

Issues Considered and Tentative Board Decisions

- 1 This staff paper summarises the issues considered and the Board's tentative decisions on ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*. Staff are seeking the Board's confirmation of its tentative decisions, as discussed at its June 2012 and July 2012 meetings, in respect of the proposed amendments (see Agenda Paper 8.3 for an extract of the minutes of these meetings) and to seek the Board's direction for finalising the amendments.
- 2 The issues set out in this paper follow the numbering of the Specific Matters for Comment (SMC) in the Exposure Draft. As SMC 2 was a catch-all question concerning the need for amendments to the disclosure requirements for application by not-for-profit (NFP) public sector entities, the issues concerning specific disclosure requirements are set out as sub-issues under SMC 2. Further information on each issue is contained in Agenda Paper 8.5.
- 3 Staff agree with the tentative Board decisions as detailed in the remainder of this paper, except that given the timing of any resulting amending standard, staff have proposed an alternative application date.

Specific Matter for Comment 1

Is it appropriate to extend AASB 124 (December 2009) to the not-for-profit (NFP) public sector?

- 4 The Board considered feedback from the public consultation (see Agenda Paper 8.5) and decided that it was appropriate to extend AASB 124 (December 2009) to the NFP public sector.

Question for the Board:

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| Q1 Does the Board agree to confirm its previous tentative decision that it is appropriate to extend AASB 124 (December 2009) to the NFP public sector? |
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Specific Matter for Comment 2

Should any amendments be made to the proposed disclosure requirements (both Tier 1 and Tier 2) in respect of application by NFP public sector entities?

Issue 2.1 Defining and identifying 'key management personnel' for NFP public sector entities

- 5 The Board considered whether it is possible that some Ministers may not be KMP of the government, having regard to various concerns raised about identification of KMP. The Board agreed that this was possible, and requested staff to develop guidance, based on the principles of the definition of KMP, which could mean that some government Ministers would not be regarded as KMP of the government in the particular circumstances of the jurisdiction.

Question for the Board:

- Q2 Does the Board agree to confirm its previous tentative decisions that (i) it is possible that some Ministers may not be KMP of the government, and (ii) that guidance on this issue should be developed by staff?

Issue 2.2 KMP remuneration

- 6 The Board considered whether the compensation of Ministers who are KMP should be included in the reporting entity's aggregate KMP compensation disclosures (AASB 124.17), or whether some form of relief should be made available.
- 7 The Board decided that the requirements in AASB 124 for disclosure of the compensation of KMP should apply to NFP public sector entities. However, due to significant practical difficulties that might be encountered in relating Ministerial remuneration to particular entities, the Board also considered that some relief from the requirements should be available where appropriate Ministerial compensation disclosures are made in the financial statements of other entities in the jurisdiction, such as the total compensation for individual Ministers who are KMP of a NFP public sector entity.

Staff comments

- 8 Since the time of making the tentative Board decision noted in paragraph 7 above, the IASB has issued amendments to IAS 24 *Related Party Disclosures* (via IASB Standard *Annual Improvements to IFRSs – 2010-2012 Cycle*) to provide entities with relief from detailing the components of KMP compensation when KMP services are being provided to the reporting entity by a separate 'management entity' – these amendments will be included in the forthcoming AASB Amending Standard expected to be issued in June.

Paragraphs 17A and 18A (and related extracts from new IASB Basis for Conclusions paragraphs) are to be inserted into IAS 24 as follows:

17A *If an entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity's employees or directors.*

18A *Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.*

BC51 The Board noted that IAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity. ...

BC52 The Board was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees. The Board therefore decided to provide relief so that the reporting entity is not required to disclose the

components of compensation to key management personnel that is paid through another entity. ...

‘Management entity’ is not expressed as a defined term.

The amendments also extend the definition of a related party to include an entity as a related party if it (or any member of a group of which it is a part) provides KMP services to the reporting entity or to the parent of the reporting entity. The new paragraphs are effective for annual periods beginning on or after 1 July 2014.

- 9 The ACAG and HoTARAC submissions (see Agenda Paper 8.6) and roundtable participants noted that Ministers are typically remunerated through the Parliament via a central agency and that a large part of Ministerial compensation is provided for their services as members of parliament and is not related to services performed for any specific reporting entity or group of reporting entities.
- 10 Staff consider that ‘management entity’ in IAS 24.17A may be read broadly to include such central agencies and, accordingly, result in a NFP public sector entity being relieved from disclosure of the component parts (and total) of the Minister’s compensation in accordance with paragraph 17 of the Standard. To the extent that no charges are incurred by the entity for the provision of key management personnel services of the Minister, no further disclosure of the Minister’s compensation would be required. AASB 124, as amended, would not require disclosure of the Minister’s total compensation, nor of the location of the Minister’s total compensation.
- 11 In light of these developments, the Board may wish to consider whether similar relief should be available to NFP public sector entities, and whether such relief should be limited to instances where appropriate Ministerial compensation disclosures have been made in the financial statements of other entities in the jurisdiction.
- 12 Staff consider that the recent amendments to IAS 24 noted in paragraph 8 above should equally apply to NFP public sector entities, and recommend that Australian guidance be added to clarify this. To be consistent with the requirements for other entities, staff do not believe that a limitation should be placed on this relief. Staff also consider that it may be difficult for entities to qualify for relief if relief were to be tied to disclosure of an individual Minister’s compensation made in the financial statements of other entities for which the timing and content may be out of the reporting entity’s control. To be consistent with the disclosures in AASB 124 required of private sector entities and for-profit public sector entities, staff do not recommend requiring additional disclosures in respect of NFP public sector entities qualifying for this relief, for example, disclosures of the Minister’s total compensation or a cross-reference to its location.

Questions for the Board:

- Q3 Does the Board agree to confirm its previous tentative decisions that (i) the existing requirements in AASB 124 for disclosure of the compensation of KMP should apply to NFP public sector entities, and (ii) some relief from the AASB 124 compensation requirements should be available in respect of the compensation of Ministers?

- Q4 Does the Board agree that the forthcoming Australian-equivalent amendments to AASB 124 (consistent with those made in IASB Standard *Annual Improvements to IFRSs Cycle 2010-2012*) detailed in paragraph 8 above, when made, should apply to NFP public sector entities without amendment?
- Q5 If the Board agrees with Q4, does the Board:
- (a) agree that the amendments to AASB 124 provide relief in respect of Ministerial compensation?
 - (b) agree with the staff recommendation in paragraph 12 to include Australian guidance to clarify this?
 - (c) agree with the staff recommendation in paragraph 12 that no further disclosures should be required or encouraged? For example, disclosure of the Minister's total compensation or a cross-reference to its location?

Issue 2.3 Related party transaction disclosures

- 13 Respondents and roundtable participants identified various transactions for which they considered guidance on related party transaction disclosures could be added to the Standard, and sought guidance on how materiality applies to related party transactions by not-for-profit public sector entities. Staff noted that effective guidance on the level of detail required would be virtually impossible to provide, and hadn't been considered necessary for application of the Standard to date.
- 14 In relation to related party transactions, the Board considered that the application of the materiality principle is sufficient to distinguish transactions that ought to be disclosed. Board members noted that the development of some illustrative examples would help in applying the principle.

Question for the Board:

- Q6 Does the Board agree to confirm its previous tentative decisions that (i) application of the materiality principle is sufficient to distinguish transactions that ought to be disclosed, and (ii) to develop illustrative examples to assist in applying the principle?

Issue 2.4 Should NFP public sector entities be exempted from disclosing certain related party transactions with Ministers?

- 15 The Board considered whether an exemption was required to exempt disclosure of transactions with Ministers that are trivial or domestic transactions occurring within a normal employee, customer or supplier relationship essentially on arm's length terms when such transactions would not affect decision-making or accountability. Staff noted that AASB 124.18 specifies the disclosure of information about related party transactions, balances and commitments that is "necessary for users to understand the potential effect of the relationship on the financial statements." In conjunction with the application of materiality, staff considered that this should be sufficient to avoid the unnecessary disclosure of certain transactions of Ministers.
- 16 The Board decided that no specific exemption is required regarding Ministerial related party transactions. Illustrative examples would help in applying the principles.

- 17 The Board also discussed whether transactions with Ministers, who are related parties and who are acting in their collective government capacity, would be assessed as being with the Government and thereby eligible for the partial exemption from disclosure in AASB 124.25-26. The Board supported the view that transactions with Ministers in their collective government capacity were transactions of the entity rather than related party transactions with the Minister. Members proposed addressing this matter only in the Basis for Conclusions.

Questions for the Board:

- Q7 Does the Board agree to confirm its previous tentative decisions that (i) no specific exemption regarding Ministerial related party transactions is required, but (ii) to develop illustrative examples to assist in applying the principle?
- Q8 Does the Board continue to support the view that transactions with Ministers in their collective government capacity are transactions of the entity rather than related party transactions with the Minister?

Issue 2.5 Disclosures for the General Government Sector?

- 18 The Board considered whether GGS financial statements should be exempted from complying with AASB 124. Staff noted that we expect considerable overlap between related party transaction disclosures for the GGS and for the whole-of-government (WOG) financial statements, reducing the need for the disclosures at the GGS level. GGS and WOG financial statements are required to be made available at the same time and, if presented separately, cross-referenced to each other (refer paragraphs 8 and 39(a)(iii) of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*).
- 19 The Board decided that GGS financial statements should not be exempt from complying with AASB 124, since related party disclosures for the GGS need not be the same as the disclosures for the whole of government or other public sector entities.

Question for the Board:

- Q9 Does the Board agree to confirm its previous tentative decision that GGS financial statements should not be exempt from complying with AASB 124?

Issue 2.6 Other amendments to AASB 124

- 20 The Board considered whether a public sector perspective needed to be added to the Standard (specifically in relation to AASB 124.5-8 and 27, as these paragraphs could be regarded as being focussed on for-profit entities). The Board decided that the addition of guidance for NFP public sector entities to AASB 124 (see paragraphs 5, 14 and 16 above) should be sufficient, so that a separate public sector perspective does not need to be added to the Standard.
- 21 The Board also gave consideration to amending AASB 124 to require government businesses to comply with the (former) Aus29 paragraphs of the Standard, based on the view that for-profit government businesses should be regarded as disclosing entities, being at least as publicly accountable as such entities, if not more so. The

Board agreed that the detailed individual KMP disclosure requirements formerly set out in AASB 124.Aus29.1-Aus29.9.3 should not be extended to government businesses or other public sector entities, since those paragraphs have been deleted from AASB 124 with effect from 1 July 2013.

Questions for the Board:

- Q10 Does the Board agree to confirm its previous tentative decision that no public sector perspective needs to be added to the Standard beyond that which may be communicated via guidance (to be developed)?
- Q11 Does the Board agree to confirm its previous tentative decision that individual KMP disclosure requirements should not be added for government businesses or other public sector entities?

Issue 2.7 Reduced Disclosure (Tier 2) Requirements

- 22 The Board considered the AASB 124 reduced disclosure requirements (RDR) applicable to NFP public sector entities. ED 214 did not propose any additional reduced disclosure requirements above those already specified for AASB 124. Accordingly, the existing reduced disclosure requirements specified by AASB 124.Aus1.11 would be applicable to any NFP public sector entities applying RDR. The Board agreed that no amendments were required to the RDR already specified.

Staff comments

- 23 As noted in paragraph 8 above, the IASB is amending IAS 24 to insert paragraph 18A, requiring separate disclosure of amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity. AASB staff recommendations in relation to RDR proposals for IAS 24 are discussed in Agenda Paper 8.2.1.

Question for the Board:

- Q12 If the Board agrees with the staff recommendation in Agenda Paper 8.2.1, does the Board agree to confirm its previous tentative decision that no amendments to current RDR disclosures are required?

Issue 2.8 Transition

- 24 The Board considered the application date and transitional provisions for the amendments, including whether the application date should be coordinated with the application date of the implementation guidance on control in the not-for-profit sector (that project was completed with the issue of AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* in October 2013), and constituent concerns about the ability of existing systems, processes and controls to capture the information required.

- 25 The Board decided that the amendments to AASB 124 should apply to annual reporting periods beginning on or after 1 July 2014, to allow sufficient time for entities to compile comparative information. Members considered whether to allow prospective application (i.e. without comparatives) for annual reporting periods beginning on or after 1 July 2013, but agreed that the usual retrospective approach to transition should be adopted. The Board minutes reflect that the Board noted that applying AASB 124 to 2013/14 (that is, an earlier application date) without comparatives would be more onerous than applying it to 2014/15 with comparatives.

Staff comments

- 26 Staff recommend that the proposed application date of the amendments be reconsidered by the Board. Staff recommend that the amendments apply to annual reporting periods beginning on or after 1 January 2017 to give entities sufficient time to update their systems, processes and controls before the commencement of the comparative period. Staff note that an application date of 1 July 2016 is likely to give entities only between 6-7 months (depending on the timing of issue of any amending standard resulting from these proposals) for preparation.

Questions for the Board:

- Q13 Does the Board agree to confirm its previous tentative decision that the amendments should be applied retrospectively?
- Q14 Does the Board agree with the staff recommendation that the amendments should apply to annual reporting periods beginning on or after 1 January 2017?

Specific Matter for Comment 3

Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals?

- 27 The Board considered whether there were any regulatory or other issues arising that may affect the implementation of the proposals, including that:
- (a) individual jurisdictions may have their own legislative and/or policy requirements for public sector entities to comply with in relation to related party and/or key management personnel disclosures, and in defining KMP; and
 - (b) the time needed to meet related party disclosure requirements may be significant and pose difficulties for preparing financial statements by deadline dates.

Staff noted that existing related party disclosure policies in a jurisdiction would have to be reassessed by the jurisdiction once the scope of AASB 124 had been extended to NFP public sector entities. Staff also noted that methods of identifying related parties and their transactions that warrant disclosure will need to be established by each jurisdiction in order to obtain the information on a timely basis.

- 28 The Board decided that there were no regulatory or other issues arising that may affect the implementation of the proposals.

Question for the Board:

Q15 Does the Board agree to confirm its previous tentative decision there are no regulatory or other issues arising that may affect the implementation of the proposals?

Specific Matter for Comment 4

Overall, would the proposals result in financial statements that would be useful to users?

29 The staff collation of the submissions and roundtable comments indicated that some respondents had reservations about the usefulness of the proposals. The Board decided that the proposals (as revised, including via additional guidance) would result in useful information for users of financial statements.

Question for the Board:

Q16 Does the Board agree that the proposals (as revised at this meeting) would result in useful information for users of financial statements?

Specific Matter for Comment 5

Are the proposals in the best interests of the Australian economy?

30 The Board considered the feedback received, including the views of respondents that:

- (a) there would not be significant economic impacts, positive or negative, associated with the proposed requirements; and
- (b) the current proposals are premature and require refinement so that the incremental benefits of disclosure do not come at disproportionate cost; and

decided that the proposals (as revised) were in the best interests of the Australian economy.

Question for the Board:

Q17 Does the Board agree that the proposals (as revised at this meeting) would be in the best interests of the Australian economy?

Specific Matter for Comment 6

Unless already provided in response to specific matters for comment 1 – 5 above, comments on the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative

31 The Board considered the various costs and benefits of implementation of the proposals raised by respondents to the ED and decided that there were no cost/benefit issues that would prevent their implementation.

Question for the Board:

Q18 Does the Board agree that the proposals (as revised at this meeting) would be in the best interests of the Australian economy?