

Accounting Alert

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

Pending AASB 124 'Related Party Disclosures'

The Australian Accounting Standards Board (AASB) has recently released Pending AASB 124 'Related Party Disclosures' ('AASB 124') as part of the convergence process with International Financial Reporting Standards. The Pending Standard, when operative, will replace AASB 1017 'Related Party Disclosures'. It will not replace AASB 1046 'Director and Executive Disclosures by Disclosing Entities' ('AASB 1046') or AAS 22 'Related Party Disclosures' ('AAS 22').

This *Accounting Alert* provides an overview of the Pending Standard.

Overview

Although approved, Pending AASB 124 is not yet finalised and in accordance with its proposed application date cannot be early adopted prior to financial years beginning on or after 1 January 2005.

The Pending Standard:

- introduces a new definition of 'related party'. The effect of the new definition is that some related parties under AASB 1017 would no longer be a related party for the purposes of Pending AASB 124, while others, including specified executives, would now be considered as such
- introduces the term 'key management personnel'
- requires, in general, less onerous disclosures for key management personnel (other than in relation to compensation) and other related parties.

Application of the Pending Standard

The Pending Standard applies to reporting entities preparing reports in accordance with Part 2M.3 of the Corporations Act 2001, each for-profit, non-corporate reporting entity, and each for-profit entity that prepares a general purpose financial report.

Not-for-profit, non-corporate reporting entities should continue to apply AAS 22. For-profit, non-corporate reporting entities who apply AASB 124 are exempted from applying AAS 22.

Where consolidated financial reports are presented, disclosures for key management personnel and their related entities need only be made for the consolidated entity. All other related party disclosures specified by the Pending Standard must be made in relation to both the company and the consolidated entity.

Materiality of related party disclosures

The requirements in the Pending Standard apply to the financial report where information resulting from their application is material in accordance with Pending AASB 1031 'Materiality'. Pending AASB 124 does not deem its director-related transactions to be material; however, Pending AASB 1031 notes that it may be necessary to treat transactions occurring between the entity and those parties with a fiduciary responsibility in relation to the entity, such as those outlined in Pending AASB 124, as material because of their nature.

A copy of Pending AASB 124 can be downloaded from the AASB's web site: www.aasb.com.au

AAS 22 'Related Party Disclosures' will not be withdrawn

Related parties – who is now included?

The Pending Standard defines 'related party' in the following manner:

'A party is related to an entity if:

- (a) directly, or indirectly, directly, or indirectly through one or more intermediaries, the party:*
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);*
 - (ii) has an interest in the entity that gives it significant influence over the entity; or*
 - (iii) has joint control over the entity;*
- (b) the party is an associate (as defined in AASB 128 'Investments in Associates') of the entity;*
- (c) the party is a joint venture in which the entity is a venturer (see AASB 131 'Interests in Joint Ventures');*
- (d) the party is a member of the key management personnel of the entity or its parent;*
- (e) the party is a close member of the family of any individual referred to in (a) or (d);*
- (f) the party is 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 in (d) or (e); or*
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.'*

'Close members of the family of an individual' is defined as:

'those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity. They may include:

- (a) the individual's domestic partner and children;*
- (b) children of the individual's domestic partner; and*
- (c) dependants of the individual or the individual's domestic partner.'*

Some entities who are related parties under AASB 1017 will no longer be related parties under Pending AASB 124 and vice versa

The definition of 'related party' in Pending AASB 124 will result in the following parties who were previously related parties under AASB 1017 no longer being related parties of the entity:

- directors and director-related entities of related parties other than the parent of the reporting entity
- family members who are not considered to be 'close family members' of key management personnel (attention should be directed at the substance of the relationship rather than the legal form).

New related parties include:

- de facto spouses of key management personnel
- specified executives of the reporting entity (part of key management personnel)
- specified executives of the entity's parent
- close family members of specified executives of the entity or the entity's parent
- entities controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, specified executives of the entity or the entity's parent, or close members of their families
- post-employment plans for the benefit of employees of the entity or any related entity.

This is not an exhaustive list, and entities should review their procedures for identifying related parties in order to ensure that relevant and complete information can be obtained.

Disclosing entities are not required to make the disclosures specified by Pending AASB 124 in relation to specified directors and specified executives of the reporting entity (and the entities related through them)

Key management personnel – disclosing entities

The key management personnel of an entity are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity. The key management personnel comprises the specified directors and at least five specified executives of the economic entity.

The Pending Standard specifies that disclosing entities applying AASB 1046 will be taken to have met the requirements of the Pending Standard in relation to the disclosures required of key management personnel and the entities related through them. Disclosing entities will be required to comply with all other disclosures specified by the Pending Standard, including those in relation to key management personnel of the entity's parent and their related parties, and any former key management personnel of the disclosing entity.

Related party disclosures

Entities are required to disclose:

- the name of the parent entity, ultimate parent entity (if different), and ultimate Australian parent entity. Where neither the parent nor the ultimate parent entity prepares publicly available financial reports, the name of the next most senior parent who does so must be disclosed. Foreign incorporated entities must be identified and their place of incorporation disclosed;
- the names of the specified directors, and where the director did not hold this position for the entire period, the date of appointment or resignation of the director;
- key management personnel compensation, in total and in the following categories: short-term employee benefits, post-employment benefits, other long-term employee benefits, termination benefits and share-based payment. The Pending Standard, similar to AASB 1046, does not exclude the remuneration of certain non-resident directors. There is no requirement to disclose compensation by individual; and
- disclosure of the nature of the related party relationship and information about transactions and any outstanding balances between key management personnel and the entity necessary for an understanding of the potential effect of the relationship on the financial statements, including:
 - (a) the amount of the transactions;
 - (b) the amount of outstanding balances and their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received;
 - (c) provisions for doubtful debts related to the amount of outstanding balances; and
 - (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.

These disclosures should be made of related parties, grouped in the following categories:

- (a) parent;
- (b) entities with joint control or significant influence over the entity;
- (c) subsidiaries;
- (d) associates;
- (e) joint ventures in which the entity is a venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties, identifying separately any transactions with former key management personnel.

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 in your organisation, 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

Compensation of key management personnel must be disclosed in total and in 4 different categories

Disclosure of related party transactions should be made by category of related party

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