

Staff note

A version of this agenda paper was presented as Agenda Paper 12.2 at the June 2012 AASB meeting and Agenda Paper 7.2 at the July 2012 AASB meeting. This paper is provided as background information and accordingly, except as noted, the content of this agenda paper has not been updated

AASB Exposure Draft ED 214

Extending Related Party Disclosures to the Not-for-Profit Public Sector

**AASB Staff Collation of Submissions and Roundtable Comments
(with staff comments and views)**

- 1 The issues set out in this summary 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 Issue 2.
- 2 The submission from the Tasmanian and Queensland Audit Offices is covered only in respect of the additional issue raised, as those Offices supported the ACAG submission in the first place.
- 3 Given the small number of submissions (seven) and the nature of the comments made, staff have not prepared a formal numerical analysis of the comments.

Issue 1

Is it appropriate to extend AASB 124 (December 2009) to the NFP public sector?

- 4 Five respondents (JAB, EY, Hayes Knight, ACAG, KPMG) agreed with the proposal. EY commented that the proposal promotes harmonisation with IFRSs and supports transaction neutrality. Roundtable participants considered that related party disclosures are useful, and noted that disclosures of Ministerial remuneration were presently being made in some jurisdictions, with one jurisdiction also requiring some transaction disclosures. However, three of those five respondents (ACAG, EY, KPMG) expressed concerns with some practical issues, which are addressed under Issue 2 below.
- 5 One respondent (HoTARAC) disagreed with the proposal. HoTARAC supports the transaction-neutrality policy, where feasible, and agreed that amendments to AASB 124 have made it more appropriate for application to the public sector, but recommended major modifications to address complexities in the public sector. For example, HoTARAC considered that application of AASB 124 would be more onerous for the public sector than the private sector, and requested additional guidance for determining the related party transactions that should be disclosed, given the uniqueness and breadth of the public sector.
- 6 HoTARAC queried whether related party disclosures should be given in financial reports or through other transparency mechanisms, as exist in some jurisdictions. HoTARAC noted that the AASB has considered similar issues in the past for

directors' remuneration, and decided that that was more appropriately left to the companies' legislation regime.

Control in the NFP Public Sector

- 7 KPMG noted that public sector governance arrangements are complex and determining whether an entity controls or is controlled by another entity is challenging. KPMG recommended that the AASB consider aligning the effective date of amendments to the Standard with the work on control in the public sector or at least providing illustrative examples to assist application.
- 8 HoTARAC also recommended that the AASB delay the proposed extension of AASB 124 until further progress has been made on the control project, as the concept of control could affect the extent of the disclosures required by AASB 124 for the public sector.

Staff Comments and Views re Issue 1 [as communicated in June/July 2012]

- 9 The project to extend the application of AASB 124 to NFP public sector entities should continue. Whereas there are national Corporations Act requirements for the disclosure of directors' remuneration, there are no general public sector requirements in relation to related party transactions and key management personnel (KMP) remuneration.
- 10 The AASB's control project is planned to result in the addition of implementation guidance for NFP entities to AASB 10 *Consolidated Financial Statements* by the end of 2012, which could be similar timing to any agreed amendments to AASB 124. Board decisions on application dates in each project can be co-ordinated.¹

Issue 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?

- 11 Two respondents (JAB, HK) stated that they were not aware of any additional amendments that should be made.
- 12 One respondent (EY) agreed that amendments were not necessary but recommended that additional Australian specific application guidance and examples be included to assist implementation by the Australian NFP public sector and promote consistency and comparability between agencies. EY suggested guidance on determining KMP and attribution of KMP income to agencies.
- 13 One respondent (ACAG) supported the principle behind ED 214, but believed there are a number of practical issues concerning the exact nature and extent of the intended disclosures from the application of AASB 124 to NFP public sector entities.

1 Staff Update: The AASB's control project was completed in October 2013 by the issue of AASB 2013-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities*, effective for annual reporting periods beginning on or after 1 January 2014.

- 14 Respondents raised issues in specific areas, discussed in the following sub-issues.

Issue 2.1

Defining and identifying ‘key management personnel’ for NFP public sector entities

- 15 Four respondents (EY, ACAG, KPMG, HoTARAC) and Roundtable participants noted the application issue of identifying KMP in individual agencies. KPMG commented that this issue may not be straightforward in the public sector where a variety of Ministerial arrangements arise. KPMG and EY recommended additional guidance and illustrative examples should be included.
- 16 In regard to identifying KMP, ACAG requested clarification on the following issues:
- whether it is the AASB’s intention that Ministers are always KMP of the Government, and the implications of the role of Ministers at both whole of government (WOG) and general government sector (GGS) level and at an agency level;
 - whether heads of individual government agencies could also be considered as KMP for the purpose of the WOG and/or GGS financial reports;
 - the role of Cabinet and of Executive Council – which generally includes Ministers, the Governor, and in certain jurisdictions, possibly a Director-General who may act as a secretary – as these bodies can have a broad policy, planning and decision making function across all entities within WOG.
- 17 In regard to identifying KMP, HoTARAC noted that ultimately all public sector entities are indirectly controlled by a Minister, and raised the following questions:
- would a portfolio or non-portfolio Minister be a KMP of a subsidiary of a department or a statutory body?
 - would a portfolio or non-portfolio Minister be a part of the KMP of a statutory government owned corporation? If so, would the KMP include the voting shareholding Ministers, the portfolio Minister, or both?
 - which Ministers would be a part of the KMP of the total GGS – only Cabinet Ministers or Senior Ministers?
- 18 HoTARAC considered that the assumption of all Ministers being KMP of Government implied by paragraph BC10 is inappropriate, given the cabinet system/government decision making process operating in Australian jurisdictions. HoTARAC recommended that the example in paragraph BC10, if it is how the definition of KMP is to be interpreted, should be provided within the Standard rather than the separate Basis for Conclusions, to prevent differing interpretations.
- 19 HoTARAC also observed that for-profit public sector entities in most jurisdictions do not disclose Ministers as part of their KMP or as related parties. HoTARAC asked for confirmation that the AASB considers that Ministers are related parties, which would mean that these entities would need to reconsider their disclosures.
- 20 Roundtable participants generally supported the notion that Ministers would be KMP of their government, but there were mixed views as to whether Ministers would be KMP of departments for which they were responsible or for other entities within their portfolios. The most common view was that Ministers were likely to be KMP of their departments. However, where a department was linked to more than one Minister,

would they all be KMP of the department, even if their responsibility related only to segments of the department's activities? One participant expressed the view that even if Ministers were neither KMP of the government nor KMP of an entity, they could still be related parties of a public sector entity on the basis that the Ministers at least significantly influenced the entities in the jurisdiction through their approval of budgets and other major decisions – under paragraph (a)(ii) of the definition of related party in AASB 124.

- 21 In addition, roundtable participants noted a likely tendency by agencies to assume that all staff who were Senior Executive Service employees would be KMP, whereas the requirements of the definition of KMP in the Standard would need to be applied.

Close family members

- 22 Roundtable participants raised the issue of how transactions of close family members of Ministers (as KMP of either the entity itself or of the parent entity, being the government) could be identified. Some suggested requiring Ministers to identify the close members of their family to a central government agency, which could then circulate a list of people for whom related party transactions should be identified, so that disclosure decisions could then be made. Ministerial representations might be needed, as in the private sector in relation to directors of parent entities.
- 23 On the other hand, HoTARAC noted that the broad nature of public sector transactions and the sole use of the materiality concept applied to close family members (as related parties) could hinder the usefulness of related party disclosures and be unduly onerous.

Staff Comments and Views re Issue 2.1 [as communicated in June/July 2012]

- 24 Staff do not consider that ED 214 stated an AASB view that Ministers are always KMP of the government. Paragraph BC8 referred to “Where they are KMP of their government ...”, and paragraph BC10 provided an unrealistic example of three Ministers in the entire government, which would lead to the reasonable presumption that all of the Ministers were KMP of the government in that case. However, the AASB's view should be clarified. In the staff view, some Ministers might not be KMP of the government, e.g. perhaps where they are outside Cabinet, and the members of an Executive Council are unlikely to be KMP as such a Council typically acts only on the advice of the relevant Ministers.
- 25 Numerous specific cases were raised as interpretation issues. The Board should consider the extent to which specific NFP implementation guidance might be added, similar to the approach to adding guidance to AASB 10.
- 26 Concerning close family members, the NZASB has recently decided to propose narrowing the definition of such in comparison with IPSAS 20 *Related Party Disclosures* for application to public sector public benefit entities (PBEs). The proposal being considered by the NZASB is to adopt the definition in NZ IAS 24

instead of the definition in IPSAS 20. The NZ IAS 24 definition is the same as in AASB 124.²

Issue 2.2

KMP remuneration

- 27 Three respondents (EY, ACAG, HoTARAC) and Roundtable participants noted the difficulties in allocating Minister's remuneration to individual agencies. EY recommended that additional Australian specific application guidance and examples be included to deal with how income of KMP/Ministers is to be attributed to individual agencies within a portfolio under the responsibility of a particular Minister.
- 28 ACAG, HoTARAC and Roundtable participants noted that Ministers are typically remunerated through the Parliament via a central agency. HoTARAC further noted that a large part of compensation received by Ministers 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.
- 29 The three respondents questioned the need to allocate Ministers' remuneration to individual agencies as would be required by the Standard. ACAG suggested that allocation would require considerable judgement, may result in arbitrary apportionment, and in fact may be impracticable. ACAG also queried whether apportionment of remuneration should be based on services rendered, regardless of who paid the remuneration. HoTARAC noted that the Standard may result in multiple identical KMP disclosures (reflecting total remuneration for all entities) across multiple entities' financial statements, which similarly increases the costs for each of those entities.
- 30 All three respondents questioned the usefulness of disclosure of Minister's remuneration by individual agencies. ACAG suggested that the inclusion of a small portion of a Minister's salary in KMP disclosures at the agency level would provide little information to a user in interpreting the aggregate KMP compensation disclosures. On the other hand, HoTARAC suggested that disclosure of total remuneration across all entities is of questionable utility.
- 31 In light of the above concerns, ACAG recommended limiting KMP remuneration disclosures for Ministers of government to the WOG level only. HoTARAC also suggested centralising the Minister-related disclosures to the financial statements of either the WOG or the relevant Department of Premier/Prime Minister and Cabinet. Both referred to individual entities' financial reports disclosing where that information could be located, instead of providing it in those reports.
- 32 In regard to KMP remuneration, HoTARAC identified a number of additional issues:
 - additional complexities arising in respect to related party disclosures where State and Commonwealth jurisdictions enter into joint venture arrangements. For

² Staff Update: NZ PBE IPSAS 20 (May 2013) defines close family members similarly to AASB 124 (which differs from IPSAS 20). NZ Exposure Draft NZASB 2013-5 *NFP Enhancements to PBE Standards* (issued November 2013) does not propose any change to the existing definition.

- example, a joint venture for a Port Authority might include two State Ministers and their Federal counterparts; and
- the definition of ‘compensation’ in AASB 124 would not align exactly with the distinction between ‘short-term employee benefits’ and ‘other long-term employee benefits’ under the revised AASB 119 *Employee Benefits*. HoTARAC considered that alignment was required but was not aware of any IASB consequential amendment.
- 33 Roundtable participants also raised some concerns over whether Ministerial remuneration might be administered items if not controlled by a subsidiary entity. ACAG noted that one jurisdiction remunerates Ministers through nominated agencies that report the remuneration as administered items. As these Ministers may have responsibility for other agencies, which may give rise to apportionment issues, ACAG suggests clarification of treatment would be helpful.
- Staff Research [as communicated in July 2012]
- 34 Since the June Board meeting, staff have researched existing disclosure requirements for Ministerial remuneration. We have not found any general requirements for remuneration disclosures outside financial reports. There are many remuneration tribunal reports in various jurisdictions that explain and justify amendments to components of the remuneration or allowances for members of Parliament, including Ministers. However, there does not appear to be any general report that discloses what the remuneration of MPs has been for a period, whether individually or in aggregate
- 35 In terms of financial reporting requirements, the main approaches in practice identified so far are as follows:
- (a) report total Ministerial remuneration only in the whole of government financial statements, with or without a cross-reference in other entities’ financial statements;
 - (b) report total Ministerial remuneration only in the financial statements of one department (e.g. “Department of Premier and Cabinet”), with a cross-reference in the financial statements of other departments to that departmental disclosure; and
 - (c) non-disclosure.
- 36 Some of the total remuneration disclosures are explicitly limited to Cabinet Ministers as KMP of the government. In other jurisdictions, all Ministers are included in the total amount disclosed with no reference to KMP. In the examples seen, there is no disclosure of categories of the total remuneration as would be required by paragraph 17 of AASB 124, i.e. short-term employee benefits, post-employment benefits, other long-term benefits, termination benefits and share-based payments.

Issue 2.3

Related party transaction disclosures

- 37 One respondent (HoTARAC) recommended that the AASB provide additional guidance on how to determine which related party transactions should, and should not, be disclosed, given the ‘uniqueness’ and breadth of many activities in public sector entities.
- 38 HoTARAC suggested that the objective of related party disclosures is a fundamental issue that needs to be reconsidered in a not-for-profit public sector context. The current objective paragraph of AASB 124 (paragraph 1) suggests that an entity only needs to disclose those related party transactions that may have affected its financial position and profit or loss. However, there are different views in regard to disclosure of related party transactions that have been entered into on an arm’s length basis. Accordingly, HoTARAC recommended reference to IPSAS 20, indicating that in its view IPSAS 20 has a broader objective with better acknowledgement of the different circumstances in the NFP public sector.³
- 39 ACAG and Roundtable participants requested guidance on the level of detail required of related party transaction disclosures. Roundtable participants considered that comments by the AASB in the Basis for Conclusions might not be sufficient. Specifically, the following issues were raised in order to seek guidance:
- disclosures of both Ministerial and non-Ministerial KMP/related party transactions (ACAG);
 - disclosure of transactions where there is a transition of Government (ACAG);
 - related party transactions undertaken on the same basis as transactions with the public generally (Roundtable participants); and
 - whether the ministerial nature of transactions determines that their disclosure is necessary.

Materiality

- 40 Roundtable participants sought clarification on how to apply the materiality proviso. HoTARAC considered the determination of material related party transactions as problematic in the public sector. As transactions in the public sector usually involve the use of ‘public resources’, this may result in entities having to consider materiality for every transaction (apart from, perhaps, average-citizen transactions), regardless of how insignificant the amount of the transaction. HoTARAC feared that this may lower the bar for disclosing material transactions.
- 41 HoTARAC noted that the implementation of IASB changes incorporated ‘significant transaction’ criteria in paragraphs 26 and 27 of AASB 124, while the Standard is subject to AASB 1031 *Materiality* in the Australian context. HoTARAC considered the application of both ‘significant’ and ‘material’ concepts confusing. In addition, HoTARAC recommended that the AASB reconsider the application of AASB 1031 by

3 The objective paragraph in IPSAS 20 states: “The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. ...”

public sector entities for the purposes of AASB 124, as paragraph 12(b)(i) of AASB 1031 is particularly confusing as it seems to indicate that all related party transactions in the public sector could be material.⁴

- 42 HoTARAC recommended further consideration of and guidance on how materiality affects the type of relationships or transactions that lead to disclosure, citing the AASB's example in paragraph BC9 that commercial contracts that are immaterial in amount are nevertheless expected to be disclosed. In the absence of further AASB guidance on this matter, HoTARAC noted that each jurisdiction may need to develop policies and guidance to ensure consistency for its entities, which may reduce comparability between jurisdictions.

Staff Comments and Views re Issue 2.3 [as communicated in June/July 2012]

- 43 Staff do not see a substantive difference in the various statements of the objectives of related party disclosures, given that accountability is included within the Framework's articulation of the objective of financial reporting.
- 44 Effective guidance on the level of detail required would be virtually impossible to provide, and hasn't been considered necessary for application of the Standard to date. Materiality considerations assist a reporting entity to determine the disclosures that should be made in its general purpose financial statements. AASB 1031 is likely to be withdrawn by the AASB in the future, removing one source of uncertainty over the scope of related party disclosures.

Issue 2.4

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

- 45 One respondent (HoTARAC) recommended the insertion of Aus paragraphs that exempt entities from disclosing certain Minister-related transactions, such as most "average citizen" transactions. HoTARAC considered that applying materiality to argue that an average-citizen transaction by a Minister should be excluded from disclosure might not be sufficient. HoTARAC thought that if a KMP Minister (and close family members) were to use any services provided by public sector entities, e.g. public transport and public healthcare, the number of affected entities and the amount of disclosure could be numerous.
- 46 HoTARAC also commented that the NZ exemption did not fully resolve the issues and recommended that the AASB reconsider previous potential exemptions:
- insert an Aus paragraph into AASB 124 stating that only non-routine Minister-related transactions are required to be disclosed and utilising paragraph 21 to illustrate examples of non-routine transactions; or
 - insert an Aus paragraph based on (deleted) paragraph Aus29.9.3 in AASB 124, which exempts disclosure of trivial or domestic transactions that occur within a

4 At its February 2012 meeting, the AASB decided to issue an ED proposing the withdrawal of AASB 1031 and the Aus application paragraphs in other Standards that refer to AASB 1031. [Staff Update: In December 2013, the AASB made a revised AASB 1031 *Materiality*. The revised AASB 1031 does not include Australian guidance on materiality.]

normal employee, customer or supplier relationship essentially on arm's length terms when that would not affect decision-making or accountability.

Partial Exemption under AASB 124

- 47 HoTARAC also recommended that the AASB extend the partial exemption for disclosures regarding related party entities (as determined by the IASB in IAS 24 *Related Party Disclosures*) to disclosures regarding related party individuals, as the inconsistency may result in more onerous disclosure requirements regarding individuals. Under the present wording, disclosure of material, significant related party transactions for government-related entities would be subject to paragraph 26 of AASB 124, but disclosure of material related party transactions for individuals would be based on paragraph 18.
- 48 In addition, HoTARAC sought clarification on the issue of whether transactions with Ministers who are related parties, acting in their collective government capacity, would be assessed as being with the government and eligible for the paragraph 25 and 26 partial exemption.

Staff Comments and Views re Issue 2.4 [as communicated in June/July 2012]

- 49 Staff note that paragraph 18 of AASB 124 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 consider that this should be sufficient to avoid the unnecessary disclosure of certain transactions of Ministers. However, a major constituent considers that a specific exemption is needed, with comments in the Basis for Conclusions also considered by several respondents to be unhelpful if they are seen to qualify the requirements of the Standard.
- 50 The partial exemption applies presently under the Standard to for-profit public sector entities. There have not been any previous calls for it to be extended in respect of related party individuals, however it appears that in some jurisdictions Ministers have not been identified as related parties (see paragraph 19 in this collation). The AASB could decide to extend the partial exemption in order to give relief to NFP public sector entities, which would not affect IFRS compliance by for-profit public sector entities. However, that would beg the question of what NFP-public-sector-specific reason would justify that approach.
- 51 If a separate exemption for certain Ministerial transactions with NFP public sector entities were to be added to the Standard, staff would prefer the approach in paragraph Aus29.9.3. The substance of that exemption has featured in Australian Standards for related party disclosures since 1993, with abbreviated versions prior to that as well. The terminology in that exemption should therefore be well known, instead of introducing new terms such as "non-routine" transactions, for which further guidance might be needed. Such an exemption would mean that the commercial contracts noted in paragraph BC9 of ED 214 would not be automatically exempt from disclosure even if entered into on arm's length terms, since one of the conditions in paragraph Aus 29.9.3 for exemption from disclosure is that the transaction is trivial or domestic in nature.

- 52 The NZ exemption was considered by the AASB in developing ED 214 – see paragraph BC11 for a description of the exemption and its rejection by the AASB. The exemption in IPSAS 20 (paragraph 27) is similar to the [one in] paragraph Aus29.9.3, referring to transactions within a normal supplier or client/recipient relationship on arm's length terms.
- 53 Staff consider that transactions with Ministers in their collective government capacity (e.g. equity contributions to agencies) would in substance be government transactions and thus subject to the partial exemption. Such transactions would be unlikely to be covered by any normal employee, customer or supplier exemption.

Issue 2.5

Disclosures for the General Government Sector?

- 54 One respondent (ACAG) sought clarification as to whether related party disclosures are required in both the WOG financial report and the GGS financial report. ACAG suggested exempting the GGS financial report from complying with AASB 124, in order to reduce complexity and duplication.
- 55 Roundtable participants also raised the following questions in regard to application at GGS level:
- whether it was intended that AASB 124 would need to be complied with in presenting GGS financial statements;
 - who are the KMP of the GGS?;
 - would the related party disclosures be the same as in the WOG financial statements?; and
 - should the Standard exclude application to the GGS to avoid the duplication of disclosures?

Staff Comments and Views re Issue 2.5 [as communicated in June/July 2012]

- 56 The issue of related party disclosures by subsidiary entities is also relevant to for-profit entities. AASB 124 does not include any general reduction or exemption in the disclosure requirements for subsidiary entities (beyond the government-related entity partial exemption for related party transactions in paragraph 25). AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires the GGS financial statements to include the disclosures required under other Australian Accounting Standards.
- 57 Consequently, the only basis for a different treatment of the GGS re related party disclosures is whether it is justified by the Board's *Process for Modifying IFRSs for PBE/NFP*. The principal factor that might justify a modification for the GGS is that the related party disclosures relevant to the GGS are also most likely to be relevant to the WOG. Staff would expect considerable overlap between related party transaction disclosures for the GGS and for the WOG financial statements. Since GGS and WOG financial statements are now required to be available at the same time and, if separate, cross-referenced to each other (see AASB 2011-13 *Amendments to Australian Accounting Standard – Improvements to AASB 1049*, December 2011), there does not appear to be much benefit for users in requiring separate related party disclosures for the GGS.

- 58 Staff consider that the most appropriate approach would be to exempt the GGS from related party disclosures, or to require a specific cross-reference to such disclosures in the WOG financial statements, unless it was clear that there was a difference in the KMP of the GGS versus the WOG.

Issue 2.6

Other amendments to AASB 124

- 59 One respondent (ACAG) made the following suggestions in relation to other amendments:
- including a public sector perspective for the section titled ‘Purpose of Related Party Disclosures’ within AASB 124 (paragraphs 5-8);
 - paragraph 27 of AASB 124 refers to ‘non-market terms’ in assessing the significance of related party transactions. Since many government agency transactions are non-commercial, a broader, sector neutral approach could refer to “transactions outside the normal course of business or on terms not available to non-related parties” (as in Australian Auditing Standard ASA 550 *Related Parties*); and
 - while acknowledging the examples in AASB 124 at paragraphs IE1-IE3, ACAG suggested additional guidance be considered for other types of transactions, e.g.:
 - various types of fees/charges
 - appropriations
 - tax equivalent amounts
 - amounts collected on behalf of another agency (as an agent).

Individual KMP disclosures

- 60 The Tasmanian and Queensland Audit Offices recommended that consideration be given to amending AASB 124 to require government businesses to comply with the 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.

Staff Comments and Views re Issue 2.6 [as communicated in June/July 2012]

- 61 It would be appropriate to add a public sector perspective to the Standard. This could adopt aspects of the objective paragraph of IPSAS 20, as well as expand the features of transactions listed in paragraph 27 for determining the level of significance of related party transactions that are disclosed under the partial exemption. Alternatively, a preamble to guidance and illustrative examples for NFP entities could address those matters.
- 62 Additional illustrative examples along the lines suggested by ACAG would be useful – particularly appropriations and tax-equivalent amounts, as they are public sector specific.
- 63 The individual KMP disclosure requirements presently set out in paragraphs Aus29.1-Aus29.9.3 have been deleted from AASB 124, with effect from 1 July 2013. Therefore, extending their application to government businesses would not be appropriate, based on the AASB’s previous view that additional disclosure

requirements for public sector entities were not warranted under its sector neutrality policy.

Issue 2.7

Reduced Disclosure (Tier 2) Requirements

- 64 ED 214 requested comments in relation to Tier 2 disclosure requirements. The ED did not propose any additional reduced disclosure requirements above those already specified for AASB 124. The existing reduced disclosure requirements would be applicable to any NFP public sector entities applying the RDR. For example, Tier 2 entities would not be required to provide the 'significant transaction' information under the partial exemption requirements in paragraphs 26 and 27.
- 65 Only one respondent (HoTARAC) referred to Tier 2 requirements, noting that it is unlikely that HoTARAC jurisdictions would adopt them early. HoTARAC indicated that it undertook a high-level review of the Tier 2 proposals, and identified the existing Tier 2 requirements, but did not provide any further comments on Tier 2 matters in its submission.

Staff Comments and Views re Issue 2.7 [as communicated in June/July 2012]

- 66 No additions are required to the reduced disclosure requirements already specified for AASB 124.

Issue 2.8

Transition

- 67 Two respondents (EY, HoTARAC) and Roundtable participants thought the proposed application date was too early. HoTARAC stated that the proposed effective date and retrospective application would provide insufficient time for the collection of relevant comparative information. HoTARAC did not consider that NFP public sector entities already have systems in place to easily identify all related party transactions. Roundtable participants also indicated that it could be very difficult to apply the requirements of AASB 124 retrospectively, especially where there have been 'machinery of government' changes that alter either the location of an entity within a jurisdiction's formal structure of entities or the portfolio within which an entity is placed.
- 68 EY recommended that the AASB provide relief from the requirement to provide comparative information in the first year of application, or alternatively, extend the application of the revised Standard by at least one year to enable sufficient time for affected entities to implement systems, processes and controls to capture the required related party information.
- 69 Roundtable participants recommended a sufficiently lengthy transition period prior to initial mandatory application of AASB 124, since the related party information for the comparatives to the first year of application could be developed contemporaneously rather than retrospectively, but still resulting in retrospective application of AASB 124 in the first year.

Staff Comments and Views re Issue 2.8 [as communicated in June/July 2012]

- 70 The application date of public sector amendments to AASB 124 should be co-ordinated with amendments to AASB 10 to add implementation guidance for NFP entities. The AASB 124 amendments could be adopted prospectively, i.e. without requiring comparative information in the first year of application. This could have the effect of NFP public sector entities providing related party disclosures under AASB 124 a year earlier than if the application date was deferred by a year so as to allow the development of comparative information for the first year under retrospective application.

Issue 3

- 71 HoTARAC noted that 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.
- 72 ACAG suggested that the time needed to meet related party disclosure requirements may be significant and pose difficulties for preparing financial statements by deadline dates.
- 73 Some respondents identified issues concerning comparative requirements under this issue, however they are covered in Issue 2.8.

Staff Comments and Views re Issue 3 [as communicated in June/July 2012]

- 74 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. However, as with any AASB Standard concerning the public sector, it is up to each jurisdiction to determine whether to adopt the AASB requirements.
- 75 Ways 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. The related parties include Ministers, close members of their families, and entities controlled or jointly controlled by a Minister. Ministerial representations therefore may be needed, which could be handled by a central agency.

Issue 4

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

- 76 Four respondents (JAB, Hayes Knight, KPMG and EY) considered the proposals would result in useful information. EY commented that related party information is a critical element of accountability, and the usefulness of KMP remuneration disclosure can be seen from the fact that most Treasuries mandate some form of disclosure of KMP remuneration, and users are interested in information in relation to material transactions with KMP that are not on an arm's length basis.
- 77 ACAG acknowledged the usefulness of related party information, but believed that amendments to the proposals were necessary to promote standardisation and comparability of related party disclosures across jurisdictions.

- 78 HoTARAC considered the usefulness of the resulting information would be limited. They regarded the benefits for users would, to some extent, include greater transparency and a more transaction-neutral Standard. However, the disclosure requirements needed to be appropriate to the public sector environment.

Staff Comments and Views re Issue 4 [as communicated in June/July 2012]

- 79 Staff consider that the proposals would result in useful information. Potential amendments to the proposals or the addition of NFP guidance as addressed in this agenda paper could improve their utility.

Issue 5

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

- 80 Three respondents (JAB, Hayes Knight and EY) agreed that the proposals are in the best interests of the Australian economy.
- 81 ACAG supported the disclosure of related party information on the basis of sector neutrality but did not believe that there would be significant economic impacts, positive or negative, associated with the proposed requirements.
- 82 HoTARAC commented that the current proposals are premature and require refinement so that the incremental benefits of disclosure do not come at disproportionate cost.

Staff Comments and Views re Issue 5 [as communicated in June/July 2012]

- 83 Staff consider that the proposals, with such amendments as might be decided by the AASB, are in the best interests of the Australian economy.

Issue 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

- 84 Two respondents (JAB and Hayes Knight) thought the costs and benefits are appropriate relative to current requirements. Hayes Knight pointed out that in the first year of application, public sector entities may face the issue of determining which parties meet the definition of a related party.
- 85 EY thought the costs of implementation would not outweigh benefits to users. In particular, the relevant costs include the following:
- a need to have systems, processes and controls in place to capture and record related party information; and
 - the process of attributing KMP/Ministerial remuneration to individual agencies could be time consuming and involve significant judgement (as discussed under Issue 2.2).

- 86 EY also commented that such systems and implementation issues are consistent with those faced by private sector entities, particularly entities that are part of a large group of companies.
- 87 ACAG believed that significant additional costs may be incurred in the capture of relevant information. However, in some instances, these may be offset by the benefits of accountability and transparency in the long term. The major costs identified by ACAG include the following:
- apportionment of a Minister's remuneration between agencies would require the application of considerable judgement and may be impractical (as discussed under Issue 2.2);
 - the broader nature of activities undertaken by the government sector will likely involve more transactions between government entities and related parties than in a typical private sector context. The time taken to prepare disclosures may be significant; and
 - the costs of compliance with paragraph 26 of AASB 124 are likely to be significant.
- 88 One respondent (HoTARAC) believed that the costs, especially in implementation of AASB 124 in its current form, could potentially outweigh the perceived benefits. Specifically, there would be additional ongoing costs as not all financial systems would be able to readily identify related party transactions. Some of the required information might be more effectively collected at a WOG level through direct enquiry of Ministers etc., rather than at an individual entity level.

Staff Comments and Views re Issue 6 [as communicated in June/July 2012]

- 89 Staff consider that the cost-benefit balance is appropriate.