

GUIDANCE NOTE ON REMUNERATION PAID TO KEY MANAGEMENT PERSONNEL - WHETHER A RELATED PARTY TRANSACTION

(The following is the text of the 'Guidance Note on Remuneration paid to key management personnel – whether a related party transaction' issued by the Council of the Institute of Chartered Accountants of India. Pursuant to the issuance of this Guidance Note, Accounting Standards Interpretation (ASI) 23, 'Remuneration paid to key management personnel – whether a related party transaction (Re. AS 18)', stands withdrawn.)

Introduction

1. This Guidance Note deals with the issue [whether remuneration paid to key management personnel is a related party transaction](#). Another related issue dealt by this Guidance Note is [whether remuneration paid to non-executive directors on the Board of Directors is a related party transaction](#).

2. Accounting Standard (AS) 18, *Related Party Disclosures* defines “related party transaction” as **“a transfer of resources or obligations between related parties, regardless of whether or not a price is charged.”** Further, paragraph 24 of AS 18 provides as under:

“The following are examples of the related party transactions in respect of which disclosures may be made by a reporting enterprise:

- Purchases or sales of goods (finished or unfinished);
- purchases or sales of fixed assets;
- rendering or receiving of services;
- agency arrangements;
- leasing or hire purchase arrangements;
- transfer of research and development;
- License agreements;
- finance (including loans and equity contributions in cash or in kind);
- guarantees and collaterals; and
- management contracts including for deputation of employees.”

3. As per the definition of the expression ‘related party transaction’, the transaction should be between related parties to qualify as a related party transaction. Since key management personnel are related parties under AS 18, remuneration paid to key management personnel is a related party transaction requiring disclosures under AS 18. Further, in case non-executive directors on the Board of Directors are not related parties, remuneration paid to them is not considered a related party transaction.

Recommendation

[Remuneration paid to key management personnel should be considered as a related party transaction requiring disclosures under AS 18. In case non-executive directors on the Board of Directors are not related parties, remuneration paid to them should not be considered a related party transaction.](#)