

## **Additional Information from Preliminary Research on IPSAS 20, *Related Party Disclosures***

1. This Agenda Item provides additional detailed information regarding the implementation issues of IPSAS 20, *Related Party Disclosures* identified in the preliminary research and survey responses discussed in [Agenda Item 11.A.1](#). Staff reviewed the following documents as part of the research:
  - (a) EPSAS Screening Report – IPSAS 20, *Related Party Disclosures*, issued by Eurostat;
  - (b) Feedback Statement from post-implementation review of related party disclosures applied by not-for-profit entities, issued by the Australian Accounting Standards Board (AASB); and
  - (c) Review Report from the review of the Standard of Generally Recognised Accounting Practice (GRAP) on Related Party Disclosures (GRAP 20), issued by the South African Accounting Standards Board.
2. The findings in these reports consisted of responses from key stakeholders, including public sector entities, regulators, professional bodies, professional services firms, and auditors.
3. The findings in this Agenda Item are organized by the following key issue areas:
  - (a) Identification of related party relationships;
  - (b) Relevance of related party disclosures;
  - (c) Data privacy concerns;
  - (d) Cost-benefit considerations; and
  - (e) Materiality thresholds.

### **Preliminary Research Findings**

#### *Identification of Related Party Relationships*

1. IPSAS 20 defines a related party as a person or entity that controls, jointly controls, or has significant influence over another party, or is subject to such influence. Entities that are under common control or joint control are also considered related parties.
2. Stakeholders reported challenges in determining whether entities are under common control, particularly in jurisdictions where municipalities operated under varying degrees of control. In such cases, it may be unclear whether municipalities within the same province should be considered under common control.
3. Application challenges also arise in applying the definition of “*key management personnel*”. Entities are uncertain whether audit and risk committee members should be considered key management personnel (KMP). Some entities include these members because such committees are considered governing bodies, while others exclude them due to their lack of control over the entity's activities.
4. In addition, the structure of public sector governance can complicate identification of related party relationships. For example, ministers may manage multiple portfolios with different levels of responsibilities, making it difficult to determine whether they should be considered KMP.
5. In Australia, changes to the definition of “*relative*” under the *Family Law Act 1975* have also introduced challenges in applying the definition of “*close members of the family of an individual*”.

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6. These examples demonstrate that identifying related party relationships requires thorough consideration of the specific facts and circumstances of each relationship. The determination of who is considered KMP may vary depending on an entity's structure and governance arrangements, particularly in complex public sector environments. As a result, significant professional judgment is required in applying the definitions in IPSAS 20.
7. The concerns raised by stakeholders therefore appear to arise primarily from the level of judgment required and the diversity of public sector governance structures, rather than from deficiencies in the definitions themselves. The need to exercise professional judgement is inherent in the application of principle-based IPSAS Standards, particularly where they are designed to accommodate a wide range of jurisdictions and institutional arrangements.

## *Relevance of related party disclosures*

1. IPSAS 20 requires an entity to disclose information about KMP and their close family members, including information on remuneration and other types of compensation, and certain loans provided to them.
2. The EPSAS Screening Report on IPSAS 20 notes these disclosure requirements might not be relevant in the public sector, for the following reasons:
  - (a) In some jurisdictions, remuneration information of public sector personnel is usually already available in other reports required by legislation, including budgetary reports because each job position is related to a budgetary item;
  - (b) Transactions with close family members are unusual in the public sector due to heightened scrutiny and potential legal consequences; and
  - (c) Public sector entities are unlikely to provide loans to KMP and their close family members unless such lending is part of their service delivery objectives.
3. Based on these reasons, the report raises the question of whether requiring disclosure of remuneration information relating to KMP and their close family members in the financial statements provides incremental value, or whether these information needs are already addressed through other public reports.
4. While the EPSAS Screening Report questions the relevance of certain related party disclosures in the public sector, IPSAS 20 clearly articulates the rationale for these requirements. Related party relationships may influence how an entity operates, expose it to risks or opportunities, or result in transactions being undertaken on terms that differ from those available to unrelated parties. Therefore, disclosure enhances transparency and accountability by enabling users to assess the impact of such relationships and transactions on an entity's financial position, performance, and service delivery.
5. IPSAS 20 also includes guidance to limit disclosures to information that is relevant. For example, paragraph 29 requires disclosure of related party transactions only when they occur other than in the normal course of operations on normal terms and conditions, and paragraph 33 provides an exemption for intra-group transactions in consolidated financial statements. These provisions demonstrate that the Standard already incorporates considerations regarding relevance. While some stakeholders suggested that further clarification may be needed to assist preparers in exercising

judgment, the existing requirements are designed to avoid unnecessary disclosures while maintaining transparency.

### *Data privacy concerns*

6. Stakeholders highlighted that entities may have limited legal authority to compel individuals to provide information needed to determine whether they meet the definition of a related party. In particular, KMP and their close family members may be hesitant or unwilling to provide information about their remuneration if it is not already required by legislation.
7. These privacy-related challenges may also affect the auditability of related party disclosures. Auditors have reported difficulties in obtaining sufficient evidence that all related parties have been identified and that the information disclosed is complete and accurate.
8. However, IPSAS 20 does not require disclosure of individually identifiable information about KMP or their close family members. The Standard requires disclosure of aggregate remuneration and compensation amounts, and information on certain loans. Accordingly, concerns regarding privacy and auditability may arise in part from perceptions about the level of detail required and could be addressed through clarification and education to support correct application of the Standard.

### *Cost-benefit considerations*

9. Stakeholders raised concerns regarding the cost-benefit balance of complying with related party disclosure requirements in the public sector. Public sector entities usually have a large number of related party relationships and transactions. Therefore, some stakeholders noted that the effort and resources required to disclose related party information may outweigh its perceived usefulness, especially where the relevance of some disclosure requirements is being questioned, as discussed above.
10. Stakeholders also identified some practical challenges with the calculation of KMP remuneration. For example, difficulties were noted in calculating the superannuation component of remuneration when KMP are members of a defined-benefit superannuation fund.
11. While compliance may require effort, these concerns do not appear to relate to a deficiency in the Standard. Staff note that some stakeholders acknowledged the benefits of related party disclosures, particularly KMP remuneration disclosures, which were viewed as important for highlighting potential conflicts of interest, probity concerns, and governance risks.

### *Materiality thresholds*

12. Stakeholders noted that applying materiality is important in determining which related party relationships and transactions should be disclosed, particularly in the public sector where entities may have a large number of related parties and transactions. Some respondents suggested that clearer guidance on materiality could assist preparers in exercising judgement.
13. Staff note that materiality is an overarching principle that applies across all IPSAS Standards. The application of materiality requires professional judgement, especially when in the assessment of materiality by nature. The IPSASB is currently developing separate guidance on making materiality judgements in the preparation of financial statements, which will apply to all IPSAS Standards. This broader guidance is intended to support preparers in exercising judgement and addressing uncertainty regarding the extent of disclosures required.

## *National Standard Setter Survey*

14. In addition to the above reports, Staff distributed the informal survey to national standard setters in Q2 2025 to gather information on the use of IPSAS Standards and the challenges in applying them. In reviewing the responses to the survey, Staff noted that New Zealand and South Africa reported application issues relating to IPSAS 20.
15. The External Reporting Board (XRB) of New Zealand reported that the disclosure requirements for close family members of KMP were onerous for some public sector entities, consistent with the issues identified in the preliminary research discussed above. As a result, they narrowed the definition of “close family members” by specifying that disclosures relating to close family members are required for only transactions that are not at normal terms and conditions.
16. The Accounting Standards Board in South Africa indicated that it had completed a review of GRAP 20, *Related Party Disclosures*, which is based on IPSAS 20. The review revealed challenges in correctly identifying related party relationships and transactions, largely due to the complexity in applying judgement in certain areas, including:
  - (a) Identifying control, joint control, or significant influence;
  - (b) Ensuring completeness of related party disclosures; and
  - (c) Applying materiality to related party relationships and transactions.
17. These issues are consistent with the issues identified in other reports reviewed by Staff, as discussed above.