



## AASB 124 – Related Party Disclosures

- Related Party Disclosures in Not-for-Profit  
Public Sector Entities  
Vincent Padgham  
Department of Finance

# Scope

- AASB 124 *Related Party Disclosure* requires the disclosure of transactions with parties related to the reporting entity (related parties), these include:
  - Key management personnel (KMP) – those with authority for planning, directing and controlling the activities of the entity (or a parent entity)
  - Close family members of KMP and bodies controlled by the KMP and/or a close family member.
  - Entities within the same group (ie Commonwealth entities)
- Status as a related party determined by control or influence – economic dependence is not enough (paragraph 11)
- AASB 124 also requires disclosure of KMP compensation (also currently required under the Financial Reporting Rule).



# Scope- Application to Commonwealth not-for-profit entities

- Has applied to 'for profit' entities since IFRS adoption in 2006
- Applies to the public sector from 2016-17
- Comparatives not required
- Implementation guidance has been added for the public sector, but no other modification of the provisions of the standard.
  - GBEs already apply AASB 124, so should have few, if any changes



# Who is affected?

- Agency KMP for executive positions consists of:
  - all members of a governing body of a corporate entity (however described);
  - the chief executive of the entity; and
  - those directly reporting to the chief executive with substantive decision-making responsibilities.
- In assessing whether the criteria to be a KMP is met, example 6 of AASB 124 may be helpful
- KMPs are only related parties of other entities where they are in a position of potential influence – typically for subsidiary entities.
- Close family members include adult children, partners and dependants
- Disclosures are also required for related entities (but note exemption of paragraph 25)



# Exemptions

- Paragraphs 25 and 26 provide a partial exemption for related parties under common control of governments.
  - Some disclosures are still required for the nature of the relationship and transactions that are significant, either individually or in aggregate



# Related party transactions:

- Transactions between an agency's executive KMP, their close family members and organisations they or their close family member control and the reporting entity or direct subsidiaries are related party transactions.
- The following are not related party transactions:
  - KMP/close family members with other Commonwealth agencies
  - The agency with an organisation which employs a KMP's close family member
  - The agency with an organisation where the KMP/close family member has a non-controlling interest (eg partner in a large law or accounting firm).
  - The agency with other family members of KMP (eg grandparent, uncle, aunt)
  - Organisation in which a KMP/close family member has formally relinquished control (eg blind trust).
  - Agency with another entity that has a common KMP



# Application of Materiality

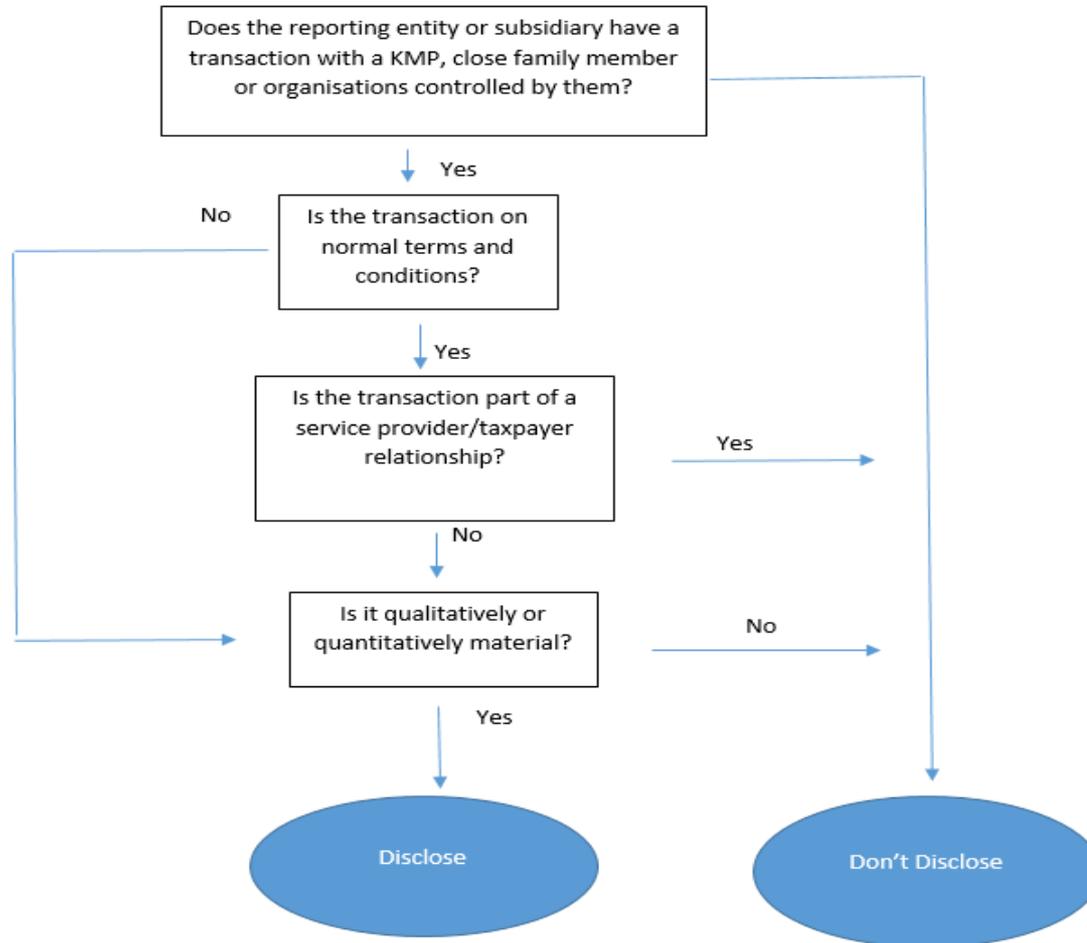
- Materiality is an overarching principle applying to all accounting standards.
- Materiality is assessed under the objective of AASB 124 to:
  - “draw [user’s] attention to the possibility that [the entity’s] financial position ... may have been affected by the existence of related parties and by transactions ... with such parties”
- The AASB has expanded on this in their tentative agenda decision released in December 2016:  
[http://www.aasb.gov.au/admin/file/content105/c9/AASB124\\_TAD\\_12-16.pdf](http://www.aasb.gov.au/admin/file/content105/c9/AASB124_TAD_12-16.pdf)



# Application of Materiality (cont'd)

- Paragraph IG 11 – transactions that are part of a normal public service/taxpayer relationship on the same basis as other citizens are unlikely to be material.
  - Examples include taxes, student loans, obtaining a passport etc
- However, where discretion is exercised eg the waiver of a debt, the transaction will need to be assessed to determine whether material.
- The AASB's tentative agenda decisions applies the entity's materiality thresholds to normal commercial transactions and recruitment processes (for example employment under the *Public Service Act 1999*)





# What will be disclosed?

- Sample disclosures will be provided in the Prima
- Minimum requirements (AASB 124.18):
  - The amount of the transaction
  - Outstanding balance, including commitments
  - Terms and conditions
  - Details of any guarantees
  - Provisions for doubtful debts
  - Doubtful debts
- Some aggregation is permitted under AASB 124.24, but may be of limited practical benefit as there are unlikely to be many reportable transactions.



# Remuneration

- RMG 125 (section 20) includes SES and equivalent as senior managers
- This definition is broader than KMP of AASB 124.
- Disclosure requirements for 2016-17 will be advised.
- Important to consider paragraph 17A:
  - **“If an entity obtains key management personnel services from another entity (the ‘management entity’), the entity is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity’s employees or directors.”**



# Remuneration

- Paragraph 17 – executive remuneration consists of:
  - Short-term employee benefits; post-employment benefits; other long term benefits and termination benefits
- Same as paragraph 16 of RMG 125.
- Acting arrangements for KMP – as per current guidance for Senior management personnel likely to be a matter of professional judgement.
  - From the definition of KMP unlikely a short term acting arrangements could have a significant strategic impact on the entity.



# Example Department of Finance KMP Related Party Disclosures

- Agency KMP consists of:
  - Secretary and Deputy Secretaries.
- Finance has no subsidiaries.
- Finance expenses are around \$640 million
- Remuneration – only significant change likely to be the additional reporting of KMP disclosure
  - Note ministerial remuneration will continue to be reported in the CFS
- Related party transactions would be subject to Finance materiality threshold – eg \$20,000 transaction unlikely to be material.



Contact details: [Vincent.Padgham@finance.gov.au](mailto:Vincent.Padgham@finance.gov.au)

Phone: 02 6215 1927

[AccountingPolicy@finance.gov.au](mailto:AccountingPolicy@finance.gov.au)

Questions?

