

Staff note

This agenda paper was previously presented as Agenda Paper 12.4 at the June 2012 AASB meeting and as Agenda Paper 7.4 at the July 2012 AASB meeting.

AASB Exposure Draft ED 214

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

Staff Summary of Significant Matters raised at Roundtables October 2011

Roundtables to discuss the proposals were held in Sydney (4 October), Melbourne (18 October) and Canberra (19 October – private, small group sessions). Participants were largely from Commonwealth and State Government departments and agencies. There were no local government participants.

Staff notes to Board

- The following notes are a high level summary of the main comments made by participants at the Roundtable. They are not a transcript of the discussions. Staff have endeavoured to reflect faithfully the points made, but have exercised significant judgement in identifying the main points and interpreting the comments. Some meaning may have been lost inadvertently in the process of summarisation.
- Participants expressed their comments as individuals and their views may not necessarily reflect the view of their organisations.

Removing the Scope Exemption in AASB 124

Participants supported the removal of the scope exemption in AASB 124 *Related Party Disclosures* for not-for-profit public sector entities. In some jurisdictions, disclosures were presently being made of Ministerial remuneration, and in one jurisdiction some transaction disclosures were also required. Related party disclosures were considered to be useful.

However, the issue was raised whether it was intended that AASB 124 would need to be complied with in presenting GGS financial statements. Who are the key management personnel of the GGS? Would the related party disclosures be the same as in the whole-of-government financial statements? Should the Standard exclude application to the GGS to avoid the duplication of disclosures?

Key Management Personnel (KMP)

The identification of KMP of an entity generally was noted as a matter that would have to be considered carefully. There could be a tendency to assume that all staff who were SES-level employees would be KMP, but the requirements of the definition of KMP in the Standard would need to be applied.

Ministers as KMP

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.

Some difficulties in practice were also considered possible where departments were linked to more than one Minister. Would all associated Ministers be KMP of a department, even if their responsibility related only to segments of the department's activities?

The view was put by a participant 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, a person is related to a reporting entity if the person has significant influence over the reporting entity.

Ministerial Remuneration

KMP remuneration (compensation) disclosures are required by AASB 124 in relation to the KMP of an entity. The disclosure relates to compensation provided by the entity, or on behalf of the entity or its parent, in exchange for services rendered to the entity.

Concerns were expressed about the disclosure of remuneration where Ministers were KMP of subsidiary entities, such as departments. Ministerial remuneration is typically identified only by a central government agency, without any allocation to subsidiary entities. An allocation process might satisfy the requirements of the Standard, but would it be useful or would the cost exceed the benefits? Ministers might also be sensitive to any allocation of remuneration.

A few participants asked whether the KMP remuneration disclosures were limited to KMP that were employees of an entity, as the definition of compensation in AASB 124 refers to compensation including all employee benefits as defined in AASB 119 *Employee Benefits*. Ministers may not be regarded as employees.

There were also some concerns over whether Ministerial remuneration might be administered items if not controlled by a subsidiary entity.

Ministerial Transactions

Participants queried the extent to which transactions of Ministers should be disclosed. How to apply the materiality proviso? Did the nature of the transactions as Ministerial ones determine that disclosure was necessary? Most participants would like to see guidelines or some indication of what transactions ought to be disclosed, especially where they were considered to be undertaken on the same basis as transactions with the public generally. Comments by the AASB in the Basis for Conclusions might not be sufficient.

Another issue raised was how transactions of close members of the family of Ministers (as KMP of either the entity itself or of the parent entity, being the government) could be identified. Some discussion of 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.

Application Date and Transitional Requirements

The proposed application date of annual reporting periods beginning on or after 1 July 2013 could be too early. Participants 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.

Having a sufficiently lengthy transition period prior to initial mandatory application of AASB 124 would resolve this, 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.

Reduced Disclosure (Tier 2) Requirements

Participants made no comments on the Tier 2 requirements in AASB 124 as none of the jurisdictions had adopted RDR for any not-for-profit public sector entities.
