

25 November 2005

Professor David Boymal FPNA
Chairman, Australian Accounting Standards Board
Level 4
530 Collins Street
Melbourne VIC 3000

Dear David

Re: Directors' remuneration disclosure and ED 143

The National Institute of Accountants (NIA) is of the view that Australian financial reporting standards are not the place for directors' and executives' remuneration disclosures. These disclosures should be set down in the Corporations Act 2001 and any regulations that Federal Treasury may wish to issue in dealing with disclosures detailing remuneration. The logic underlying this approach is that it places in one place the remuneration disclosure requirements to which preparers and users of company reports need easy access.

It has been our concern for some time that rules setting down the way in which companies should approach the preparation directors' and executives' remuneration disclosure are spread across several different documents issued by several different bodies. This approach is ineffective and demands review.

We need to declare at the outset that we do not support having remuneration disclosures sitting within the accounting standards except where we are required to have parity with the equivalent International Financial Reporting Standard (IFRS). We would prefer that the AASB, the Corporate Governance Council of the Australian Stock Exchange and the Federal Treasury discuss the best way in which to pool all disclosure requirements into one spot.

While we object to the perpetuation of the inefficiencies outlined above we consider that there are some comments we can make to the AASB on the aforementioned exposure draft that may be useful to the board in its deliberations.

IFRS compliance critical

Australian accounting standards need to be as closely aligned as is possible with those issued by the International Accounting Standards Board (IASB). We are supportive of the attempts of the Australian Accounting Standards Board (AASB) to make consistent the terminology used in the standards dealing with related party and remuneration disclosures.

Using consistent terminology will provide both preparers and users with the ability to understand what is meant by, for example 'key management personnel' as opposed to the terms such as 'specified executive'. There will be an elimination of confusion as a result of these changes and that can only be to the benefit of the financial reporting community.

We are approaching the Federal Government to ensure they are also aware of our views on the need for consistent terminology. As you would be aware, the law uses different words. We would like the words to be the same so that the interpretation of the law and the accounting standards will be the same.

Managed Investment Schemes

We have witnessed a vigorous debate over the reporting requirements for managed investment schemes (MIS). We would prefer that the disclosures related to any payments in relation to MIS relate only to the payments that are made for the purposes of managing the MIS. Breaking down remuneration levels of managers that are working for a responsible entity might produce a figure but that figure would mean little.

Education issues

A change in the way these disclosures are regulated in the Australian environment will require the NIA along with other professional bodies to ensure members are aware of the changes in the accounting literature. This may be construed as a major change by some people in the marketplace and as such we are preparing to outline the changes in our various print and electronic publications when the standard setter issues the final document.

A further educational dilemma is created by the changes to the way in which remuneration disclosure is regulated. Remuneration at the best of times is a contentious topic and frequently subject to media commentary. The AASB needs to ensure that any media releases or similar publications referring to these changes must clarify to external parties what the AASB intended with the standard.

Concerns about practice

While agreeing with the general thrust of the AASB's approach we do note that there is the possibility of change in disclosure practices as a result of the change in terminology and the removal of AASB 1046 as a separate standard on directors' and executives' remuneration disclosure.

We do not believe there is much the AASB can do in this area other than proceed with its stated course of action, which we have indicated is a course of action that we do support. This may be an area in which only the intervention of a regulator, the Australian Securities and Investments Commission (ASIC) can help to ensure the community is not deprived of the same quality of disclosure.

It is at times easy for those outside the standard setting arena to want every piece of the jigsaw puzzle nailed down so nothing goes missing when changes occur. There comes a time when each of us may need to

trust the market itself and its various actors – external auditors, financiers, analysts, shareholders and the media amongst others – to reflect on the quality of corporate disclosure and make their comments, positive or otherwise, known in the community. The AASB has a role for setting standards that are principle-based. Obligations of enforcement and regulation fall on the shoulders of others and successful enforcement of the pronouncements depends on their efforts.

Please contact me on 0407 408 000 should you wish to discuss these ideas further.

Kindest Regards

Tom Ravlic PNA
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