

Staff Issues Paper Sweep Issues Identified by AASB Staff

Purpose

- 1 Staff have prepared a draft amending standard reflecting the Board's decisions on its project to extend AASB 124 *Related Party Disclosures* to not-for-profit public sector entities (see **Agenda Paper 3.2**).
- 2 Staff wish to raise to the Board the sweep issues noted in the remainder of this agenda paper for consideration at the February 2015 Board meeting in addition to any sweep issues identified by Board members (**Agenda Paper 3.4.1 – to be tabled**) in their review of the draft Amending Standard.

Sweep Issues – AASB staff

Issue 1: Application Date

- 3 The draft Amending Standard includes a mandatory application date of annual reporting periods beginning on or after 1 July 2016. Comparative information is required, including on adoption of the amendments.
- 4 This application date reflects the Board's decision in May 2014 (refer Agenda Paper 3.3). At that time, the Board considered the July 2016 application date would provide sufficient lead time for entities to prepare the disclosures required, as the Board's decisions on the project had not varied significantly from the decisions made in June 2012 and July 2012 (when considering comment letters and roundtable feedback).
- 5 Staff consider the application date for the amendments of annual reporting periods beginning on or after 1 July 2016 to continue to be appropriate, provided that an Amending Standard is issued by 31 March 2015 (as is currently expected), for the reasons given by the Board in May 2014. In addition, the AASB work program (available on the AASB website) has reflected the forthcoming issue of the Amending Standard. However, staff think that it may be necessary for the application date of the Amending Standard to be deferred if it is not issued by 31 March 2015.

Question to Board members:

- Q1 Do Board members agree with the proposed application date for the amendments of annual reporting periods beginning on or after 1 July 2016, provided that an Amending Standard is issued in Q1 2015?

Issue 2: Scope and Authority of the Implementation Guidance

- 6 The draft Amending Standard identifies the Implementation Guidance to be an integral part of AASB 124, having the same authority as other parts of the Standard, consistent with the manner in which Appendix E, "Australian Implementation Guidance for Not-for-Profit Entities" was incorporated into AASB 10 *Consolidated Financial Statements*.

- 7 Staff note that there are other instances where Australian Implementation Guidance accompanies, but does not form an integral part of the Accounting Standard (e.g. AASB 116 *Property, Plant and Equipment*). The Board has not yet discussed whether the additional implementation guidance should be incorporated as mandatory material into AASB 124.
- 8 The staff recommendation is for the Implementation Guidance to be incorporated as an integral part of the Standard, consistent with the approach taken in AASB 10.

Question to Board members:

Q2 Do Board members agree for the Implementation Guidance to be incorporated as an integral part of AASB 124?

- 9 The Board's objective in including Implementation Guidance in AASB 124 is to assist not-for-profit public sector entities in applying the Standard. Accordingly, this is reflected in the title, paragraph IG1 and in the content of the illustrative examples included in the draft Amending Standard.
- 10 Staff consider that the Implementation Guidance may be similarly useful to for-profit public sector entities (for example, government business enterprises) or not-for-profit private sector entities (for example, charities) even though such entities are not specifically identified in the draft guidance or illustrative examples. Staff note that as AASB 124 already applies to such entities, for-profit public sector entities and not-for-profit private sector entities should have already considered and determined how the matters covered in the Implementation Guidance applies in their circumstances. Accordingly, staff do not expect the Implementation Guidance to significantly change practice in this regard. However, staff think it would be inappropriate to limit the application of the Implementation Guidance to not-for-profit public sector entities as this may suggest an inappropriate message to other entities; for example, as to whether a Minister could be a member of the key management personnel of a for-profit public sector entity, or whether disclosure is required of donations by a related party to a charity. Accordingly, staff have not limited the application of the Implementation Guidance to only not-for-profit public sector entities in a similar manner to that employed in Appendix E to AASB 10.¹
- 11 The staff recommendation is that the Implementation Guidance should not be limited to apply only to not-for-profit public sector entities.

Question to Board members:

Q3 Do Board members agree that the Implementation Guidance should not be limited to apply only to not-for-profit public sector entities?

1 The introduction to Appendix E states *“This appendix is an integral part of AASB 10 and has the same authority as the other parts of the Standard. The appendix applies only to not-for-profit entities. The appendix does not apply to for-profit entities or affect their application of AASB 10.”*

Issue 3: Application of the materiality principle in determining related party transactions requiring disclosure

- 12 The Board decided at its meetings in June 2012 and May 2014 (see Agenda Paper 3.3) that the application of the materiality principle is sufficient to distinguish related party transactions that ought to be disclosed by not-for-profit public sector entities in general purpose financial reports, and agreed to develop guidance/ illustrative examples to assist not-for-profit public sector entities in applying the principle.
- 13 Staff note that the development of illustrative examples addressing the application of the materiality principle could be viewed as inconsistent with the Board's decision in December 2013 to proceed with the withdrawal of AASB 1031 *Materiality*² consistent with the Board's policy of not providing unnecessary local guidance on matters covered by IFRSs. Staff note that this potential inconsistency was not specifically drawn to the Board's attention at its meeting in May 2014, when the Board reconfirmed its decisions on the inclusion of guidance in this regard.
- 14 Staff have drafted implementation guidance pertaining to related party transactions (see paragraphs IG6 – IG9 of the draft Amending Standard) having regard to the Board's decision on AASB 1031. Staff are seeking direction from the Board as to whether, on reflection, the Board would prefer not to include paragraph IG 9 and Examples 6 and 7 in the Implementation Guidance, having regard to its policy noted in paragraph 13 above.

Question to Board members:

- Q4 Do Board members wish to exclude draft paragraph IG 9 and Examples 6 – 7 from the Amending Standard?

Sweep Issues – Board members

- 15 Any further sweep issues identified by Board members are requested by **5pm Monday 9 February 2015**, so that they can be collated and tabled for Board discussion. These can be forwarded to Evelyn Ling (evelynl@asb.gov.au).
- 16 Board sweep issues could pertain to:
- (a) the sufficiency, appropriateness or conclusions reached in the draft implementation guidance relating to the identification of Ministers as members of key management personnel;
 - (b) the sufficiency, appropriateness or conclusions reached in the draft implementation guidance relating to forms of related party transactions considered for disclosure;
 - (c) the matters described in the draft Basis for Conclusions; or
 - (d) other concerns.

2 This project will be finalised with the forthcoming superseding of AASB 1031 *Materiality* (December 2013) with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* via AASB 2015-Z *Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality* (anticipated to be approved by the Board on 28 January 2015).