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Mr David Boymal
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PO Box 204
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17 November 2005
Our Ref: DR143

Dear David

ED 143 'Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124'

Deloitte Australia welcomes the opportunity to comment on the proposals contained in Exposure Draft ED 143 'Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124' ("ED 143" or the "exposure draft").

Except for our key concerns noted below, we support the overall proposals contained in ED 143, including the proposed application date of the Standard. Our key concerns are with regards to:

- the application of paragraphs Aus25.1 to Aus25.7.3 to the separate financial statements of parent entities;
- the application of a revised AASB 124 to managed schemes; and
- the inclusion of s.300A disclosures within AASB 124.

<u>Application of paragraphs Aus25.1 to Aus25.7.3 to the separate financial statements</u>

We believe that the additional Australian disclosures in paragraphs Aus25.1 to Aus25.7.3 should be required only in the consolidated financial statements, and not also in the separate financial statements of the parent entity. We believe that the disclosures required by paragraphs 1 to 22, including Aus16.1 and Aus16.2, and supplemented by the detailed disclosures required in the consolidated financial statements of any member of the key management personnel of the parent entity who are also key management personnel of the group, will provide sufficient and appropriate information in relation to the key management personnel of the parent entity.

Application of a revised AASB 124 to managed schemes

We do not believe that the key management personnel of managed schemes that are disclosing entities should be subject to the same disclosure regime as other disclosing entities. We believe that the disclosures required by paragraphs 1 to 22 of AASB 124 provide more than sufficient information in respect of managed schemes.

Inclusion of s.300A disclosures

We believe it is inappropriate and unnecessary for the Board to incorporate section 300A disclosures into AASB 124. In our opinion, the scope of application, nature and extent of the disclosures covered by section 300A of the Corporations Act 2001 have already been adequately and appropriately considered by Parliament.

In the event that the Board does incorporate the section 300A disclosures into AASB 124 (i.e., within paragraphs Aus25.1 to Aus25.7.3), such disclosure requirements should be applicable only to listed entities, rather than all disclosing entities. This would be consistent with Parliament's decisions with regard to CLERP 9 to only require additional disclosures in respect of remuneration for listed entities, rather than all disclosing entities.

We fully appreciate the need to revise the requirements of AASB 1046 in light of the adoption of Australian equivalents to IFRS, and that logically, such revised requirements should be incorporated into AASB 124. However, we do not believe it is appropriate for the Board to amend/extend the requirements of AASB 1046. The next two years will be difficult enough for Australian entities to understand and comply with the new Standards without introducing further requirements at this late stage. Accordingly, we strongly recommend limiting the changes to the requirements of AASB 1046 to only those required to achieve IFRS compliance.

If you have any questions concerning our comments, please contact Darryn Rundell on (03) 9208 7916.

Yours sincerely

Darryn Rundell
Partner

MATTERS FOR SPECIFIC COMMENT

Question 1. Proposal to remove parent relief from AASB 124. Do you support the proposals to:

(a) remove parent relief from AASB 124; and

(b) rely on the definition of KMP and remove the requirement that the director and executive disclosures apply to the directors of the parent entity and at least five specified executives?

Do you consider that the removal of parent relief from AASB 124 is appropriate and sufficient to ensure IFRS compliance in respect of both parent and group entities?

We support the proposal to remove parent relief from AASB 124, and consider it appropriate and necessary to ensure IFRS compliance in respect of the parent entity. We also support the proposal to remove the paragraphs in AASB 124 that defined the persons who formed the key management personnel of the entity.

Question 2. Scope of AASB 124. Do you agree with the proposal that AASB 124 be required to be applied by non-corporate for-profit entities (and not AAS 22)?

We have no concerns regarding this proposal as existing AASB 124 already requires the Standard to be applied by non-corporate for-profit entities. We disagree with the comment on page 8 of the exposure draft ('Scope of Application') that such entities have a choice whether to apply AASB 124 or AAS 22, as AASB 124 paragraph Aus1.7 exempts such entities from also having to comply with AAS 22.

We encourage and would strongly support the withdrawal of AAS 22, and accordingly, support AASB 124 being applicable to non-corporate not-for-profit entities which would. We believe that AAS 22 is, in the present environment, outdated and inconsistent with the other Australian Accounting Standards on issue. For example, AAS 22 specifies a different definition of director and control, and identifies different parties as being related parties to the entity. In the event the Board decides to retain AAS 22, rather than superseding the Standard via a revised AASB 124, we believe it is necessary for the revised Standard to include an application paragraph similar to existing paragraph Aus1.7, as failure to do so would result in some entities (such as superannuation funds and some charities) being required to comply with both AASB 124 and AAS 22.

Question 3. Amalgamation of AASB 1046 with AASB 124. Do you agree that the quality and quantity of disclosing entity disclosures will not be detrimentally affected by amalgamating AASB 1046 with AASB 124?

We agree that the quality and quantity of disclosing entity disclosures will not be detrimentally affected by amalgamating the existing disclosures required by AASB 1046 with AASB 124 (i.e. in respect of the consolidated financial statements), except as noted elsewhere in our submission. However, we are concerned that the quality of disclosures may be detrimentally affected by the additional disclosures required that are not included purely for the reasons of IFRS compliance, for example, the s.300A disclosures and the disclosing entity disclosures required in respect of the separate financial statements of the parent entity.

We note that existing Aus9.2 specified that key management personnel comprised at least the specified directors and at least five specified executives, and that the concept of specified executive is noted in the preface to AASB 1046 as being consistent with the definition of key management personnel per IAS 24 (and accordingly, AASB 124). Accordingly, at a group level, there should theoretically be no differences in the persons that form part of the key management personnel of the group. However, differences could exist at the parent entity level since key management personnel had not before been required to be considered in respect of the activities of the parent entity in isolation.

As parent entity relief is intended to be removed from a revised AASB 124, the former AASB 1046 disclosures would be required in respect of the separate financial statements of the parent entity. We do not support this proposal and note that a specific matter for comment on this matter had previously been posed to constituents in exposure draft ED 106. The responses received indicated that constituents did not believe the detailed information in the separate financial statements to be useful to users; accordingly, we question why the Board is intending now to require this detailed information especially as it does not affect compliance with IFRS.

We believe that the disclosures required by paragraphs 1 to 22, including Aus16.1 and Aus16.2, and supplemented by the detailed disclosures required in the consolidated financial statements of any member of the key management personnel of the parent entity who are also key management personnel of the group, to provide sufficient and appropriate information in relation to the key management personnel of the parent entity.

Accordingly, we strongly recommend that the Board consider making paragraphs Aus25.1 to Aus25.7.3 in a revised AASB 124 applicable only to the key management personnel of the group where the disclosing entity is the parent entity in the group (and where the consolidated financial statements are presented together with the separate financial report of the parent entity), and to the single entity financial statements of a disclosing entity which is not a parent entity in a group.

Question 4. Specified director, executive and specified executive. Do you agree with the proposal to use the term KMP and remove the definitions of specified director, executive and specified executive?

We support the proposal to use the term KMP and remove the definitions of specified director, executive and specified executive. This is consistent with our views on the approach the AASB should take with regards to adopting the IASB pronouncements, as noted in previous submissions we have made.

Question 5. Subtotals for compensation and loans for directors and non-director KMP. Do you agree with the deletion of the requirement to disclose subtotals for compensation and loans for directors and non-director KMP (i.e. requiring only one KMP total)?

We support the deletion of the requirement to disclose subtotals for compensation and loans for directors and non-director KMP. We have no concerns or further comments regarding these proposals.

Question 6. Former KMP. Do you agree with the proposal to delete the requirement for separate disclosure of transactions or balances with former KMP?

We support the proposal to delete the requirement for separate disclosure of transactions or balances with former KMP. We note that other than for paragraph Aus9.3 in the existing AASB 124, these persons would not otherwise have fallen within the definition of a related party, as defined in AASB 124, and believe to retain it would be inconsistent with one of the AASB's purposes for revising AASB 124.

Question 7. Prescribed benefits. Do you agree with the proposal to delete the AASB 1046 requirement for separate disclosure of prescribed benefits in each component of the five categories of compensation?

We have no concerns or comments regarding this proposal.

Question 8. Entities that have to disclose details of KMP. Do you agree with the proposal that all entities covered by AASB 124, not only disclosing entities, be required to disclose certain minimum descriptive information in respect of each key management person (refer to paragraph Aus16.1) and information on changes that occur in the period after the reporting date and prior to the date when the financial report is authorised for issue (refer to paragraph Aus16.2)?

We have no concerns or comments regarding these proposals.

Question 9. Incorporation of section 300A(1)(ba) into AASB 124 paragraph Aus25.3. Do you agree with the Board's proposal to incorporate section 300A(1)(ba) of the Corporations Act into AASB 124?

We disagree with the Board's proposal to incorporate section 300A(1)(ba) of the Corporations Act into AASB 124. Further, we disagree with the Board's proposal to incorporate the disclosures specified by section 300A(1)(d), 300A(1)(e)(i) and 300A(1)(e)(vii) of the Corporations Act into AASB 124. However, we do not object to the inclusion of the disclosures specified by section 300A(1)(a)-(b) (paragraph Aus25.3(a)-(b)) as we consider these to be similar to the present disclosures required by AASB 1046.

Parliament has seen fit to only require such disclosures of listed entities – we see no reason why the Board should see a need then to extend the set of disclosures to non-listed disclosing entities. In addition, until such time as Parliament issues a Regulation consistent with the intent of Regulation 2M.6.04, we note that listed entities will be required to provide a doubling-up of these disclosures in both the directors' report and the financial report.

On principle, we believe that disclosures about related party transactions is a matter of corporate governance that should be dealt with by Parliament rather than being part of an accounting standard setters' role. To the extent that Parliament have made decisions with regards to particular matters, the Board should not reconsider these decisions, nor duplicate their requirements within the accounting pronouncements. The Board should limit their deliberations to the matters not yet addressed by Parliament that it believes are warranted.

Secondly, given the timing of this exposure draft and its proposed application date, we believe that the purpose of this revision to AASB 124 should be limited solely to that required to achieve IFRS compliance rather than introducing new disclosures not already required by the accounting standards.

Question 10. Do you agree that the "other transaction" disclosures in paragraphs Aus25.5.3 to Aus25.7 should be by individual director when the disclosures in paragraph 18 are disaggregated into "key management personnel of the entity or its parent" and "other related parties"?

We have no concerns as to the proposal to require these disclosures to be provided separately for each member of the key management personnel. However, we recommend that paragraphs Aus25.7.1 and Aus25.7.2 (aggregate information) be withdrawn, as we see no real benefit in retaining these paragraphs in light of the disclosures already required by paragraphs 17 and 18, and the information already provided by paragraph Aus25.7.

Question 11. No Appendices to final revised AASB 124. Do you agree with the Board's proposal to delete all the Appendices to this ED when issuing the final revised AASB 124?

We support the Board's proposal to delete all the Appendices to the exposure draft when issuing the final revised AASB 124, however, would recommend that at a minimum, the Board include some guidance on the matters addressed in Appendix 5 as Australian Guidance to the Standard. We note that AASB 1046 in its present form includes commentary similar to that included in Appendix 5, and that despite this guidance, practitioners continue to struggle to interpret and apply the requirements of the Standard in practice. We believe that the exclusion of the guidance in Appendix 5 could result in confusion as to the requirements of the resulting Standard, and possibly divergence in practice between entities as a result of different interpretations.

In addition, we suggest that the Board consider inclusion of Australian Guidance similar to that of the appendix to withdrawn UIG 14 and Appendix 1 in AASB 1046. We believe this guidance would be helpful to practitioners in allocating compensation into the categories specified by paragraph Aus25.5.2.

In the event that Appendices 2-5 are retained, we note that there are inconsistencies, wrong additions, and wrong references between the Appendices and the exposure draft which should be corrected in any resulting Standard, including:

- Appendix 2, Table 2.1 refers to 'retirement benefits' as a component – this is not a category required by the exposure draft. Totals are also provided for each component, and each member of the key management personnel – these are not required by the exposure draft. In addition, the totals do not add properly.
- Appendix 2, Table 2.2 – the numbers do not always correspond to the totals in Table 2.1.
- Appendix 4, Table 5 – in the first table, the disclosure in column 'number in group' needs to be updated. In the second table, the last column header should be updated to 'highest in period'.

- Appendix 4 and 5 refer in a number of places to comparative information not being required to be provided – there is no exception in the exposure draft as currently drafted from providing comparative AASB 1046 information.
- Appendix 5, A2.1 provides a cross-reference to paragraph Aus25.3(c). This cross-reference should be to paragraph Aus25.3(e) and (h).
- Appendix 5, A3.2 refers to Appendix 4. This cross-reference should be to Appendix 3.
- Appendix 5, A3.5 refers to Table 4C, Appendix 4. This cross-reference should be Table 3C, Appendix 3.
- Appendix 5, A4.2 refers to 'personally-related entities', which needs to be updated.
- Appendix 5, A4.3 refers to Appendix 5 for illustrations of disclosures required by paragraphs Aus25.6 to Aus25.6.1. This reference should be to Appendix 4.

Question 12. Transitional provisions. Do you consider that transitional provisions should be included in AASB 124 in respect of paragraphs Aus25.1 to Aus25.7.3, since it is the first time that disclosing entities are required to make the disclosures required by paragraphs Aus25.1 to Aus25.7.3 in respect of KMP rather than specified directors and specified executives?

The exposure draft does not specify the extent or the nature of the transitional relief that is expected to be provided. We consider it inappropriate that transitional relief be included, especially since in many instances, comparative information should already be available for most KMP. In addition, if comparative information is only required for KMP who were disclosed as specified directors or specified executives in the previous annual financial report, this may provide users of the financial report with misleading information.

Our comments here should be considered in light of our comments elsewhere in this submission on the provision of comparative information on an ongoing basis, and the application of paragraphs Aus25.1 to Aus25.7.3 to the separate financial statements of the parent entity.

Question 13. Application to managed schemes (including MIS)

A managed scheme by its nature does not directly employ persons in a management capacity. Persons are employed by the responsible entity of the managed scheme to enable the responsible entity to fulfil its operational and management role. The managed scheme pays a management fee to the responsible entity, generally determined as a percentage of funds under management.

In the context of the relationship between the responsible entity and the managed scheme, in brief, we agree that:

- key management personnel (as defined by AASB 124) will exist for a managed scheme, even though such persons are employed by the responsible entity; and
- that all the members of the key management personnel of a managed scheme are compensated for services rendered to the managed scheme, and are paid by the responsible entity on behalf of the managed scheme. Accordingly, such amounts satisfy the AASB 124 definition of 'compensation'.

We believe this to be the case irrespective of the fact that the managed scheme is required to pay a management fee to the responsible entity or the way in which the management fee is determined.

In circumstances where an entity is appointed as the responsible entity of a number of managed schemes, the amount of compensation disclosed in the financial reports of the respective managed schemes for their respective key management personnel will be based on an allocation of the aggregate compensation received by such individuals from the responsible entity (assuming that all such individuals are employed by the responsible entity, as is normally the case). In practice, the allocation of compensation of key management personnel to each managed scheme may reasonably be undertaken by the application of a number of methods, which may:

- differ from scheme to scheme (where different responsible entities are appointed);
- bear no relationship to the management fee paid to the responsible entity; or
- differ from period to period, as circumstances change.

We are concerned that the resulting disclosures could therefore be meaningless and, at worse, misleading to users of the financial report of the managed scheme.

Notwithstanding our concerns, we do not believe it is appropriate for the revised AASB 124 to include Australian guidance on the application of the Standard to the financial reports of managed schemes. If Australian guidance were to be included in revised AASB 124, we believe that the Board runs the risk that such guidance would inadvertently be contrary to international interpretations of the application of IAS 24, especially as managed schemes are not unique to Australia. Similar interpretative issues exist (regarding the disclosure of compensation for key management personnel) for trust / trustee relationships, which are very similar in nature to the relationship between a responsible entity and a managed scheme, or a parent / controlled entity relationship where executives of the parent are directors of the controlled entity, or a venturer / joint venture entity relationship where the directors or executives of the venturer are also directors or executives of the joint venture entity. We strongly recommend therefore that the revised Standard remain silent as to the interpretation of the application of the Standard to managed schemes (or any analogous relationship), leaving it to be a matter for professional judgement, assessed on a case-by-case basis.

(a) Do you agree that when a managed scheme (including a MIS) pays a management fee to its responsible entity, the managed scheme indirectly provides the compensation of the KMP for managing the MIS for the purposes of paragraph 16?

Our comments on this specific matter for comment should be read and considered together with our comments preceding specific matter for comment 13(a), and specific matters for comment 13(b) and 13(c).

We agree that key management personnel of managed schemes receive compensation for managing the schemes (i.e., from the responsible entity on behalf of the managed scheme). However, we do not believe that the management fee paid by the managed scheme to the responsible entity indirectly provides compensation to the KMP for managing the scheme. In particular, we disagree with the Board's comment in Appendix 1.A2 of the exposure draft that 'a MIS pays a management fee to its responsible entity and thus indirectly provides the compensation of KMP for managing the MIS'.

We believe that there are significant issues in drawing this correlation, including:

- The management fee represents a commercial decision made by the managed scheme and the responsible entity, and is determined by market forces. The level of the management fee depends on the relative competition within that market segment and therefore the level of fee that users are willing to tolerate, and accordingly has little or no direct relationship on the compensation that is paid to key management personnel.
- If we were to accept that the management fee paid by the managed scheme to the responsible entity indirectly provides compensation to key management personnel, the extent to which key management personnel are compensated for services rendered to the managed scheme would be no greater than the portion of the management fee attributable to reimbursement for compensation (i.e., determined by deducting from the management fee the direct costs incurred by the responsible entity in respect of the relevant scheme, plus a profit margin). The management fee is intended to reimburse the responsible entity for different expenditures incurred, including the costs of printing product disclosure statements and the audit fee, as well as having a profit margin – these should not be inadvertently incorporated into compensation for services rendered to the scheme.
- The management fee paid by the managed scheme to the responsible entity may, in some circumstances, be inadequate to represent the compensation of key management personnel of the managed scheme (after adjusting for the reimbursement of other direct expenses), taking into consideration factors such as the activities of the managed scheme that may require more management time. For example, where activities are fully actioned in-house versus where activities are fully outsourced, but the same management fee is charged, or a managed scheme with stable funds under management versus a managed scheme with declining funds under management.
- Compensation is defined in AASB 124 as 'Compensation includes all employee benefits … Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity….'. The responsible entity could have any number of reasons for paying the key management personnel of a particular managed scheme an amount that is substantially different to any reasonable allocation of the management fee.

(b) Do you agree that the KMP of managed schemes that are disclosing entities (including MIS) should be subject to the same disclosure regime as all other disclosing entities in paragraphs Aus25.1 to Aus25.7.3 or should be required to make fewer disclosures, and perhaps only those required by paragraphs 1 to 22 of AASB 124?

Our comments on this specific matter for comment should be read and considered together with our comments preceding specific matter for comment 13(a), and specific matters for comment 13(a) and 13(c).

On balance, we do not believe that the key management personnel of managed schemes that are disclosing entities should be subject to the same disclosure regime as other disclosing entities. We believe that the disclosures required by paragraphs 1 to 22 of AASB 124 provide more than sufficient information in respect of managed schemes. The detailed disclosures required by paragraphs Aus25.1 to Aus25.7.3 do not provide users of managed schemes with any information meaningful to their decision-making process; more useful to users are the disclosures required by the ASIC in product disclosure statements – which do not include compensation to directors or officers.

In our opinion, users of a managed scheme's financial report, being the investors of the managed scheme, are not generally interested in key management personnel compensation, as it is not an expense incurred by the managed scheme and does not affect the management fee charged. Investors are more interested in the actual expenses of the scheme, for example the manner in which management fees or custodial fees are determined, and it is this that they use to make informed decisions about the scheme. The Board appears to have concentrated its deliberations on the application of AASB 124 incorporating the AASB 1046 disclosures to managed schemes rather than considering whether the AASB 1046 disclosures would be useful or meaningful to the users of a managed scheme's financial report. If the Board believes that disclosing entities that are managed schemes should be subject to greater disclosure than managed schemes which are not disclosing entities, we suggest that the Board may wish to seek representation from investors as to the types of disclosures they would find useful for decision-making (for example, disclosure of the overall management fee charged for the period).

In the event the Board decides to require the present disclosures to key management personnel of managed schemes, in our opinion, not all the disclosure requirements of paragraphs Aus25.1 to Aus25.7.3 will result in the disclosure of information in the financial reports of managed schemes. For example:

- Paragraph 12 and Aus12.1 'relationships between parents and subsidiaries': disclosure is required where a managed scheme has subsidiaries
- Paragraph 16 'key management personnel compensation': aggregate disclosure will have to be made by a managed scheme
- Paragraph Aus16.1 and Aus16.2 'details about key management personnel': disclosure about the details of directors of the responsible entity are necessary, and possibly any officers of the responsible entity where these persons are identified as key management personnel (consistent with our comments in (c) below)
- Paragraph 17 'related party transactions': disclosure is required to the extent that there any transactions between the scheme and its related parties
- Paragraphs Aus25.2 to Aus25.4 'compensation': individual disclosures will have to be provided by a managed scheme
- Paragraphs Aus25.5.1 to Aus25.5.2 'compensation options': there is no disclosure to be made by a managed scheme unless key management personnel are compensated via options or rights in the scheme or the scheme's subsidiaries (unlikely)
- Paragraph Aus25.5.3 'options': there is no disclosure to be made by a managed scheme unless key management personnel hold options or rights in the scheme or the scheme's subsidiaries (unlikely)
- Paragraph Aus25.5.4 to Aus25.5.5 'equity holdings and transactions': disclosure is required only to the extent that units are held in the scheme or the scheme's subsidiaries (not common)
- Paragraphs Aus25.6 to Aus25.6.1 'loans': the constitution of most schemes do not permit loans to be made, accordingly, these disclosures are expected to be uncommon
- Paragraphs Aus25.7 to Aus25.7.3 'other transactions': generally, schemes do not transact directly with their key management personnel, accordingly, any disclosures of this nature are expected to be uncommon.

(c) Do you agree that the KMP of a managed scheme are among the individuals paid by the responsible entity (or by another entity that provides services to the responsible entity)?

Our comments on this specific matter for comment should be read and considered together with our comments preceding specific matter for comment 13(a), and specific matters for comment 13(a) and 13(b).

Based on our discussions with Angus Thompson and Aletta Boshoff, our response is predicated on the question posed reading '(or by another entity that provides services to the managed scheme)'.

We agree that it would be possible for the key management personnel of a managed scheme to be employed by the responsible entity of the managed scheme. However, we disagree that the key management personnel of the managed scheme could ever be employed by an entity other than the responsible entity. We also note that even where the responsible entity has employees, it may not necessarily have any key management personnel other than the directors of the responsible entity. Furthermore, the key management personnel of a scheme could differ between different schemes managed by the same responsible entity.

Key management personnel is defined as 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'. Commonly, a responsible entity may outsource many of its responsibilities to related parties (for example, its parent entity) or to third parties, and the responsible entity exists as nothing more than a shell company. The Corporations Act section 601FB(2) notes that 'the responsible entity has the power to appoint an agent, or otherwise engage a person, to do anything it is authorised to do in connection with the scheme. For the purposes of determining whether (a) there is a liability to members; or the responsible entity has properly performed its duties… the responsible entity is taken to have done (or failed to do) anything that the agent or person has done (or failed to do) …' Accordingly, ultimately the authority and responsibility for the activities of the entity can only be held by the directors and officers of the responsible entity. Where functions are outsourced to investment managers, compliance managers or the like, it is not appropriate (or practical) to identify employees of those entities (if any) as key management personnel of the managed scheme. Even where the responsible entity is an operating company with employees and officers, none of these persons may still be identified as the key management personnel of the scheme, depending on the way the scheme operations are managed (for example, outsourced fully, partially outsourced, or fully managed in-house).

We note that given our interpretation, it is possible for entities to restructure their activities to create a shell responsible entity with no employees to avoid making the related party disclosures in respect of key management compensation.

Question 14. Are there any other disclosure requirements you believe should be:

(a) added; or

(b) deleted?

We do not believe that there are any other disclosure requirements that should be added. However, as noted elsewhere in our submission, we believe that there are a number of disclosure requirements that should be deleted, most notably the s.300A disclosures (refer our comments to specific matters for comment 9), the extension of the AASB 1046 disclosures to the separate financial statements of the parent entity (refer our comments to specific matters for comment 9), and the requirement to provide comparative AASB 1046 disclosures.

AASB 101 paragraph 36 requires that comparative information to be disclosed in respect of the previous period for all amounts reported in the financial report, except when an Australian Accounting Standard permits or requires otherwise. The exposure draft contains no specific relief from disclosure of comparative information. We believe that the requirement to provide comparative disclosures in relation to Aus25.1 to Aus25.7.3 should be deleted.

Firstly, it is unclear who comparative disclosures are required in respect of – the key management personnel who are only key management personnel of both the current and comparative periods, or the key management personnel who are key management personnel of the current period, and full comparative information to be provided for the key management personnel of the comparative period. ED 143 does not specify key management personnel of the current period who were not key management in the previous period to be exempt from providing the comparative disclosures required by Aus25.2 to Aus25.7.3.

Secondly, comparative disclosures are now required in respect of individual disclosures of equity holdings, loans and other transactions, which was not previously required in AASB 1046. In respect of equity holdings and loans, comparative disclosures were not previously required on the basis that 'the disclosures required include the balances at the beginning and the end of the reporting period and this is expected to provide sufficient information. The benefit of requiring comparative information for all irregular items is likely to be exceeded by the cost. An entity can provide additional comparative information in any situation where it considers the information would be useful' (AASB 1046.11.1.2). We question why the Board has changed its views in this regard.

Question 15. Are the proposals in the best interest of the Australian economy?

We support the proposal to remove AASB 1046 and to include the disclosures required by AASB 1046 in AASB 124. We also support the proposals necessary to achieve IFRS compliance.

However, we do not believe it appropriate that the Australian related party disclosures required be extended further than that already required by AASB 1046. In particular, we do not support the inclusion of disclosures similar to those required by s.300A in any Standard resulting from this exposure draft, nor do we support the view taken by the AASB in relation to managed investment schemes and similar such entities.

Other matters

Interaction with other Australian Accounting Standards
We note that paragraph 3 of the exposure draft is word-for-word consistent with the corresponding paragraph in IAS 24, other than for the reference to AASB 127. This paragraph refers to the '… separate financial statements of a parent, venturer or investor'. As the notion of venturers or investors having separate financial statements has been deleted from AASB 127 and from the definition of 'separate financial statements', paragraph 3 should be updated. We propose the following amended wording:

> "This Standard requires disclosure of *related party transactions* and outstanding balances in the separate financial statements of a parent presented in accordance with AASB 127 *Consolidated and Separate Financial Statements*."

Disclosure of compensation of key management personnel
We note that paragraph 16 and paragraph Aus25.2 require disclosure of key management personnel compensation. It is unclear whether 'key management personnel compensation' is the same as compensation received in their role as a key management personnel of the entity, or whether the former includes any compensation received as an employee of the entity (or group, where consolidated financial statements are presented), regardless of whether the person is at that time a member of the key management personnel of the entity.

We believe the former is the correct interpretation of the disclosure requirement, and suggest that the Board may want to include Australian Guidance to this matter as part of the revised Standard.

Materiality

We have no objections to the requirements of Aus25.5.1 to Aus25.7.2 being deemed material. We query whether it is appropriate to also include Aus25.7.3 in the 'deemed material' paragraphs of the resulting Standard (as presently included by Aus1.8) as it specifies the transactions that are considered to be immaterial.

However, we also question the positioning of paragraph Aus25.7.3. We believe this paragraph may be better located in AASB 1031 *Materiality*, or also as Aus17.1. The paragraph effectively specifies the types of transactions that would be considered immaterial and not requiring disclosure; accordingly, there is no reason why it should be placed only within the 'disclosing entity' section of the exposure draft, as the rules of the paragraph should equally apply to non-disclosing entities making disclosures of transactions with related parties only in accordance with paragraph 17.

We also question why the disclosures of key management personnel in paragraphs 16 to Aus 16.2, and in paragraph 17 (including their related parties), are not similarly deemed to be material.

Editorial comments

1. In various Australian paragraphs in the exposure draft, reference is made to 'key management person'. As 'key management person' is not a defined term, we propose that a Standard resulting from the exposure draft refer instead to 'each member of the key management personnel' to avoid confusion and to maintain consistency in the terminology used throughout the exposure draft.

2. In various Australian paragraphs and in Appendix 3 to the exposure draft, reference is made to ‘compensation options’. We find this term clumsy and would suggest instead that the terminology ‘options granted as compensation’ be applied.
3. Paragraph Aus25.7. We believe the exclusions should apply to ‘transactions covered by paragraphs Aus25.2 to Aus25.6.1….’ rather than from Aus25.4. This would be consistent with the present requirements in AASB 1046.