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Relationships :- Disclosures

STUDENT NOTES

RELATED PARTY RELATIONSHIPS

Arises because of these 5 scenarios:

- ***Control***
- ***Significant Influence***
- ***Individual***
- ***Key Managerial Person***
- ***Related Entity***

1. CONTROL

➢ ***Entities, that directly or indirectly through one or more intermediaries,***
- ***control, or*** 1
- ***are controlled by, or*** 2
- ***are under common control with the reporting entity.*** 3

CONTROL MEANING

Shareholding

Power to decide financial or operating policies of an entity. Comes with:
- ***More than 50% voting power either directly or indirectly.***
- ***Controlling the composition of the governing body of the entity.***
- ***Substantial interest in the voting power & POWER TO DIRECT financial or operating policies of the entity either directly or indirectly.***

DIRECT CONTROL ← **1.CONTROL** → **INDIRECT CONTROL**

CASE I

Holding Co. — *Controls* → **Subsidiary Co.**

Reporting Entity(FS) | **Related Party**

CASE 2

Holding Co. ← *Controlled by* — **Subsidiary Co.**

Related Party | **Reporting entity (FS)**

DIRECT CONTROL

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Control : Direct

1) Holding Co. $\xrightarrow{\text{Controls}}$ Subsidiary Co.

(Girl) → FS

(Boy) → RP

2) Subsidiary Co. $\xrightarrow{\text{Controlled by}}$ Holding Co.

(Boy) → FS

(Girl) → RP

3) Holding Co. (Girl)

$\xrightarrow{\text{Controls}}$ Subsidiary Co. 1 → FS

$\xrightarrow{\text{Controls}}$ Subsidiary Co. 2 → RP

Under Common Control → RP, → FS

Subsidiary Co. 2 ← Holding Co. $\xrightarrow{\text{controls}}$ Subsidiary Co. 1

FS $\xrightarrow{\text{controls}}$ RP → CASE I

RP $\xleftarrow{\text{controlled by}}$ FS → CASE II

Under Common Control

FS	RP
RP	FS

→ CASE III

DIRECT CONTROL

INDIRECT CONTROL

Holding Company $\xrightarrow{\text{control}}$ Subsidiary Co. $\xrightarrow{\text{Control}}$ Subsidiary Co 2

Girl → FS, RP

Boy

Boy: Bestfriend → RP, FS

Indirect Control

Subsidiary of a subsidiary is a subsidiary of the holding company.

Holding company

- S1
  - SS1
  - SS2
  - SS3
- S2
  - SSS1
  - SSS2
  - SSS2
- S3
  - SSSS1
  - SSSS2

↓

All under common control

↓

All related parties

CONTROL IS ACQUIRED IN 3 WAYS :-

$\geq 20\%$ VP → Substantial Interest

⊕

Power to direct

Operating OR Finance

} Control 3.

Control of Composition of BOD → Control 2.

(9 BOD → majority appt / removal
↓
controlled by me)

$> 50\%$ VP → Control 1.

Once control is acquired, Holding Subsidiary relationship exists.
