



Memorandum

To:	AASB members	Date:	13 May 2014
From:	Evelyn Ling	Agenda Item:	8.2.1 (M138)
Subject:	AASB 124 <i>Related Party Disclosures</i> – Tier 2 Reduced Disclosure Requirements	File:	

Action

Consider recent amendments to AASB 124 *Related Party Disclosures* for Tier 2 reduced disclosure requirements (RDR) and provide staff with direction for finalising the disclosure requirements for Tier 2 entities.

Overview

AASB Exposure Draft ED 225 *Annual Improvements to IFRSs 2010 – 2012 Cycle* (incorporating IASB ED/2012/1 of the same name), issued in May 2012, proposed an amendment to AASB 124 to clarify the identification and disclosure requirements for related party transactions that take place when key management personnel services are provided by a management entity that is not otherwise a related party of the reporting entity. In December 2013, the IASB published the finalised amendments as part of IASB Standard *Annual Improvements to IFRSs 2010-2012 Cycle* – the equivalent Australian amendments will be presented to the Board for approval in the near future.

The proposed amendments of ED 225 include new disclosure paragraph 18A; the finalised text of which does not differ significantly from that included in the exposure draft. Staff note that the proposed disclosure was not highlighted as part of the Australian Preface to the exposure draft, and accordingly, no specific question was asked as to whether the disclosure should be subject to Tier 2 requirements.

Staff are seeking the Board's direction for finalising the Tier 2 requirements for the proposed amendments to AASB 124 in order to finalise them at the same time as the other amendments included in IASB Standard *Annual Improvements to IFRSs 2010-2012 Cycle*.

Background

The proposed amendments to AASB 124 include inserting new paragraph 17A and new disclosure paragraph 18A, the finalised text of which read 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.¹

The AASB 124 paragraphs presently exempted from Tier 2 RDR are specified by paragraph Aus1.11:

Aus1.11 The following do not apply to entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements:

- (a) paragraphs Aus13.1, 26, 27 and Aus29.1-Aus29.9.3;
- (b) in paragraph 17, the text “and for each of ... (e) share-based payment”; and
- (c) in paragraph 22, the text “(see paragraph 34B of AASB 119)”.

Entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of these excluded requirements.

Staff comments and views

Tier 2 RDR proposal

Having regard to the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* (refer paragraphs 5 and 6 of the AASB ‘Tier 2 Disclosure Principles’²), staff recommend that new paragraph 18A be retained in the Tier 2 disclosure requirements. The disclosure required by paragraph 18A satisfies the information needs of users in regards to disaggregation of amounts presented in the financial statements without significantly increasing costs to the reporting entity. Staff note that:

- (a) the disclosures specified by AASB 124 paragraph 18, and the total KMP compensation specified by paragraph 17 are required Tier 2 disclosures (refer to the Appendix to this paper); and
- (b) the NZASB has not made any concession for RDR in relation to paragraph 18A (Agenda Paper 8.1, NZASB meeting 5 February 2014³).

Due process

The AASB received four comment letters in relation to ED 225. While not specifically raised as a matter for comment (but otherwise captured by the AASB’s catch-all questions Specific Matter for Comments 3–5), the AASB did not receive any comments indicating any concern about the application of proposed paragraph 18A to Tier 2 entities. Accordingly, staff consider that sufficient due process has been undertaken in relation to this proposed amendment.

Questions for the Board

- Q1 Do members agree with the staff recommendation that the proposed new paragraph 18A in AASB 124 is retained in the Tier 2 disclosure requirements?
- Q2 Do members agree with the staff recommendation that sufficient due process has been undertaken with respect to this Tier 2 proposal?

1 Paragraph 18A, as included in ED 225, read: “Amounts recognised as an expense by the entity for the provision of key management personnel services that are provided by a separate management entity should be separately disclosed.”

2 <http://www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements/Tier-2-Disclosure-Principles.asp>

3 http://xrb.govt.nz/Site/Board_Meetings/NZASB_Board_Meetings.aspx

Appendix

Extracts from AASB 124 *Related Party Disclosures* (paragraphs 17-19)

- 17 An entity shall disclose key management personnel compensation in total and for each of the following categories:**
- (a) short-term employee benefits;**
 - (b) post-employment benefits;**
 - (c) other long-term benefits;**
 - (d) termination benefits; and**
 - (e) share-based payment.**
- 18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:**
- (a) the amount of the transactions;**
 - (b) the amount of outstanding balances, including commitments, and:**
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and**
 - (ii) details of any guarantees given or received;**
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and**
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.**
- 19 The disclosures required by paragraph 18 shall be made separately for each of the following categories:**
- (a) the parent;**
 - (b) entities with joint control of, or significant influence over, the entity;**
 - (c) subsidiaries;**
 - (d) associates;**
 - (e) joint ventures in which the entity is a joint venturer;**
 - (f) key management personnel of the entity or its parent; and**
 - (g) other related parties.**