the Companies Act sets out, among other things, the specific rights and duties of the company directors and shadow directors. Many of the disclosure requirements flow from the provisions within these sections. Familiarity with the contents of the sections is therefore desirable.

Chapter 2, Sections 170-181 sets out the general duties of directors under the act. This provides a framework under which the directors need to ensure that there is a full disclosure of the interest that they may have in transactions.

Chapter 3, Sections 182-187 sets out the duties of directors and shadow directors to declare any interest that they may have in an existing contract.

Chapter 4, Sections 188-226 sets out the details of transactions that require the approval of members.

*Part 15: Accounts and reports*

Chapter 4, in the sections dealing with items that should be disclosed in the notes to the accounts within sections 409, 410, 412 and 413, contains information on specific issues that need to be disclosed. Guidance on the application of these principles is contained within the accounting regulations.

*Section 412: Information about directors' benefits: remuneration*

1. The secretary of state may make provision by regulations requiring information to be given in notes to a company's annual accounts about directors' remuneration.
2. The matters about which information may be required include:
  - a) gains made by directors on the exercise of share options
  - b) benefits received or receivable by directors under long-term incentive schemes
  - c) payments for loss of office (as defined in section 215)
  - d) benefits receivable, and contributions for the purpose of providing benefits, in respect of past services of a person as director or in any other capacity while director
  - e) consideration paid to or receivable by third parties for making available the services of a person as director or in any other capacity while director.
3. Without prejudice to the generality of subsection 1, regulations under this section may make any such provision as was made immediately before the commencement of this part by Part 1 of Schedule 6 to the Companies Act 1985.
4. For the purposes of this section, and regulations made under it, amounts paid to or receivable by:
  - a) a person connected with a director or
  - b) a body corporate controlled by a directorare treated as paid to or receivable by the director.

The expressions 'connected with' and 'controlled by' in this subsection have the same meaning as in Part 10 (company directors).

5. It is the duty of:
  - a) any director of a company and
  - b) any person who is or has at any time in the preceding five years been a director of the companyto give notice to the company of such matters relating to themselves as may be necessary for the purposes of regulations under this section.
6. A person who makes default in complying with subsection 5 commits an offence and is liable on summary conviction to a fine not exceeding level 3 on the standard scale.

*Section 413: Information about directors' benefits: advances, credit and guarantees*

1. In the case of a company that does not prepare group accounts, details of:
  - a) advances and credits granted by the company to its directors and
  - b) guarantees of any kind entered into by the company on behalf of its directorsmust be shown in the notes to its individual accounts.
2. In the case of a parent company that prepares group accounts, details of:
  - a) advances and credits granted to the directors of the parent company, by that company or by any of its subsidiary undertakings, and
  - b) guarantees of any kind entered into on behalf of the directors of the parent company, by that company or by any of its subsidiary undertakings,must be shown in the notes to the group accounts.
3. The details required of an advance or credit are:
  - a) its amount
  - b) an indication of the interest rate
  - c) its main conditions
  - d) any amounts repaid
  - e) any amounts written off
  - f) any amounts waived.
4. The details required of a guarantee are:
  - a) its main terms
  - b) the amount of the maximum liability that may be incurred by the company (or its subsidiary)

- c) any amount paid and any liability incurred by the company (or its subsidiary) for the purpose of fulfilling the guarantee (including any loss incurred by reason of enforcement of the guarantee).
5. There must also be stated in the notes to the accounts the totals:
- a) of amounts stated under subsection 3a
  - b) of amounts stated under subsection 3d
    - ba) of amounts stated under subsection 3e
    - bb) of amounts stated under subsection 3f
  - c) of amounts stated under subsection 4b
  - d) of amounts stated under subsection 4c.
6. References in this section to the directors of a company are to the persons who were directors at any time in the financial year to which the accounts relate.
7. The requirements of this section apply in relation to every advance, credit or guarantee subsisting at any time in the financial year to which the accounts relate:
- a) whenever it was entered into
  - b) whether or not the person concerned was a director of the company in question at the time it was entered into
  - c) in the case of an advance, credit or guarantee involving a subsidiary undertaking of that company, whether or not that undertaking was such a subsidiary undertaking at the time it was entered into.
8. Banking companies and the holding companies of credit institutions need only state the details required by subsection 5a and c.

## **B. The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI2015/980)**

SI 2015/980 has repealed the following previous disclosure requirements of The Small Companies and Groups (Accounts and Directors' Report) Regulations (SI 2008/409):

- information about related undertakings where company is not preparing group accounts
- information about directors' benefits remuneration.

A new regulation has been introduced for the small companies' disclosure:

### *Related party transactions*

- 66.–1. *Particulars may be given of transactions which the company has entered into with related parties, and must be given if such transactions are material and have not been concluded under normal market conditions with:*
- a) owners holding a participating interest in the company*
  - b) companies in which the company itself has a participating interest*
  - c) the company's directors.*
2. *Particulars of the transactions required to be disclosed under sub-paragraph (1) must include:*
- a) the amount of such transactions*
  - b) the nature of the related party relationship*
  - c) other information about the transactions necessary for an understanding of the financial position of the company.*
3. *Information about individual transactions may be aggregated according to their nature, except where separate information is necessary of an understanding of the effects of the related party transactions on the financial position of the company.*
4. *Particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is a party to the transaction is wholly-owned by such a member.*
5. *In this paragraph, 'related party' has the same meaning as in international accounting standards.*
- 20B. *Above paragraph 66 of Schedule 1 to the Regulations applies to transactions which the parent company, or other undertakings included in the consolidation, have entered into with related parties, unless they are intra-group transactions.*

### **C. The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)**

These regulations apply to all companies that do not qualify as small or are not preparing accounts under these provisions.

Schedule 4 provides details of the requirements for companies to disclose specific details in respect of holdings in subsidiary and associated undertakings.

Schedule 5 provides detailed guidance on directors' benefits as below:

Disclosure in respect of the above is included in the checklist below in line with the requirements in the legislation. These are requirements from the legislation and are not covered in the standards.

One area that requires disclosure, dependent on the company size, is the situation where the total of the following exceeds £200,000:

- the aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services
- the aggregate of the amount of gains made by directors on the exercise of share options
- the aggregate of the amount of money paid to or receivable by directors, and the net value of assets (other than money and share options) received or receivable by directors, under long-term incentive schemes in respect of qualifying services

In this case, the details of the amounts paid to the highest paid director in respect of the above need to be separately disclosed. In addition, details of the pension contributions attributable to that director should be shown. If the pension scheme is a defined benefit scheme then you also need to disclose the value of the accrued pension and any accrued lump sum for that individual.

Finally, details should be disclosed of any share options exercised by this director and whether any shares were received or receivable by that director in respect of qualifying services under a long term incentive scheme.

### **Director's loan account**

What this broadly means in practice is that some detailed disclosure may be required in the notes to the accounts when a company has an overdrawn director's loan account.

There was a great deal of debate in respect of this area when the legislation first came out but the accepted interpretation would suggest the following:

- Details of transactions with individuals should not usually be aggregated together – hence where you have more than one related party with similar transactions, these should be shown separately.
- Where you have a range of different transactions going through the account, you should only aggregate those that are similar. So, for example where the company pays bills on behalf of a director, the total of these amounts would be shown separately from cash drawn.

- Where the account has gone overdrawn at any time during the year (even where it is not overdrawn at the end of the year), then the details above, along with the maximum balance outstanding during the year, should be disclosed.

### **3. ACCOUNTING STANDARDS AND DEFINITIONS**

The relevant accounting provisions are contained within *FRS 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland*.

FRS 102 defines a related party as follows:

*A related party is a person or entity that is related to the entity that is preparing its financial statements (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 apparent of the reporting entity.*

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

- (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).*
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.*

In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

**Key management** is defined in the standard as: 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.

An entity (not small) following full standard FRS 102 shall disclose key management personnel compensation in total, unless key management personnel and directors are the same people.

**Significant influence** is the power to participate in the operating and financial policy decisions of an entity; it is not control over those policies. Significant influence would be assumed where a shareholder holds 20% or more of the voting rights of the entity.

#### **4. DISCLOSURE REQUIREMENTS**

##### **Small companies**

Small companies do not have many disclosure requirements for related party transactions as highlighted in regulation 66 of SI 2015/980 and appendix C to section 1A of FRS 102.

Disclosures are mandatory only when the related party transactions are material and have not been concluded on normal market conditions. Nevertheless, the directors may decide to disclose the related party transactions if they believe that it will support the true and fair view of the financial statements. Once the directors choose or have disclosure requirements otherwise, then the following information shall be included in the financial statements:

- the names of the parties
- the nature of relationship with the parties
- details of the transactions
- the amounts of the transactions
- additional information required for any understanding
- the amounts of outstanding balances and
  - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement
  - (ii) details of any guarantees given or received
- any amounts written off in respect of such debts
- provisions for uncollectible receivables related to the amount of outstanding balances
- the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Under FRS 102, an entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.

Some specific matters:

- a) Dividends to directors do meet the definition of related party transactions and FRS 102 encourages the disclosure in the financial statements for small entities. However, there is no statutory requirement for small entities to disclose it in the accounts unless the directors decide to include it for the 'true and fair' view of the financial statement, or the amount of the remuneration comprising salary and dividend is not on normal market conditions (highlighted in SI 2015/980).
- b) Directors' overdrawn loan accounts must be disclosed in the financial statements as highlighted in section 413 of the Companies Act 2006, irrespective of the amount involved. There is no specific exemption for small entities for this disclosure.
- c) Ultimate controlling party: paragraph 1AC.34 of FRS 102 states that if the small entity is a subsidiary, certain information is required to be disclosed in respect of the parent of the smallest group for which consolidated financial statements are drawn up of which the small entity is a member. Where the group does prepare consolidated financial statements, the following should be disclosed in subsidiary company accounts:
  1. the name of the parent that draws up the consolidated financial statements
  2. the address of the parent's registered office (whether in or outside the UK)
  3. if it is unincorporated, the address of its principal place of business.Where the group does not prepare consolidated financial statements (for example, because the group is a small group under the Companies Act 2006), this information does not need to be disclosed.
- d) Transactions with wholly owned subsidiary: particulars need not be given of transactions entered into between two or more members of a group, provided that any subsidiary that is a party to the transaction is wholly owned by such a member. (Schedule 1, paragraph 66).
- e) Companies based in the Republic of Ireland following Companies Act 2014 have more detailed disclosure requirements than UK companies following Companies Act 2006. These are explained in Appendix D of FRS 102 and are not covered within this factsheet.

## 5. EXAMPLES

The following are examples of the related party disclosure required in a set of statutory accounts. The disclosure under transactions with directors is as a result of the Companies Act requirements and the related party disclosure is as a requirement of the accounting standard. *NB: A small entity does not require to make these disclosures in the financial statements if all the transactions are at normal market conditions but may choose to do so if the directors wish so.*

### **Example 1**

#### **Directors' remuneration**

The directors' aggregate remuneration in respect of qualifying services was:

	20XX	20YY
		As restated
	£	£
Aggregate remuneration	25,000	25,000
Pension contributions	<u>2,000</u>	<u>2,000</u>

Four directors (20YY – 4) were accruing benefits under the company's defined contribution pension scheme.

#### **Transactions with directors**

Included in debtors is an amount owing to the company by one of the directors. This was an advance of £1,750 made to Mr A Arthur, a director of the company, to provide funds for overseas travel expenses he expected to incur on company business. This trip was completed shortly after the year end and the director has repaid the advance in full. The balance represents the highest amount outstanding in the year.

#### **Related party transactions**

During the year, the company purchased goods amounting to £15,015 (20YY – £14,765) from Blue Glass Limited, a company in which Mr A Arthur has a controlling interest. These goods were purchased on an arm's length basis. There were no amounts outstanding to or from the company at the period end (20YY – £0).

During the year, the following dividends were paid to the directors of the company:

- Mr A Arthur: £300 in respect of 6% redeemable preference shares (20YY – £300) and £2,450 in respect of ordinary shares (20YY – £1,750)
- Mr B Benedict, Mrs C Clements and Ms D Duncan: £350 each in respect of ordinary shares (20YY – £250)

### **Ultimate controlling party**

The ultimate controlling party was Mr A Arthur, a director and shareholder of the company.

### **Example 2**

#### **Related party disclosures**

During the year under review, the company has paid rent of £21,000 to Mr A and Mr B, directors and shareholders of the company, for use of freehold property by the company, which is jointly owned by them.

The lease is under formal contract terms and has an independently verified rent review period every three years.

The directors have jointly given a loan to the company of £278,000, which they are not going to withdraw until the company has sufficient funds to repay without affecting the cashflow of the company.

Dividends of £50,000 paid in the year have been paid equally to all the shareholders who are also directors of the company.

### **Example 3**

#### **Transaction with directors**

The company had an outstanding directors loan in the name of Mr XXXXX of £11,000 (prior year £26,000) at the year end. This is included in other creditors in note 13. This loan is interest free and repayable on demand. The highest amount during the year was £26,000, with £15,000 being paid to the company by Mr XXXX.

#### **Related parties**

The company owns 51% of the shares in BB Ltd, which is online sale arm of this company.

The company was owed £30,000 (20YY – £Nil) by its subsidiary undertaking, which is repayable on demand. The company had sold £430,000 (20YY- £28,000) worth of goods to its subsidiary during the year.

The company was owed £151,000 (20YY – 213,000) by CC Ltd, which is a company under common control of the directors.

During the year, the company sold goods to the value of £531,000 (20YY – £270,000) to CC Ltd.

## 6. CHECKLIST

	<b>Related party disclosure checklist</b>	<b>Reference</b>	<b>Comments</b>
1	Identify all related parties looking at the definition and establish whether the disclosure is required. Document your conclusion		
2	Ascertain details of the ultimate parent undertaking		
3	For subsidiary undertakings, ascertain the following details for each subsidiary: <ul style="list-style-type: none"> <li>• name</li> <li>• country of incorporation or address if unincorporated</li> <li>• number and percentage of shares held directly and indirectly in each specific class of shares</li> <li>• aggregate amount of capital and reserves at the period end</li> <li>• profit or loss for the period</li> </ul>		
4	For other companies where there is a substantial shareholding (more than a 20% interest), ascertain the following details for each holding: <ul style="list-style-type: none"> <li>• name</li> <li>• country of incorporation or address if unincorporated</li> <li>• number and percentage of shares held directly and indirectly in each specific class of shares</li> <li>• aggregate amount of capital and reserves at the period end</li> <li>• profit or loss for the period</li> </ul>		
5	Where an interest is held in a partnership or unlimited company, ascertain the following details for each holding: <ul style="list-style-type: none"> <li>• name and legal form of the entity</li> <li>• address of its registered office or main place of business</li> <li>• details of the financial information to be appended to the accounts</li> </ul>		
6	Ascertain details of the following in respect of directors: <ul style="list-style-type: none"> <li>• remuneration (this includes salaries, fees, bonuses, cash expenses and the monetary value of benefits) for qualifying services</li> <li>• details of any amounts paid or due under long-term incentive schemes</li> <li>• amounts paid or payable into defined benefit and defined contribution pension schemes</li> <li>• number of directors accruing benefits under either type of pension scheme</li> <li>• any amounts paid as compensation for loss of office</li> <li>• any amounts paid to third parties in respect of loss of office</li> <li>• details (that is the amount, interest rate, conditions and any amounts repaid) of any advances or credits granted to directors</li> <li>• details (that is its main terms – details of the maximum liability of the company and any amounts paid under the guarantee) of any guarantees granted to or on behalf of the directors by the company</li> <li>• details of any dividends received in respect of shares in the company</li> <li>• details of any dividends waived in respect of shares in the company</li> <li>• details of the amounts paid to the highest paid director where the total emoluments paid to all directors exceeds £200,000. Should include: <ul style="list-style-type: none"> <li>○ the emoluments and the pension contributions paid to this individual</li> <li>○ where a defined benefit scheme is operated details of the accrued pension, and where applicable, the accrued lump sum should also be ascertained</li> </ul> </li> <li>• Details of any share options exercised by this director and whether any shares were received or receivable by them in respect of qualifying services under a long term incentive scheme</li> </ul>		

7	Ascertain details of the individual or group of individuals who control the entity		
8	Ascertain details of any guarantees offered by related parties in respect of the company debts		
9	Ascertain details of the following in respect of any other transactions with any of the parties detailed above: <ul style="list-style-type: none"> <li>• names of the parties</li> <li>• relationship with the parties</li> <li>• details of the transactions</li> <li>• amounts</li> <li>• additional information required for any understanding</li> <li>• amounts due to or from any related parties</li> <li>• any amounts written off in respect of such debts</li> </ul>		
10	Ascertain whether transactions have been entered into on an arm's length basis and disclose details		

## 7. MORE INFORMATION

- Companies Act 2006 ([CA2006](#))
- The Small Companies and Groups (Accounts and Directors' Report) Regulations 2008 ([SI 2008/409](#))
- The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 ([SI 2015/980](#))
- The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ([SI 2008/410](#))
- ACCA [Technical factsheet FRS 102, Small company reporting](#)
- [FRS 102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland](#)

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