

Explanatory Statement

AASB 124 Related Party Disclosures

December 2005



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Urgent Issues Group (UIG) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

In implementing the FRC's directive, the AASB is replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the Board made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

AASB 124 *Related Party Disclosures* was issued in December 2005, with paragraphs 1 to 22 based on IAS 24 *Related Party Disclosures* and paragraphs Aus25.1 to Aus25.9.3 incorporating the disclosures previously required by AASB 1046 *Director and Executive Disclosures by Disclosing Entities*.

Reasons for Issuing AASB 124

When AASB 1046 was issued, the Board was aware it would need revision before the end of 2005, since it refers to AASB Standards that will become ineffective at the end of 2005, when they are replaced by the Australian equivalents to IFRSs. In considering the revision of AASB 1046, the Board reached the conclusion that it would be preferable to include its requirements in AASB 124, as additional disclosure items, breaking down the aggregates required by IAS 24, rather than retaining AASB 1046 as a separate Standard. In respect of non-corporate entities in the private sector, the Board also concluded that AAS 22 *Related Party Disclosures* should be withdrawn in favour of AASB 124.

In issuing this Standard, withdrawing AASB 1046 and adding certain disclosures to AASB 124, the Board has taken the opportunity to reconsider the application of AASB 124. When the financial statements of a parent are presented with the consolidated financial statements, AASB 1046 applied only to the consolidated financial statements. The Board has decided to remove parent entity relief in relation to AASB 124, paragraphs 1 to 22, in order to achieve IFRS compliance by parent entities. In many cases the KMP of the parent will be the same as the KMP of the group and removing the relief will be inconsequential. In some cases the KMP will be different. The Board notes that there is no relief for parent entities in IAS 24. The Board has also decided to maintain parent entity relief in relation to AASB 124, paragraphs Aus25.1 to Aus25.9.3, as these are additional Australian paragraphs and requirements that have no impact on IFRS compliance. Listed companies would, however, still have to consider the section 300A requirements of the *Corporations Act 2001*, since they apply to both the separate and consolidated financial statements. Due to the similarity in definitions between section 300A in the *Corporations Act* and KMP in AASB 124, the Board expects the KMP group (or groups) for a listed company will generally include all executives identified by section 300A of the *Corporations Act*.

The Board has decided to remove the definitions of specified director, executive and specified executive (including the requirement to specify at least five executives with the highest authority) and rely solely on the definition of KMP in AASB 124. The Board considers that the term KMP captures the relevant people responsible for an entity's governance and it provides an explicit link to the notions underlying AASB 124.

The Board has reconsidered the exemption provided in AASB 124 to disclosing entities that comply with the more detailed regime of individual disclosures required by AASB 1046. In the interests of ensuring unambiguous compliance with IFRSs, it has decided that disclosing entities be required to provide, in respect of compensation of KMP, the same group totals required to be disclosed by all other for-profit reporting entities and in addition the more detailed disclosures on the compensation of individuals, currently required by AASB 1046. Therefore, the Board removed the partial exemption for disclosing entities from AASB 124.

AASB 124 requires disclosure of the compensation of KMP (on an aggregate, not individual, basis) divided into five categories (the four in AASB 119 *Employee Benefits* plus share-based payment in AASB 2 *Share-based Payment*). As part of the realignment of the disclosure requirements in AASB 1046 to accord with the new Australian equivalents to IFRSs, substantial changes have been made to the definitions and the layout of the requirements as well as the deletion of much of the commentary. It is not intended that these changes diminish the quality and quantity of disclosures required from disclosing entities.

The addition to AASB 124 of the disclosures previously required by AASB 1046 does not cause non-compliance with IFRSs. The IASB has stated it regards requirements for more detailed disclosures than the basic disclosures required by AASB 124 as the responsibility of national standard setting bodies. The IASB does not intend to issue an IFRS addressing the same areas covered by AASB 1046.

Main Features of this Standard

This Standard was made by the AASB on 20 December 2005 under section 334 of the *Corporations Act 2001*.

Application Date

This Standard is applicable to annual reporting periods ending on or after 31 December 2005. Consistent with the applicability of the Standards to which it refers, AASB 2 and AASB 119, early adoption of this Standard is not permitted for periods beginning before 1 January 2005. This Standard may be applied to annual reporting periods beginning on or after 1 January 2005 that end before 31 December 2005.

First-time Application

Application of this Standard will effectively occur in the first annual reporting period beginning on or after 1 January 2005 in the context of adopting all Australian equivalents to IFRSs for most reporting entities.

Accordingly, the requirements of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the Australian equivalent of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, will need to be observed.

Transitional Provisions

Although it is not the first period in which disclosing entities are required to make the disclosures required by paragraphs Aus25.1 to Aus25.9.3, it is the first time that the disclosures are required for KMP rather than specified directors and specified executives. The change in definitions may result in remuneration disclosures for some KMP previously not considered specified directors or specified executives, and therefore comparative information is required for such individuals if they would have been identified as a key management person in the prior period. Additionally there may be changes in compensation calculations as a result of changes in definitions and reference back to AASB 119 and AASB 2 for measurement principles. The Board decided to not include transitional provisions in relation to AASB 124, paragraphs 1 to 22, since it could potentially lead to non-IFRS compliance. The Board also decided to not include transitional provisions in relation to AASB 124, paragraphs Aus25.1 to Aus25.9.3, since the aggregate information already needs to be prepared in order to comply with AASB 124, paragraphs 1 to 22.

Scope of Application

This Standard applies to all entities, except for not-for-profit public sector entities, irrespective of whether they are corporate or non-corporate entities, although paragraphs Aus25.1 to Aus25.9.3 apply only to disclosing entities.

This Standard replaces AASB 1046 (including AASB 1046A), AASB 124 issued in July 2004 and AAS 22. AASB 1046 (including AASB 1046A) applied to disclosing entities. AASB 124 issued in July 2004 applied to for-profit entities. AAS 22 applied to non-corporate entities in the private sector.

The Board decided to extend the application to all entities, excluding not-for-profit public sector entities and consequently withdraw AAS 22, rather than permit private sector non-corporate entities to make a choice as to whether to apply AASB 124 or AAS 22.

Disclosures

In respect of the disclosures required by AASB 1046 for disclosing entities, the revised requirements in this Standard, paragraphs Aus25.1 to Aus25.9.3, remain unchanged in substance, despite the changes in the definitions and terminology. Paragraphs Aus25.1 to Aus25.9.3 reflect the fact that this Standard is a principles based Standard. Paragraphs Aus25.1 to Aus25.9.3 do

not include extensive measurement guidance, since the measurement principles are located in other Standards.

The terms 'specified director' and 'specified executive' have been replaced by KMP. The Board considers the term KMP captures the relevant people responsible for an entity's governance. A key management person is a member of KMP.

The term 'remuneration' as used in AASB 1046 is changed to 'compensation', as the Board has decided this best enables IFRS compliance. To ensure articulation with the terminology of the Corporations Act, a definition of remuneration is included in this Standard that specifically equates the two terms. As a result of the amendments in 2004 and 2005 to section 300A of the Corporations Act, the Board decided to incorporate relevant subsections of section 300A in AASB 124 to replace relevant existing requirements in AASB 1046 to help facilitate the application of the Corporations Act and AASB 124 requirements.

The name of the first category of compensation is changed from 'primary benefits' to 'short-term benefits', to accord with the terminology in AASB 119 and AASB 124. The changes to the structure of categories of compensation (refer to paragraph Aus25.4) cause some changes to the classification used in AASB 1046, but it is intended these changes not result in omission from disclosures of information required by AASB 1046.

The Board has decided to delete all the Appendices and additional guidance in this Standard on the grounds that the provision and/or retention of additional guidance could be viewed as interpreting IFRSs, in particular, AASB 2 and AASB 119. The Board decided that interpretative issues should be raised with the IFRIC and if there is no IFRIC action, possibly as issues for domestic interpretation.

Managed Schemes

The Board decided to retain the application to all disclosing entities, but not provide any specific guidance in relation to disclosing entities managed by third parties, including managed investment schemes (MIS). The Board is of the view that whether such disclosing entities have KMP that are compensated directly or indirectly by the entity is a matter that will need to be assessed based on the facts in each circumstance and that judgement will need to be applied. If diverse or unacceptable practice develops the Board will consider referring the matter to the IFRIC, and if there is no IFRIC action, possibly as an issue for domestic interpretation.

Consultation prior to Issuing this Standard

Public consultation was part of the process undertaken by the AASB prior to its decision to issue this Standard. An Exposure Draft (ED) containing proposed revisions, ED 143 *Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124* was issued for public comment in September 2005, with a comment period ending on 15 November 2005.

Twenty submissions to ED 143 were received and the AASB considered these submissions in the process of developing this Standard.

A Regulatory Impact Statement has been prepared in connection with the revision of the Standards.