

Explanatory Statement

Accounting Standard AASB 2011- 4Amendments to Australian Accounting Standardsto Remove Individual Key Management Personnel Disclosure Requirements

July2011



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Reasons for Issuing AASB 2011-4

This Standard makes amendments to the following Australian Accounting Standard:

1. AASB 124 *Related Party Disclosures*,

to remove individual key management personnel disclosure requirements in the interests of furthering trans-Tasman convergence, removing differences from International Financial Reporting Standards and avoiding potential confusion with *Corporations Act 2001* disclosure requirements on the same topic.

Main Features of AASB 2011-4

The AASB adopts International Financial Reporting Standards (IFRSs) by incorporating them into Australian Accounting Standards and publicly accountable for-profit entities are required to apply them in preparing their general purpose financial statements. (Public accountability is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards* and includes listed and other disclosing entities.) The AASB includes some disclosure requirements that are in addition to the IFRSs, but aims to keep these to a minimum on the basis that the IFRSs represent best international practice for general purpose financial reporting of publicly accountable for-profit entities.

Prior to adopting IFRSs in 2005, the AASB had on issue AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which included disclosure requirements in respect of the compensation, equity holdings and loans of individual key management personnel (KMP). When IFRSs were adopted, these requirements were largely carried forward for disclosing entities as 'Aus' paragraphs in AASB 124, which incorporates IAS 24 *Related Party Disclosures*.

Section 300A of the *Corporations Act 2001* and Regulation 2M.3.03 were amended in 2007 to require disclosing entities that are companies to report individual remuneration information in the directors' report.¹ The AASB responded by amending AASB 124 to relieve disclosing entities that are companies from complying with the paragraphs in AASB 124 that have been included in the *Corporations Act* and Regulation 2M.3.03, following a due process that involved issuing ED 162 *Proposed Amendments to Key*

¹Corporations Act Regulation 2M.6.04 permitted listed companies to avoid making the same disclosures twice; however, the Corporations Amendment Regulations 2007 (No. 2) removed that regulation.

Management Personnel Disclosures by Disclosing Entities in April 2008 for public comment. The resulting amendment avoided requiring each disclosing entity that is a company to disclose this information twice – in its directors' report and in its financial statements.² The existing AASB 124 retains Australian-specific individual KMP disclosure requirements on remuneration in relation to disclosing entities other than companies, and on equity holdings, loans, and other transactions and balances in relation to all disclosing entities.

The AASB and the New Zealand accounting standard setter have been converging their standards over recent years. A key aim is to meet the Outcome Proposals set by the Australian and New Zealand governments, which include enabling for-profit entities to use a single set of accounting standards and prepare only one set of financial statements for both jurisdictions.³ The New Zealand accounting standards also incorporate IFRSs and do not contain additional individual KMP disclosure requirements.

The AASB concluded that it is in the interests of trans-Tasman convergence, and achieving the Outcome Proposals, to remove the individual KMP disclosure requirements from Australian Accounting Standards.

The AASB noted that the Australian Treasury and New Zealand Ministry of Economic Development are aware that the legislative requirements regarding individual KMP disclosures may need to be changed in order to align them across the two jurisdictions.

The AASB 1046 disclosure requirements (noted above) that were carried forward when Australia adopted IFRSs were, in part, the product of an earlier policy of removing disclosure requirements from corporations legislation and including them in accounting standards. In the years since adopting IFRSs, there has been more emphasis on including governance-type disclosures directly in legislation.

More disclosure requirements have been added to Section 300A of the Corporations Act regarding disclosures about individual KMP as well as a requirement for a remuneration report for listed companies since the AASB first made the Standards incorporating IFRSs.

The AASB concluded that the IAS 24 requirements (included in AASB 124) to disclose amounts of aggregate KMP compensation as well as treating KMP as related parties for the purposes of the other disclosure requirements

²AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities*

³More information is available from the Trans-Tasman Outcomes Implementation Group website – www.treasury.gov.au/ttoig.

are sufficient in the context of the role of accounting standards in meeting the objective of general purpose financial reporting.⁴

Application Date

The amendments to AASB 124 to remove the disclosure requirements regarding individual KMP are applicable to annual reporting periods beginning on or after 1 July 2013, and early adoption is not permitted. Accordingly, relevant disclosing entities will need to comply with the disclosure requirements for at least another two years.

The AASB concluded that the transition period should be sufficient to allow the relevant government agencies to consider whether there is a need to amend their existing requirements regarding disclosures relating to individual KMP and, if so, the manner in which they should be amended. In particular, the AASB was mindful of allowing sufficient time to conduct any relevant public consultation in view of other developments that are taking place in connection with governance disclosure requirements.

Consultation Prior to Issuing this Standard

A number of constituents who commented on ED 162 (noted above) encouraged the Board to consider removing all the individual KMP disclosure requirements (Aus paragraphs) from AASB 124. Accordingly, in ED 200A *Proposals to Harmonise Australian and New Zealand Standards in Relation to Entities Applying IFRSs as Adopted in Australia and New Zealand* (issued in July 2010) the AASB specifically sought comment on whether the individual KMP disclosure requirements should be retained or removed. All of those who responded to this question supported their removal.

The views expressed by constituents on ED 162 and ED 200A were largely based on two factors:

- (a) a view that individual KMP disclosures are a governance matter that would be most appropriately dealt with directly by the Government through the Corporations Act; and
- (b) a desire to remove as much Australian specific text from the AASB's Standards that incorporate IFRSs so that those Standards replicate as closely as possible the content of the IFRSs as issued by the IASB.

⁴ The objective of financial reporting is currently identified in SAC 2 *Objective of General Purpose Financial Reporting and Framework for the Preparation and Presentation of Financial Statements*.

Constituents have also raised concerns about the potential for confusion because all of the AASB 124 individual KMP disclosures apply to disclosing entities that are not companies, while only a subset of those disclosures apply to disclosing entities that are companies (as explained above).

A Regulation Impact Statement has been prepared in connection with the issuance of this Standard and has been assessed and accepted by the Office of Best Practice Regulation.