

Project Plan for Related Party Disclosures for Not-for-Profit Public Sector Entities

Background

1. Table 1 of the AASB Work Program (as of December 2009) includes 'related party disclosures in not-for-profit public sector entities' as a high priority active project under the category 'domestic not-for-profit and public sector'.
2. A draft list of gaps in GAAP that accompanied a recent letter from the Chairman of the Australasian Council of Auditors-General (ACAG) Financial Reporting and Auditing Committee to the AASB Chairman, dated 19 October 2009, confirmed that this topic remains an issue. In this letter, the following was highlighted on related party disclosures for not-for-profit (NFP) public sector entities:

“AASB 124 Related Party Disclosures does not apply to not-for-profit public sector entities. However, we consider that the disclosure of relevant related party information is a critical element of accountability in the public sector. A key example is information relating to key management personnel of public sector entities, the disclosure of which is not required under current Australian GAAP even though this would be an area of interest to users of financial reports. Full disclosures of transactions between the entity and its key management personnel and/or their immediate family members may be appropriate, despite the cost.

Consideration should be given to requiring disclosure of information that Parliament and the public would be interested in. However, disclosures should not be too onerous where there is no clear benefit. It is noted that related party disclosures for the public sector is an active project on the AASB work program and the AASB intends to prepare an issues paper shortly.”

3. A project plan was considered at the July and November 2008 AASB meetings. The November 2008 minutes record that the Board:
 - (a) considered whether the project should be based on users identified in the AASB *Framework* and Statement of Accounting Concepts (SAC) 2 *Objective of General Purpose Financial Reporting* or the users stated in the IPSASB Draft *Conceptual Framework* and agreed to explore further the types of related party disclosure requirements that might be developed for Australian not-for-profit public sector entities;
 - (b) directed staff to develop an issues paper containing preliminary views about users and suggestions for related party disclosure requirements, based on an analysis of the requirements in AASB 124 *Related Party Disclosures*, IPSAS 20 *Related Party Disclosures* and NZ IAS 24 *Related Party Disclosures*; considering separately:
 - i. key management personnel (KMP) disclosure issues, discussing remuneration-type issues separately from non-remuneration (e.g. conflict of interest) type issues. This will include a consideration of whether Ministers of the Crown are KMP; and
 - ii. other related party disclosure issues (including consideration of issues arising from common control relationships);
 - (c) decided that, in progressing the project, KMP disclosures should be the priority at this stage because it provides the greatest opportunity for making improvements to requirements applicable to not-for-profit public sector entities. In relation to

remuneration-type issues, the Board decided that regard should be had to its decisions reflected in AASB 2008-4 *Amendments to Australian Accounting Standards Key Management Personnel Disclosures by Disclosing Entities* (AASB 124); and

- (d) noted that the paper will provide a useful basis for consultation with constituents early in the project, particularly in discussing with users of financial reports the types of related party information they need for decision-making purposes.
4. In the period since November 2008, draft staff papers have been prepared in line with the Board's decisions. However, due to the recent reissue of AASB 124 *Related Party Disclosures* (December 2009), staff see this as an opportune time to revise the manner in which this project should be progressed.

A Revised Direction

5. At the July 2008 AASB meeting, the Board agree to use AASB 124 *Related Party Disclosures* (December 2005) as a point of reference for progressing the project. Staff are now suggesting that the Board shift from using revised AASB 124 as a point of reference to using AASB 124 as a vehicle for its work with only essential modifications. This is because:
- (a) revised AASB 124 is arguably improved and relatively more relevant than its predecessor to NFP public sector entities as a result of the IASB providing a partial exemption from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures. The IASB's exemption provides an authoritative basis for dealing with the problems associated with transactions between government entities that are of little informational value;
 - (b) incorporating NFP public sector entities related party requirements into revised AASB 124 would be consistent with New Zealand's outcome of one standard for related party disclosures for all sectors and, accordingly, would promote convergence efforts; and
 - (c) incorporating NFP public sector entities related party requirements into revised AASB 124 would be consistent with a topic-based and sector-neutral approach to standard-setting.
6. Furthermore, staff are of the view that the topic of related party disclosures for NFP public sector entities can be considered as two issues:
- (a) related party transaction disclosures; and
 - (b) key management personnel (KMP) remuneration.

To introduce structure into the project, staff recommend that the project be split into two phases based on these identified issues.

7. Based on the information outlined in the remainder of this paper, staff recommend that phase one should consider the issue of disclosures surrounding related party transactions

excluding KMP remuneration and phase two should consider the issue of KMP remuneration in public sector entities (including NFP public sector entities).

8. Staff see the need to split the project into two phases because the KMP remuneration issues are relatively more intractable and involved. For example:
 - (a) some public sector constituents have requested that the AASB consider alternative disclosures from the private sector for KMP in the public sector (such as salary banding disclosures); and
 - (b) the existence of individual KMP disclosures requirements in Australia (that is, in the *Corporations Act 2001* and paragraphs Aus29.1 to Aus29.9.3 of revised AASB 124), which go beyond IAS 24.
9. Staff believe that it would be beneficial to complete phase one (which excludes KMP remuneration disclosures) in a relatively short timeframe and have enhanced disclosures apply to the public sector as soon as possible, rather than trying to progress the project in on stage over a larger timeframe.
10. Staff would intend that, in both phases of the project, reference would be made to:
 - (a) *IPSAS 20 Related Party Disclosures*;
 - (b) *NZ IAS 24 Related Party Disclosures*;
 - (c) revised AASB 124; and
 - (d) other relevant international standards.

Recent FRSB Developments

11. NZ IAS 24 applies to all sectors of the New Zealand economy but has specific relief for its public benefit entities.
12. The FRSB has noted that in the IASB's rewording and clarification of the related party definition in revised IAS 24, Ministers of the Crown determined to be KMP of the Government (the parent), are explicitly determined to be related parties, of each entity within the Government Reporting Entity. Accordingly, the FRSB inserted New Zealand specific paragraph NZ 25.1 and paragraph NZ 26.1.
13. Paragraph NZ 25.1 requires a reporting entity to disclose related party transactions according to paragraph 18 of NZ IAS 24 only for Ministers of Crown who have portfolio responsibility for the reporting entity (are members of the KMP of the reporting entity itself).
14. Paragraph NZ 26.1 clarifies that the application of paragraph NZ 25.1 does not exempt disclosures detailing the nature and amount of individually significant transactions, nor does it exempt a qualitative and quantitative indication of the extent of collective transactions. Paragraph NZ 26.1 also clarifies that reference should be made to the factors detailed in paragraph 27, to assist with making the required disclosures.

Due process and proposed timeline

If the Board agrees in substance to the staff proposals, staff suggest the following tentative timeline:

Action	Date
<i>Phase one</i>	
Consider this project plan	February 2010
Develop Issues Paper on related party transaction disclosures (excluding KMP remuneration)	March - April 2010
Prepare draft ED, including subcommittee process	May - June 2010
Issue ED for three-month comment period	July 2010
Consider comments on ED and prepare/consider draft Standard	October - November 2010
Finalise Standard	December 2010
<i>Phase two</i>	
Develop Issues Paper on KMP remuneration	September - December 2010
Roundtables (Canberra, Melbourne)	February - March 2011
Consider constituent responses and prepare draft ED, including subcommittee process	March - May 2011
Issue ED for three-month comment period	June 2011
Consider comments on ED and prepare/consider draft Standard	August - September 2011
Finalise Standard	November 2011