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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Vic 8007
AUSTRALIA

Dear Chairman

Exposure Draft AASB ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*

The Australian firm of Ernst & Young is pleased to submit our comments on Exposure Draft AASB ED 214 *Extending Related Party Disclosures to the Not-for-Profit Public Sector*.

Overall, we support the proposals in ED 214 on the basis that it promotes harmonisation with International Financial Reporting Standards and supports transaction neutrality.

We note that adoption of ED 214 may give rise to application issues for affected agencies. Determining who are Key Management Personnel ('KMP') of the agency and attributing KMP/Ministerial income to individual agencies within a portfolio under the responsibility of a particular Minister may be problematic. We therefore recommend that the AASB consider including additional guidance and examples to assist implementation by the Australian NFP public sector. We recommend that the AASB reach out to Treasuries to develop suitable guidance and examples in this regard.

In addition, we note that no transitional provisions are currently proposed in ED 214 and therefore comparatives for related party disclosures would be required when the revised AASB 124 is first applied by NFP public sector entities for reporting periods beginning on or after 1 July 2013, ie comparatives would be required for periods beginning on or after 1 July 2012. We recommend that the AASB provide relief from the requirement to provide comparative information in the first year of application. Alternatively, the Board could 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 track and capture the required related party information.

Our responses to the specific questions are provided in Appendix A to this letter.

We would be pleased to discuss our comments further with you. Please contact Georgina Dellaportas on (613) 9288 8621 if you wish to discuss any of the matters raised in this response.

Yours sincerely

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

Appendix A - Specific Matters for Comment

1. Whether extending AASB 124 (December 2009) to NFP public sector is appropriate

We support extending AASB 124 to NFP public sector entities on the basis that it promotes harmonisation with International Financial Reporting Standards and supports transaction neutrality. We note that the previous reason for providing an exemption to NFP public sector entities from compliance with AASB 124 which was on the basis that such disclosure was impracticable due to the number of related party transactions that would be required to be disclosed by such entities no longer applies following the changes made to IAS 24 by the International Accounting Standards Board to require only aggregated related party disclosures for government owned entities.

2. Whether any amendments should be made to the proposed disclosure requirements (both Tier 1 and Tier 2) in respect of application by NFP public sector entities

We do not believe that amendments to disclosure requirements are necessary for Tier 1 or Tier 2 reporters. However, we recommend 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 within a jurisdiction as well between jurisdictions. This guidance and illustrative examples should deal with:

- Determining who are Key Management Personnel ('KMP') of the agency
- How income of KMP/Ministers is to be attributed to individual agencies within a portfolio under the responsibility of a particular Minister.

3. Whether any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals

No transitional provisions are currently proposed in ED 214 and therefore comparatives for related party disclosures would be required when the revised AASB 124 is first applied by NFP public sector entities for reporting periods beginning on or after 1 July 2013, ie comparatives would be required for periods beginning on or after 1 July 2012.

We recommend that the AASB provide relief from the requirement to provide comparative information in the first year of application. Alternatively, the Board could 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 track and capture the required related party information.

4. Whether, overall, the proposals would result in financial statements that would be useful to users

Related party information is a critical element of accountability in the public sector and therefore is considered useful information for users. The fact that most Treasuries do mandate some form of disclosure of remuneration for key management personnel supports the view that there is a need for users to be provided with remuneration information. In addition, we believe that users are interested in material transactions with KMP where those transactions have been conducted on terms not normally faced by citizens, ie not on arm's length.

5. Whether the proposals are in the best interests of the Australian economy

We believe the proposals are in the best interests of the Australian economy. Refer to comments at questions 1 and 4 above.

6. Unless already provided in response to specific matters for comment 1-5 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative

The public sector NFP's will likely incur additional costs in order to comply with the proposals in ED 214 in that there will be a need to have systems, processes and controls in place to capture and record related party information. In addition, the process of attributing KNP/Ministerial remuneration to individual agencies could be time consuming and involve significant judgement. However, 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. We do not believe that costs of implementing the proposals outweigh the benefits to users in providing such information. As noted above, related party information is a critical element of accountability in the public sector and therefore is considered important information for users.