



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	17 January 2011
<b>From:</b>	<b>Angus Thomson</b>	<b>Agenda Item:</b>	5.1
<b>Subject:</b>	<b>Individual KMP disclosures</b>	<b>File:</b>	--

## Action

Note developments in the area of individual key management personnel (KMP) disclosure requirements under corporations legislation, and consider writing to Treasury and the Corporations and Markets Advisory Committee (CAMAC) about the Board's views on individual KMP disclosure requirements in AASB 124 *Related Party Disclosures*.

## Background

### CAMAC

The CAMAC is currently reviewing the requirements surrounding the disclosure of executive remuneration in the *Corporations Act 2001* (and regulations).

As agreed as part of the AASB's 8 and 9 December 2010 discussion of the papers on Australia/New Zealand convergence, AASB staff attended a discussion roundtable on 10 December hosted by the CAMAC on 'executive remuneration reporting' and informed those present that the AASB has decided to remove the individual KMP disclosures from AASB 124 *Related Party Disclosures* in the interest of harmonising with the IASB and the FRSB. At the roundtable AASB staff also highlighted that:

- (a) AASB 124 currently includes disclosure requirements (beyond remuneration) relating to individual KMP loans and equity holdings<sup>1</sup>; and
- (b) the view of the Board is that individual KMP disclosures, which the government considers necessary, should be in the law rather than in Standards.

### *Corporations Act amendments*

In addition to the CAMAC work, the Commonwealth (through Treasury) has issued [proposals](#) relating to requirements about executive and director remuneration disclosures in the Corporations Act. These relate to a number of matters concerning remuneration reports.

---

<sup>1</sup> The individual KMP disclosures relating to compensation have been included in the *Corporations Act 2001* in respect of companies. Accordingly, paragraphs Aus29.2 to Aus29.6 and Aus29.7.1 & Aus29.7.2 of AASB 124 only apply to disclosing entities that are not companies, such as disclosing entities that are managed investment schemes. The Aus paragraphs in AASB 124 relating to individual KMP disclosures other than those relating to compensation (equity holdings and loans) apply to all disclosing entities.

The proposal of most direct relevance to the AASB is that there no longer be a requirement for parent entities to make individual remuneration disclosures about the ‘top five’ most highly remunerated executives. The Commonwealth is proposing to only require remuneration disclosures about individual KMP of each group entity.

## *Dealing with the MIS issue*

One of the key barriers to having the law deal with managed investment scheme KMP disclosures is uncertainty about whether a KMP can be an entity (in terms of the IAS 24 and AASB 124 definition of KMP). Because managed investment schemes generally do not have employees and have responsible entities managing their affairs, the issue concerns whether disclosure of the fees to responsible entities satisfies the KMP compensation disclosure requirements in the standards, or whether there is a need to look through the responsible entity to the compensation of individuals.

The Treasury has been reluctant to consider extending the application of the Corporations law compensation disclosures (to managed investment schemes) until the issue is addressed by standard setters, and has requested that the Board not remove the disclosure requirements until the issue is resolved.

Through the National Standard Setters forum, the AASB and the FRSB have managed to have the issue regarding KMP considered by the IFRS Interpretations Committee, which recommended in September 2010 that the IASB deal with the matter as an annual improvement.<sup>2</sup>

## **Next steps**

AASB staff have contacted IASB staff to ascertain the status of the IFRS Interpretations Committee’s recommendation regarding the requirements of IAS 24 when an entity has no employees that are KMP and, if needed, plan to assist the IASB in making the necessary changes (see Agenda paper 5.2).

AASB staff consider that it is now timely to once again make the Board’s views known in writing on the location of KMP disclosures and advise that it plans to remove the Aus paragraphs in AASB 124 relating to:

- \* individual KMP remuneration disclosures for disclosing entities other than companies; and
- \* individual KMP loan and equity balance disclosures for disclosing entities.

---

2 *IFRIC Update* September 2010 reports: “The Committee received a request asking whether key management personnel (KMP), as defined in IAS 24 *Related Party Disclosures*, can include an entity as opposed to individuals. The issue arises specifically when a reporting entity hires key management services from a separate management entity. A second question raised is whether the reporting entity should disclose the remuneration paid by the management entity to the individuals providing the KMP services for the reporting entity, or the service fees paid by the reporting entity to the management entity for the KMP services. The Committee recommends that the Board should amend, within Annual Improvements, the definition of a related party in IAS 24 to clarify that a management entity that provides KMP services to a reporting entity is deemed to be identified as the relevant related party in respect of those KMP services. Consequently, the service fees paid by the reporting entity to the management entity would be disclosed. The Committee also recommends that the individuals who are employees or directors of the management entity and are acting as KMP of the reporting entity should not be identified as a related party (unless they qualify as related parties for other reasons). The revised definition would apply to the management entity’s parent, its subsidiaries and its fellow subsidiaries.”

Staff recommend including a timeline in the letter that is linked to the time that the IASB is likely to take to act on the IFRS Interpretations Committee's recommendation.

The relevant letter could be sent to Treasury and copied to the CAMAC and would explain the reasons for the Board's views (being a combination of wanting convergence with IFRSs and NZ GAAP and believing that the requirements are more in the nature of governance disclosures).

## **Questions for the Board**

Does the Board agree to formally write to Treasury?

If a timeline for withdrawal of the Aus paragraphs from AASB 124 about individual KMP disclosures is included in the letter, do you agree that timeline should be linked to the IASB addressing the IFRS Interpretations Committee's recommendation?

## **Attachment**

E-mail correspondence between AASB and IASB staff [Agenda paper 5.2]