

## Staff Issues Paper Sweep Issues Raised by Board Members

### Purpose

- 1 In acknowledgement that this is a **tabled** document, the matters noted below are snapshots of **sweep issues** raised by Board members for discussion at the February 2015 Board meeting. These sweep issues were raised as part of Board member review of the draft amending standard reflecting the Board's decisions on its project to extend AASB 124 *Related Party Disclosures* to not-for-profit (NFP) public sector entities (see Agenda Paper 3.2).
- 2 Appendix A to this Agenda Paper is a summary of **drafting issues** raised by Board members. Appendix A also includes a drafting issue noted by staff subsequent to preparation of the draft Amending Standard. Staff do not intend to discuss drafting issues as part of the Board meeting, unless there is a particular matter noted in the Appendix that Board members wish to address.

### Sweep Issues – Board members

- 3 Staff understand the main concern of some Board members to be that of **ongoing costs of implementation vs benefits**, in particular relating to the capture of information pertaining to transactions between the reporting entity and its related parties. Ongoing costs are a function of the number of entities/persons caught by the definition of a related party and the volume of related party transactions that occur in the public sector. Board members also commented on the appropriateness of the extent of the proposals having regard to the **objective** of AASB 124.
- 4 Staff intend to talk to this Agenda Paper before addressing the remaining sweep issues in Agenda Paper 3.4 (application date, authority of implementation guidance, scope of the implementation guidance).

No	Sweep Issue	Staff Comments
1	<b>Related parties: Include key advisors or political parties?</b> <ul style="list-style-type: none"> <li>IPSAS 20 <i>Related Party Disclosures</i> specifies that key advisors of a member of the governing body of a whole-of-government (WOG) entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity form as part of the key management personnel (KMP) of that reporting entity. It is</li> </ul>	Staff agree that the definition of KMP/related parties would exclude the key advisors of Ministers and the political party to which the Minister belongs. Staff do not think this has been discussed before, but note that the Board is actioning these proposals to harmonise the requirements for NFP public sector entities with IAS 24 <i>Related Party</i>

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	<p>unlikely that such persons are captured by the definition of related party/ KMP in AASB 124. Should they be?</p> <ul style="list-style-type: none"> <li>• Would the political party to which a minister belongs constitute a “related party” in some way because it may heavily influence transactions with the government and be the beneficiary of those transactions, with an indirect benefit back to the Minister?</li> </ul>	<p><i>Disclosures</i>, not IPSAS 20.</p> <p>Staff have not before considered this, but tentatively think that a political party may be a related party under paragraph 9(b)(vi) (e.g. entity controlled by the KMP). However, at present staff are unclear how the identification of a political party as a related party would have any implications for the disclosures presently required. Staff do not recommend adding any guidance to the Standard in this regard, but to capture this as part of the Basis for Conclusions.</p> <div data-bbox="1279 611 2047 906" style="border: 1px solid black; padding: 5px;"> <p><b>Question to Board members:</b></p> <p>Q1 Do Board members wish to extend the definition of KMP to include key advisors similar to those captured by IPSAS 20?</p> <p>Q2 Do Board members agree with the staff recommendation not to add guidance on political parties in the proposed amendments?</p> </div>
2	<p><b>Scope of the proposals: Ordinary transactions &amp; application of the materiality principle</b></p> <ul style="list-style-type: none"> <li>• The manner in which the Standard would apply to “domestic” transactions needs to be clarified, in order to avoid immaterial ordinary transactions being captured and then assessed for disclosure. <ul style="list-style-type: none"> <li>○ Information would need to be collected and assessed of a <b>significant number of persons</b> (NB: KMP of the parent entity are related parties of all controlled entities of the parent). The complexity of this task may be more costly than benefits resulting from transparency about relationships affecting the organisation/ financial statements.</li> <li>○ Having to capture all ordinary transactions will be costly to</li> </ul> </li> </ul>	<p>Staff think that the proposals as currently drafted contemplate the capture of all transactions before assessment for disclosure. Staff note that the Board previously decided not to include an exemption for transactions with Ministers that are trivial or domestic transactions occurring within a normal employee, customer or supplier relationship essentially on arms’ length terms when such transactions would not affect decision-making or accountability.</p> <p>Staff also note the staff concern in Agenda Paper 3.4 that the development of illustrative examples addressing the application of the materiality principle could be viewed as</p>

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	<p>implement as the <b>volume</b> of transactions involved is unlikely to be comparable to the volume of related party transactions of a private sector entity, and could result in differences in transactions disclosed between entities/jurisdictions arising from different judgements of the application of the materiality principle.</p> <ul style="list-style-type: none"> <li>From a cost-benefit perspective, implementation of the proposals would be aided by clearly identifying the types of transactions that do not need to be disclosed, <b>so that capture of such transactions is not required in the first instance</b>. The proposed guidance is insufficient in this regard and the proposals are inappropriately costly to apply without such ‘ring fencing’.</li> </ul> <p><u>Additional implementation guidance</u></p> <ul style="list-style-type: none"> <li>May be useful to include clarification of whether materiality is assessed from the perspective of the recipient or the reporting entity (e.g. income taxes of a KMP).</li> <li>May be useful to include more guidance/ boundaries on transactions that are material to limit different interpretations of the application of the materiality principle (for example, is the amount of the transaction relevant, or is it the nature of the transaction that determines whether disclosure is necessary in a public sector entity).</li> <li>Paragraph 27 (factors to consider in determining the significance of government-related entity transactions) may also be relevant guidance for entities making disclosures to comply with paragraph 18 (related party transactions disclosures).</li> <li>An additional example covering e.g. attendance at a public school /hospital would be useful.</li> <li>There needs to be a stronger statement that it is not expected that “standard taxpayer” transactions between an entity and related parties would be material enough to warrant disclosure, even when the amounts involved are significant. For example, there is a concern that</li> </ul>	<p>inconsistent with the Board’s policy of not providing unnecessary local guidance on matters covered by IFRSs.</p> <div data-bbox="1279 333 2049 834" style="border: 1px solid black; padding: 5px;"> <p><b>Questions to Board members:</b></p> <p>Q3 Do Board members wish to exclude draft paragraph IG9 and Examples 6 – 7 from the Amending Standard? <i>[Question 4 from Agenda Paper 3.4]</i></p> <p>Q4 Does the Board want to ‘ring fence’ the information capture about related party transactions?</p> <p>Q5 Will the concern be alleviated through the addition of some additional examples and guidance, including addressing the points noted opposite, that would serve to clarify that capture of information about “domestic” transactions in the first instance is not necessary?</p> </div>

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	<p>there will be a focus (especially by auditors) on paragraph 27(a) to the exclusion of the other criteria in that paragraph.</p> <ul style="list-style-type: none"> <li>It is unclear how “tax expenditures” will be treated. Tax expenditures are those items that receive favourable tax treatment through legislation, but are not “explicit” transactions. There is an annual statement of these issued in aggregate by the Treasury, which in some cases include estimates because actual information is not available. Examples include concessional treatment of superannuation, and many primary production concessions etc. The way AASB 124 is worded implies that these <u>are</u> covered by the standard, but they would be exceptionally difficult to identify and report on for individuals if required to do so.</li> </ul>	
3	<p><b>Application of paragraphs 25-27 (government-related entity relief) may require disclosure of related party transactions that are part of day-to-day operations: e.g. distribution of grants /appropriations/ loans made by the central funding authority</b></p> <ul style="list-style-type: none"> <li>Paragraph 26 requires disclosure, in sufficient detail, of the nature and amount of each individually significant transaction between a reporting entity and a government-related entity, or where collectively, but not individually significant, an indication of their extent. Paragraph 27 provides some guidance in determining the level of detail to be disclosed.</li> <li>It is likely that many related party transactions between government-related entities will be considered to be ‘individually significant’ in the absence of any relief or guidance, and accordingly, add to the costs of implementing the proposals (dollar costs and clutter) for no obvious additional benefit.</li> <li>Staff understand that the model that operates in the Commonwealth means that there would be in the order of 50,000 transactions per annum covered by paragraph 18(g) - transfers under financing</li> </ul>	<p>Staff note that the application of these paragraphs to NFP public sector entities does not appear to have been before discussed by the Board. Staff concur that the application of the paragraphs may continue to require disclosures of related party transactions between government-related entities, and note that the partial exemption in paragraphs 25-27 was a driver for proposing the extension of AASB 124 to NFP public sector entities.</p> <p>Staff recommend that the Board consider including an Aus paragraph to give similar relief to that detailed in IPSAS 20.29, e.g.:</p> <p><i>In respect of not-for-profit public sector entities, paragraph 26(b) does not apply to related party transactions occurring as part of the normal operating relationships between the reporting entity and its related parties that are undertaken on terms and conditions that are normal for such transactions in the entity’s circumstances.</i></p>

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	arrangements, and while <u>all</u> of these are routine and approved by parliament, <u>nearly all</u> would be significant to the recipient entities, and thus require disclosure.	<p><b>Question to Board members:</b></p> <p>Q6 Do Board members wish to include relief similar to the Aus paragraph proposed above?</p>
4	<p><b>Adequacy of detail in draft Amending Standard about the application of AASB 124 to a Minister's compensation</b></p> <ul style="list-style-type: none"> <li>Having determined a Minister to be part of the KMP of the entity, it would be useful for the Examples to include illustration also of how a Minister's remuneration may be disclosed in the general purpose financial statements.</li> <li>Extend BC11 to clarify that remuneration disclosures are not required except where payment made directly by department to the Minister.</li> <li>The definition of management entity needs specific application to the public sector – in the Commonwealth public sector, remuneration of Ministers is paid by two bodies that are not associated with any individual entity, both of which manage parliamentary entitlements, and their services are made available to the government as a whole (and not explicitly to any individual entity).</li> </ul>	<p>Staff note that the Board had not previously asked for implementation guidance to be drafted in this regard. Staff also think that it would be inappropriate for guidance on applying paragraph 17A to be included as part of paragraph BC11. If the Board wishes for guidance to be added to the draft amending standard, staff think that it would be useful for a separate example to be developed in this regard, rather than adding to the detail/focus of the existing Examples or paragraph BC11.</p> <p><b>Question to Board members:</b></p> <p>Q7 Do Board members wish to include guidance/illustrative example pertaining to Ministerial compensation?</p>
5	<p><b>Commonwealth Ministers as members of KMP</b></p> <ul style="list-style-type: none"> <li>How can a Commonwealth Minister be a member of KMP when the authority and responsibility clearly sit with the chief executive under both the Public Governance, Performance and Accountability Act and the Public Service Act? If it is intended that they are KMP because of <u>indirect</u> authority, this is starting to get very ambiguous.</li> </ul>	Staff think that this is not dissimilar to private companies, where most of the day-to-day responsibility sits with executive management while ultimately, it is the directors who are charged with the responsibility for the company.
6	<p><b>Objective of AASB 124: Rearticulation for NFP public sector entities?</b></p> <ul style="list-style-type: none"> <li>Should the objective of AASB 124 be rearticulated for NFP public sector entities in order to better clarify the types of transactions for which disclosure would be material?</li> </ul>	Staff note that the Board had previously decided that no additional public sector perspective was necessary beyond the implementation guidance to be added.

## APPENDIX A:

### Drafting Issues – Board members

No	Drafting Issue	Staff Proposed Response
1	In IG2, amend reference to not-for-profit entities to not-for-profit public sector entities.	Staff will amend the draft Amending Standard.
2	In Example 1, the titles of the Ministers need to be updated as they are not consistent with the titles given earlier in the example.	Staff will amend the draft Amending Standard.
3	Explain how Example 2 works for Departments that Minister A is not a KMP of – Minister A will still be a related party as is a KMP of the parent.	Staff will extend Example 2 to reflect that Minister A is a related party of other Departments.
4	To include comment in Example 4 that Minister X may still be a related party of the Council.	Staff will amend the draft Amending Standard.
5	Include a cross-reference in IG7 to the relevant Examples reflecting that Ministers may still be a related party of the entity even where not a KMP.	Staff will amend the draft Amending Standard.
6	In Example 7, clarify how Government H fits into the Example.	Staff will identify Government H as ‘State Government H’
7	Query whether the Illustrative Examples to AASB 124 noted in BC14 still exist.	The Illustrative Examples are still part of AASB 124. Staff do not propose to make any amendment to BC14 in this regard.

### Drafting Issues – Staff

No	Drafting Issue
1	Terminology in Implementation Guidance to be updated from ‘Federal’ government to ‘Commonwealth’ government. Staff understand ‘Commonwealth’ to be the term now more commonly encouraged for use by public sector entities.