



Accounting alert 2008/08

New rules for compensation disclosures

Among the changes that apply to 30 June annual reporters are amendments made to the s.300A remuneration report in 2007 via the *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* and the *Corporations Amendment Regulations 2007 (No. 2)* which, among other matters:

- extend the requirement to prepare a remuneration report to **all disclosing entities that are companies** (formerly only listed companies)
- require an audit opinion to be expressed on the remuneration report
- introduce new disclosures related to compensation and omit others, including incorporating into the law the key management personnel (KMP) compensation information *formerly* transferable from the financial report into the remuneration report via the operation of Corporations Regulation 2M.6.04 (Regulation 2M.6.04). These compensation disclosures were incorporated into the revised s.300A and revised Corporations Regulation 2M.3.03 (Regulation 2M.3.03)
- withdraw the relief from duplication of KMP compensation information available under Regulation 2M.6.04.

Consequently, in the absence of any further pronouncements being issued by the Treasury, ASIC or the AASB, companies preparing annual financial reports for the financial year ended 30 June 2008 were required to present KMP compensation information in both the financial report (to comply with AASB 124 *Related Party Disclosures* (AASB 124)) and in the s.300A remuneration report. Fortunately, the AASB has now released AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities* (AASB 2008-4), which removes this duplication issue.

In this Accounting alert, we summarise the requirements of AASB 2008-4, and highlight some practical considerations in presenting KMP compensation disclosures required by AASB 124 and by s.300A and Regulation 2M.3.03. The key matters covered below are as follows:

- overview of AASB 2008-4 – a brief overview of the requirements and implications of the accounting pronouncement
- practical considerations – a short checklist of practical considerations that entities should consider in presenting compensation information
- more information and other resources.

We have also released a Deloitte Australian Insights podcast where Chris Biermann, one of Deloitte's Assurance & Advisory Partners, talks with Alexandra Moule, a Senior Associate with commercial law firm Freehills, about the current environment in which companies have to prepare a remuneration report and the key messages that companies should consider in framing their reports. Our Deloitte Reward experts are able to work with you to develop a compliant remuneration report that is both informative and representative – refer 'More information and other resources' below for further details.

Overview of AASB 2008-4

AASB 2008-4 was issued by the AASB on 6 June with the objective to relieve **disclosing entities that are companies** from having to make KMP compensation disclosures in the financial report as well as in the remuneration report. AASB 2008-4 does not amend the requirements of AASB 124 in respect of managed investment schemes or other disclosing entities that are not companies. AASB 2008-4 amends AASB 124 to exclude **disclosing entities that are companies** from the application of AASB 124 paragraphs Aus25.2 to Aus25.6, and Aus25.7.1 and Aus25.7.2.

The AASB 124 KMP disclosures for **disclosing entities that are companies**, as amended by AASB 2008-4, are summarised in the table below:

Specified disclosure continues to be provided in the financial report	Disclosure no longer required in the financial report*
Aggregate KMP compensation [para 16]	Details about each KMP (name, position, period of responsibility) [Aus25.2]
Movements in holdings of options, rights and other equity instruments during the period and information about the holdings at reporting date [Aus25.7, Aus25.7.3 – Aus25.7.4]	Any changes in CEO and directors, and retirements of other KMP, subsequent to the reporting date [Aus25.3]
Details of non-arm's length transactions involving equity instruments (other than compensation) occurring during the reporting period between a KMP or their related parties and the issuing entity [Aus25.7, Aus25.7.5]	KMP compensation by individual, disaggregated into various components [Aus25.4]
Details of loans made by the disclosing entity (or its subsidiaries) to KMP or their related parties [Aus25.8 – Aus25.8.2]	Board policy for determining KMP compensation, the relationship between the policy and company performance, and explanations of the relative proportions of performance and non-performance based KMP compensation [Aus25.5(a)-(b), (g)]
Details of transactions during the reporting period between KMP or their related parties and the disclosing entity (or its subsidiaries), and of outstanding amounts at the reporting date [para 17-22, Aus25.9 – Aus25.9.3]	Information about the performance conditions on which an element of KMP compensation is dependent [Aus25.5(c)]
	Explanation of why securities provided as compensation are not dependent on satisfaction of a performance condition [Aus25.5(f)]
	Information about cash and performance-related bonuses and share-based payment compensation benefits affecting KMP compensation [Aus25.5(d)]
	Details of any alterations or modifications of share-based payment granted as part of KMP compensation [Aus25.6]
	Details of options and rights forming part of KMP compensation that were granted during the reporting period, and that were exercised during the period [Aus25.7.1, Aus25.7.2]
	The number of options and rights forming part of KMP compensation that vested during the reporting period [Aus25.7.1]
	Details about contracts for services between a KMP and the disclosing entity (or its subsidiaries), including the contract duration, notice period and termination payments provided for [Aus25.5(e), (h)]

* Note: Disclosing entities that are companies are now required to disclose such information as part of the s.300A remuneration report.

Effective date

AASB 2008-4 is effective for annual reporting periods beginning on or after 30 June 2007 and ending on or after **30 June 2008**, but may be early adopted by entities in respect of an annual reporting period beginning on or after 30 June 2007 that end before 30 June 2008.

Note: A company with a financial year other than 1 July 2007 to 30 June 2008 should have regard to the effective dates of the amendments to the Corporations Act 2001 and to the Corporations Regulations to ensure that appropriate disclosures, as in force for its financial period, are made in the remuneration report that forms part of the director's report. Refer to our links in 'More information and other resources' below for further information about the effective dates.

Practical considerations

The table that follows lists various matters that should be considered as part of the preparation of compensation disclosures by entities preparing their annual reports for the financial year ending 30 June 2008. The list serves as an illustration of the types and complexity of matters that can arise in preparing the compensation disclosures specified by s.300A, Regulation 2M.3.03 and AASB 124, and is not intended to be exhaustive.

Topic	Considered
Cross-referencing – cross-referencing of the disclosures specified by s.300A and Regulation 2M.3.03 out of the remuneration report, including into another location in the directors' report is not permitted. Similarly, cross-referencing of the disclosures required by AASB 124 out of the financial report is not permitted.	<input type="checkbox"/>
Internal consistency of information – information relating to executive compensation is located in various places in the annual report, including the remuneration report, ASX corporate governance statement and notes to the financial statements (aggregate KMP compensation disclosures, KMP equity holding disclosures and share-based payment disclosures). The information disclosed in each location should be evaluated for its internal consistency. For example, it would be inappropriate for the notes to the financial statements to include details of performance conditions relating to share-based payments granted during the period to executive directors that differ from that disclosed in the remuneration report.	<input type="checkbox"/>
Identification of KMP – neither the definition of KMP (refer AASB 124) nor the wording of the requirements in s.300A or AASB 124 draw a distinction between a person who occupies the role of KMP for the entire period, and a person who occupied the role for part of the reporting period. Accordingly, all persons meeting the definition of KMP at any point during the period are subject to the disclosures specified in respect of KMP and should be captured.	<input type="checkbox"/>
Identification of company executives – the top five highest remunerated company executives may not always be the same persons as the top five highest remunerated group executives (e.g., because the group executives are employed by a subsidiary); where this is the case, information about the top five highest remunerated company executives is required in addition to the top five group executives disclosed. As a result, persons such as the company secretary may inadvertently be captured and the disclosures specified by s.300A and Regulation 2M.3.03 will be required.	<input type="checkbox"/>
Relationship between remuneration policy and company performance – s.300A requires the remuneration report to include discussion of the relationship between the company's remuneration policy and its performance, and requires that the discussion must specifically address a five-year performance history of earnings and the consequences of company performance on shareholder wealth. The framing of the discussion of the correlation between the company's performance and remuneration policy in the present economic environment may warrant significant board consideration.	<input type="checkbox"/>
Amount to include as KMP compensation – s.300A and AASB 124 require disclosure of the amount of KMP compensation. While not explicitly so stated, the amount that should be included as part of KMP compensation should relate only to the period that the person occupies a KMP role, and only to the compensation received for KMP-related activities (see also note below). That is, a person's (whether a new hire or internally promoted) compensation should not be annualised where he/she did not occupy a KMP role for the entire reporting period. Note: Sign-on bonuses are specifically required to be disclosed, although these do not relate to compensation received for services rendered as a KMP.	<input type="checkbox"/>
Participation in a bonus pool – some companies have bonus schemes in which eligible employees share in a bonus pool. Bonus payments under such schemes may be allocable to individual employees at the reporting date or may only be determinable after the end of the period (e.g. the board may only consider and approve the amount of the bonus pool at a board meeting held after the year end). The specific terms and conditions of each scheme will determine whether an amount should be included as part of a person's compensation for the reporting period.	<input type="checkbox"/>
Entitlement to share-based payments – compensation information must be determined in accordance with the accounting standards, requiring that grants of share-based payments are recognised in a person's compensation over the vesting period of that grant. Grants generally include an explicit or implicit service condition, which if failed, result in the non-vesting of the entitlement. In assessing whether such a service condition in respect of an individual person will be met, there are only two outcomes: the service condition will be met, or will not be met. At an individual KMP, group executive or company executive level, it should be presumed that the service condition will be met unless there is objective evidence to the contrary.	<input type="checkbox"/>
Additional information – revised s.300A requires disclosure of the board policy in relation to a person limiting his/her exposure to risk in relation to securities granted as compensation, and the mechanism to enforce the policy. In addition to such disclosure, while not required, companies may want to consider including information about other 'hot topics' such as the board's policy on margin loans.	<input type="checkbox"/>

More information and other resources

Our Deloitte Reward experts draw from their remuneration consulting skills to assist you to manage the commercial aspects of compensation arrangements through the articulation of remuneration strategies and structures and the linkage between pay and performance, and their understanding of the governance dimensions of pay. For further information on how Deloitte can assist you, contact **Joe Tropeano** on +61 (0) 3 9208 7451 or by e-mail jtropeano@deloitte.com.au, **Stephen Cornwell** on +61 (0) 3 9208 7399 or by e-mail scornwell@deloitte.com.au, or **Jonathan Finlay** on +61 (0) 2 9322 3422 or by e-mail jfinlay@deloitte.com.au.

In addition, the following resources are available:

- Deloitte Australia Insights podcast *Justifying executive compensation in the current environment*
- Illustrative annual reports – includes more information about the amendments to the *Corporations Act 2001* and an illustrative remuneration report
- What's new in financial reporting for June 2008?
- Accounting alert 2008/07 *May 2008 AASB meeting highlights*
- Accounting alert 2008/06 *April 2008 AASB meeting highlights*
- Accounting alert 2007/11 *Changes in company reporting obligations*.



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