

PUBLIC BENEFIT ENTITY INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARD 20 RELATED PARTY DISCLOSURES (PBE IPSAS 20)

Issued September 2014 and incorporates amendments to 31 January 2018 other than consequential amendments resulting from early adoption of PBE FRS 48 *Service Performance Reporting*

This Standard was issued on 11 September 2014 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2012, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on 9 October 2014.

Reporting entities that are subject to this Standard are required to apply it in accordance with the effective date, which is set out in paragraphs 43.1 to 43.5.

In finalising this Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Tier 1 and Tier 2 PBE Standard has been issued as part of a revised full set of PBE Standards that incorporate enhancements for not-for-profit public benefit entities.

This Standard, when applied, supersedes PBE IPSAS 20 *Related Party Disclosures* issued in May 2013.

PBE IPSAS 20 RELATED PARTY DISCLOSURES

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PBE IPSAS 20 RELATED PARTY DISCLOSURES

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Public Benefit Entity International Public Sector Accounting Standard 20 *Related Party Disclosures* is set out in the objective and paragraphs 1–44. All the paragraphs have equal authority. PBE IPSAS 20 should be read in the context of its objective, the NZASB’s Basis for Conclusions on PBE IPSAS 20, the *Public Benefit Entities’ Conceptual Framework* and Standard XRB A1 *Application of the Accounting Standards Framework*. PBE IPSAS 3 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Objective

The objective of this Standard is to require the disclosure of the existence of related party relationships where control exists, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and (b) determining what information should be disclosed about transactions with those parties.

Scope

1. **An entity that prepares and presents financial statements shall apply this Standard in disclosing information about related party relationships and certain transactions with related parties.**
2. [Not used]
- 2.1 **This Standard applies to Tier 1 and Tier 2 public benefit entities.**
3. [Not used]

Definitions

4. **The following terms are used in this Standard with the meanings specified:**

Key management personnel are:

- (a) **All directors or members of the governing body¹ of the entity, regardless of whether the directors or members are paid for their services; and**
- (b) **Other persons having the authority and responsibility for planning, directing, and controlling the activities of the reporting entity. Where they meet this requirement, key management personnel include:**
 - (i) **Where there is a member of the governing body of a whole-of-government entity who has the authority and responsibility for planning, directing, and controlling the activities of the reporting entity, that member;**
 - (ii) **Any key advisors of that member; and**
 - (iii) **Unless already included in (a), the senior management group of the reporting entity, including the chief executive or permanent head of the reporting entity.**

Oversight means the supervision of the activities of an entity, with the authority and responsibility to control, or exercise significant influence over, the financial and operating decisions of the entity.

Related party means parties are considered to be related if one party has the ability to (a) control the other party, or (b) exercise significant influence over the other party in making financial and operating decisions, or if the related party entity and another entity are subject to common control. Related parties include:

- (a) **Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by, the reporting entity;**
- (b) **Associates (see PBE IPSAS 36 *Investments in Associates and Joint Ventures*);**
- (c) **Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;**
- (d) **Key management personnel, and close members of the family of key management personnel;**
- (e) **Entities, or any member of an economic entity of which such entities are a part, which provide key management personnel services to the reporting entity or to the controlling entity of the reporting entity; and**

¹ In the not-for-profit sector, the governing body may be a group of people (for example, an Executive Committee or a Council) or an individual (for example, a President) that has the ultimate responsibility for decision making regarding the operations of the entity.

- (f) **Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.**

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the reporting entity or the government of which it forms part.

Remuneration of key management personnel is any consideration or benefit derived directly or indirectly by key management personnel from the reporting entity for services provided in their capacity as members of the governing body, or otherwise as employees of the reporting entity.

Significant influence (for the purpose of this Standard) is the power to participate in the financial and operating policy decisions of an entity, but not control those policies. Significant influence may be exercised in several ways, usually by representation on the board of directors or equivalent governing body but also by, for example, participation in (a) the policy making process, (b) material transactions between entities within an economic entity, (c) interchange of managerial personnel, or (d) dependence on technical information. Significant influence may be gained by an ownership interest, statute, or agreement. With regard to an ownership interest, significant influence is presumed in accordance with the definition contained in PBE IPSAS 36.

Terms defined in other PBE Standards are used in this Standard with the same meaning as in those Standards, and are reproduced in the *Glossary of Defined Terms* published separately.

- 4.1 Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:**
- (a) **That person's children and spouse or domestic partner;**
 - (b) **Children of that person's spouse or domestic partner; and**
 - (c) **Dependants of that person or that person's spouse or domestic partner.**

Close Member of the Family of an Individual

5. [Not used]

Key Management Personnel

6. Key management personnel include all directors or members of the governing body of the reporting entity, where that body has the authority and responsibility for planning, directing, and controlling the activities of the entity. At the whole-of-government level, the governing body may consist of elected or appointed representatives (for example, a president or governor, ministers, councillors and aldermen or their nominees). Similarly, a not-for-profit entity can have elected or appointed members of its governing body.
7. Where an entity is subject to the oversight of an elected or appointed representative of the governing body of the government to which the entity belongs, that person is included in key management personnel, if the oversight function includes the authority and responsibility for planning, directing, and controlling the activities of the entity. In many cases, key advisors of that person may not possess sufficient authority, legal or otherwise, to satisfy the definition of key management personnel. In other cases, key advisors of that person may be deemed to be key management personnel because they have a special working relationship with an individual who has control over an entity. They therefore have access to privileged information, and may also be able to exercise control or significant influence over an entity. Judgement is required in assessing whether an individual is a key advisor, and whether that advisor satisfies the definition of key management personnel, or is a related party.
8. The governing body, together with the chief executive and senior management group, has the authority and responsibility to plan and control the activities of the entity, to manage the resources of the entity and for the overall achievement of entity objectives. Therefore, key management personnel will include the chief executive and senior management group of the reporting entity. In some jurisdictions, civil servants will not have sufficient authority and responsibility to qualify as key management personnel (as defined by this Standard) of the whole-of-government reporting entity. In these cases, key management personnel will consist only of those elected members of the governing body who have the greatest responsibility for the government; often these persons are referred to as Cabinet Ministers.

9. The senior management group of an economic entity may comprise individuals from both the controlling entity and other entities that collectively make up the economic entity.

Related Parties

10. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.
11. Where two entities have a member of key management personnel in common, it is necessary to consider the possibility, and to assess the likelihood, that this person would be able to affect the policies of both entities in their mutual dealings. However, the mere fact that there is a member of key management personnel in common does not necessarily create a related party relationship.
12. In the context of this Standard, the following are deemed not to be related parties:
- (a) (i) Providers of finance in the course of their business in that regard; and
 - (ii) Trade unions;
 - in the course of their normal dealings with an entity by virtue only of those dealings (although they may circumscribe the freedom of action of an entity or participate in its decision-making process); and
 - (b) An entity with which the relationship is solely that of an agency.
13. Related party relationships may arise when an individual is either a member of the governing body or is involved in the financial and operating decisions of the reporting entity. Related party relationships may also arise through external operating relationships between the reporting entity and the related party. Such relationships will often involve a degree of economic dependency.
14. Economic dependency, where one entity is dependent on another in that it relies on the latter for a significant volume of its funding or sale of its goods and services, would on its own be unlikely to lead to control or significant influence and is therefore unlikely to give rise to a related party relationship. As such, a single customer, supplier, franchisor, distributor, or general agent with whom an entity transacts a significant volume of business will not be a related party merely by virtue of the resulting economic dependency. However, economic dependency, together with other factors, may give rise to significant influence, and therefore a related party relationship. Judgement is required in assessing the impact of economic dependence on a relationship. Where the reporting entity is economically dependent on another entity, the reporting entity is encouraged to disclose the existence of that dependency.
15. The definition of related party includes entities owned by key management personnel, close family members of such individuals or major shareholders (or equivalent where the entity does not have a formal equity structure) of the reporting entity. The definition of related party also includes circumstances in which one party has the ability to exercise significant influence over the other party. An individual or entity may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity. For the purposes of this Standard, significant influence is defined to encompass joint ventures.

Remuneration of Key Management Personnel

16. Remuneration of key management personnel includes remuneration derived by individuals from the reporting entity for services provided to the reporting entity in their capacity as members of the governing body or employees. Benefits derived directly or indirectly from the entity for services in any capacity, other than as an employee or a member of the governing body, do not satisfy the definition of remuneration of key management personnel in this Standard. However, paragraph 34 requires disclosures to be made about certain of these other benefits. Remuneration of key management personnel excludes any consideration provided solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity, such as the reimbursement of accommodation costs associated with work-related travel. In the not-for-profit sector, remuneration includes honoraria paid to volunteer members who are key management personnel.

Voting Power

17. The definition of related party will include any individuals owning, directly or indirectly, an interest in the voting power of the reporting entity that gives them significant influence over the entity. The holding of an

interest in the voting power of an entity can arise when a public benefit entity has a corporate structure, and a minister or government agency holds shares in the entity.

The Related Party Issue

18. Related party relationships exist throughout the public benefit entity sector. For example, in the case of the public sector:
 - (a) Administrative units are subject to the overall direction of the executive government and, ultimately, the Parliament or similar body of elected or appointed officials, and operate together to achieve the policies of the government;
 - (b) Government departments and agencies frequently conduct activities necessary for the achievement of different components of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence; and
 - (c) Ministers or other elected or appointed members of the government and senior management group can exert significant influence over the operations of a department or agency.
- 18.1 In the case of the not-for-profit sector, similar related party relationships may exist. For example:
 - (a) Administrative units are subject to the overall direction of their governing body and ultimately an overarching national or international body; and
 - (b) Elected or appointed members of the governing body exert significant influence over the operations of the not-for-profit entity.
19. Disclosure of certain related party relationships and related party transactions and the relationship underlying those transactions is necessary for accountability purposes, and enables users to better understand the financial statements of the reporting entity because:
 - (a) Related party relationships can influence the way in which an entity operates with other entities in achieving its individual objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;
 - (b) Related party relationships might expose an entity to risks, or provide opportunities that would not have existed in the absence of the relationship; and
 - (c) Related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This can occur, for example, in government departments and agencies, if goods and services are transferred between departments at less than full cost recovery as a part of normal operating procedures consistent with the achievement of the objectives of the reporting entity and the government. Governments, individual public sector entities and not-for-profit entities are expected to use resources efficiently, effectively, and in the manner intended, and to deal with any donated funds and public monies with the highest levels of integrity. The existence of related party relationships means that one party can control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may advantage one party inappropriately at the expense of another.
20. Disclosure of certain types of related party transactions that occur, and the terms and conditions on which they were conducted, allows users to assess the impact of those transactions on the financial position and performance of an entity, and its ability to deliver agreed services. This disclosure also ensures that the entity is transparent about its dealings with related parties.

Remuneration of Key Management Personnel

21. Key management personnel hold positions of responsibility within an entity. They are responsible for the strategic direction and operational management of an entity, and are entrusted with significant authority. Their salaries are often established by statute, or an independent tribunal or other body independent of the reporting entity. However, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties. This Standard requires certain disclosures to be made about (a) the remuneration of key management personnel and close members of the family of key management personnel during the reporting period, (b) loans made to them, and (c) the consideration provided to them for services they provide to the entity other than as a member of the governing body or an employee. The disclosures

required by this Standard will ensure that appropriate minimum levels of transparency are applied to the remuneration of key management personnel and close members of the family of key management personnel.

Materiality

22. PBE IPSAS 1 *Presentation of Financial Statements* requires the separate disclosure of material items. The materiality of an item is determined with reference to the nature or size of that item. When assessing the materiality of related party transactions, the nature of the relationship between the reporting entity and the related party, and the nature of the transaction, may mean that a transaction is material regardless of its size.

Disclosure

23. In many countries, the laws and other authoritative financial reporting rules require financial statements of for-profit entities to disclose information about certain categories of related parties and related party transactions. In particular, attention is focused on the entity's transactions with its directors or members of its governing body and with its senior management group, especially their remuneration and borrowings. This is (a) because of the fiduciary responsibilities of directors, members of the governing body, and senior management group, and (b) because they have extensive powers over the deployment of entity resources. In some jurisdictions, similar requirements are included in the statutes and regulations applicable to public sector entities.
24. Some PBE Standards also require disclosure of transactions with related parties. For example, PBE IPSAS 1 requires disclosure of amounts payable to and receivable from controlling entities, fellow controlled entities, associates, and other related parties. PBE IPSAS 38 *Disclosure of Interests in Other Entities* requires an entity to disclose information that enables users of its consolidated financial statements to understand the composition of the economic entity and information about each joint arrangement and associate that is material to the reporting entity.

Disclosure of Control

25. **Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties.**
26. In order for a reader of financial statements to form a view about the effects of related party relationships on a reporting entity, it is appropriate to disclose related party relationships where control exists, irrespective of whether there have been transactions between the related parties. This would involve the disclosure of the names of any controlled entities, the name of the immediate controlling entity, and the name of the ultimate controlling entity, if any.

Disclosure of Related Party Transactions

27. **A public sector reporting entity shall, in respect of transactions between related parties, other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances, disclose:**
- (a) **The nature of the related party relationships;**
 - (b) **The types of transactions that have occurred; and**
 - (c) **The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and faithfully representative information for decision making and accountability purposes.**
- 27.1 **A not-for-profit reporting entity shall, in respect of transactions between related parties (including transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances) disclose:**
- (a) **The nature of the related party relationships;**
 - (b) **The types of transactions that have occurred; and**

- (c) **The elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and faithfully representative information for decision making and accountability purposes.**
28. The following are examples of situations where related party transactions may lead to disclosures by a reporting entity:
- (a) Rendering or receiving of services;
 - (b) Purchases or transfers/sales of goods (finished or unfinished);
 - (c) Purchases or transfers/sales of property and other assets;
 - (d) Agency arrangements;
 - (e) Leasing arrangements;
 - (f) Transfer of research and development;
 - (g) License agreements;
 - (h) Finance (including loans, capital contributions, grants whether in cash or in kind, and other financial support, including cost-sharing arrangements); and
 - (i) Guarantees and collaterals.
29. Public sector entities transact extensively with each other on a daily basis. These transactions may occur at cost, less than cost or free of charge. For example, a government department of administrative services may provide office accommodation free of charge to other departments, or a public sector entity may act as a purchasing agent for other public sector entities. In some models of government, there may be the capacity for recovery of more than the full cost of service delivery. Departments are related parties because they are subject to common control, and these transactions meet the definition of related party transactions. However, disclosure of information about transactions between these entities is not required where the transactions (a) are consistent with normal operating relationships between the entities, and (b) are undertaken on terms and conditions that are normal for such transactions in these circumstances. The exclusion of these related party transactions from the disclosure requirements of paragraph 27 reflects that public sector entities operate together to achieve common objectives, and acknowledges that different mechanisms may be adopted for the delivery of services by public sector entities in different jurisdictions. This Standard requires disclosures of related party transactions only when those transactions occur other than in accordance with the operating parameters established in that jurisdiction.
30. The information about related party transactions that would need to be disclosed to meet the objectives of general purpose financial reporting would normally include:
- (a) A description of the nature of the relationship with related parties involved in these transactions, for example, whether the relationship was one of a controlling entity, a controlled entity, an entity under common control, or key management personnel;
 - (b) A description of the related party transactions within each broad class of transaction and an indication of the volume of the classes, either as a specific monetary amount or as a proportion of that class of transactions and/or balances;
 - (c) A summary of the broad terms and conditions of transactions with related parties, including disclosure of how these terms and conditions differ from those normally associated with similar transactions with unrelated parties; and
 - (d) Amounts or appropriate proportions of outstanding items.
31. Paragraph 34 of this Standard requires additional disclosures to be made about certain transactions between an entity and key management personnel and/or the close members of the family of key management personnel.
32. **Items of a similar nature may be disclosed in aggregate, except when separate disclosure is necessary to provide relevant and faithfully representative information for decision-making and accountability purposes.**

33. Disclosure of related party transactions between members of an economic entity is unnecessary in consolidated financial statements, because consolidated financial statements present information about the controlling entity and controlled entities as a single reporting entity. Related party transactions that occur between entities within an economic entity, except for those between an investment entity and its controlled entities measured at fair value through surplus or deficit, are eliminated on consolidation in accordance with PBE IPSAS 35 *Consolidated Financial Statements*. Transactions with associated entities accounted for under the equity method are not eliminated, and therefore require separate disclosure as related party transactions.

Disclosure—Key Management Personnel

34. **A public sector entity shall disclose:**

- (a) **The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;**
- (b) **The total amount of all other remuneration and compensation, other than remuneration or compensation that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual at arm's length in the same circumstances, provided to key management personnel, and close members of the family of key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:**
 - (i) **Key management personnel; and**
 - (ii) **Close members of the family of key management personnel; and**
- (c) **In respect of loans that are not widely available to persons who are not key management personnel and loans whose availability is not widely known by members of the public, for each individual member of key management personnel and each close member of the family of key management personnel:**
 - (i) **The amount of loans advanced during the period and terms and conditions thereof;**
 - (ii) **The amount of loans repaid during the period;**
 - (iii) **The amount of the closing balance of all loans and receivables; and**
 - (iv) **Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.**

- 34A. **If a public sector entity obtains key management personnel services from another entity (the 'management entity'), the public sector entity shall disclose the amounts paid or payable to the management entity for the provision of key management personnel services. The public sector entity is not required to apply the requirements in paragraphs 34(a) and 34(b) to the compensation paid or payable by the management entity to the management entity's employees or directors.**

- 34.1 **A not-for-profit entity shall disclose:**

- (a) **The aggregate remuneration of key management personnel and the number of individuals, determined on a full-time equivalent basis, receiving remuneration within this category, showing separately major classes of key management personnel and including a description of each class;**
- (b) **The total amount of all other remuneration and compensation (including other remuneration and compensation that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual at arm's length in the same circumstances) provided to key management personnel, and close members of the family of**

key management personnel, by the reporting entity during the reporting period, showing separately the aggregate amounts provided to:

- (i) **Key management personnel; and**
 - (ii) **Close members of the family of key management personnel; and**
- (c) **In respect of loans, for each individual member of key management personnel and each close member of the family of key management personnel:**
- (i) **The amount of loans advanced during the period and terms and conditions thereof;**
 - (ii) **The amount of loans repaid during the period;**
 - (iii) **The amount of the closing balance of all loans and receivables; and**
 - (iv) **Where the individual is not a director or member of the governing body or senior management group of the entity, the relationship of the individual to such body or group.**
- 34.2 **If a not-for-profit entity obtains key management personnel services from another entity (the ‘management entity’), the not-for-profit entity shall disclose the amounts paid or payable to the management entity for the provision of key management personnel services. The not-for-profit entity is not required to apply the requirements in paragraphs 34.1(a) and 34.1(b) to the compensation paid or payable by the management entity to the management entity’s employees or directors.**
35. In respect of public sector entities, paragraph 27 of this Standard requires the disclosure of related party transactions that have occurred other than on an arm’s length basis consistent with the operating conditions established for the entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraph 34, whether or not they have occurred on an arm’s length basis consistent with the operating conditions that apply in respect of the entity.
- 35.1 In respect of not-for-profit entities, paragraph 27.1 of this Standard requires the disclosure of all related party transactions, including those that have occurred on an arm’s length basis consistent with the operating conditions established for the entity. This Standard also requires the disclosure of information about certain transactions with key management personnel identified in paragraphs 34 and 34.1, whether or not they have occurred on an arm’s length basis consistent with the operating conditions that apply in respect of the entity.
36. Persons who are key management personnel may be employed on a full- or part-time basis. The number of individuals disclosed as receiving remuneration in accordance with paragraph 34(a) needs to be estimated on a full-time equivalent basis. Entities will make separate disclosures about the major classes of key management personnel that they have. For example, where an entity has a governing body that is separate from its senior management group, disclosures about remuneration of the two groups will be made separately. Where an individual is a member of both the governing body and the senior management group, that individual will be included in only one of those groups for the purposes of this Standard. The categories of key management personnel identified in the definition of key management personnel provide a guide to identifying classes of key management personnel.
37. Remuneration of key management personnel can include a variety of direct and indirect benefits. Where the cost of these benefits is determinable, that cost will be included in the aggregate remuneration disclosed. Where the cost of these benefits is not determinable, a best estimate of the cost to the reporting entity or entities will be made and included in the aggregate remuneration disclosed.
38. Requirements on the measurement of employee benefits are found in PBE IPSAS 39 *Employee Benefits*. When non-monetary remuneration that is able to be reliably² measured has been included in the aggregate amount of remuneration of key management personnel disclosed for the period, disclosure would also be made in the notes to the financial statements of the basis of measurement of the non-monetary remuneration.

² Information that is reliable is free from material error and bias, and can be depended on by users to faithfully represent that which it purports to represent or could reasonably be expected to represent. Paragraph BC10 of PBE IPSAS 1 *Presentation of Financial Statements* discusses the transitional approach to the explanation of reliability.

39. This Standard requires the disclosure of certain information about the terms and conditions of loans made to key management personnel and close members of the family of key management personnel, where these loans:

- (a) Are not widely available to persons outside the key management group; and
- (b) May be widely available outside the key management group, but whose availability is not widely known to members of the public.

The disclosure of this information is required for accountability purposes. The exercise of judgement may be necessary in determining which loans should be disclosed to satisfy the requirements of this Standard. That judgement should be exercised after consideration of the relevant facts, and in a manner consistent with the achievement of the objectives of financial reporting.

40. Paragraph 34(a) of this Standard requires disclosure of the aggregate remuneration of key management personnel. Key management personnel include directors or members of the governing body and members of the senior management group of the entity. Directors or members of the governing body of the entity may also receive remuneration or compensation from the entity for services provided in a capacity other than (a) as director or member of the governing body of the entity, or (b) as an employee of the entity. Paragraph 34(b)(i) of this Standard requires the disclosure of the total amount of this other remuneration or compensation.
41. Close members of the family of key management personnel may influence, or be influenced by, key management personnel in their transactions with the reporting entity. Paragraph 34(b)(ii) of this Standard requires the disclosure of the total remuneration and compensation provided during the period to close members of the family of key management personnel.

Effective Date

42–43. [Not used]

- 43.1 **A public benefit entity shall apply this Standard for annual financial statements covering periods beginning on or after 1 April 2015. Earlier application is permitted for not-for-profit public benefit entities as long as the full suite of PBE Standards is applied at the same time.**
- 43.2 ***2015 Omnibus Amendments to PBE Standards*, issued in July 2015, amended paragraph 4, and added paragraphs 34A and 34.2. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2016. Earlier application is permitted, subject to paragraph 43.1. If an entity applies those amendments for an earlier period it shall disclose that fact.**
- 43.3 ***2016 Omnibus Amendments to PBE Standards*, issued in January 2017, amended paragraphs 27, 27.1 and 32 and added a footnote to paragraph 38. An entity shall apply those amendments for annual financial statements covering periods beginning on or after 1 January 2017.**
- 43.4 ***PBE IPSAS 35 Consolidated Financial Statements, PBE IPSAS 36 Interests in Associates and Joint Ventures and PBE IPSAS 38 Disclosure of Interests in Other Entities* issued in January 2017, amended paragraphs 4, 15, 24 and 33. An entity shall apply those amendments when it applies PBE IPSAS 35, PBE IPSAS 36 and PBE IPSAS 38.**
- 43.5 ***PBE IPSAS 39*, issued in May 2017, amended paragraph 38. An entity shall apply that amendment when it applies PBE IPSAS 39.**

Withdrawal and Replacement of PBE IPSAS 20 (May 2013)

44. This Standard, when applied, supersedes PBE IPSAS 20 *Related Party Disclosures* issued in May 2013.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, PBE IPSAS 20.

- BC1. The New Zealand Accounting Standards Board (NZASB) has modified IPSAS 20 *Related Party Disclosures* for application by Tier 1 and Tier 2 public benefit entities. Where applicable, disclosure concessions have been identified for Tier 2 entities, the language generalised for use by public benefit entities and an implementation example added for not-for-profit entities. The NZASB considered that the requirements of IPSAS 20 are generally appropriate for application by public benefit entities in the public sector. However, the NZASB considered that some aspects of IPSAS 20 were not appropriate for public benefit entities in the not-for-profit sector.
- BC2. The NZASB considered that full application of PBE IPSAS 20 to transactions with Ministers of the Crown (and others holding similar positions in the wider public sector, such as Councillors in the local government sector) and close members of the family of those individuals would be onerous. In considering the application of PBE IPSAS 20 to transactions with such individuals, the NZASB had regard to the existence of public benefit entity specific exemptions in NZ IAS 24 *Related Party Disclosures* (2009) (as at the date of development of PBE IPSAS 20) and the Basis for Conclusions in relation to those exemptions. The NZASB concurred with the rationale for the exemptions set out in the Basis for Conclusions on NZ IAS 24. The NZASB concluded that these exemptions continue to be relevant in the New Zealand environment and should be incorporated in PBE IPSAS 20. Accordingly, the NZASB:
- (a) retained the definition of close members of the family of an individual contained in NZ IAS 24 (2009) rather than using the definition in IPSAS 20; and
 - (b) limited disclosures relating to remuneration and compensation provided to close members of the family of key management personnel to transactions that did not occur within a normal supplier or client/recipient relationship on normal terms and conditions.
- BC3. The NZASB agreed that not-for-profit PBEs should continue to disclose details of all related party transactions, including those on normal terms and conditions. The NZASB considered that given the nature of the sector this disclosure was appropriate for transparency. The NZASB noted that not-for-profit PBEs previously applying NZ IAS 24 (PBE) would have been required to disclose details of all related party transactions.
- BC4. Many public sector entities are likely to be part of a larger reporting group with a consequential increase in the number of entities (including some for-profit entities) under common control, and therefore, related parties. The disclosures would be voluminous if public sector entities were required to disclose all related party transactions.
- BC5. In addition, key management personnel (and close family members) of a public sector entity will enter into all the normal transactions that any resident of the country would enter into. Disclosure of these transactions when they are on the same terms and conditions as are available to other residents of the country provides little, if any, information of value for a user of the financial statements.
- BC6. The NZASB noted that NZ IAS 24 (PBE) provided an exemption from certain related party transaction disclosures for Ministers of the Crown determined to be key management personnel of the Government because the requirements in IAS 24 *Related Party Disclosures* could have led to voluminous disclosures within individual reporting entity financial statements about Ministers' routine transactions with entities within the Government Reporting Entity. The NZASB also noted that the reasons for not requiring disclosure of such transactions in the public sector were not as relevant in the not-for-profit sector. Accordingly, PBE IPSAS 20 contains separate disclosure requirements for related party transactions by public sector PBEs and not-for-profit PBEs.

2015 Omnibus Amendments to PBE Standards

- BC7. In the IASB's *Annual Improvements to IFRSs Cycle 2010-2012* the IASB amended IAS 24 to clarify that an entity providing key management personnel services to the reporting entity or to the controlling entity of the reporting entity is a related party of the reporting entity and to require disclosure of amounts incurred in respect of key management personnel services provided by a separate management entity. The IPSASB did not make an equivalent amendment to IPSAS 20 in its *Improvements to IPSASs 2014*. The IPSASB noted that IPSAS 20 is based on an earlier version of IAS 24 and did not consider that the amendments met its criteria for inclusion in an improvements project. The NZASB acknowledged the differences between

IAS 24 and IPSAS 20, but considered that the amendment would lead to useful disclosures and should be incorporated in PBE IPSAS 20. The NZASB therefore included an equivalent amendment in its *2015 Omnibus Amendments to PBE Standards*.

Implementation Guidance

This guidance accompanies, but is not part of, PBE IPSAS 20.

Disclosure—Government X

The following disclosures are made in the financial statements of Government X.

Controlled Entities (Paragraph 25)

The Government controls the following reporting entities:

Government Departments and Agencies: Education, Welfare, Police, Post, Works and Services, Defence, Justice, Treasury/Finance, Department X, Agency XYZ (identify all departments and agencies).

For-profit entities: Government Electricity Company, Government Telecommunications Agency (identify all for-profit entities).

(Note: PBE IPSAS 35 requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

A member of Cabinet was provided with a house, rent free, in the national Capital City. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The provision of accommodation is not part of the remuneration package of the Minister, and the Government does not generally provide free accommodation to ministers. However, in this case it was necessary to provide a residence for the Minister in the Capital City.

The partner of another member of Cabinet was provided with a motor vehicle, rent free. Cars similar to that provided normally rent for K currency units per annum. The government does not generally provide motor vehicles, rent free, to the domestic partners of ministers.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by PBE IPSAS 20 *Related Party Disclosures*) are the members of Cabinet, who together constitute the governing body of Government X. The aggregate remuneration of members of the Cabinet and the number of individuals determined on a full-time equivalent basis receiving remuneration from Government X are:

Aggregate remuneration	X million.
Number of persons	Y persons.

Loans that are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts of such loans advanced and repaid during the period, and the balances outstanding at the end of the period, are outlined below:

<u>Individual</u>	<u>Advanced</u>	<u>Repaid</u>	<u>Balance</u>
The Honourable ABC	J	K	L
Ms. VSL	M	N	P
The Honourable D	Q	R	Z
The Honourable E	S	T	U

Terms and Conditions

The Honourable ABC, Minister of Transport, received a loan at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

Ms. VSL, partner of the Minister of Health, received a government loan. The loan is for N years at X% per annum, the current government borrowing rate.

The salary packages of Cabinet Ministers the Honourable D and E allow them to take out a government loan for up to A years at Y% per annum to purchase a car.

Other Remuneration and Compensation Provided to Key Management Personnel and their Close Family Members (paragraph 34(b))

During the reporting period, total compensation of X amount (currency units) was provided to members of the Cabinet for consulting services provided to particular government agencies.

During the reporting period, the government provided total remuneration and compensation of Y amount (currency units) to close family members of key management personnel. This amount consists of the remuneration of government employees who are close members of the family of members of the Cabinet.

Disclosure—Government Agency XYZ

These disclosures are made in the financial statements of Government Agency XYZ, which is a separate reporting entity.

Controlled Entities (Paragraph 25)

The Agency is controlled by Department X. Department X is controlled by Government X.

The Agency controls the Administration Services Unit, which is a for-profit entity.

(Note: PBE IPSAS 35 requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27)

The Agency provided a house, rent free, to the Minister. Houses similar to that provided to the Minister rent for approximately Z currency units per annum. The house is not part of the remuneration package of the Minister and, as a matter of operating procedure, government agencies do not provide residential accommodation to ministers. However, Government X advised that the house should be provided on this occasion.

Key Management Personnel (Paragraph 34)

Remuneration (Paragraph 34(a))

The key management personnel (as defined by PBE IPSAS 20) of Agency XYZ are the Minister, the members of the governing body, and the members of the senior management group. The governing body consists of members appointed by Government X; the chief executive officer and the chief financial officer attend meetings of the governing body but are not members of the governing body. The Minister is not remunerated by Agency XYZ. The aggregate remuneration of members of the governing body and the number of members determined on a full-time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration	AX million.
Number of persons	AY persons.

The senior management group consists of the Agency's chief executive officer, the chief financial officer, and the AZ heads of division. The aggregate remuneration of members of the senior management group and the number of managers determined on a full-time equivalent basis receiving remuneration within this category are:

Aggregate remuneration	AP million.
Number of persons	AQ persons.

Two division heads are on secondment from Department X, and are remunerated by Department X.

Loans that are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts advanced and repaid during the period and balance outstanding at the end of the period:

<u>Individual</u>	<u>Advanced</u>	<u>Repaid</u>	<u>Balance</u>
The Minister	J	K	L
Mr. G	M	N	P
Ms. H	Q	R	Z

Terms and Conditions

The Minister received a loan of J currency units, at X% per annum, which is Y% below the market rate. The term of the loan is for Z years.

The salary package of senior staff members, Mr. G and Ms. H, allows them to take out a government loan for up to N years at Y% per annum to purchase a car.

Remuneration and Compensation Provided to Close Family Members of Key Management Personnel (paragraph 34(b))

During the reporting period, total remuneration and compensation of F amount (currency units) was provided by the Agency to employees who are close family members of key management personnel.

Disclosure – Not-for-Profit Entity A

These disclosures are made in the financial statements of not-for-profit Entity A, which is a separate reporting entity.

Controlled Entities (Paragraph 25)

Entity A is controlled by Entity B.

Entity A controls Trust W, which is a for-profit entity.

(Note: PBE IPSAS 6 *Consolidated and Separate Financial Statements*, requires that certain disclosures be made about significant controlled entities.)

Related Party Transactions (Paragraph 27.1)

Entity A purchased from Entity B supplies for the provision of health services amounting to X currency units. These supplies were purchased from Entity B on the same terms and conditions that apply to other customers of Entity B.

Entity A provided services to Entity B during the year for which no payment was received by Entity A. Under normal terms and conditions, Entity A would have received X currency units for the provision of those services.

Entity A provided sponsorship of X currency units for a golf tournament at the local golf club. The Chair of the Executive Committee is the President of the local golf club. The purpose of the sponsorship was to raise awareness of the activities of Entity A in the local community. The proceeds of a raffle held at the event were given to Entity A.

Entity A made an educational grant of X currency units to a child of a member of the Executive Committee in accordance with the usual procedures of the Executive Committee. The Executive Committee member was not involved in this decision.

Entity A gave a computer with a carrying amount of X currency units to a member of the Executive Committee when the IT system was upgraded. The Executive Committee member was not involved in this decision.

*Key Management Personnel (Paragraph 34)***Remuneration (Paragraph 34(a))**

The key management personnel (as defined by PBE IPSAS 20) of Entity A are the members of the Executive Committee, which is the governing body. The members of the governing body are appointed by Entity B. The Chair and the Secretary of the governing body of Entity A are part-time paid positions while the remaining members of the governing body are paid an honorarium for each meeting they attend. A representative from Entity B attends the meetings of the governing body but is not a member of the governing body. The aggregate remuneration of members of the governing body and the number of members determined on a full-time equivalent basis receiving remuneration within this category, are:

Aggregate remuneration	X currency units
Number of persons	Y persons.
Aggregate honoraria	X currency units
Number of persons	Y persons

Loans that are not Widely Available (and/or Widely Known) to Persons Outside the Key Management Group (paragraph 34(c))

Amounts advanced and repaid during the period and balance outstanding at the end of the period:

<u>Individual</u>	<u>Advanced</u>	<u>Repaid</u>	<u>Balance</u>
The Secretary	X currency units	X currency units	X currency units
Mr. T	X currency units	X currency units	X currency units

Terms and Conditions

The Secretary received a loan of X currency units, at M% per annum, which is N% below the market rate. The term of the loan is for P years.

Mr T is a member of the governing body. Members of the governing body are able to take out a loan for up to S years at R% per annum to purchase computer equipment.

Remuneration and Compensation Provided to Close Family Members of Key Management Personnel (paragraph 34(b) and 35.1)

During the reporting period fees of X currency units were paid to Ms. W, an Executive Committee member with specialist expertise, in relation to her oversight of Entity A's assessment programme. The fees paid were based on market rates.

During the reporting period, a family member of an Executive Committee member provided IT services to Entity A. Entity A paid X currency units for this service, which at market rates would have cost Y currency units.

Comparison with IPSAS 20

PBE IPSAS 20 *Related Party Disclosures* is drawn from IPSAS 20 *Related Party Disclosures*.

The significant differences between PBE IPSAS 20 and IPSAS 20 are:

- (a) The definition of close member of the family of an individual in IPSAS 20 has been replaced by the definition contained in NZ IAS 24 *Related Party Disclosures* (2009).
- (b) PBE IPSAS 20 does not require disclosure of remuneration paid or payable to close members of the family of key management personnel that occur on normal terms and conditions.
- (c) PBE IPSAS 20 requires disclosure by not-for-profit reporting entities of all related party transactions.

History of Amendments

PBE IPSAS 20 *Related Party Disclosures* was issued in September 2014.

This table lists the pronouncements establishing and substantially amending PBE IPSAS 20. The table is based on amendments issued as at 31 January 2018 other than consequential amendments resulting from early adoption of PBE FRS 48 *Service Performance Reporting*.

Pronouncements	Date issued	Early operative date	Effective date (annual financial statements ... on or after ...)
PBE IPSAS 20 <i>Related Party Disclosures</i>	Sept 2014	Early application is permitted for not-for-profit public benefit entities	1 April 2015
<i>2015 Omnibus Amendments to PBE Standards</i>	July 2015	Early application is permitted	1 Jan 2016
<i>2016 Omnibus Amendments to PBE Standards</i>	Jan 2017	–	1 Jan 2017
PBE IPSAS 35 <i>Consolidated Financial Statements</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 36 <i>Investments in Associates and Joint Ventures</i>	Jan 2017	Early application is permitted	1 Jan 2019
PBE IPSAS 39 <i>Employee Benefits</i>	May 2017	Early application is permitted	1 Jan 2019

Table of Amended Paragraphs in PBE IPSAS 20		
Paragraph affected	How affected	By ... [date]
Paragraph 4 (definition of related party)	Amended	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 4 (definition of related party and significant influence)	Amended	PBE IPSAS 36 [Jan 2017]
Paragraph 15	Amended	PBEIPSAS 36 [Jan 2017]
Paragraph 24	Amended	PBE IPSAS 35 [Jan 2017]
Paragraph 27	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 27.1	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 32	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 33	Amended	PBE IPSAS 35 [Jan 2017]
Paragraph 34A	Added	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 34.2	Added	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 38	Amended	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 38	Amended	PBE IPSAS 39 <i>Employee Benefits</i> [May 2017]
Paragraph 43.2	Added	<i>2015 Omnibus Amendments to PBE Standards</i> [July 2015]
Paragraph 43.3	Added	<i>2016 Omnibus Amendments to PBE Standards</i> [Jan 2017]
Paragraph 43.4	Added	PBE IPSAS 35 and PBE IPSAS 36 [Jan 2017]
Paragraph 43.5	Added	PBE IPSAS 39 <i>Employee Benefits</i> [May 2017]