

Financial Reporting Alert

S300A remuneration report

This newsletter is only applicable to companies who are disclosing entities and provides information on recent changes affecting the remuneration disclosures for key management personnel (KMP).

Simpler Regulatory Bill – remuneration disclosures (June 2007)

This bill introduced changes to allow the AASB 124 requirements for executive and director remuneration to be incorporated into the Corporations Act 2001 and added an additional disclosure requirement in relation to executives and directors hedging their incentive remuneration.

New requirements (for financial years after 27 June 2007)	Previous requirements (for financial years prior to 27 June 2007)
The Corporations Act contains disclosure requirements for directors and executives of listed companies.	AASB 124 and the Corporations Act 2001 both contain requirements for disclosure of director and executive remuneration; listed companies must comply with both sets of requirements.
Disclosing entities have to disclose: their policy in relation to directors and executives hedging their incentive remuneration and how the company enforces this policy.	No comparative disclosure.

Detailed description of the changes

The duplication of the remuneration disclosures requirements in the Corporations Act and AASB 124 *Related Party Disclosures* has been removed.

This simplifies the requirements as companies will no longer be required to refer to both the accounting standards and the Corporations Act to determine their remuneration disclosure requirements

Revised Corporations Act disclosure requirements	Comment
Remuneration for: <ul style="list-style-type: none"> – Key management personnel – All directors and the five most highly remunerated executives of the parent entity (and consolidated entity) to be disclosed. 	The range of individuals whose remuneration must be disclosed remains the same. Key management personnel will continue to be defined in the accounting standards.
Remuneration disclosures to be made in the Directors'	External Auditor has a responsibility to audit

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Revised Corporations Act disclosure requirements	Comment
report under the heading 'Remuneration Report' rather than the notes to the financial statements.	the remuneration information element of the Directors' report and consequently the audit report will be amended.
Scope of the remuneration disclosures has been extended from listed companies to disclosing entities that are companies.	The scope extension brings the Corporations Act disclosures in line with the application of AASB 124 disclosures.
Companies are to disclose the board's policy in relation to directors and executives hedging their incentive remuneration in order to limit their exposure to loss of this remuneration and the mechanism that the company uses to enforce this policy.	Disclosure has been introduced to inform shareholders about the company's policy on this issue. Example disclosure can be obtained from your Grant Thornton contact.
Removal of the requirement for companies to disclose the aggregate of options (in relation to remuneration) granted, exercised and that have lapsed during the year on the ground that is not being used by shareholders.	It was considered that this disclosure was not being used by shareholders. Note that the value of options (in relation to remuneration) lapsed during the year is still required, however the amendments clarify that the value should be determined as though the failed vesting condition had, in fact, been met.

AASB 2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities [AASB124]

Whilst the Corporations Act has been amended, via the Simpler Regulatory Bill, to reduce duplication; the accounting standard AASB 124 was not changed to allow entities to transfer their remuneration disclosures to the remuneration report, as a class order allowing this to happen existed. This class order however, expires prior to 30 June 2008.

The AASB has therefore issued AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities [AASB124]* in place of the expired class order.

AASB 2008-4 exempts companies which are disclosing entities from the requirements of AASB 124 paragraphs Aus25.2 to Aus25.6 and Aus25.7.1 and Aus25.7.2, relating to key management personnel (KMP) disclosures as these disclosures have been incorporated into the Corporations Act and will therefore be included in the remuneration report under section 300A.

This standard is effective for annual reporting periods ending on or after 30 June 2008, however the AASB has decided to allow disclosing entities that are companies to apply this standard to annual reporting periods beginning on or after 30 June 2007 that end before 30 June 2008.

Other comments

Note that the other KMP disclosures required by AASB 124 (i.e. paragraphs 16 and Aus 25.7.3 to 25.9.3) will continue to be presented in the notes to the financial statements.

These disclosures include:

- summary KMP remuneration disclosure both in total and by category,
- rollforwards of options and rights holdings of each KMP
- equity holdings and transactions of each KMP
- loan disclosures and
- other transactions and balances.

Next step...

As AASB 2008-4 has been issued financial reports should be amended to remove information for AASB 124 paragraphs Aus25.2 to Aus25.7.2 from the notes to the financial statements and transfer it to the remuneration report in the Directors report.

For further information on any issues covered by this alert, including a summary of the location of each of the key management personnel location requirements please contact your Grant Thornton Australia contact or a member of the National Technical team on nttm@grantthornton.com.au



This table highlights the remuneration disclosures required by disclosing entities which are companies and the location in the financial report, i.e. notes to the financial statements or within the remuneration report section of the Directors report.

Where comparative information is also required to be disclosed, this has been noted in the table.

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
s. 300A(1)(a)	Board Policy for determining remuneration of key management personnel (“KMP”) of the company and consolidated entity.	✓	
s. 300A(1)(b)	Discussion of relationship between Board Policy re KMP remuneration and company’s performance.	✓	
s.300A(1AA)	Without limiting the general disclosure required, the disclosure must specifically deal with: <ul style="list-style-type: none"> a) The company’s earnings and b) The “consequences of the company’s performance on shareholder wealth” in the financial year to which the report relates and in the previous 4 financial years.	✓ ^c	
s.300A(1AB)	In determining the consequences of the company’s performance on shareholder wealth in a financial year, must have regard to: <ul style="list-style-type: none"> a) Dividends paid by the company to the shareholders during that year b) Changes in the price at which shares in the company are traded between the beginning and the end of that year c) Any return of capital by the company to its shareholders during that year that involves the cancellation of shares and a payment to the holders of those shares that exceeds the price at which shares in that class are being traded at the time when the shares are cancelled d) Any other relevant matter 	✓ ^c	
s.300A(1)(ba)	Where an element of KMP remuneration is dependent upon performance, disclose: <ul style="list-style-type: none"> (i) detailed summary of performance condition (ii) explanation of why performance condition was chosen (iii) summary of methods used in assessing whether performance condition was satisfied and explanation of how those methods were chosen 	✓	

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	(iv) if performance condition involves comparison with external factors to the company: <ul style="list-style-type: none"> a) a summary of the factors used in making the comparison b) if any of the factors relates to the performance of another company, companies or index (eg All Ords) then the identity of that company/companies or index should be disclosed 		
s.300A(1)(c)	Disclose “Prescribed Details” in relation to the remuneration of each of the following <ul style="list-style-type: none"> (i) if consolidated financial statements are required—each member of the KMP for the consolidated entity; and (ii) if consolidated financial statements are not required—each member of the KMP for the company; and (iii) if consolidated financial statements are required—each of the 5 named relevant group executives who receive the highest remuneration for that year; and (iv) in any case—each of the 5 named company executives who receive the highest remuneration for that year; 	✓	
Corporation Regulations 2M.3.03(1)	Prescribed details are: <ol style="list-style-type: none"> 1. The persons name 2. Each position held by person in the financial year 3. If the person has held the position mentioned in item 2 for less than the whole financial year – detail the beginning and ending dates for holding the position 4. If there has been a change in the CEO or director of the entity since reporting date and prior to the date the financial report is authorised for issue – detail the name of each person involved in the change, the position involved and the date on which the change occurred 5. If a person (other than a CEO or director) has retired since reporting date and prior to the date the financial report is authorised for issue – detail the person’s name, the position involved and the date on which the retirement took effect 6. The person’s short term employee benefits divided into at least the following components: <ul style="list-style-type: none"> a) Cash salary, fees and short term compensated absences b) Short term cash profit sharing and other bonuses 	✓ ✓ ✓ ✓ ✓ ✓c	

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> c) Non monetary benefits d) Other short term benefits 7. The person's post employment benefits, divided into at least the following components: <ul style="list-style-type: none"> a) Pension and superannuation benefits b) Other post employment benefits 8. The person's long term employee benefits other than benefits mentioned in 6 and 7, separately identifying any amount attributable to a long term incentive plan. 9. The person's termination benefits 	<p style="text-align: center;">✓_c</p> <p style="text-align: center;">✓_c</p> <p style="text-align: center;">✓_c</p>	
Corporation Regulations 2M.3.03(1) cont'd	<p>Prescribed details cont'd</p> <ul style="list-style-type: none"> 10. For any position the person started to hold during the financial year – payments (if any) made to the person, before the person started to hold the position, as part of the consideration for the person agreeing to hold the position, including: <ul style="list-style-type: none"> a) The monetary value of the payment; and b) The date of the payment 11. Share based payments made to the person divided into at least the following components: <ul style="list-style-type: none"> a) Equity-settled share based payment transactions showing separately: <ul style="list-style-type: none"> (i) Shares and units; and (ii) options and rights b) Cash settled share based payment transactions c) All other forms of share based payment compensation (including hybrids) 	<p style="text-align: center;">✓</p> <p style="text-align: center;">✓_c</p>	
Corporation Regulations	Prescribed details cont'd		

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
2M.3.03(1) cont'd	<p>12. For each grant of a cash bonus, performance related bonus or share based payment compensation benefit made to a person, whether part of a specific contract for services or not – the terms and conditions of each grant affecting compensation in the reporting period or a future reporting period including the following:</p> <ul style="list-style-type: none"> a) The grant date b) The nature of the compensation granted c) The service and performance criteria used to determine the amount of the compensation d) If there has been any alteration of the terms or conditions of the grant since the grant date – the date, details and effect of each alteration e) The percentage of the bonus or grant for the financial year that was paid to the person, or that vested in the person, in the financial year f) The percentage of the bonus or grant for the financial year that was forfeited by the person (because the person did not meet the service and performance criteria) in the financial year g) The financial years, after the financial year to which the report relates, for which the bonus or grant will be payable if the person meets the service and performance criteria for the bonus or grant h) Estimates of the maximum and minimum possible total value of the bonus or grant (other than option grants) for financial years after the financial year to which the report relates <p>13. For each contract for services between a person and the disclosing entity (or any of its subsidiaries) - any further explanation that is necessary in addition to those described in paragraph 300A(1)(ba) of the Act and item 12 to provide an understanding of:</p> <ul style="list-style-type: none"> a) How the amount of compensation in the current reporting period was determined; and b) How the terms of the contract affect compensation in future periods 	<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>	
Corporation Regulations 2M.3.03(1) cont'd	<p>Prescribed details cont'd</p> <p>14. If the terms of share based payment transactions (including options or rights) granted as compensation to KMP have been altered or modified by the issuing entity during the reporting period</p> <ul style="list-style-type: none"> a) The date of the alteration b) The market price of the underlying equity instrument at the date of the alteration 	<p style="text-align: center;">✓</p>	

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> c) The terms of the grant of compensation immediately before the alteration, including: <ul style="list-style-type: none"> (v) the number and class of the underlying equity instruments, exercise price; and (vi) the time remaining until expiry; and (vii) each other condition in the terms that affects the vesting or exercise of an option or other right d) the new terms e) the difference between the total fair value of the options or other rights affected by the alteration immediately before the alteration and the total fair value of the options or other rights immediately after the alteration <p>15. If options and rights over equity instrument issued or issuable by the disclosing entity or any of its subsidiaries have been provided as compensation to a person during the reporting period:</p> <ul style="list-style-type: none"> a) The number of options and the number of rights that have been granted and have vested during the reporting period b) The terms and conditions of each grant made during the reporting period including: <ul style="list-style-type: none"> (i) the fair value per option or right at grant date (ii) the exercise price per share or unit (iii) the amount, if any, paid or payable by the recipient (iv) the expiry date (v) the date or dates when the options or rights may be exercised (vi) a summary of the service and performance criteria that must be met before the beneficial interest vests in the person 	✓	
Corporation Regulations 2M.3.03(1) cont'd	<p>Prescribed details cont'd</p> <p>16. If an equity instrument that is issued or issuable by the disclosing entity or any of its subsidiaries has been provided as a result of the exercise during the reporting period of options and rights that have been granted as compensation to a person, disclose –</p> <ul style="list-style-type: none"> a) The number of equity instruments 	✓	

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> b) If the number of options or rights exercised differs from the number of equity instruments disclosed under paragraph (a) – the number of options or rights exercised c) The amount paid per instrument d) The amount unpaid per instrument 		
Corporation Regulations 2M.3.03(3))	For prescribed details for items 15 and 16 above, the disclosure required by the item must be separated into each class of equity instrument and identify each class of equity instrument by: <ul style="list-style-type: none"> a) the name of the issuing entity b) the class of the equity instrument and c) if the instrument is an option or right – the class and number of equity instruments for which it may be exercised. 	✓	
s.300A(1)(d)	If an element of the remuneration of a person referred to in s.300A(1)(c), above consists of securities of a body and that element is not dependent on the satisfaction of a performance condition—an explanation of why that element of the remuneration is not dependent on the satisfaction of a performance condition.	✓	
s.300A(1)(da)	If an element of the remuneration of a person referred to in s.300A(1)(c), above consists of securities of a body—discussion of board policy in relation to the person limiting his or her exposure to risk in relation to the securities, and the mechanism to enforce the policy.	✓	
s.300A(1)(e)	For each person referred to in s.300A(1)(c), above: <ul style="list-style-type: none"> (i) an explanation of the relative proportions of those elements of the person’s remuneration that are related to performance and those elements of the person’s remuneration that are not; and (ii) the value (worked out as at the time they are granted and in accordance with any applicable accounting standards) of options that are granted to the person during the year as part of their remuneration; and (iii) the value (worked out as at the time they are exercised) of options that were granted to the person as part of their remuneration and that are exercised by the person during the year; and (iv) if options granted to the person as part of their remuneration lapse during the financial year because a condition required for the options to vest was not satisfied—the value of those options (worked out as at the time the options lapse, but assuming that the condition was satisfied); and (v) the percentage of the value of the person’s remuneration for the financial year that consists of 	✓	

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<p>(vi) options; and if the person is employed by the company under a contract—the duration of the contract, the periods of notice required to terminate the contract and the termination payments provided for under the contract;</p>		
AASB 124 Aus25.7.3	<p>In respect of options and rights held, whether directly, indirectly or beneficially, by each key management person, including their “related parties” (refer to definitions and notes below), disclosure shall be made of the number:</p> <ul style="list-style-type: none"> a) held at the start of the reporting period; b) granted during the reporting period as compensation; c) exercised during the reporting period; d) resulting from any other change during the reporting period; e) held at the reporting date; f) vested at the reporting date; g) vested and exercisable at the reporting date; and h) vested and unexercisable at the reporting date. 		✓ c
Aus25.7.4	<p>In respect of equity instruments (other than options and rights) held directly, indirectly or beneficially by each key management person, including their “related parties” (refer to definitions and notes below), disclosure shall be made of the number:</p> <ul style="list-style-type: none"> a) held at the start of the reporting period; b) granted during the reporting period as compensation; c) received during the reporting period on exercise of options or rights; d) resulting from any other change during the reporting period; 		✓ c

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<p>e) held at the reporting date; and</p> <p>f) if any such are included in the number disclosed under subparagraph (e) above, held nominally at the reporting date.</p>		
Aus25.7.5	<p>If transactions involving equity instruments, other than share-based payment compensation, have occurred between a key management person, including their “related parties” (refer to definitions and notes below), and the issuing entity during the reporting period, the nature of each different type of transaction shall be disclosed where the terms or conditions were more favourable than those which it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated person. For each such transaction, the details of the terms and conditions shall be disclosed.</p>		✓ c
Aus25.8	<p>The details required by paragraph Aus25.8.1 shall be disclosed separately in respect of each aggregate of “loans” (refer to definitions and notes below) made, guaranteed or secured, directly or indirectly, by the disclosing entity and any of its subsidiaries to:</p> <p>a) all KMP, including their “related parties” (refer to definitions and notes below) and</p> <p>b) each key management person, including their “related parties” by name whose aggregate loan amount exceeded \$100,000 at any time during the reporting period.</p>		✓ c
Aus25.8.1	<p>In respect of each aggregate of “loans” (refer to definitions and notes below) to KMP and to each key management person as required by paragraph Aus25.8, the following details shall be disclosed:</p>		✓ c

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> a) the amount outstanding at the start of the reporting period; b) the amount of interest paid and payable in respect of the reporting period to the disclosing entity and any of its subsidiaries; c) the difference between the amount disclosed in accordance with subparagraph (b) above and the amount of interest that would have been charged on an arm's-length basis; d) each write-down and each allowance for doubtful receivables recognised by the disclosing entity and any of its subsidiaries; e) the amount outstanding at the reporting date; f) for each key management person only, the highest amount of indebtedness during the reporting period; g) for KMP only, the number of persons included in the group aggregate at the reporting date; and h) a summary of the terms and conditions of the loans. 		
Aus25.9	In respect of transactions during the reporting period between the disclosing entity and any of its subsidiaries and KMP, including their “related parties” (refer to definitions and notes below), other than transactions covered by disclosures outlined above or excluded by paragraph Aus25.9.3, below, the following details shall be disclosed:		✓ c

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> a) each type of transaction of different nature; b) the terms and conditions of each type of transaction or, where there are different categories of terms and conditions within each type, the terms and conditions of each category of transaction; and c) for each type of transaction or, where there are different categories within each type, each category of transaction: <ul style="list-style-type: none"> (i) the names of the persons involved; and (ii) the aggregate amount recognised. 		
Aus25.9.1	<p>In respect of each aggregate amount disclosed in accordance with paragraph Aus25.9, the following details shall be disclosed:</p> <ul style="list-style-type: none"> a) the total of amounts recognised as revenue, separately identifying where applicable the total amounts recognised as: <ul style="list-style-type: none"> (i) interest revenue; and (ii) dividend revenue; b) the total of amounts recognised as expense, separately identifying where applicable the total amounts recognised as: 		✓ c

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<ul style="list-style-type: none"> (i) interest expense; and (ii) write-downs of receivables and allowances made for doubtful receivables; and c) any further disclosures necessary to provide an understanding of the effects of the transactions on the financial statements. 		
Aus25.9.2	<p>In respect of assets and liabilities at the reporting date recognised in relation to transactions identified in accordance with paragraph Aus25.9, disclosure shall be made of:</p> <ul style="list-style-type: none"> a) the total of all assets, classified into current and non-current assets and, where applicable, any allowance for doubtful receivables at the reporting date; and b) the total of all liabilities, classified into current and non-current liabilities. 		✓ c
Aus25.9.3	<p>Transactions with and amounts receivable from or payable to a key management person, including their “related parties” (refer to definitions and notes below), are excluded from the requirements of paragraphs Aus25.9 to Aus25.9.2 when:</p> <ul style="list-style-type: none"> a) they occur within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those that it is reasonable to expect the entity would have adopted if dealing at arm's length with an unrelated person; b) information about them does not have the potential to affect adversely decisions about the allocation 		✓ c

Ref (Corp Act, Corp Reg or AASB 124)	Disclosure Requirement	Remuneration Report (Directors Report)	Notes to the financial statements
	<p>of scarce resources made by users of the financial report, or the discharge of accountability by the key management person; and</p> <p>c) they are trivial or domestic in nature.</p>		

Definitions & Notes

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

A person is a **company executive** of the company if the person is a secretary or senior manager of the company.

A person is a **relevant group executive** of the company if the person:

- i is a group executive of the consolidated entity; and
- ii is not a director of the company.

If consolidated financial statements are required and a person is a **group executive** who is a group executive of 2 or more entities within the consolidated entity, the person's remuneration is taken to include all of the person's remuneration from those entities (regardless of the capacity in which the person received the remuneration).

Related parties – parties are related to a KMP if:

- i the party is a close member of the family of a KMP; or
- ii the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, a KMP.

For the purposes of paragraphs Aus25.8 and Aus25.8.1 **loans** do not include loans involved in transactions that are in substance options, including non-recourse loans.