

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGFG05 – 03
21 January 2025 – Virtual

Section 33 Related party disclosures

Summary	This paper summarises and provides a high-level analysis of consultation responses to the Specific Matters for Comment (SMCs) on Section 33 <i>Related party disclosures</i> . It also outlines the Secretariat's initial approaches and responses.
Purpose/objective of the paper	The purpose of this paper is to analyse the responses to the SMCs on ED3, Section 33, and to seek TAG members' views on the final guidance, incorporating respondents' feedback on specific proposals.
Other supporting items	TAGFG05-02 Expenses classification and fundraising costs
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Actions for this meeting	<p>Advise on:</p> <ul style="list-style-type: none"> i. a minor amendment is proposed to the wording of G28.38A on disclosure requirements for expenses relating to governing body members; ii. mandating the disclosure of material arm's-length transactions; and iii. the relocation of material from the Application Guidance to the Implementation Guidance for Section 33; and iv. whether the Implementation Guidance provides sufficient clarification regarding the requirements for disclosure of related party transactions.

Technical Advisory Group

Section 33 Related party disclosures (Response to ED3)

1. Introduction

- 1.1 This paper:
- summarises and analyses the consultation responses to the Specific Matters for Comment (SMCs) on Section 33 *Related party disclosures* (see Appendix A);
 - outlines the Secretariat's responses to the feedback; and
 - seeks TAG members' advice on the issues raised to finalise these sections.

2. Background

- 2.1 Section 33 *Related party disclosures* was exposed as part of ED3 and proposes requirements for disclosing the potential impact of related parties on an NPO's financial position and surplus or deficit. The Section draws on the *IFRS for SMEs* Accounting Standard but has been amended to address the specific needs of NPOs, with updates to terminology and consequential amendments for consistency within INPAG.
- 2.2 Section 33 requires that governing body members are classified as related parties, whether or not they are compensated. It introduces new disclosure requirements, including details of personnel compensation, the legal basis for such payments, and reimbursement of out-of-pocket expenses.
- 2.3 Exemptions were proposed to reduce the reporting burden while maintaining relevance. It was suggested that grants or donations made by governing body members, or services they receive, need not be disclosed if conducted as arm's-length arrangements or under terms consistent with those offered to other eligible recipients.
- 2.4 Specific Matters for Comment (SMCs) in ED3 were:
- Question 2(d): Do you agree with the proposed expense disclosure requirements? If not, what would you change and why? (References: G33.7–G33.11).
 - Question 2(i): Do you agree that grants or donations made in arm's-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as related party transactions? If not, why not? (References: G33.18(a)–G33.18(b)).
- 2.5 The next section summarises the responses, highlighting key themes, areas of agreement, and concerns raised by respondents. This analysis has informed the final proposals for INPAG Section 33 contained in TAGFG05 – Annex.

3. Expense disclosure requirements

- 3.1 The disclosure requirements for expenses are set out across different sections of INPAG. This paper focuses solely on comments made in response to Section 33, which addresses disclosures related to key management personnel and governing body members. Overall, there was strong agreement for the expense disclosure requirements (which included the disclosures analysed in TAGFG05-02), with 87% of those who responded to this question (45 respondents) agreeing and 13% neither agreeing nor disagreeing. There were no disagreements.
- 3.2 Most respondents supported the requirements, indicating general consensus on their appropriateness and relevance.
- 3.3 One respondent, who agreed with the requirements, highlighted a concern with paragraph G33.10(d), which requires confirmation that payments to governing body members are permissible under the law or the NPO's constitution. The respondent suggested deleting this provision, arguing that it could potentially place an unfair burden on the preparer of the accounts. They proposed that assessments of compliance with legal or constitutional provisions should be the responsibility of both the preparer and the auditor. The Secretariat is of the view that ensuring compliance with legal or constitutional requirements is a fundamental principle of good governance and transparency and should therefore be retained.
- 3.4 One respondent who neither agreed nor disagreed recommended clarifying G28.38A to specify that governing body members who are also employees must disclose their employee compensation as required by G33.9(b). The same respondent questioned whether the disclosures of compensation under paragraphs G33.7 and G33.10 should follow the same analysis as those under G28.38, (which relate to employee benefits). The Secretariat agrees to clarify that G28.38A applies where governing body members are also employees (see Appendix C) and that such governing body members are to be included in this disclosure and that it would be useful to cross reference to G33.9 (b).
- 3.5 Where governing body members are not employees, the Secretariat is of the view that the reporting can be decided by the NPO, but proposes to add implementation guidance that notes the disclosures required by G28.38 as an example. This will aid user navigation and consistency in compensation disclosures.
- 3.6 The other respondent recommended establishing a minimum baseline for critical disclosures, potentially using a list or tick-box approach to complement jurisdiction-specific requirements. This suggestion was aimed at ensuring consistency and preventing omissions in key disclosures. While the Secretariat recognises the value of standardised disclosure practices, it also notes the challenges in implementing a universally applicable baseline. Jurisdictional variations in legal and operational

contexts make it difficult to define thresholds or essential information that apply universally. INPAG sets the minimum disclosure requirements, and the Secretariat does not propose to include checklists.

Question 1: Do TAG members agree with the clarification to G28.38A where governing body members are employees, with no further changes to the disclosure requirements for remuneration and expenses paid to key management personnel and governing body members?

4. Exemptions for disclosing arm's-length transactions

4.1 Of the respondents to SMC 2(i), 63% (33 respondents) agreed with the proposal to exempt arm's-length related party disclosures of governing body members, while 35% (18 respondents) disagreed, and 2% (1 respondent) neither agreed nor disagreed.

Comments from respondents who agreed:

4.2 Three respondents agreed that the exemptions reduce complexity and administrative burden while focusing on more impactful disclosures. They noted that the proposal in Section 33 strikes a balance between ensuring transparency and avoiding excessive disclosures that may not add value to stakeholders, thereby reducing the administrative burden.

4.3 Four respondents referenced the consistency of the proposal with existing standards. Two respondents highlighted that the UK Charities SORP adopts a similar approach by exempting disclosures for arm's-length transactions where benefits are received without preferential terms. Two others noted alignment with broader financial reporting practices, such as IFRS and GAAP, where arm's-length transactions typically do not require special disclosure.

4.4 Three respondents argued that arm's-length transactions inherently lack conflict of interest risks. The respondents noted that such transactions are ordinary and conducted without preferential treatment, making detailed disclosure unnecessary. One respondent suggested that requiring these disclosures could dilute the focus on genuine related party concerns.

4.5 Two respondents were of the view that transparency should be maintained. One respondent emphasised that governing body members benefiting from services on standard terms should not be compelled to disclose, though voluntary disclosure could enhance trust. Another suggested including a note to explicitly confirm that transactions with governing body members were conducted at arm's length without revealing quantitative details.

- 4.6 While supportive, one respondent highlighted areas for refinement. Material donations, even if arm's length, may warrant disclosure due to their potential impact on user decision-making. Concerns were raised about drafting clarity, particularly regarding outstanding payments by governing body members, suggesting exemptions may not apply where balances remain unpaid outside standard terms.
- 4.7 One respondent who agreed with the exemption highlighted the importance of reflecting grants or donations received by NPOs on an arm's-length basis to meet regulatory expectations and ensure transparency. The respondent pointed out that, in many jurisdictions, such grants and donations are tax-exempt, which could create opportunities for tax evasion or avoidance if these transactions are not conducted transparently and in compliance with tax regulations.

Comments from respondents who disagreed:

- 4.8 Eight respondents advocated for disclosing all related party transactions, regardless of whether they are at arm's length, to ensure full transparency. A donor respondent emphasised that such disclosures, including services provided under standard terms, help clarify board relationships and organisational practices. Another noted that even arm's-length donations by senior management should be disclosed to provide a comprehensive view of relationships.
- 4.9 Three respondents raised concerns about the potential for governing body members' powers to compromise the arm's-length nature of transactions. One highlighted the significant authority and privileged access these individuals hold, which could result in transactions that are not genuinely at arm's length. Another suggested mandatory disclosure, including identification by name, to ensure accountability and oversight of resource stewardship. The third respondent expressed concerns about the potential misuse of the arm's-length definition for personal advantage.
- 4.10 An auditor respondent that disagreed, cited insufficient guidance on arm's-length transactions in Section 33 and referencing Australian Accounting Standards Board guidance.
- 4.11 An academic respondent that disagreed stressed the importance of understanding whether an NPO relies heavily on one or a few institutions for funding. For instance, if an NPO depends solely on donations from a single company, that company's financial difficulties could jeopardise the NPO's sustainability. This respondent emphasised the importance of related party disclosures in enabling other donors to assess an NPO's financial stability and long-term viability.
- 4.12 The main concerns centred on the inherent influence of the governing body members and whether it is genuinely feasible that these transactions do not raise questions about their arm's-length nature or potential conflicts of interest. In

response to this feedback, the Secretariat has considered the balance between the potential burden on NPOs in disclosing such transactions and the need for transparency, particularly in cases where an NPO depends on donations from a governing body member.

- 4.13 Taking account of this feedback, the Secretariat can see that the privileges that can confer to governing body members mean that transparency of the grants and donations that they make to the NPO is important. As a consequent the Secretariat proposes to amend Section 33 to require the disclosure of grants or donations provided by governing body members. To further support clarity and consistency, additional examples have been included in the Implementation Guidance. This proposal is set out in Appendix C.
- 4.14 The Secretariat is of the view that services received by governing body members on the same basis as other service recipients is likely to be less significant. However, disclosing which governing body members have received services on the same basis as other service recipients may be useful. The Secretariat has consequently made amendments as set out in Appendix C.
- 4.15 Reflecting on the feedback to ED3, the Secretariat has relocated the guidance from the Application Guidance to the Implementation Guidance to provide more practical support for NPOs in applying the disclosure requirements in the Authoritative Guidance. This includes additional guidance on the application of materiality to transactions and what is meant by an arms'-length transaction.

Question 2: Do TAG members agree with the proposal to amend Section 33 to require the disclosure of all donations or grants made by governing body members, and identifying which governing body members are in receipt of services received on the same terms as other recipients?

Question 3: Do TAG members agree with the relocation of the material from the Application Guidance to the Implementation Guidance for Section 33?

Question 4: Do TAG members agree with the augmentations made to the Implementation Guidance?

7. Next steps

- 7.1 The text will be updated to reflect any changes to the Third edition of the *IFRS for SMEs* standard which is currently being finalised and to reflect the feedback from TAG members. The updated version will be included in the pre-ballot draft to be circulated in April 2025.

January 2025

Appendix A Summary of Feedback Responses to SMCs for

ED3 SMC 2 d) Do you agree with the proposed expense disclosure requirements? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	45	87%
	Disagree	-	-
	Neither agree nor disagree	7	13%
	No Response	11	-
		63	100%

ED3 SMC 2 i) Do you agree that grants or donations made in arm's-length transactions with governing body members and any services they receive on the same terms as other eligible service recipients need not be disclosed as related party transactions? If not, why not?	Response	Number	% of those who responded
	Agree	33	63%
	Disagree	18	35%
	Neither agree nor disagree	1	2%
	No Response	11	-
		63	100%

Appendix B – Extracts from feedback on

SMC 2d)	
Comments relating to <i>Related Parties</i>	Response
Proposal that G.33.10 (d) be deleted, as it can be prejudicial to the preparer of the accounts.	The Secretariat considers that it is important for trust and integrity that the preparer confirms that it is legally making payments.
Recommend amending G28.38A to make it clear that the exemption does not apply to members of the governing body who are also employees. (This could simply be a cross-reference to G33.9(b).)	The Secretariat agrees that clarifying G28.38A and incorporating a cross-reference to G33.9(b) would improve clarity and consistency in reporting, particularly for governing body members who are also employees.
Query should the required disclosures of compensation under G33.7 and G33.10 follow the same analysis as under G28.38?	The Secretariat notes that G28.38, G33.7, and G33.10 serve distinct purposes and should maintain their specific focus, although cross-referencing between them would enhance user navigation and consistency in compensation disclosures. The Secretariat has included additional implementation guidance.
Considering the importance of disclosing key information, such as amounts paid to key management personnel and those charged with governance, it is recommended to establish a minimum baseline for critical disclosures. A list or tick-box approach is proposed to complement jurisdiction-specific requirements and ensure consistency while preventing omissions.	The Secretariat acknowledges the critical importance of transparency in disclosing information about Key Management Personnel (KMP) and those charged with governance. However, prescribing a fixed minimum baseline for disclosures, such as a pre-defined list or tick-box approach, does not align with a principles-based framework. A key difficulty lies in determining a threshold that is universally applicable across jurisdictions, given the significant variations in regulatory, legal, and operational contexts. What constitutes "critical" or "essential" information can differ widely. A principles-based approach allows for flexibility, enabling entities to exercise judgment in determining disclosures that are most relevant to their circumstances



	while ensuring accountability and transparency.
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SMC 2i)	
Comments from those that agreed	Response
Governing body members who are also eligible beneficiaries of an NPO, such as a person with disabilities benefiting from an NPO supporting individuals with similar disabilities, should not be required to disclose their use of the NPO's services. However, voluntary disclosure by governing body members can enhance transparency and trust.	The Secretariat agrees that voluntary disclosure can be helpful and has included this in the Implementation Guidance. The Secretariat also proposes to require that the fact that a governing body is in receipt of such services is also disclosed.
Grants or donations made in arm's-length transactions with governing body members, as well as services received on the same terms as other eligible recipients, need not be disclosed as related party transactions. This is because related-party relationships only impact the financial statements when transactions occur outside normal commercial terms. However, to ensure transparency and accountability, an explicit statement affirming the arm's-length nature of such transactions should be included in the related party disclosure note, even without disclosing the corresponding amounts.	The disclosure requirements in Section 33 have been revised to require that all grants and donations made by governing board members are disclosed. An amendment has also been made to list those governing body members who are in receipt of services on the same terms as other eligible recipients.
Overall, we support the disclosure exemptions as proportionate, but with some concerns: <u>Significant or material Donations:</u> The exemption for arm's-length grants and donations by governing body members may not be suitable for significant or material donations. Omitting such disclosures could affect users' understanding and decision-making, as these donations may not be sustainable. <u>Charities SORP Comparison:</u> The disclosure exemptions in INPAG are broadly aligned with paragraph 9.18 of the Charities SORP, except for the SORP's requirement to disclose total unconditional donations by trustees, which may present practical challenges. The exemptions in INPAG are viewed as reasonable and proportionate. <u>Outstanding Payments:</u> The interaction between ED3 paragraphs G33.14 and G33.18(b) lacks clarity regarding outstanding amounts owed by governing body members. For example, if a board member receiving services as an eligible beneficiary has significant arrears, such balances should be disclosed. It is suggested that INPAG not exempt such scenarios to ensure transparency.	The disclosure requirements in Section 33 have been revised to require that all grants and donations made by governing board members are disclosed. An amendment has also been made to list those governing body members who are in receipt of services on the same terms as other eligible recipients. Section 33 has also clarified that amounts owed by governing body members must be disclosed.



<p>Transactions with a governing body member may not require disclosure if the member makes an arm's-length donation that does not alter the NPO's normal activities, or if the member receives services on the same terms as other eligible recipients. However, as grants or donations to NPOs are exempt from taxation in many jurisdictions, it is essential to clearly define the arm's-length basis to avoid potential tax avoidance or misuse of operating income.</p>	<p>The definition of "arm's length" aligns with its standard meaning, referring to transactions conducted under normal commercial terms without undue influence from the related party. Acknowledging the concern regarding tax avoidance or misuse of operating income additional guidance is provided.</p>
<p>Comments from those that disagreed</p>	<p>Response</p>
<p>A related party is still considered a related party regardless of whether transactions are at arm's length. Therefore, any transaction with a related party should be disclosed.</p>	<p>The Secretariat has balanced the burden on NPOs with the need for transparency. Recognising the concerns raised the Secretariat has amended Section 33 to require that all grants and donations made by governing board members are disclosed. An amendment has also been made to list those governing body members who are in receipt of services on the same terms as other eligible recipients.</p> <p>Section 33 has also clarified that amounts owed by governing body members must be disclosed.</p>
<p>Governing body members and Senior Management Team (SMT) are a special category of related parties with significant power, allowing them to potentially award themselves inappropriately under the guise of legitimate policies and budgets. Therefore, all their transactions, even if conducted at arm's length, should be disclosed to ensure proper stewardship and accountability of resources. Such transactions should be disclosed individually for each governing body and SMT member for full transparency and accountability.</p>	<p>Refer to the revised guidance in Section 33.</p>
<p>Transactions with governing body members and Senior Management Team (SMT) should be disclosed as related party transactions to avoid potential conflicts of interest. These individuals are treated as related parties because they are perceived to have access to internal information, giving them an advantage over other service providers who do not have the same level of privilege.</p>	<p>Refer to the revised guidance in Section 33.</p>
<p>We do not agree with the proposed exemption for arm's length transactions. All related party transactions, whether at arm's length or not, should be disclosed in the financial statements. Governing body</p>	<p>Refer to the revised guidance in Section 33.</p>



<p>members are key management personnel with access to information that may not be available to third parties, making it unlikely that these transactions are truly at arm's length. Allowing exceptions could lead to inconsistent reporting across entities. The focus should be on clearly defining who constitutes a related party, and once that is established, all transactions should be disclosed.</p>	
<p>I do not agree that donations made by senior management should be exempt from disclosure as related party transactions. Even if these transactions are made on an arm's length basis and do not disrupt the normal activities of the organization, it is important to maintain transparency. Disclosing these donations as related party transactions ensures a complete and clear view of the relationship between the organization and its senior management.</p>	<p>Refer to the revised guidance in Section 33.</p>
<p>Consistent with GAAP and IFRS, related party transactions must be disclosed regardless of whether they are conducted at arm's length. The nature of the relationship and the terms of the transaction should be clearly explained. Full disclosure is necessary to ensure transparency and avoid conflicts of interest. This information helps stakeholders assess the potential impact of the related party transaction on the NPO's financial position, as per FASB ASC 850 and IAS 24.</p>	<p>Refer to the revised guidance in Section 33.</p>
<p>It is important for users of the financial statements to understand the financial interdependence between the NPO and its governing body members, even when transactions are conducted at arm's length. Therefore, any related party transactions or their equivalents should be disclosed.</p>	<p>Refer to the revised guidance in Section 33.</p>
<p>I don't agree because the definition of an arm's-length transaction can be interpreted differently in various contexts. In my view, it can be misused and abused, potentially benefiting someone's advantage.</p>	<p>The definition of "arm's length" aligns with its standard meaning, referring to transactions conducted under normal commercial terms without undue influence from the related party. Acknowledging the concern regarding tax avoidance or misuse of operating income additional guidance is provided.</p>
<p>Information on whether an NPO relies heavily on one or a few institutions is crucial to assess its sustainability. For example, if an NPO relies solely on donations from one company, and that company faces financial issues, the sustainability of the NPO's program could be questioned. Disclosure of related party</p>	<p>Refer to the revised guidance in Section 33.</p>



transactions is important for other donors to assess the long-term viability of the NPO.	
In the case of G33.18(b), where a governing body member is a recipient of services or goods, these transactions should be disclosed even if the services are provided for the NPO's primary purpose and on the same terms as other eligible service recipients. Disclosure ensures transparency, eliminates the risk of unethical practices, and supports assurance services and regulatory reviews.	Refer to the revised guidance in Section 33.
The information is essential for transparency and understanding the relationships within the board. The disclosure could specify that: a) a donation was made without any obligation on the NPO, b) services were provided on the same terms as other eligible recipients.	Refer to the revised guidance in Section 33.
Refers to guidance from the Australian Accounting Standards Board (AASB) on applying IAS 24 (AASB 124) in the not-for-profit sector, including specific details on what constitutes an arm's-length transaction.	Refer to the revised guidance in Section 33.
<u>General:</u> The definition of related parties should not be limited to close family members, as it may overlook other significant relationships, such as university colleagues, school colleagues, or teachers and students. It is recommended to expand the definition to include anyone whose relationship could create expectations or perceptions that transactions might not be conducted at arm's length.	The definition of related parties in G33.2 covers a broad scope of relationships that could influence or be perceived to influence transactions. This definition is consistent with that used in other international financial reporting standards. While it does not explicitly mention university or school colleagues, the framework ensures that relationships creating expectations or perceptions of non-arm's-length transactions are captured through the inclusion of significant influence and control criteria. No changes are proposed.

Appendix C – Extracts to highlight amendments

Authoritative Guidance

Section 28 – Employee benefits

Disclosures

Disclosures about short-term employee benefits

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G28.38A Members of the NPO's governing body are not considered employees for the purposes of this disclosure and their personnel compensation and expenses are to be disclosed in accordance with paragraph G33.7. **However, if a governing body member is also an employee of the NPO, their employee compensation and benefits shall be disclosed in accordance with paragraph G28.38 and their compensation and benefits as an employee included with other employees. Any additional personnel compensation and or expenses related to their role as a governing body member shall be disclosed in accordance with paragraph G33.9(b).**

Authoritative Guidance

Section 33 – Related party disclosures

Disclosure of related party transactions

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G33.18 Transactions with a governing body member need not be disclosed where the governing body member:

- (a) ~~makes a donation, provided that this is a arm's length transaction and have not required the NPO to amend its normal activities eg use certain suppliers or sources of inputs;~~ (b) is a recipient of services made in accordance with the NPO's primary purpose, where the services are provided on the same terms as other eligible **service recipients**. Amounts owed by governing body members at the financial reporting date need not be disclosed if the governing body member has not exceeded the terms provided to other eligible service recipients. A list of governing body members that are in receipt of services shall be provided, with the nature of the service provided.

Implementation Guidance

Section 33 – Related Party disclosures

[Note – text in green has been moved to the Implementation Guidance from the Application Guidance]

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Are transactions between NPOs with connected governing body members considered related party transactions?

IG33.4 Yes. NPOs often have a separate governing body exercising authority, separately from the executive officers. Such members of governing bodies may be connected to counterparts, e.g. with funders or other NPOs, which is common in the sector to leverage co-operation. Transactions between NPOs with connected governing body members are related party transactions. This is because these connections can influence decision-making, and it is important for users of financial statements to be aware of such relationships to understand their potential impact.

What are the disclosure requirements for governing body member compensation?

IG33.5 While in some jurisdictions it is not legal to compensate the governing body members, in others it may be customary practice to do so. ~~In either case it is necessary to make disclosures to show no potential for a conflict of interest. Paragraphs G33.8 – G33.10 therefore require the disclosure of personnel compensation, other benefits or employment and expenses claimed. In all cases, such disclosures are necessary to demonstrate transparency and avoid potential conflicts of interest. Disclosures will include details of personnel compensation, pension and other benefits (para G33.10 (b)). It will also include details of expenses claimed by governing body members (G33.11).~~

IG33.6 The disclosure format should clearly show the compensation details for governing body members. It should only show the compensation in relation to their governance role and not any paid employment. This should address the requirements outlined in G33.10, ensuring clarity about how compensation is structured and paid. In presenting governing body compensation NPOs should consider the most appropriate format. The disclosures for employee expenses in G28.38 may provide an appropriate format.

Why are related party transactions with government entities exempt from disclosure?

IG33.6 Paragraph G33.15 provides exemptions from reporting related party transactions with government entities. This exemption has been provided to reduce the potential burden of reporting such transactions. NPO's may report such transactions where this is important to the understanding of the NPO's financial position.

Do all transactions between an NPO and a governing body member need to be disclosed under related party disclosure requirements?

IG33.7 ~~Paragraph G33.17 a) permits donations from a governing body member to not be included as a related party transaction, provided there are no obligations for the NPO to~~

~~vary its normal activities beyond those that would be required in an arms-length transaction. Grant arrangements that include any form of obligation on the NPO to undertake to deliver specified outputs, carry out specified activities or use resources in a specified way will create a unique obligation. Paragraph G33.17 a) will therefore not apply to such arrangements.~~ An NPO should assess whether a transaction with a governing body member is material to the financial statements and whether it provides relevant information for users of their financial statements. If the transaction is material and impacts the understanding of the NPO's financial position, it should be disclosed—regardless of whether it is conducted at arms' length. An arms'-length transaction is a transaction conducted under normal commercial terms without undue influence from the related party.

IG33.8 Where a governing body member makes a donation, it must be disclosed if it is material. This is the case even if it is at arms'-length and does not require changes to the NPO's usual operations.

IG33.9 Exceptionally, NPOs do not have to disclose the transactions between a governing body member and an NPO where the governing body member is in receipt of services on the same terms as other eligible recipients. Disclosure is, however, required of the names of the governing body members in receipt of such services. Transactions arising from services provided to governing body members that are not on the same terms as other eligible recipients must be disclosed where material.

IG33.10 Where a governing body member that receives services on the same terms as other eligible recipients has amounts owing at the financial reporting date these need to be disclosed if the amount owed is within the terms provided to other eligible service recipients.

IG33.11 While not mandated, NPOs are encouraged to voluntarily disclose smaller or non-material transactions where they add value to user understanding or help illustrate robust governance practices. For instance, detailing that governing body members do not receive preferential treatment compared to other eligible service recipients can strengthen stakeholder confidence.

Illustrative examples

Example 1: Social Housing NPO

If a governing body member of an NPO that provides social housing is also a tenant; the following shall be disclosed:

- The name of the governing body member;
- That the governing body member is a tenant of the NPO; and
- any arrears in rental payments (ie amounts outside of standard terms as a related party balance).

Example 2: Educational Grants

If a board member's immediate family member receives an educational grant from the NPO under the same terms as other applicants, the following no disclosure needs to be made unless the grant is on different terms to those provided to other eligible recipients.

The name of the governing body member and that a member of the governing body member's family has received an education grant must be disclosed.

Example 3: Consultancy Services

If a governing body member provides consultancy services to the NPO, even at a discounted rate, the transaction must be disclosed if it is material. The name of the governing body member and the value of the consultancy work must be disclosed.

Basis for Conclusion

Section 33 – Related Party disclosures

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BC33.5 ~~The Secretariat has included two new exemptions for the disclosure of related party transactions. Donations made by a governing body member need not be disclosed provided there are no special obligations to amend its normal activities e.g. use of certain suppliers or sources of inputs. Similarly, services received by a governing body member need not be disclosed where they are received on the same terms as any other eligible individual. Technical Advisory Group (TAG) members supported these amendments where amounts paid or received are on the same terms as other donors or beneficiaries. Application guidance clarifies that that this exemption would not apply to grants that have terms that place obligations on the NPO. The Secretariat initially proposed two exemptions for the disclosure of related party transactions involving governing body members. These exemptions stated that donations made by a governing body member need not be disclosed, provided there were no special obligations that would require the NPO to amend its normal activities (e.g., using specific suppliers or sources of inputs). Similarly, services received by a governing body member were exempt from disclosure if they were provided on the same terms as those offered to any other eligible individual.~~

BC33.6 Technical Advisory Group (TAG) members supported these exemptions, especially where amounts paid or received are on the same terms as those applied to other donors or beneficiaries to reduce reporting burdens for NPOs. However, the feedback from ED3, questioned the appropriateness of these exemptions. Respondents were concerned that governing body members may be able to exert significant influence when making grants and donations even where transactions were at arms'-length, particularly if an NPO is reliant on such grants and donations. Respondents were also concerned that governing body members could exert influence to ensure that they received the services from an NPO, potentially in advance of other recipients and encouraged transparency.

BC33.7 The Secretariat considered this feedback acknowledging the importance of transparency and the potential burdens that might arise from this reporting. The Secretariat agreed that disclosure of grants and donations should be made given the risk of undue influence or conflicts of interest and that these were relevant to the users of the financial statements. TAG members supported this conclusion and as a result this exception to the disclosure requirements was removed.

BC33.8 The Secretariat separately considered the disclosure of services received on the same terms as other eligible recipients. The Secretariat acknowledged the possibility that governing body members may benefit favourably by being prioritised for the receipt of services, even though services are provided on the same terms as other eligible service recipients. The Secretariat agreed that the fact that a governing body is in receipt of services and the nature of the service received is disclosed, but on balance does not believe it is necessary to disclose the transactions or amounts. The Secretariat proposes that this exception is reviewed in advance of the second edition of INPAG to ensure that it is working effectively. TAG members supported this approach in balancing transparency versus reporting burdens. This exception does not apply to amounts outstanding beyond an NPO's normal terms.

BC33.9 Materiality applies to the disclosures required in this Section. To promote transparency NPOs are encouraged to voluntarily disclose immaterial transactions and how it manages the relationship with governing body members where those members are in receipt of services. This provides NPOs with an opportunity to build trust by voluntarily disclosing transactions that could offer valuable context. The implementation guidance provides further clarification on how these disclosures should be made, with accompanying examples.

Paragraphs BC33.6 to BC33.10 have been renumbered as BC33.10 to BC33.14