



Australian Government

Australian Accounting Standards Board

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Financial Reporting Standards Board

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Mr Michael Stewart  
Director of Implementation Activities  
International Accounting Standards Board  
First Floor  
30 Cannon Street  
LONDON EC4M 6XH  
UNITED KINGDOM

Dear Michael

### Key Management Personnel

Our purpose in writing is to seek to have the IASB address the issue of whether key management personnel (KMP) as defined in IAS 24 *Related Party Disclosures* can include an entity as opposed to individuals. The issue could potentially be addressed in a number of ways, including as part of annual improvements.

This issue is relevant in many jurisdictions, including Australia and New Zealand in respect of investment entities, and is particularly relevant to investment entities such as some mutual funds that have no employees. Investment entities pay a fee to a separate entity to utilise its services, including 'key management' services. There is diversity in practice in many jurisdictions – some investment entities apply paragraph 16 of IAS 24 in the context of the separate entity (i.e. the entity manager) and make disclosures about compensation paid to the entity manager, and others 'look through' the entity manager and identify the compensation paid to the individuals who provided the services.

The issue was recently considered at the National Standard-Setters (NSS) meeting held in Seoul on 14-15 April 2010. NSS members expressed a general view that the definition of KMP relates only to people, but that it would be impracticable and inappropriate in many cases to identify the compensation paid to KMP employed by another entity. Furthermore, it was noted that a possible principle underlying the disclosure framework is that the information disclosed should be about the entity reporting, not information about other entities. Accordingly, in relation to entities that pay a fee to another entity that has the relevant KMP, it would be best to require disclosure of the fees paid to the other entity as "compensation".

The NSS view is consistent with the inherent meaning of KMP in IAS 19 *Employee Benefits*. IAS 19 makes five separate references to KMP (paragraphs 23, 47, 124, 131 & 143) and one reference to 'management personnel' (paragraph 6), which in context can only be referring to employees. For example, paragraph 143 of IAS 19 states "Where required by IAS 24 an entity discloses information about termination benefits for key management personnel." Although the term 'employee' is not defined in IAS 19, it is implicit in IAS 19 that employees are people.

We acknowledge that as a consequence of the NSS view about the existing definition, in complying with paragraph 16, it could be argued that it would be necessary to 'look through' the entity manager and identify the compensation paid to the people who provided the services. This 'look through' approach is particularly problematic and inappropriate when an entity manager provides services to many investment entities. For example, if the entity manager provides services to ten investment entities, this may suggest that each investment entity should disclose 10% of the compensation paid by the entity manager to its KMP. However, this may not provide useful information necessary to address the purpose of related party disclosures. Alternatively trying to reliably determine the relevant compensation of KMP that should be allocated to each investment entity would be impracticable.

We note our previous correspondence on the topic. In 2007, the AASB asked the IFRIC to address the issue and it was decided to include the issue in an IASB staff paper connected with the review of IAS 24 in relation to state-controlled entities. Consistent with this, in June 2008, the then Chairman of the AASB, David Boymal, wrote to David Tweedie to seek to have the IASB consider the issue again when it considered the submissions on the Exposure Draft of *Proposed Amendments to IAS 24 Related Party Disclosures – State-controlled Entities and the Definition of a Related Party* (ED). However, at its September 2008 discussion of responses to the ED, the IASB decided not to consider this issue in this project as reported in the *IASB Update*. In July 2009 we wrote a joint letter to Wayne Upton seeking advice as to the best way to have this issue addressed, and whether he would recommend that we send it to the IFRIC or to the IASB for consideration as part of the revision of IAS 24.

Given the views expressed at the Seoul NSS meeting we consider that the issue would need to be dealt with by the IASB (rather than the IFRS Interpretations Committee) because the preferred solution goes beyond interpretation. If the issue were considered as part of annual improvements we note that it:

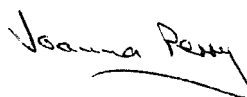
- would clarify wording in IAS 24;
- has a narrow and well defined purpose;
- is not the subject of any current or planned IASB project; and
- addresses a non-urgent but necessary amendment to IFRS.

If you have any queries regarding this letter, please contact us or Mischa Ginns (mginns@asb.gov.au).

Yours sincerely



Kevin Stevenson  
AASB Chairman



Joanna Perry  
FRSB Chairman

Copy to:

Alan Teixeira  
Warren McGregor  
Wayne Upton  
NSS members