

Accounting alert

Analysis of the latest accounting developments delivered to you via e-mail

AASB proposes transferring AASB 1046 requirements into AASB 124 'Related Party Disclosures'

The exposure draft is freely available on the AASB web site

The AASB have released for comment ED 143 *Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124*. In considering a revision of AASB 1046 in the context of the adoption of Australian Equivalents to International Financial Reporting Standards (A-IFRS) the AASB concluded it preferable to include the disclosure requirements of AASB 1046 in AASB 124 *Related Party Disclosures*. These changes are not intended to diminish the quality or quantity of disclosures required by disclosing entities.

The proposals in the exposure draft which are of most cause for concern are:

- the application to managed investment schemes
- the requirement for all disclosing entities to provide numerous section 300A disclosures
- the proposal to remove the guidance on the application of the Aus paragraphs.

Other key changes include:

- the removal of the definitions of specified director and specified executive with reference instead to key management personnel as defined in AASB 124
- the removal of parent entity relief
- AASB 124 (Revised) to apply to all non-corporate for-profit entities
- AASB 1046 descriptive disclosures about each key management personnel by all reporting entities.

This *Accounting Alert* provides an outline of some of the key proposals and their impacts.



Overview

Key management personnel

Definitions of specified director and specified executive to be removed and reference made only to Key Management Personnel

AASB 124 requires disclosure of the compensation of the key management personnel of the entity. The key management personnel (KMP) are defined as those persons who have the 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. Accordingly, it is proposed that since KMP are responsible for the governance of the entity the definitions of specified director and specified executive be removed.

No limit on the number of KMP to be disclosed

A key impact of the removal of the definition of specified executive is that the number of KMP to be disclosed is no longer restricted to five or more. Accordingly, all KMP as defined, regardless of number, are to be included in the disclosures provided by disclosing entities under AASB 124 (Revised).

The need for transitional provisions is to be considered as comparative information will otherwise be required in respect of KMP

The change in definitions may result in previously non-specified executives now being considered to be KMP; without transitional provisions comparative information will be required. The AASB is seeking comment whether constituents believe transitional provisions should be added to the Standard.

Section 300A of the Corporations Act 2001 (the Act) requires listed entities to disclose in the Remuneration Report the remuneration of each director of the company and each of the five company executives and, if consolidated financial statements are required, each of the five relevant group executives, receiving the highest remuneration for the year. It is possible that there may be executives who are caught under the section 300A disclosures, but are not KMP as defined, for example the company secretary. Furthermore, there may exist executives who are required to be included in the group of KMP who are not one of the persons (up to ten in consolidated accounts) who received the highest remuneration for the year and thus are not required to be included in the Remuneration Report disclosures. Accordingly, differences between those individuals subject to the disclosure requirements of the accounting standards and those subject to the disclosure requirements of the Act may continue to exist.

Regulation 2M.6.04 will continue to be of relevance to those listed companies wishing to avoid the duplicity of disclosure required in respect of KMP and those required to be included in the section 300A disclosures in the Remuneration Report. It is our understanding that Treasury will revise the Regulations to the Act once the AASB has released the revised AASB 124 in order to replace the references from AASB 1046 to AASB 124.

Parent entity relief

Disclosures in respect of KMP will be required in respect of the parent entity and group

It is proposed that there will be no relief for a parent that presents consolidated financial statements. Currently, where a disclosing entity is a parent entity in a group and it presents consolidated financial statements AASB 1046 applies only to the consolidated financial statements. Similarly, where an entity is a parent that presents its financial statements together with the consolidated financial statements of the group, AASB 124 (July 2004) only requires disclosures in the parent entity financial statements in respect of all related parties other than the specified directors and specified executives and entities related through them to the parent entity. IAS 24 contains no relief in respect of parent entities and accordingly the AASB proposes to remove the relief currently provided under AASB 1046 and AASB 124 (July 2004) in order to facilitate compliance with IFRS.

It is likely that in many cases the KMP of the company and group will be the same. In these cases there is no impact resulting from the change, however, in cases where the KMP of the company are different to the KMP of the group additional disclosures will now be required.

Exemption from requirement to disclose aggregate compensation of KMP

AASB 124 (July 2004) currently provides disclosing entities with relief from the requirement to disclose the aggregate compensation of all KMP. In order to ensure unambiguous compliance with IFRS the AASB proposes that disclosing entities now provide this disclosure in addition to the more detailed disclosure required in respect of each individual KMP.

Changes to definitions and categories

Terminology is to be aligned with IFRS terminology

A number of definitions are to be changed to align the terminology previously used with IFRS terminology, for example:

Remuneration v compensation

The term remuneration is no longer to be used and will be replaced with compensation. In order to make it unambiguous that this is not a change in principle (and does not result in any inconsistency with the Act) a paragraph is to be added to the Australian definitions that remuneration is compensation as defined in AASB 124.

The categories of the disclosures required in respect of compensation for each individual KMP are to be changed in order to align with the aggregates required to be disclosed in respect of all KMP under AASB 124. Thus the five new categories of compensation will be:

- short-term employee benefits
- post-employment benefits
- other long-term benefits
- termination benefits
- share-based payment.

The sub categories to be disclosed are also to be realigned with the new categories.

It should also be noted that the AASB propose to remove the requirement to provide separate disclosure of prescribed benefits.

Personally-related entity v related party

The definition of personally-related entity in AASB 1046 is to be deleted and instead reference is now to be made to subparagraphs (e) and (f) of the definition of related party in determining those parties who are related to the KMP. Thus for purposes of disclosing equity holdings, loans and other transactions and balances the following persons will be considered to be related to the KMP:

- a close member of the family i.e. those family members who may be expected to influence, or be influenced by, the individual in their dealings with the entity. This would include:
 - the individual's domestic partner and children
 - children of the individual's domestic partner
 - dependants of the individual or the individual's domestic partner.
- an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to above or the KMP.

As a result the following persons who were previously considered to be a personally-related entity may no longer be captured by the disclosures required in respect of KMP and their related parties:

- parent or remoter lineal ancestor (unless a dependant)
- remote issue of a son or daughter (unless a dependant)
- brother or sister (unless a dependant)
- a spouse of any of the above persons (unless a dependant)
- any entity under the joint or several control or significant influence of any of the above persons.

Guidance

It is also proposed to delete much of the guidance previously provided in AASB 1046. Significant guidance was provided regarding the measurement of the various elements of compensation; this guidance is no longer required as AASB 124 is a disclosure only standard and the requirements for measurement are provided in various other A-IFRS, for example AASB 2 *Share-based Payment* and AASB 119 *Employee Benefits*. Other non-measurement related guidance has been moved to Appendix 5 of the exposure draft. It is however the intention of the AASB to delete the appendices to the exposure draft when issuing the revised AASB 124.

Managed Investment Schemes (MIS)

The area of possibly most contention in the exposure draft relates to the application of the requirements to MIS. In June 2004 the AASB issued a media release in response to numerous questions around the application of AASB 1046 to MIS that are disclosing entities. At the time the AASB agreed that the Standard applied to all disclosing entities regardless of how they are structured.

In August 2004 ASIC released Class Order 04/0967 which provided short term relief from the remuneration disclosure requirements of AASB 1046 for financial reports of registered schemes that are disclosing entities. The Class Order, however, only covered financial years and half-years ending 30 June 2004 up to, but not including, 30 September 2004. This relief has not been extended by ASIC.

Related parties captured by the equity holdings, loans and other transactions and balances disclosures to change

Much of the guidance is to be deleted as this guidance is provided by other standards e.g. AASB 2 and AASB 119

The AASB adopt the approach that management fees paid to a RE are considered to be indirect compensation of KMP and propose that MIS give the detailed compensation disclosures for their KMP

Appendix 1 of the exposure draft has been included to deal with the question around the application of the requirement to disclose compensation for KMP of MIS. In the case of a registered MIS, the KMP would rarely be compensated directly by the MIS. Most commonly the MIS pays a management fee to its responsible entity (RE). The exposure draft takes the view that when the RE or another entity that provides services to the MIS pays the KMP compensation for services to the MIS on behalf of the MIS, that this in effect falls within the meaning of compensation irrespective of the fact that the basis of the calculation of the management fee may bear no relationship to the compensation of the KMP. Accordingly the AASB believe that the RE should identify the cost of governance of each scheme and that the compensation disclosures should show the cost of compensation of the KMP allocated on an appropriate basis to each MIS for which they are responsible.

The AASB is requesting comment as to whether constituents agree that:

- when a MIS pays a management fee to its RE, the MIS indirectly provides compensation of the KMP
- the KMP of MIS should be subject to the same disclosure regime as all other disclosing entities, or whether they should be required to make fewer disclosures, and perhaps only those required by paragraphs 1-22 of AASB 124 (Revised)
- the KMP of a MIS are among the individuals paid by the RE (or by another entity that provides services to the MIS).

Additional disclosures required of all disclosing entities

The AASB proposes to require all disclosing entities, not only listed entities, to provide disclosures otherwise only required to be given by listed companies in the Remuneration Report. In particular it is proposed that disclosing entities provide disclosure in relation to performance conditions attaching to compensation or the lack thereof as follows:

- numerous additional disclosures where an element of compensation is dependent on the satisfaction of a performance condition, including why the condition was chosen etc, and
- if an element of compensation consists of securities and that element is not dependent on the satisfaction of a performance condition – an explanation of why that element of compensation is not dependent on the satisfaction of a performance condition.

The additional disclosures will be required to be audited as they fall within the financial report.

When are these changes proposed to take effect?

AASB 124 as revised is to be applied to annual reporting periods ending on or after 31 December 2005. The revised Standard may not be applied to annual reporting periods commencing before 1 January 2005.

The AASB is seeking comments on the exposure draft by 15 November 2005, in order to allow the AASB time to consider constituents' comments in formulating the revised Standard such that the Standard may be released and effective for annual reporting periods ending on or after 31 December 2005. Therefore, entities that wish to make submissions on the proposals will need to respond within this timeframe. We would welcome the opportunity to meet with you to discuss these proposals and also welcome your feedback and comments on the proposals.

Feedback and assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to accounting_alerts@deloitte.com.au.

For assistance in applying the requirements outlined above, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to bruporter@deloitte.com.au

Numerous s300A disclosures have been added to the disclosures required of all disclosing entities

The revised Standard is to be applied for annual reporting periods ending on or after 31 December 2005

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