

STAFF PAPER

22–23 January 2013

IFRS Interpretations Committee Meeting

Project	Annual Improvements 2010–2012 Cycle Comment letter analysis
Paper topic	IAS 24 <i>Related party Disclosures</i> — Key management personnel services

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. The Exposure Draft (ED) of the proposed *Annual Improvements to IFRSs 2010–2012 Cycle* published in May 2012 includes a proposal to amend IAS 24 *Related Party Disclosures*.

Objective of this paper

2. The objective of this paper is:
 - (a) to provide background information on the issue;
 - (b) to analyse the comment letters received; and
 - (c) to make a recommendation to the IFRS Interpretations Committee (the Interpretations Committee) on how to proceed with this matter.

Structure of the paper

3. This paper is organised as follows:
 - (a) background;
 - (b) the IASB’s proposals to address the concerns raised;
 - (c) comment letter analysis;
 - (d) question 1: proposal to amend IAS 24;
 - (e) topics for further consideration;
 - (f) staff summary and recommendation;
 - (g) question 2: transitional provisions and effective date; and
 - (h) Basis for Conclusions.

4. There are two appendices to this paper:
 - (a) Appendix A shows the final proposed amendments to IAS 24, revised for comments received; and
 - (b) Appendix B shows the changes made to the exposed proposals, as a result of comments received, in mark-up.

Background

5. In 2010 the Interpretations Committee received a request asking whether key management personnel (KMP), as defined in IAS 24 *Related Party Disclosures*, could include an entity or whether it could only apply to individuals. The original submission presented the case of mutual funds that typically do not have employees and therefore hire KMP services from a separate servicing entity. The issue arose from concerns over divergent disclosures.

6. This issue was originally referred to the Interpretations Committee because it is common in some industries, such as mutual fund management, that key management services can be provided in a variety of ways:

- (a) by a specific KMP, employed directly by the reporting entity;
 - (b) by a related-party KMP-service provider entity that employs one or more personnel to service one or more related entities;
 - (c) by a specific KMP, employed through the KMP’s own company; and
 - (d) by an unrelated, professional KMP-service provider that employs one or more personnel to service a number of otherwise non-related reporting entities.
7. It is clear in IAS 24 that KMP employed directly by the reporting entity, as described in paragraph 6(a), are identified as a related party in accordance with paragraph 9(a)(iii) of IAS 24 and that the management entity described in paragraph 6(b) will be identified as a related party of the reporting entity in accordance with paragraph 9(b)(i) of IAS 24. The concerns about the identification of KMP costs arise in situations in paragraph 6(c) and 6(d), in which entities that do not otherwise meet the definition of a related party provide KMP services to the reporting entity. For convenience, these entities are referred to as ‘the management entity’ throughout this paper.
8. Because of a the lack of consistency in the basis of identification of these KMP service providers as related parties of the reporting entity, there has been wide diversity about whether these transactions have been disclosed and what form that disclosure has taken.

The IASB’s proposals to address the concerns raised

9. The IASB addressed these concerns by proposing three amendments to IAS 24:
- (a) the management entity providing KMP services should be identified as a related party of the reporting entity by inserting a new clause into the definition of related party in paragraph 9 of IAS 24:
 - 9(b)(viii) The entity, or members of its group, provides key management personnel services to the reporting entity.

- (b) an exemption should be granted for the detailed disclosure requirements in paragraph 17 of IAS 24 in respect of KMP services provided by a management entity :

17A If an entity hires key management personnel services from another entity, 'the management entity', then the entity is not required to apply the requirements in paragraph 17 to compensation paid by the management entity to its employees or directors.

- (c) payments made to a management entity in respect of KMP services should be separately disclosed by extending the disclosure requirements paragraph 18 of IAS 24:

18A Amounts payable for the provision of key management personnel services, paid to a separate management entity, should be separately disclosed.

Comment letter analysis

10. The IASB received 84 comment letters on the ED. These letters were analysed in total in Agenda Paper 10, presented at the November 2012 Interpretations Committee meeting.
11. The invitation to comment contained two questions in relation to IAS 24:
- i. Do you agree with the Board's proposal to amend the Standard as described in the Exposure Draft? If not, why and what alternative do you propose?
 - ii. Do you agree with the proposed transitional provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?
12. Responses to these two questions are analysed separately.

Question 1: Proposal to amend IAS 24

13. 64 respondents to the ED expressed a view on the proposed amendment to IAS 24. The table below analyses these comment letters by type of respondent:

Type of respondent	Number of comment letters
Standard-setter	19
Preparer	17
Accountancy body	13
Accounting firm	6
Investor	3
Regulator	3
Other	3
Total	64

14. Of the 64 respondents who commented on the IASB’s proposal to amend IAS 24, 43 agreed with little or no further comment. These respondents agree with all three aspects of the proposed changes and think that the amendments proposed will result in improved reporting of related party transactions. However, one respondent who agreed with the proposals also thinks that IAS 24 should be substantially revised.
15. Those respondents who provided more detailed responses to the IASB’s proposal to amend IAS 24 raised some topics for further consideration. Those topics, in order by number of respondents, are:
- (a) key management personnel compensation disclosure;
 - (b) symmetry in the identification of related parties;

- (c) parent of the reporting entity;
- (d) disclosures about the nature of services provided;
- (e) definition of KMP services;
- (f) effect of the related party relationship on other group companies; and
- (g) sundry drafting suggestions.

16. These topics are discussed in this paper in the following paragraphs.

Topics for further consideration

Key management personnel compensation disclosure

17. The topic most frequently raised for detailed discussion was the proposed exemption from the detailed disclosure requirements in paragraph 17, granted to management entities. 9 of the 21 detailed responses, representing a cross-section of types of respondent, included comments on this aspect of the proposals.

Background

18. Paragraph 17 of IAS 24 requires a separate analysis of costs relating to KMP compensation:

17 An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment.

19. When this was discussed by the IASB, many members expressed concern that when KMP services are provided through a management entity, this disaggregated information is lost. Other members were concerned that any proposed change to

IAS 24 to capture KMP compensation paid through the management entity could result in compensation information relating to the KMP of professional KMP-service providers being disclosed by its customer, the reporting entity. In their view, that information would not be relevant to users.

20. The discussions of both the Interpretations Committee and the IASB identified a number of practical issues with applying the detailed disclosure requirements of paragraph 17 to management entities providing KMP services to the reporting entity :
 - (a) If the management entity is a vehicle for employing one or more identifiable KMP it may be possible to obtain the disclosure information required.
 - (b) On the other hand, if the management entity is an independent, professional KMP-service provider it may be difficult to identify the specific personnel who act as KMP to each individual reporting entity if the management entity services a range of clients.
 - (c) In both cases, the fee structure that is payable by the reporting entity may not mirror the compensation that is paid to the employees of the management entity.
 - (d) Among the practical considerations of disclosing amounts payable by the management entity to the individuals who provide the KMP services to the reporting entity were concerns about privacy and employee confidentiality.

21. Some respondents to the ED were concerned at the loss of valuable information about how KMPs are remunerated. They were also concerned that some KMPs would choose to contract through a management entity in order to avoid providing the detailed disclosures required by paragraph 17 of IAS 24.

22. In the proposed amendment, the amount disclosed in respect of these arrangements is the management entity fee that is recognised as an expense by the reporting entity itself, rather than the employee compensation amount that is recognised as an expense by the management entity. This was proposed because

it may not be possible, in many cases, for the reporting entity to identify the employees of the management entity who are involved in the provision of KMP services or provide the information in the form required by paragraph 17 of IAS 24. The IASB suggested in their discussions that information provided in that form would not be useful in achieving the objective of IAS 24

23. Some respondents think that we should distinguish between the two types of management entities affected by these proposals. The professional management entity should be defined within the guidance and would be entitled to the exemption to the disclosure requirements in paragraph 17 of IAS 24, granted in the proposals. Other management entities would be required to comply with these disclosure requirements.
24. Discussion of the basis for the definition of the excluded management entities varied. Some suggested special purpose entities (SPEs) as defined by IFRS 10 *Consolidated Financial Statements*. Others suggested a definition such as ‘an entity that generates significant revenue from providing management services to more than one customer and that has a significant number of employees involved in providing these services.’
25. One respondent thinks that we should employ a ‘comply or explain’ approach whereby the reporting entity is required to provide the disclosures required by paragraph 17 for payments made for KMP services through another entity unless it is impracticable to access the detailed information, in which case this should be stated and explained.

Staff response

26. We accept the points raised and note that these concerns are similar to those raised by individual Board and Interpretation Committee members when this amendment was deliberated in 2011 and 2012.
27. In our view there is no easy way to resolve these concerns:
 - (a) Defining the type of entity that qualifies for this exemption is only feasible when two extreme types of entity are considered. For any other

entity it will always be difficult to draw that line and any attempt to do so could give rise to structuring possibilities.

- (b) We are attracted to the ‘comply or explain’ suggestion, but think that in practice this would result in boilerplate disclosures as the majority of entities would not be able to comply. The onus in reporting this disclosure is on the reporting entity so any concerns about the non-disclosure of information provided by another entity, ie the management entity, cannot be enforced in this way.

28. This disclosure relates to the management fee that has been paid or is payable by the reporting entity. At the heart of this dilemma is the point that when a reporting entity pays a fee to a management entity there is rarely a direct correlation between the fee paid by the reporting entity and the remuneration package of individual employees of the management entity:

- (a) If the individual employees of the management entity providing the services could be identified, and their services could be apportioned between various customers, how would the profit component of these services (needed to reconcile the management entity’s costs with its fee income) be disclosed?
- (b) In the specific case of a vehicle set up by an individual KMP to provide his or her services to the reporting entity, there may be no correlation between the fee paid by the reporting entity each year and how the KMP chooses to draw value from his or her captive management entity – whether as remuneration (however structured), capital accumulation or distributed capital.

29. In our view, it is rarely possible, or meaningful, to analyse the fee payable by the reporting entity into the format required by paragraph 17. Our recommendation to the Interpretations Committee is to reaffirm the decisions made by them and the IASB to provide an exemption for the management entity from the disclosures in paragraph 17 of the Standard.

Symmetry in the identification of related parties

30. The next most frequently discussed aspect of the proposed amendment (raised by 6 of the 21 respondents providing detailed comments) related to the asymmetry of the revision to the definition of related parties. The definition of related party had been extended in the proposed amendment, as follows, to include:
- 9(b)(viii) The entity, or members of its group, provides key management personnel services to the reporting entity.
31. The respondents who raised this topic, principally accounting firms or accounting bodies, expressed concern that the relationship between the KMP service providing entity and the reporting entity was not symmetrical. The management entity is a related party of the reporting entity, but the reporting entity is not a related party of the management entity except as a result of another relationship.
32. This point had been discussed by the IASB in November 2011:
- Extract from agenda paper 2B:* In our view, the relationship disclosed should only be that of the management entity with the reporting entity. We do not believe that the reporting entity is a related party of the management entity. The reporting entity should disclose all transactions with the management entity but the management entity should not disclose its transactions with its KMP clients unless it is a related party for reasons other than providing KMP services.
33. This is because many of the KMP-service providers provide services to a number of clients. The KMP-service provider is a related party of the reporting entity. The KMP services it provides will affect the activities, financial position and profit or loss of the reporting entity. However, in the case of a professional management entity, the reporting entity is just a customer of the management entity; often one among numerous customers. The customer, ie the reporting entity, will be unable to affect the management entity's activities, financial position and profit.

Staff response

34. We do not think that the reporting entity is a related party of the management entity solely because of the provision of KMP services. We recommend that the Interpretations Committee reaffirm its decisions made by them and by the IASB that the related party relationship in this instance is not symmetrical.

Parent of the reporting entity

35. A few respondents were concerned that in extending the related party definition to include management entities that provide KMP services to the reporting entity, we had omitted including management entities that provide KMP services to the parent of the reporting entity. In their view, an entity that provides KMP services to the parent must also be a related party of the reporting entity, by analogy with paragraph 9(a)(ii):

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

36. We accept this comment and recommend amending paragraph 9(b)(iii) accordingly.

Disclosures about the nature of services provided

37. A few respondents suggested that the disclosure requirements should be extended to provide information about the nature and extent of the KMP services provided, including the number of employees of the management entity that are involved in the management of the individual reporting entity. They thought that this information would be useful to investors and others in assessing the effect of the management entity on the reporting entity. One respondent also suggested that this type of disclosure would deter reporting entities from establishing separate management entities for the sole purpose of avoiding disclosures required by paragraph 17.

Staff response

38. We think that there is merit in adding this disclosure requirement to the proposed amendments because providing investors with an understanding of what the KMP services consist of will enable them to assess both the amount of the management fee that is recognised in the financial statements and the degree of influence that is exerted by management entity.
39. We recommend the following be added to the proposed amendments to paragraph 18 of IAS 24:

Information should also be disclosed about the nature and extent of the key management personnel services provided by such an entity including, for example, the number of personnel employed in providing these services to the entity.

Definition of KMP services

40. A few respondents were concerned that a definition of KMP services was not included in the proposed amendments to IAS 24:
- (a) One respondent was concerned that it should be clear that KMP services do not refer to services that are provided to KMPs, such as personal tax advice.
 - (b) Another was concerned that KMP services could be confused with consultancy services that are provided to the reporting entity, such as tax planning advice.
 - (c) Another respondent requested clarification of KMP services and how these services were distinguished from ‘key management services’, referred to in the revised Basis for Conclusions.

Staff response

41. We think that the definition of KMP in the Standard is clear. In our view, adding ‘services’ to that phrase indicates that these are the types of services provided to the entity by its KMP. We agree that it is confusing also to refer to key

management services in the basis for conclusions and have replaced that term with KMP services.

42. We do not recommend including a separate definition of KMP services in the Standard.

Effect of the related party relationship on other group companies

43. One respondent was concerned about an unintended consequence that would include the entire group to which a professional management entity belonged in the relationship. They gave the example of a banking group with one entity that provided KMP services to a large number of customers. If the other banking group companies were also considered to be related parties of the customers of the management entity, those customers would need to disclose information about all banking transactions with group companies. In their view, that would be burdensome and would not provide useful information.

Staff response

44. We think the wording used – the entity, or its group –was drafted to include all entities that are controlled within the same group to which the management entity belongs. This is because the ultimate parent controls and directs all entities within that group and could, therefore, control the management entity and its fellow subsidiaries. The objective of IAS 24 is to ensure that all parties that have influence over the reporting entity are identified and the relationship disclosed.
45. We recommend that the Interpretations Committee reaffirm the decisions made by them and by the IASB that the related party relationship should include the management entity that provides KMP services to the reporting entity and all members of the group to which that management entity belongs. We have included the phrase ‘or any member of a group of which it is a part’ to paragraph 9 (b) (x) make the wider notion of ‘its group’ clear.

Sundry drafting suggestions

46. A few respondents provided detailed drafting suggestions:
- (a) One respondent suggested that describing the reporting entity as ‘hiring’ KMP services from another entity was confusing. They suggested that ‘hires’ be replaced by ‘obtains’, in paragraph 17A. We agree with this suggestion.
 - (b) One respondent suggested that use of the phrase ‘amounts recognised as an expense’ would not apply in some instances when the cost may be capitalised as part of an asset. They suggested that the words ‘recognised as an expense’ be replaced with the word ‘incurred’. We accept that this could be confusing and agree with this suggestion.

Staff summary and recommendation

47. The concerns raised, and our responses to those concerns, are shown in the following table:

Topic	Recommendation
Exemption to KMP disclosure	No change for the reasons identified in original deliberations: impracticable to comply; information may not be useful.
Symmetry of related parties	No change. Reaffirm original decision that the management entity is a related party of the reporting entity, but the reporting entity is not a related party of the management entity.
Parent of the reporting entity	Accepted. Extend paragraph 9(b)(iii) to include a reference to the parent of the reporting entity.
Disclosure about the nature	Accepted. Additional information, as worded in

of KMP services provided	paragraph 39, would be useful to investors and other users of the financial statements.
Definition of KMP services	No change. Proposed wording is clear.
Effect of related party relationship on other group companies	No change. Proposed wording includes all those group companies that belong to a group of which the management entity is a part.
Sundry drafting suggestions	All accepted and drafting revised.

48. Based on this analysis, we ask that the Interpretations Committee recommends the following amendments to the proposal to the IASB:

- (a) amend the proposed amendment to paragraph 9(b)(iii) to include a reference to the parent of the reporting entity;
- (b) add the following to paragraph 18 regarding additional disclosures about the nature of KMP services provided:

Information should also be disclosed about the nature and extent of the key management personnel services provided by such an entity including, for example, the number of personnel employed in providing these services to the entity.

- (c) revise the wording in the May 2012 ED to include the drafting suggestions that were recommended in paragraph 46.

Question 1

Does the Interpretations Committee agree with the staff recommendation not to revise the proposed amendments in respect of:

- (a) key management personnel compensation disclosure;
- (b) symmetry of related parties;
- (c) the definition of KMP services; and
- (c) the effect of the related party relationship on other group companies.

Question 2

Does the Interpretations Committee agree with the staff recommendation to:

- (a) extend 9 (b) (ii) to include a reference to the parent of the reporting entity;
- (b) add a requirement to paragraph 18A for disclosure about the nature of the key management personnel services that are provided by the management entity; and
- (c) revise the wording of the proposed amendment to IAS 24 for the drafting suggestions received, as noted in paragraph 46.

Question 2: Transitional provisions and effective date

- 49. The ED proposes that the amendments to IAS 24 shall apply for annual periods beginning on or after 1 January 2014. Of the 61 respondents who commented on these proposals, 59 (97% of respondents) agreed with the proposed requirements.
- 50. One respondent thinks that the amendments should be effective earlier, and recommends accounting periods that begin in 2013. In our view, this would not

be readily practicable for most entities. We also note that early adoption is permitted for those entities that are able to comply with this tighter timetable. We think that this adequately deals with this concern.

51. Another respondent queried whether the application of the proposed amendment should be prospective, rather than retrospective as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. We think that because this amendment deals with changes to the identification and disclosure, rather than the recognition and measurement of an accounting element, it should not be burdensome for preparers of financial statements to provide comparative information. We also note that information about related parties is especially relevant information for investors. We think that this explanation adequately deals with this concern.
52. We recommend that the transitional provisions and effective date as exposed in the ED are retained with respect to IAS 24.

Question 3

Does the Interpretations Committee agree with the staff recommendation to retain the transitional provisions and effective date as exposed in the ED with respect to the proposed amendments to IAS 24?

Basis for Conclusions

53. Two respondents specifically recommended revisions to the Basis for Conclusions.
54. One respondent thinks that because the proposed amendment to the Basis for Conclusions discusses the need to clarify disclosures it could be interpreted that it was not the IASB’s intention to extend the identification of related parties. In our view, the IASB intended to extend the definition of related parties to include providers of KMP services. Information about the related party cannot be disclosed until that relationship is identified. The description of the objective of

the amendments in the Basis of Conclusion will be revised to include ‘identification’ as well as ‘disclosure’.

55. Another respondent thinks that we should make it clear that it is the provision of KMP services that creates the related party relationship and not simply having a director or KMP in common. In our view, the existing wording of paragraph 11 (a) already makes that clear:

11 In the context of this Standard, the following are not related parties:

Two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity.

Integration of proposed amendments

56. The original IAS 24 did not include a Basis for Conclusions. The current Basis for Conclusions summarises the IASB’s considerations in reaching its conclusions on revising IAS 24 in 2003 and 2009.
57. One respondent was concerned that the lack of symmetry referred to in paragraphs 30–34 contravened the IASB’s stated approach used in 2003 and 2009 to identify related parties. This approach is recorded in the Basis for Conclusions:
- BC19(e) If the revised definition treats one party as related to a second party, the definition should also treat the second party as related to the first party, by symmetry.
58. If the proposed amendments were integrated throughout the 2003 and 2009 Basis for Conclusions, paragraph BC19(e), and any other sections requiring alteration, could be revised as required.
59. In our view, however, this is a self-contained amendment on the topic of ‘KMP Services’ and we recommend adding a separate section with that heading after paragraph BC49. We do not recommend altering the 2003 and 2009 Basis for Conclusions for proposed changes in the development of the 2012 ED. Treating the 2012 considerations as a separate section in the Basis for Conclusions will

preserve the thinking of the IASB at the time of the 2003 and 2009 amendments, while still providing information about the Basis for Conclusion for the narrow-focused amendments proposed in the 2012 ED.

Question 4

- (a) Does the Interpretations Committee agree with the staff recommendation to amend the Basis for Conclusions as exposed in the ED to include references to 'identification' as well as 'disclosure'?
- (b) Does the Interpretations Committee agree with the staff recommendation to add the text that summarises the IASB's considerations in reaching its conclusions on the proposed amendment as a self-contained section of the Basis for Conclusions?

Appendix A Changes for finalising the amendment

Proposed amendment to IAS 24 *Related Party Disclosures*

Paragraph 9 is amended and paragraphs 17A, 18A and 28B are added. New text is underlined. Paragraph 17 has been included for ease of reference but is not proposed for amendment.

Definitions

9 The following terms are used in this Standard with the meanings specified:

A *related party* is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

(a) ...

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) ...

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Disclosures

All entities

17 An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment.

17A If an entity obtains key management personnel services from another entity (‘the management entity’), it is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity’s employees or directors.

18 ...

18A Amounts payable for the provision of key management personnel services, incurred by the entity, that are provided by a separate management entity should be separately disclosed. Information should also be disclosed about the nature and extent of the key management personnel services provided by such an entity including, for example, the number of personnel that are employed in providing these services.

Effective date and transition

28B *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 9 and added paragraphs 17A and 18A. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on the proposed amendment to IAS 24 *Related Party Disclosures*

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Key management personnel services

- BC50 The IASB was asked to address the identification and disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity. The IASB understands that divergence exists because some reporting entities do not identify this as a related party transaction. Of those who do identify this as a related party transaction, some reporting entities would disclose the compensation paid by the management entity to those employees or directors of the management entity that act as key management personnel of the reporting entity. Other reporting entities would disclose the service fee that is paid or payable to the management entity, which is incurred by the reporting entity.
- BC51 The IASB noted that IAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity. To address the diversity in disclosures that has arisen from IAS 24 being unclear, the IASB decided to amend the definition of a ‘related party’. The amendment clarifies that a management entity that provides key management personnel services to a reporting entity is deemed to be a related party of the reporting entity. Consequently the reporting entity is required to disclose the amount incurred for the service fee paid or payable to the management entity that employs, or has as directors, the persons that provide the key management personnel services. As a result of identifying the management entity as a related party of the reporting entity, the reporting entity is also required to disclose other transactions with the management entity, for example loans, under the existing disclosure requirements of IAS 24 with respect to related parties.
- BC52 The IASB was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees. The IASB therefore decided to provide relief so that the reporting entity is not required to disclose the components of compensation to key management personnel that is paid through another entity. Instead, amounts incurred in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, is separately disclosed in accordance with paragraph 18A.

Appendix B Changes from the Exposure Draft published in May 2012 following our recommendations in this paper

Proposed changes to the proposals in the May 2012 ED are in red:

Appendix A Changes for finalising the amendment

Proposed amendment to IAS 24 *Related Party Disclosures*

Paragraph 9 is amended and paragraphs 17A, 18A and 28B are added. New text is underlined. Paragraph 17 has been included for ease of reference but is not proposed for amendment.

Definitions

9 The following terms are used in this Standard with the meanings specified:

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the ‘reporting entity’).

(a) ...

(b) An entity is related to a reporting entity if any of the following conditions applies:

(i) ...

(ix) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(x) The entity, or any member of its a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Disclosures

All entities

17 An entity shall disclose key management personnel compensation in total and for each of the following categories:

- (a) short-term employee benefits;
- (b) post-employment benefits;
- (c) other long-term benefits;
- (d) termination benefits; and
- (e) share-based payment.

17A If an entity hires obtains key management personnel services from another entity (‘the management entity’), it is not required to apply the requirements in paragraph 17 to the compensation paid or payable by the management entity to the management entity’s employees or directors.

18 ...

18A Amounts payable for the provision of key management personnel services, ~~recognised as an expense incurred~~ by the entity, that are provided by a separate management entity should be separately disclosed. ~~Information should also be disclosed about the nature and extent of the key management personnel services provided by such an entity including, for example, the number of personnel that are employed in providing these services to the entity.~~

Effective date and transition

28B *Annual Improvements to IFRSs 2010–2012 Cycle* issued in [date] amended paragraph 9 and added paragraphs 17A and 18A. An entity shall apply that amendment for annual periods beginning on or after 1 January 2014. Earlier application is permitted. If an entity applies that amendment for an earlier period it shall disclose that fact.

Basis for Conclusions on proposed amendment to IAS 24 Related Party Disclosures

This Basis for Conclusions accompanies, but is not part of, the proposed amendment.

Key management personnel services

- BC1 The IASB Board was asked to address the disclosure of related party transactions that arise when a management entity provides key management personnel services to a reporting entity. The IASB Board understands that divergence exists because some reporting entities do not identify this as a related party transaction. Of those who do identify this as a related party transaction, some reporting entities would disclose the compensation paid by the management entity to those employees or directors of the management entity that act as key management personnel of the reporting entity. Other reporting entities would disclose the service fee that is paid or payable to the management entity, which is incurred recognised as an expense by the reporting entity.
- BC2 The IASB Board noted that IAS 24 is unclear as to what information to disclose for key management personnel when those persons are not employees of the reporting entity. To address the diversity in disclosures that has arisen from IAS 24 being unclear, the IASB Board proposed decided to amend the definition of a ‘related party’. The amendment would clarify that a management entity that provides key management personnel services to a reporting entity is deemed to be a related party of the reporting entity. As a result of that change, Consequently the reporting entity is would be required to disclose the amount incurred recognised as an expense for the service fee paid or payable to the management entity that employs, or has as directors, the persons that provide the key management personnel services. As a result of identifying the management entity as a related party of the reporting entity, the reporting entity is also would be required to disclose other transactions with the management entity, for example loans, under the existing disclosure requirements of IAS 24 with respect to related parties.
- BC3 The IASB Board was informed of concerns that it is impracticable to access the detailed information that is required in paragraph 17 when compensation is paid to a separate management entity as fees. The IASB Board therefore decided proposes to provide relief so that the reporting entity is not would not be required to disclose the components of compensation to key management personnel that is paid through another entity. Instead, amounts incurred recognised as an expense in respect of key management personnel compensation or key management personnel services, paid or payable to another entity, is would be separately disclosed in accordance with paragraph 18A.