
Frequently asked questions **Implementing AASB 124 Related Party Disclosures**

Introduction

Building on the feedback received from agencies on practical challenges implementing AASB 124 Related Party Disclosures (AASB 124), NSW Treasury has developed the following frequently asked questions (FAQs).

In all instances preparers of financial statements should refer to AASB 124. These FAQs, however, together with Treasury Circular TC16-12 Related party disclosures (TC16-12) are intended to assist with exercising those judgements necessary in applying AASB 124. Further, the Australian Accounting Standards Board (AASB) has also released an Agenda Decision on 'Materiality of Key Management Personnel Related Party Transactions for Public Sector Entities' that includes further guidance on the purpose of related party disclosures and the relationship between materiality and the collection of related party information.

1. What factors need to be considered in determining an agency's Key Management Personnel?

Determining who are key management personnel (KMP) depends on each agency's circumstances and requires the application of judgement. TC16-12 contains guidance on applying the KMP definition in AASB 124 and both AASB 124 and TC16-12 should be referred to in the first instance.

The following may provide further assistance in making this determination. It is important, however, to weigh all relevant facts and circumstances.

Guidance	Comments
<p>The ability to plan, direct and control is likely to be derived from:</p> <ul style="list-style-type: none"> ▪ Legislative rights and responsibilities ▪ Delegations ▪ Organisational structure ▪ How decisions are made in practice. 	<p>These factors should be considered in combination, for example:</p> <ul style="list-style-type: none"> ▪ Delegations on their own are not likely to make someone a KMP. Further, the fact that delegations can be revoked does not preclude someone from being a KMP. ▪ How decisions are actually made in practice may require analysis. ▪ Legal authority to make overriding decisions does not, on its own, determine who the KMP are.
<p>Responsibility should be for planning, directing and controlling the entity overall, directly or indirectly.</p>	<p>An individual who is responsible for a single business or service line is not necessarily a KMP of the entity, unless they are also responsible for planning, directing and controlling the entity overall (e.g. jointly with other KMP).</p>
<p>Responsibility can be jointly with other KMP.</p>	<p>For example, membership of committees of senior executives responsible for decisions about planning, directing and controlling the entity.</p>
<p>How decisions are made in practice about planning, directing and controlling the entity overall, is likely to identify the KMP.</p>	<p>The following should be considered where senior executive meetings are held:</p> <ul style="list-style-type: none"> ▪ What decisions are made that relate to planning, directing and controlling the entity overall? ▪ Is the meeting committee restricted to providing only advice? ▪ To what extent are individuals participating members or only observers?

Other points to remember:

- KMP are generally employees of the reporting agency but the definition does not restrict itself to employees. Therefore, seconded staff and persons engaged under management or outsourcing contracts should also be considered.
- It is recommended that agencies review Examples 1 to 6 of the Australian implementation guidance in AASB 124. These examples illustrate the application of the definition of KMP by not-for-profit public sector entities.

2. When can I make qualitative disclosures about transactions with Government-related entities?

AASB 124 allows reduced disclosures for transactions with government-related entities (GRE) compared to transactions with other related parties. Treasury Circular TC16-12 recommends that disclosures are limited to a qualitative narrative where transactions are collectively, but not individually, significant.

Where GRE transactions are in the ordinary course of business of the agency, a qualitative description of the broad types of transactions is likely to suffice. For example, providing training services, where these are the agency's core services.

The following examples of common transactions will also generally be considered in the ordinary course of business:

- Payments into the Treasury Management Fund
- Long Service Leave and Defined Benefit Superannuation assumed by the Crown
- Appropriations (and subsequent adjustments to appropriations)
- Transactions with TCorp, including interest
- Transactions relating to the Treasury Banking System (including interest income).

3. Do I need to collect information on all transactions with Government-related entities?

No. Agencies generally need not collect data on all GRE transactions that do not require separate disclosure because they are in the ordinary course of business. Information by class of GRE transaction is likely to be evident in the agency's general or sub-ledgers. In the above example, training services provided to GREs is likely to be reported in the agency's ledgers.

Agencies, however, should have procedures for identifying GRE transactions that are significant because they are not in the ordinary course of business, or are otherwise individually significant, and which may therefore require separate disclosure.

4. Are KMP compensation disclosures required to name individual KMP?

No. AASB 124 permits but does not require compensation disclosures to identify individuals or categories of KMP (e.g. Secretaries, Deputy Secretaries etc.) in the financial report. AASB 124 (para 17) requires disclosure of KMP compensation in aggregate for each of the following:

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

However, legislation [clause 7 of *Annual Reports (Departments) Regulation 2015* and clause 12 of *Annual Reports (Statutory Bodies) Regulation 2015*] does require additional disclosures in annual reports in respect of certain executives and this continues to apply.

5. When does someone acting in a KMP position become a KMP for the purposes of AASB 124?

This will depend on the circumstances, including the length of the appointment, the participation on key decision-making bodies and the types of decisions made. TC16-12 (section 2.3) provides guidance on how to determine whether someone in an acting position is a KMP.

The longer the duration of the appointment, the more likely the person will be a KMP. As a rule-of-thumb, appointments of less than three months indicate the person is unlikely to be a KMP for the purposes of AASB 124, whereas appointments of six months or more indicate the person is more likely to be a KMP. These durations should be considered as guidance and not as a rule.

Regardless of the duration of the appointment, analysis of their decision-making responsibilities will determine whether that person is, in substance, a KMP for the term of their appointment. For example if a person is appointed as a Minister, CEO or Secretary, even for a short period, they will be making decisions and will be immediately caught as KMPs.

If a person in an acting position participates in key decision-making bodies and individual decisions that have been assessed as relevant to KMP in that agency, an assessment should be made as to whether that person is making ongoing significant decisions on the overall planning, directing and controlling of the agency, or whether they are acting in a 'holding' role for the incumbent. This should include consideration of:

- The extent that activity supports decisions previously taken by that body, or the incumbent; and
- The significance of those decisions to the overall planning, directing and controlling of the strategic objectives of the agency.

6. When someone is a KMP for part of the financial year, what part of their compensation should be disclosed?

When someone is only a KMP for part of the financial year, only that compensation that is paid or payable in exchange for the services that person performs as a KMP should be disclosed.

In a simple example, where a person is a KMP for the last 4 months of the financial year, and their only compensation comprises a monthly salary, then only their salary for the last 4 months of the financial year should be disclosed.

Where KMP are paid, or accrue other compensation, then this should be allocated based on the services to which those amounts relate, regardless of when paid.

7. What are the required disclosures when KMP services are obtained from staff agencies?

A common feature in some clusters is a 'staff agency' that employs personnel (including KMP) on behalf of other agencies in the cluster. The staff agency is usually reimbursed by the relevant agencies for these personnel services.

These staff agencies are examples of management entities. The use of management entities is subject to specific accounting rules under AASB 124.

The agency obtaining the management services is exempt from disclosing KMP compensation in the normal form i.e. in aggregate and for the categories of short-term, long-term, etc. (AASB 124.17A).

Instead, the agency obtaining the management services must disclose the name of the management entity (i.e. the staff agency) and the amount to be reimbursed (i.e. expense incurred) to the management entity for such KMP services (AASB 124.18A).

8. What compensation amounts should be disclosed when KMP are shared by several agencies?

Where a KMP is remunerated by one agency, but their services are shared with other agencies, the KMP compensation disclosure will depend on whether those other agencies reimburse the first agency for those services. The treatment is analogous to the management entity concept discussed above and assumes the individual is assessed as being a KMP of each agency in the arrangement:

- ***Agencies reimburse the 'remunerating agency'***

The agency remunerating the KMP will disclose its share of the cost as KMP compensation under the categories of short-term, long-term, etc. (AASB 124.17). The other agencies for whom that individual is also a KMP will disclose their reimbursement to the remunerating agency as compensation to a management entity for KMP services obtained (AASB 124.18A).

- ***Agencies do not reimburse the 'remunerating agency'***

The agency remunerating the KMP will disclose the total compensation for that individual as KMP compensation under the categories of short-term, long-term, etc. (AASB 124.17). No disclosure is required in the other agencies as they are not obligated to reimburse a management entity for KMP services obtained (AASB 124.IG8).

9. When should employment of a KMP's close family member by a NSW Government agency be disclosed?

AASB 124 requires disclosure of material transactions with close family members of KMP. This includes employment of close family members in the NSW public sector.

In considering whether to disclose such employment relationships, the following need to be considered:

- (a) TC16-12 provides practical guidance that employment relationships would not likely be material unless the employment was in a 'senior position'. Senior position is defined as a 'senior executive' (whether permanent or temporary) under the Government Sector Employment Act 2013 (or equivalent legislation); and
- (b) A close family member's employment needs to be with the same entity as the KMP, or with an entity that is controlled (in accordance with AASB 10 *Consolidated Financial Statements*) by the entity of the KMP, for the employment to be a related party transaction.

Example 1

Deputy Secretary X is a KMP of Department of Education (DOE). X's spouse Y is employed in a senior position in Ministry of Health (MOH).

In this example, Y's employment in MOH is not a related party transaction in the DOE financial report.

Example 2

Deputy Secretary 'A' is a KMP of Department of Transport (DOT). A's spouse B is employed in a senior position in Transport for NSW (TfNSW). TfNSW is controlled by DOT in accordance with AASB 10.

In this example, B's employment with TfNSW is a related party transaction of DOT, because B is employed in a senior position and the transaction (employment) is with an entity controlled by DOT.

10. Do agencies need to collect personal information on close family members, if there are no reportable related party transactions with those close family members?

No. The self-declaration checklist attached as part of TC16-12 is not a mandatory format. This should be tailored to agency requirements and underlying legislation.

Attachment A.1 of the TC16-12 checklist requests details of all close family members of the KMP. While acknowledging the privacy concerns around requesting personal information, this is intended to assist the KMP in considering all their close family member relationships. This will also help agencies and auditors of financial statements to obtain comfort on the completeness of reported related party transactions.

It might be reasonably assessed that related party transactions with minors are less likely. Therefore, assuming no reportable transactions, the KMP could provide a no-names basis confirmation that they have considered close family members who are minors and there are no reportable transactions.

In respect of other close family members, an agency may choose not to request personal information on the KMP declaration if there are no transactions with these close family members. Again, the KMP could provide a no-names basis confirmation that they have considered other close family members who are minors and there are no reportable transactions. However agencies should have processes in place to identify undisclosed related party transactions, including those with close family members.

Self-declaration by KMP is only one of the processes in identifying related party transactions. Agencies should have appropriate systems, processes and policies to identify related parties (including close family members) and collect information on material related party transactions. Some examples of systems/processes are listed in TC 16-12.

Acronyms

AASB	Australian Accounting Standards Board
GRE	Government-related entities
KMP	Key Management Personnel
TCorp	Treasury Corporation

Further assistance

For further advice and assistance please contact NSW Treasury's Accounting Policy section on **(02) 9228 4095** or accpol@treasury.nsw.gov.au