



Project:	AASB Work Plan 2017-2019	Meeting	AASB May 2017 (M157)
Topic:	Senior executive remuneration reporting – project plan	Agenda Item:	3.4
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		Decision-Making:	High
		Project Status:	Project planning

Introduction

- 1 As part of the feedback on ITC 34 *AASB Agenda Consultation 2017-2019*, some constituents requested the Board develop guidance with respect to remuneration reporting, including the use of alternative performance measures and other disclosures commonly used to explain remuneration paid and payable in the future.
- 2 At its August 2016 meeting, the Board considered the feedback received and directed staff to prepare a project plan addressing how the AASB, in conjunction with other stakeholders (e.g. Treasury), could contribute to improving remuneration reporting requirements. This agenda paper sets out the proposed project plan to assist the Board to form a view about whether to add this project to the AASB work programme for 2017-2019 (addressed in Agenda Paper 3.0).¹

Project rationale, objective(s) and link to AASB strategy

Project rationale

(responds to RIS² questions *What is the problem you are trying to solve?* and *Why is government action needed?*)

- 3 Remuneration reporting was identified as a topic of interest by constituents in respect of the AASB's future work program through the agenda consultation process. Constituents expressed a general view that the current rules for remuneration reporting are complex and include redundant, overlapping requirements, which give rise to lengthy compliance reports. Some constituents also noted a lack of consistency across remuneration reports and suggested guidance in this regard could be warranted.

¹ The staff recommendation as to whether the project should be added to the 2017-2019 work programme is included in Agenda Paper 3.0.

² Australian Government Regulation Impact Statement

- 4 On this basis, some constituents suggested that the Board undertake a project aiming to better clarify user needs in respect of remuneration reporting with a view to improving reporting requirements.
- 5 Remuneration reporting requirements for executives and key management personnel have evolved over time. In response to stakeholder feedback regarding the complexity of the requirements, in 2010 and 2011 the Corporations and Markets Advisory Committee (CAMAC) released reports outlining its findings on the review of executive remuneration. The report followed from the Minister of Finance, Superannuation and Corporate Law's recommendation of the matter to CAMAC after the Productivity Commission's 2009 inquiry into the Australian executive and director remuneration framework. The Productivity Commission's inquiry was conducted as a result of community concerns about inappropriate remuneration practices.³
- 6 CAMAC's report concluded that remuneration reporting could be improved, although it recommended against wholesale changes in the law. In response to CAMAC's findings and general public scrutiny, a number of amendments were made to the *Corporations Act 2001* in respect of executive remuneration, including the introduction of the 'two strikes' rule⁴ in 2011. In March 2015, the reporting requirements were further amended such that only listed disclosing entities are required to prepare remuneration reports.
- 7 , As a result of changes over time, remuneration reporting requirements for executives and key management personnel now follow the requirements of several regulatory bodies including the Australian Stock Exchange (ASX), the Australian Securities and Investments Commission (ASIC), and the AASB. Accordingly, listed companies are currently required to include a remuneration report with respect to key management personnel pursuant to section 300A of the *Corporations Act 2001*, and are also be required to comply with ASX Listing Rules, the ASX's *Corporate Governance Principles and Recommendations*, as well as the Australian Accounting Standards including AASB 2 *Share Based Payments* and AASB 124 *Related Party Disclosures*.
- 8 In respect of public sector entities, *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015* applies and requires Commonwealth entities to report in accordance with the Australian Accounting Standards (subject to some exemptions) including the requirements AASB 124 *Related Party Disclosures* in respect of senior management personnel remuneration.
- 9 In December 2016, PwC, in conjunction with the Group of 100 and Cochlear Limited, released a report titled *Streamlining Remuneration Reporting*.⁵ The report sets out

3 CAMAC's 2010 and 2011 reports are available on CAMAC's website:

[http://www.camac.gov.au/camac/camac.nsf/byheadline/pdffinal+reports+2011/\\$file/executive_remuneration_report_april11.pdf](http://www.camac.gov.au/camac/camac.nsf/byheadline/pdffinal+reports+2011/$file/executive_remuneration_report_april11.pdf)

[http://www.camac.gov.au/camac/camac.nsf/byheadline/pdfdiscussion+papers/\\$file/executive_rem_info_paper_jul10.pdf](http://www.camac.gov.au/camac/camac.nsf/byheadline/pdfdiscussion+papers/$file/executive_rem_info_paper_jul10.pdf)

4 The 'two strikes' rule is set out in section 250U of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*

5 Streamlining Remuneration Reporting can be accessed from the PwC's website at:

<http://www.pwc.com.au/assurance/ifrs/assets/straight-away-alerts-07dec16.pdf>

PwC, Group of 100 and Cochlear Limited's view that current complexity with respect to remuneration requirements is the key driver behind ineffective reporting. The report also sets out illustrative disclosures of what an improved remuneration report could look like using Cochlear Limited's remuneration report as an example.

- 10 The need for the Board to consider current remuneration reporting requirements, in respect of both private and public sector entities, was also highlighted by responses to ITC 34, where constituents requested the AASB undertake further work in this regard. At the August 2016 Board meeting, the Board requested a project plan be developed by staff.

Project objective(s)

(responds in part to RIS question *Why is government action needed?* through clear identification of the objectives, outcomes or goals of this project)

- 11 The objective of the project is to:
- (a) Define the disclosure objective for executive remuneration reports in the context of the information needs of users of remuneration reports; and
 - (b) Collaborate with other regulatory bodies, to improve and streamline the remuneration reporting requirements applicable to both public and private for-profit and not-for-profit entities.

Link to AASB strategy

- 12 The Board's strategy for the period 2015-2019 identifies five strategic directions.⁶ This project is consistent with the following strategic directions:
- (a) strategic direction 4 'facilitate and encourage active stakeholder participation in developing standards'. Undertaking the project shows that the Board responds to stakeholder feedback; thereby providing support to the Board's strategy of encouraging active stakeholder participation; and
 - (b) strategic direction 5 'to maintain relevance, investigate expanding the scope of activities to cover external reporting rather than just financial reporting.' This project addresses matters particular to the annual directors' report, which extends beyond financial reporting requirements.

Project scope

- 13 At the August 2016 Board meeting, the Board requested that staff develop a project plan in respect of the key topics identified by constituents for further work. In accordance with the Board's decision, the scope of this project is to:
- (a) evaluate the remuneration reporting frameworks applicable to public and private for-profit and not-for-profit entities;

6 The AASB Strategy 2015-2019 is available on the AASB website at:
http://www.aasb.gov.au/admin/file/content102/c3/AASB_Strategy_2015-2019.pdf.

- (b) liaise with other regulatory bodies (e.g. ASIC, ASX, Treasury) to understand the key issues observed by regulators with respect to remuneration reporting across public and private sector entities;
 - (c) conduct outreach activity with respect to understanding remuneration reporting concerns from the perspectives of users, preparers and investors;
 - (d) consider the findings and recommendations of academic research regarding remuneration reporting; and
 - (e) Develop proposals, in conjunction with the other regulatory bodies, to improve and streamline remuneration reporting requirements.
- 14 Staff envisage this project may be multi-phased, because the extent of future effort involved will largely depend on the outcomes of research, outreach and liaison with other regulatory bodies and decisions about the AASB's role in this area.

Staff assessment

- 15 Having regard to the proposed project scope, and project path/milestones, overall staff assess the project as:
- (a) Priority Medium
 - (b) Timing Not urgent
 - (c) Resource commitment Significant
 - (d) Project length 1 ½ years (approximately)
 - (e) Project scale Major project

Key stakeholders

(Identification of key stakeholders will assist in planning for the RIS question *Who will you consult and how will you consult them?*)

- 16 Staff have identified the following as key stakeholders of the project:

(a) Public sector entities (for-profit and not-for-profit)	(b) Private sector entities (for-profit and not-for-profit)
(c) Treasury	(d) ASX
(e) ASIC	(f) ACNC
(g) Accounting advisors	(h) users/analysts

Project milestones

- 17 Staff have identified the following as key milestones of the project. These will be reassessed periodically and revised or extended to ensure the project path remains appropriate and the project can be adequately resourced.

Major project milestones	Staff comment
Present a project plan	Completed (this agenda paper)
Identifying the specific issues to be addressed by the project (refining project scope). This involves collaborating with regulators in the private and public sector	Staff think that significant resources will be required in refining the project scope given the project extends to public and private entities and liaising with other regulators
Develop communications strategy	Staff think this project may require significant additional effort with respect to communication and liaison with stakeholders and other regulatory bodies
Research – conduct a literature review. Identify evidence from academic research that is relevant to decision making in this project	Staff think this research activity is likely to require a moderate level of staff effort
Outreach – engagement with stakeholders, including both public and private sector entities, to identify existing approaches to remuneration reporting and identification of keys areas of concern	Involve project advisory panel as necessary to obtain feedback on the approaches. Staff envisage this outreach activity will require a significant level of effort
Review of stakeholder feedback and development of proposals, in conjunction with other regulators, to improve and streamline remuneration reporting requirements	Staff think the review of stakeholder feedback and development of proposals could involve significant level of effort

Resources required

18 The following resources will be required:

Resources	Expected contribution
(a) Staffing – standard-setting	Technical director/Assistant – High Senior project manager – Moderate Project manager/APM ⁷ /Intern – Moderate
(b) Staffing – research	Research director – Low Project manager/Assistant/Intern – Moderate
(c) Project advisory panel	Staff recommend a project advisory panel be involved in the project

7 Assistant Project Manager

Resources	Expected contribution
(d) Other	Staff recommend an external consultant with remuneration reporting experience be engaged to lead and manage some aspects of the project

Factors that might add to complexity and length of the project

- 19 The following factors may add to the complexity and length of the project:
- (a) The project scope is broadened based on feedback from stakeholders and the Board;
 - (b) Divergent views amongst stakeholders about whether and how reporting requirements should be changed; and
 - (c) Change in staff managing the project.

Related AASB, IASB and IPSASB projects

- 20 Staff identified the following current projects where the outcomes may affect, or could be affected by, this project:

Source	Project
AASB	<ul style="list-style-type: none"> • Continue to monitor the implementation of the AASB 124's requirements in the public sector • Financial Reporting Framework
IASB	<ul style="list-style-type: none"> • None identified
IPSASB	<ul style="list-style-type: none"> • None identified

Questions for Board members

- Q1 Do Board members agree with the proposed project objective and project scope set out in paragraphs 11 and 13?
- Q2 Do Board members have any other comments about the proposed project plan?