

# Accounting Alert

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

*The revised Standard is freely available on the AASB web site.*

*The requirements of AASB 1046 have been incorporated into the revised AASB 1046.*

*The Standard applies for annual reporting periods ending on or after 31 December 2005.*

*Full retrospective comparative disclosures are required.*

*Disclosures required in respect of key management personnel, including their related parties, rather than specified directors and specified executives and their personally-related entities.*

*Early identification of key management personnel is encouraged.*

*Comparative information is required for the set of persons who formed the group of key management personnel in the previous reporting period.*

## Revised AASB 124 'Related Party Disclosures'

Late December 2005, the AASB released a revised AASB 124 'Related Party Disclosures'. This version of AASB 124 incorporates the requirements of now superseded AASB 1046 'Director and Executive Disclosures by Disclosing Entities' as well as introducing a number of additional disclosures consistent with those required by s.300A of the Corporations Act 2001.

This Accounting Alert provides a brief overview of some of the key features of the revised Standard and changes from the superseded AASB 124 and AASB 1046 that you should be aware of.

### Applicability to 31 December 2005 year ends

One of the AASB's objectives in issuing a revised AASB 124 was to achieve unambiguous compliance with IFRS. To this purpose, the revised Standard applies to annual reporting periods ending on or after 31 December 2005. In practice, for most entities the revised Standard will be applicable to their first A-IFRS annual reporting period.

In addition, no transitional provisions have been included in the Standard. Accordingly, entities are required to provide comparative disclosures for all disclosures required by the Standard, including those not otherwise required by the previous version of AASB 124.

### Exposure draft ED 143

Most of the proposals in ED 143 'Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124' were maintained in the final Standard. In Accounting Alert 2005/12 (issued October 2005) we highlighted to you that we believed the proposals in ED 143 of most cause for concern were:

- the application of the Standard to managed 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 to the Standard which we highlighted in that Accounting Alert included:

- the removal of the definitions of specified director and specified executive with reference instead to key management personnel as defined
- the removal of parent entity relief.

These and other issues are discussed further below.

### Key management personnel

For reasons of consistency with IAS 24, the AASB concluded that the revised Standard should no longer define and use the terms 'specified director', 'specified executive' and 'executive'. Instead, disclosing entities are now required to provide detailed disclosures for all key management personnel of the entity, being 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. The AASB have indicated that they expect, due to the similarity in definitions between s.300A and key management personnel, that the key management personnel for a listed company will generally include all the s.300A executives.

As noted above, the Standard includes no transitional provisions. Accordingly, comparative disclosures are now required in respect of the set of persons who formed the group of key management personnel of the comparative period – this differs from AASB 1046, which required that detailed comparative information be provided only in respect of those persons who were key management personnel of both the current and previous reporting period.

## Compensation

The term 'remuneration' is also no longer used in the revised Standard; instead, as proposed in ED 143, the term 'compensation' is defined. In order to make it unambiguous that the change in terminology is not a change in principle (and does not result in any inconsistency with the Corporations Act 2001) a paragraph has been added to the Australian definitions that remuneration is compensation as defined in AASB 124.

### Scope of the standard

#### Not-for-profit non-corporate entities

The AASB decided that AASB 124 should be applicable to both for-profit and not-for-profit non-corporate entities, other than to not-for-profit public sector entities (where non-disclosing). Accordingly, the revised AASB 124 also supersedes AAS 22 'Related Party Disclosures'.

#### Parent entity relief

In keeping with its objectives of ensuring unambiguous IFRS compliance, the AASB concluded that the revised Standard should not include parent entity relief in relation to the IFRS-consistent disclosures (that is, the disclosures required of all reporting entities) as previously included in the superseded AASB 124. However, an entity that is the parent entity in a group and presents its separate financial statements together with its consolidated financial statements need not provide in its separate financial statements the additional Australian disclosures required of disclosing entities (being the s.300A and former AASB 1046 information about key management personnel covered by AASB 124 paragraphs Aus25.1 to Aus25.9.3).

#### Managed schemes

The Standard applies to managed schemes, including managed schemes which are disclosing entities, in the same manner as to other entities. The AASB received a variety of responses to its proposals on the manner in which the requirements of revised AASB 124 apply to managed schemes, and decided that the Standard should be silent on the topic, indicating that entities will need to apply judgement in order to determine who their key management personnel are, and whether they are compensated, directly or indirectly, by the managed scheme.

Deloitte's view, in relation to the application of the Standard to managed investment schemes is as follows:

- a managed investment scheme (MIS) may have key management personnel. Judgement will be required to determine who forms part of the key management personnel.
  - the key management personnel of a MIS may be employed by the scheme, its subsidiaries, or its Responsible Entity. It is unlikely for the key management personnel of a MIS to be employed by third-party service providers or other related parties of the Responsible Entity.
  - the key management personnel of a MIS include all the directors of the Responsible Entity, but may not necessarily include all the executives of the Responsible Entity. The key management personnel of a MIS are considered in relation to the operations of the MIS, and accordingly, may differ from the key management personnel of the Responsible Entity.
- the key management personnel of a MIS would generally be expected to receive compensation for their services as a key management person to the scheme.
  - part of the compensation received by the key management personnel of a MIS paid/payable by the Responsible Entity is for services rendered by the key management personnel in relation to the MIS. That is, the Responsible Entity may compensate the key management personnel of a MIS on behalf of the MIS, and this portion of their compensation must be allocated to the MIS.
  - the compensation paid/payable to each member of the key management personnel of a MIS is not limited to a portion of the management fee (note: this is the view proposed in the AASB media release 'AASB 1046 Director and Executive Disclosures by Disclosing Entities' (21 June 2004) and ED 143) but rather, is determined **from** the total compensation paid/payable to such a member of the key management personnel. Their compensation for managing a scheme would most likely be a portion of their total compensation for managing a scheme would most likely be a portion of their total

*AAS 22 has been superseded by revised AASB 124.*

*Parent entity relief is only available in relation to the additional Australian disclosures required of disclosing entities.*

*Judgement is required to determine the key management personnel of a managed scheme and whether they receive any compensation for managing the scheme.*

*Deloitte believe that the compensation paid or payable to key management personnel is not limited to a portion of the management fee.*

*AASB 124 does not permit the 'impractical out' contemplated in the AASB's 2004 media release on managed schemes.*

*All managed schemes will have to determine the quantum of compensation paid to key management personnel.*

*New disclosures consistent with the disclosures required by s.300A introduced. These disclosures are required to be made by all disclosing entities.*

*The remuneration information and disclosures consistent with s.300A required by the revised AASB 124 cannot be transferred into the Remuneration Report.*

*The requirements of Regulation 2M.3.03 continue to apply.*

*Preparers of financial reports should determine the allocation of compensation into the categories and sub-categories required by AASB 124.*

*Preparers of financial reports should ensure that share-based payments are measured in accordance with AASB 2 and not the direction and principles specified by AASB 1046.*

*Revised AASB 124 does not include any Australian guidance.*

compensation where they are responsible for the management of more than one scheme. Note, as AASB 124 does not permit the disclosure of the total compensation paid/payable to key management personnel (the 'impracticable' out) rather than the portion that relates to the management of the MIS, entities must perform the allocation of compensation.

Both managed schemes which are disclosing and non-disclosing entities are required to determine the quantum of compensation provided to their key management personnel. Managed schemes which are non-disclosing entities are required to disclose this information in aggregate while schemes which are disclosing entities will have to provide this information by individual and in aggregate.

### **s.300A disclosures, Regulation 2M.3.03 and Regulation 2M.6.04**

Disclosing entities, whether or not required to prepare a Remuneration Report (for example, listed managed investment schemes), will be required to provide a number of the disclosures required by s.300A of the Corporations Act within their financial report in addition to within the Remuneration Report. Accordingly, these disclosures will now be subject to audit.

Regulation 2M.6.04, which permitted the transfer of AASB 1046 remuneration information (AASB 1046, Section 5) into the Remuneration Report provided certain conditions were met, will no longer have any applicability. That is, listed companies will not be permitted to transfer any of the information required by AASB 124 into the Remuneration Report. There is also no provision for the 's.300A disclosures' required by AASB 124 to be transferred into the Remuneration Report.

Regulation 2M.3.03, which requires certain prescribed information to be disclosed in the Remuneration Report, will continue to operate in its present form. That is, listed entities will be required to provide the information required by the Regulation based on the superseded AASB 1046. This may result in some disconnect between the information disclosed in the Remuneration Report and the financial report due to differences between some of the rules and disclosures in AASB 1046, and those specified by various A-IFRS.

We look forward to the ASIC or the Treasury revising the Regulations or providing some relief to entities in this regard before the first reporting deadline to which revised AASB 124 applies, and will keep you updated should any action occur on this front.

### **Compensation and share-based payments**

Revised AASB 124 requires disclosing entities to disclose compensation, by individual member of the key management personnel, in the categories identified in AASB 119 and AASB 2, including further sub-components of those categories. As a result of differences between the categories identified in the revised Standard and AASB 1046, entities will have to reconsider where different types of their compensation are disclosed. For example, annual leave would have previously been disclosed as 'primary – salary', however, under the revised Standard, it may be appropriate to disclose portions of compensation attributable to annual leave between 'short-term employee benefits – salary' and 'other long-term employee benefits'.

Share-based payments should be included in compensation in accordance with the measurement rules specified in AASB 2 'Share-based Payment'. Accordingly, while an entity may not expense share-based payments granted before 7 November 2002 or vested before the later of the date of transition and 1 January 2005, as permitted by the first-time adoption provisions of AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', Deloitte consider that it would be appropriate for these amounts to continue to be disclosed as part of the compensation of a member of the key management personnel.

### **Australian guidance**

Consistent with the proposals in the exposure draft, the final Standard does not include any guidance in relation to the requirements of the Standard (both those consistent with IAS 24 and the additional domestic requirements) to avoid potentially creating inconsistent interpretations of the requirements of the Standard with international practices. Entities should refer therefore to the requirements specified in various other Accounting Standards to determine the appropriate accounting treatment for amounts to be disclosed in accordance with AASB 124.

## Action points

The following questions should be considered by entities adopting revised AASB 124:

- have all key management personnel of the parent entity been identified for the purposes of determining total key management personnel compensation in the parent's separate financial report?
- has all compensation been allocated to the categories identified in AASB 124 which differ in some respects to the categories contained in the superceded AASB 1046?
- has the information required by the Standard been collected for all key management for the comparative period, for example, details of loans and equity holdings for the key management personnel of a disclosing entity?
- have any differences in disclosures arising from the application of Regulation 2M.3.03 been identified, that is, the Remuneration Report must be prepared on the basis of superceded AASB 1046 including for example, the categories of remuneration prescribed by that Standard?
- for a disclosing entity that previously applied Regulation 2M.6.04 and transferred AASB 1046 remuneration information to the Remuneration Report, do the notes to the financial statements now include all the disclosures required by AASB 124? This will mean that certain items will be disclosed in both the Remuneration Report and the notes to the financial statements
- has a non-listed disclosing entity collated the necessary information to complete the s.300A Corporations Act 2001 disclosure requirements now contained in AASB 124?
- has a managed scheme identified who their key management personnel are, and whether or not they are compensated directly or indirectly, by the managed scheme?
- consideration needs to be given as to how the various components of compensation are to be measured, in particular in respect of share-based payments and superannuation benefits whereby an entity makes contributions to a defined benefit retirement plan.

## Example disclosures

To assist entities with the preparation of their financial reports in accordance with AASB 124, Deloitte are preparing an addendum to our publication Consolidated Model Financial Reports – first time adoption of International Financial Reporting Standards.

## 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](mailto: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 +61 (0) 3 9208 7490, or by email to [bruporter@deloitte.com.au](mailto:bruporter@deloitte.com.au).

*An addendum to the Deloitte Consolidated Model Financial Reports will be available shortly on [www.deloitte.com.au](http://www.deloitte.com.au).*

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