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| FRD 11A |  |  | Disclosure of ex gratia expenses (June 2013) |
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| Purpose |  |  | To prescribe the disclosure requirements for ex gratia expenses in the notes to the financial statements. |
| Application |  |  | Applies to all entities defined as either a public body or a department under section 3 of the *Financial Management Act* *1994*. |
| Operative date |  |  | Reporting periods commencing on or after 1 July 2013, superseding FRD 11. |
| Requirements |  |  | An entity must disclose in aggregate the total amount of material ex gratia expenses in the notes to the financial statements. The disclosure must be accompanied by a description of the nature and purpose of the expenses (including amounts written off), and the relevant line item or items to which the expenses were recognised in the financial statements.  Where an entity has incurred multiple ex gratia expenses that are clearly distinguishable by their nature and/or purpose, the disclosure must be disaggregated to provide sufficient information to allow users to understand the different natures and/or purposes of the expenses. |
| Definitions |  | 5.1 | **Ex gratia expenses** – means the voluntary payment of money or other non‑monetary benefit (e.g. a write‑off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability of or claim against the entity. |
|  |  | 5.2 | **Nature** – means the types or categories of ex gratia expenses. |
|  |  | 5.3 | **Purpose** – means the circumstances for making the ex gratia expense. |
| Guidance |  | 6.1 | Ex gratia expenses are discretionary where there is no obligation to provide a payment of money or other benefit and the entity obtains no benefit from the payment.The decision that results in an ex gratia expense is usually based on moral or equitable grounds rather than a need or legal obligation of the entity, or to settle or resolve a possible legal liability or claim. |
|  |  | 6.2 | For the purpose of the FRD, where a contract or deed of release is used as part of settling the agreed conditions of an ex gratia expense, such arrangements would not exclude the resulting expense from being classified as an ex gratia expense unless the contract or deed of release secures a benefit to the entity, e.g. bona fide settlement or resolution of a possible legal liability or claim. (For these purposes, the avoidance of possible criticism of the entity for not making an ex gratia payment does not constitute a benefit to the entity.) |
|  |  | 6.3 | Ex gratia expenses may be one–off or periodic, and provided to individuals or other bodies such as companies. |
|  |  | 6.4 | The expense incurred may result from the actual transfer of money or provision of non‑monetary benefits (such as write‑offs), or relate to accrued expenditure and related liabilities such as provisions and payables for future payments or benefits to be provided. |
|  |  | 6.5 | Materiality  Only ex gratia expense items greater than or equal to $5,000 need be included in a disclosure, unless there are factors which make an expense item of less than $5,000 material in the circumstances. |
|  |  | 6.6 | Nature  The nature of ex gratia expenses may take many forms. Possible types include but are not limited to:  Compensation payments (for damages, personal injury or injustice) where there is no legal obligation or liability to make such a payment;  Forgiveness or waivers of debts (such as loan write‑offs) because they would otherwise cause financial hardship or not be economical to pursue;  Gifts or other voluntary payments in recognition of special contributions such as voluntary contributions to advisory groups or committees. |
|  |  | 6.7 | Purpose  The description of the purpose of ex gratia expenses should inform users of the circumstances that led to the expenses being incurred. |
|  |  | 6.8 | Line item in financial statements  The location or locations where the ex gratia expenses are recognised in the financial statements shall be referenced to the relevant line item on the comprehensive operating statement or the related expense note where applicable. |
|  |  | 6.9 | Illustrated example  An illustrated example of a disclosure required by this direction is provided in the Model Report for Victorian Government Departments (the Model) reissued annually, and available on the Department of Treasury and Finance’s website. The style and extent of the example included in the Model reflects the expected standard of the disclosure. |
| Background |  | 7.1 | FRD 11 was issued in November 2005 to promote good corporate governance as Australian Accounting Standards are silent on the disclosure requirements of ex gratia expenses in an entity’s financial report. This FRD enables transparency and consistency in the disclosure of ex gratia expenses across the Victorian public sector.  FRD 11A *Disclosure of Ex gratia Expenses* was issued in June 2013 to:  expand the scope to capture non-monetary benefits and accrued ex gratia expenses, and introduce a materiality threshold;  require meaningful descriptions of the 'purpose' of ex gratia expenses, in addition to amount and nature;  require the disclosure of the line item to which the ex gratia expenses were recognised in the financial statements;  expand the definitions and guidance;  remove the illustration in the FRD, and replace with a reference to the illustration in the Model Report for Victorian Government Departments. |