



## **NEW ACCOUNTING DISCLOSURE IN STANDARDS FOR EXECUTIVE REMUNERATION**

On 28 January 2004, the Australian Accounting Standards Boards (AASB) announced the gazettal of new accounting standards, AASB 1046, entitled Director and Executive Disclosures by listed Australian companies.

The stated aim of the new standard as outlined by the AASB is to improve the quality and comparability of disclosures by listed companies about the remuneration of those responsible for its governance.

The AASB stated that the increased disclosure requirements for listed Australian companies were broadly in line with the major capital markets overseas.

### **Equity measured from grant**

As anticipated, the method required for measuring executive equity remuneration has been changed from the vesting date method proposed in ED106 to the grant date method proposed in ED108.

### **Expensing of Share Based Remuneration**

However, while AASB 1046 does not require equity based employee remuneration to be recognized and accounted for as expenses incurred by the

business, the AASB remains committed to the requirements to expense equity benefits provided to employees. Those requirements will be contained in AASB2, which is due for release imminently.

### **Specified Directors and Executives**

AASB 1046 actually reduces the burden on listed companies to disclose details of the remuneration on the number of its employees and directors but increases the *amount* and *quality* of the disclosure of the remuneration.

The “specified directors” of the disclosing entity are defined as being all of the directors of the entity required to prepare the entity financial reports.

A director is defined to include any member of the governing board, body, council or commission.

The “specified executives” comprise at least five executives with the greatest authority for managing the economic entity and those executives who are also directors.

The details which must be disclosed about the specified director and the specified executives are:

- a) the name of the individual;
- b) the position held; and
- c) where the period of responsibility of the current reporting period is less than the reporting period, the date or dates identifying the period of responsibility during the current reporting period.

## Remuneration Disclosed

The Remuneration to be disclosed is defined in AASB 1046 as:

- a) including all benefits received, receivable, or otherwise made available directly and immediately as a consequence of the position held, and Four Categories of remuneration;
- b) including, but not limited to, salaries, bonuses, fees, commissions, expense allowances, perquisites, and personal benefits, equity instruments and past employment benefits; and
- c) excluding reimbursements for expenses incurred for the benefit of the entity.

Remuneration is grouped into Four Categories:

- A) “Primary Benefits” (including any deferred amounts regardless of when the amount is paid) including:
  - i) cash salary, fees & commissions;
  - ii) cash, profit-sharing and other bonuses, separately identifying amounts applicable to long term incentive plans, and
  - iii) non- monetary benefits.
- B) “Post-Employment Benefits”, including remuneration benefits and contributions to pension or superannuation plans and

other arrangements to benefit employees following cessation of employment including:

- i) pension and pension and superannuation benefits;
- ii) prescribed benefits (past employment benefits) that are required by the corporations act to be approved by members; and
- iii) other past employment benefits.

C) "Equity Remuneration", including:

- i) the value of shares and units;
- ii) the value of options and rights;
- iii) increase in value in a change in the terms of vested of options in the rights; and
- iv) the value of an other equity remuneration

D) "Other Remuneration" benefits not disclosed under the above three classifications, including:

- i) termination benefits (being benefits that are required by the Corporations Act to be approved by members and are not post-employment); and
- ii) all other benefits, separately identifying significant items.

## **Authority not Remuneration**

While the level of remuneration is frequently taken to the indicative degree of the authority of the executive, there may be situations where the authority within the entity of an executive at the lower level of remuneration may be a greater than the authority of the executive being the most highly remunerated. For example, a currency trader or a sales person, who received high commissions but was not part of the senior management team, would not be classified as a specified executive of the entity.

## **Removal of Banding Requirements**

AASB 1046 removed the previous requirements for banded disclosure by disclosing entities of remuneration for directors and for executives. Under the banding disclosures, the remuneration of executives exceeding \$100,000 had to be disclosed in bands of \$10,000.

The logic underpinning the removal of banding and the constitution on the scope of the disclosures, is that while the new provisions will apply to less employees, the quality and detail of disclosure will be increased to the most relevant employees. That is, those employees in a position of authority to affect the governance of the company.

## **Conclusion**

The current practice of not expensing, contain share based remuneration has tended to distort executive remuneration practices in Australian companies, sometimes culminating in poorly designed, inefficient and accessible discounted share or option issue. With the proposal to expense employee equity based

remuneration, companies should review their existing executive share and option plans to determine their effectiveness in the light of the proposed changes.

Like the introduction of fringe benefits tax, the proposal to expense executive share benefits means that certain share benefits will be retained and expanded, while other less efficient equity benefits will be “cashed out” or “cash settled” to use the new terminology of accounting for share-based payments.

Our prime message is that those companies which best embrace the new requirements will be in the best position to deal with the new accounting standards. This means reviewing current remuneration practices, especially those relating to the equity based remuneration, to monitor the impact of the new requirements and to chart new courses in employee remuneration.

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