



MATERIALITY OF KEY MANAGEMENT PERSONNEL RELATED PARTY TRANSACTIONS FOR PUBLIC SECTOR ENTITIES

Issue

The AASB considered the issue of whether a transaction with a key management personnel (KMP) related party, that is not part of a public services provider/taxpayer relationship, is always material for disclosure, even if conducted on normal terms and conditions.

Reasons for Not Adding the Issue to the AASB's Agenda

In considering this issue the AASB noted that transactions conducted on normal terms and conditions as a member of the general public with KMP related parties should not automatically be assessed as material by nature. The Board reiterated the comments made in AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* paragraphs BC17 and BC18 that it does not expect, absent unusual circumstances, that the application of materiality would result in disclosure in many of these situations. Accordingly, a not-for-profit public sector entity would apply judgement in determining the extent of information it needs to collect to meet the objective of AASB 124 *Related Party Disclosures*, as there is little value in an entity incurring significant costs to obtain data that is immaterial for disclosure.

The Board observed that AASB 124 paragraphs IG9 and IG11 indicate that the following are relevant when assessing materiality for disclosing KMP related party transactions:

- (a) the potential effect of the relationship on the financial statements (i.e. not materiality to the related party) when assessing the quantitative aspects; and
- (b) transactions which occur on terms no different to that of a transaction with the general public and in a public service provider/taxpayer relationship, are not likely to be qualitatively material for disclosure. These types of transactions are not presumed to be material by nature of the transaction alone.

The Board also noted that, when establishing the significance of a transaction, other relevant factors to consider outlined in AASB 124 are whether it is:

- (a) significant in terms of size;
- (b) outside normal day-to-day business operations, such as the purchase and sale of businesses;
- (c) disclosed to regulatory or supervisory authorities;
- (d) reported to senior management;
- (e) subject to shareholder/[minister] approval. (AASB 124 paragraph 27)



Further, paragraph IG11 and examples 7 and 8 highlight that income received such as rates and taxes (similarly for expenses such as grants distributed), transacted in the normal public service provider/taxpayer relationship may not be material for disclosure. However, other transactions demonstrably made on normal terms, as if with the general public, may also not be material using the concepts applied to assessing materiality of other financial statement disclosures. The key assessment is whether knowledge of the relationship and terms and conditions of the transaction would influence a user's understanding of the impact on the financial statements. Where the impact on the financial statements is not material the transaction is not required to be disclosed.

For example, if the transaction has been through the entity's normal procurement processes, it may be presumed that the transaction is on terms no different to those applying to the general public and the assessment of materiality consistent with the normal materiality considerations for other disclosure aspects of the financial statements (likely to be a quantitative assessment, on basis that the transaction is not qualitatively determined as material). Similarly, if KMP close family members are employed through the entity's normal recruitment processes and the terms and conditions are demonstrably consistent with those offered to other public service employees performing similar roles, materiality for financial statement disclosure assessments should apply.

Accordingly, the Board thinks that existing guidance in Australian Accounting Standards is sufficient to address the issue of whether a transaction with a KMP related party, that is not part of a public services provider/taxpayer relationship, is always material even if it is on normal terms and conditions.

The Board does not expect that significantly divergent interpretations would arise in practice. Consequently, the AASB [decided] not to add this issue to its work program.
