Australian Shareholders' Association Ltd
ABN 40 000 625 669

15 November 2005

The Chairman
Australian Accounting Standards Board
PO Box 204 Collins St West,
MELBOURNE Victoria 8007

Dear Professor Boymal

Exposure Draft, ED 143 "*Director and Executive Disclosures: Removal of AASB 1046 and Addition to AASB 124*"

Thank you for the opportunity to comment on the changes, in respect of AASB 1046 and AASB 124, proposed in the Exposure Draft, ED 143 "*Director and Executive Disclosures: Removal of AASB 1046 and Addition to AASB 124*".

We attach a summary of our comments on the proposals and further elaboration.

We believe the proposals risk a reduction in comparability of disclosure for listed companies, arising from the loss of guidance for director and executive disclosures achieved through AASB 1046. The excesses in remuneration policy and practice exhibited in the past ten to fifteen years have attracted concern to such a degree that the non-binding vote on the remuneration report was introduced. While this practice is also in place in the UK, it is a domestic legislative requirement. This is an area the International Accounting Standards Board (IASB) has declared to be the responsibility of national standard setters.

We see the potential for a narrow adherence to the 'minimum' low-detail disclosures in IAS 24 "*Related Party Disclosures*" and believe the abovementioned non-binding vote is of sufficient importance to require commentary and guidance in its own accounting standard.

This is an opportunity to show leadership and, in doing so, provide investors with more information in financial reports than currently required under s300A of the Corporations Act. Based on reporting practices pre AASB 1046, it seems likely many companies will interpret the new generic requirements in different ways and inevitably resulting reduced comparability.

We hope that the AASB, when reviewing responses on ED 143, will reconsider its original proposals for the revision of AASB 1046, focussing on the technical update to cross-references to the new Australian equivalents to IASB standards, without reducing the disclosures required and the information necessary to understand what is required. Retention of AASB 1046 would assist listed companies, as it would enable continuation of the relief from duplication of remuneration disclosures provided by the recent *Corporations Regulation Amendment No. 4* (July 2005).

The ASA requests that the AASB allows sufficient lead time for new requirements to take effect and, if it cannot do so in this case without loss of IFRS-compliance, we further request a delay to the effective date of the proposed changes be considered.

Yours sincerely,

Stuart Wilson
Chief Executive Officer

Summary Comments on Specific Matters

1. **Proposal to remove parent relief from AASB 124**
   Disagree strongly; support retention
   Removal of 'parent entity' relief is undesirable because it will result in either confusing and duplicated disclosures or companies removing duplication by designating the same (limited) set of key management personnel (KMP) for both parent and group entities. The latter action is facilitated by removing the need to include at least five specified executives and thereby enabling companies to claim their KMP comprises only the board of directors of the parent. The insistence on 'IFRS-compliance' by both parent and group fails to acknowledge differing legislative requirements across the globe. In the Australian context financial reports are required by the *Corporations Act 2001* to include both parent and group whereas in the overseas context compliance within the EU is required only for consolidated financial reports of listed companies.

2. **Scope of AASB 124**
   We assume the new AASB 124 is intended to apply to both for-profit and not-for-profit non-corporate entities (excluding public sector entities). It is uncertain whether adequate consideration has been given to application to non-for-profit non-corporate entities, but in general we support one standard for both (and recommend withdrawal of AAS 22).

3. **Amalgamation of AASB 1046 with AASB 124**
   Disagree strongly; support retention of AASB 1046
   In addition to the detriment to disclosures, amalgamation appears detrimental to the quality of both Standards. It confuses the operation of each, increases the difficulty of application and expands the potential for multiple and inconsistent interpretations. More significantly for listed companies, withdrawal of AASB 1046 invalidates the recent *Corporations Regulation Amendment No. 4* (July 2005) that provides relief from duplication of remuneration disclosures.

4. **Specified director, executive and specified executive**
   Disagree strongly with removal; support retention.
   Removal is likely to decrease the number of individuals subject to disclosures by disclosing entities (and those included by other entities) and certain to increase the difficulty of all preparers in applying the standard.

5. **Subtotals for compensation and loans for directors and non-director KMP**
   Disagree with removal; support retention.
   Removal is per se a reduction in the quantity of disclosures by disclosing entities. It reduces the ability to distinguish between the two types of KMP and imposes on investors and analysts the burden of calculating subtotals, to assist comparison across companies.

6. **Former KMP**
   Strongly disagree with removal; strongly support retention.
   Removing the requirements in AASB124 will prevent shareholders from conducting a sound evaluation of remuneration practice. The removal of these requirements will discourage companies from disclosing the full effect of their remuneration practice in one year if much of the retirement benefits can be pushed into the next financial year and thereby avoid the angst of explaining the size of the payments. Further the most egregious examples of high reward for poor performance have taken place in termination payments.

7. **Prescribed benefits**
   Disagree with removal; support retention.
   Items that are prescribed by the *Corporations Act 2001* have been prescribed because the law considers them significant. Removal of separate disclosure is arguably inconsistent with the law, since a lack of disclosure substantially invalidates the purposes of prescription.

8. **Entities that have to disclose details of KMP**
   Agree
   The proposed addition is a useful amendment to AASB 124.

9. **Incorporation of section 300A(1)(ba) into AASB 124 paragraph Aus25.3**
   Uncertain
   The reasons for incorporating this subsection (and other parts of Section 300A) are not explained. The consequences, whether intended or not, are uncertain.

10. Disclosures of 'other transactions'

Agree.

Disclosures of the 'other transactions' of the KMP with the disclosing entity should be made on an individual basis and not aggregated together (as permitted by AASB 124 for non-disclosing entities) as the assessment of the appropriateness of these transactions relies on the individual's circumstances.

11. No Appendices to final revised AASB 124

Disagree strongly with removal; support retention and expansion.

Removal of the appendices reduces guidance to preparers (and thereby increases inconsistencies), increases the difficulty of comprehension for users of financial reports and appears inconsistent with the style in other IASB Standards such as IAS 19 "*Employee Benefits*" and IFRS 3 "*Share-based Payment*".

12. Transitional provisions

Agree, but uncertain what is intended.

Inclusion of the AASB 1046 requirements in AASB 124 appears to bring them within the scope of AASB 1, and this Standard overrides transitional provisions in other Australian equivalents to IFRS on first-time adoption. If the AASB believes that relief from restating comparative information must cause non-compliance with IFRSs, it should defer the date for the proposed changes to take effect. There needs to be greater clarity on the comparative information required in any year (not just transitional).

13. Application to managed schemes (including MIS)

(a) *Agree*. Compensation to those responsible for the governance of MIS is paid indirectly.

(b) *Agree*. MIS should be required to make the same disclosures as other disclosing entities.

(c) *Agree*. But do not believe that this contradicts (a).

14. Are there any other disclosure requirements you believe should be:

(a) added

No; none apart from re-instatement of disclosures noted re 5, 6 & 7 above.

(b) deleted

Yes; the comparative information that was excluded in AASB 1046 and appears inadvertently included by the amalgamation.

15. Are the proposals in the best interests of the Australian economy?

We do not believe the proposals are in the best interests of the Australian economy. They are likely to reduce comparability between financial reports and increase inconsistencies by permitting the growth of different interpretations and reducing the capacity of numerate investors to perform effective surveillance. The significant dilution of the improved disclosures in AASB 1046, released only last year and in place for one half of the 2005 reporting season, could be viewed as a retrograde step at odds with the intent of the introduction of the non-binding vote.

Other concerns

Three other areas in which we have concerns are listed below and explained more fully in the following section:

A Absence of adequate guidance on what is included as remuneration and how the remuneration disclosures are to be measured;

B Failure to provide adequate direction on how AASB 2 "*Share-based Payment*" applies in the specific context of directors and executives and disclosure on an individual basis; and

C Insufficient time for adequate consideration of such major policy changes or for amending software to ensure adequate data collection.

Further Comments on Specific Matters

1. Proposal to remove parent relief from AASB 124

Do you support the proposals to:
(a) remove parent relief from AASB 124; and
(b) rely on the definition of KMP and remove the requirement that the director and executive disclosures apply to the directors of the parent entity and at least five specified executives?
Do you consider that the removal of parent relief from AASB 124 is appropriate and sufficient to ensure IFRS compliance in respect of both parent and group entities?

Removal of 'parent entity' relief is undesirable because it may result in either confusing and duplicated disclosures or companies removing duplication by designating the same (limited) set of KMP for both parent and group entities.

Assuming that it is intended that the KMP of an entity include at least several executives, and that these be only executives employed by that entity, it is likely to be rare that the KMP of the parent (the entity responsible for preparing the financial report) would include all those executives employed by subsidiaries and considered to be among the KMP of the consolidated entity (the group). While the directors of the parent entity would be included in the KMP of the parent and the KMP of the group, differences between executives would seem to result in the identification of two sets of KMP. Some listed companies, particularly those recently demerged from another listed company, have no executives employed by the parent (the new 'shell' company). For such companies, the difference between the two sets of KMP would be that the parent KMP contains no executives, only directors.

If it is required that a financial report contains one set of disclosures for the KMP of the parent and one set for the KMP of the group, then it seems inevitable there will be considerable duplication. This will increase the cost for preparers of financial reports but will not provide investors with more useful information. It is more likely to cause confusion among users of financial reports and raise questions as to which is the more appropriate set of KMP disclosures to use when comparing different entities. If it is argued that the group KMP is the relevant set for comparison, then it seems inappropriate to include the irrelevant parent KMP disclosures. We suggest the retention of the subtotals for directors and executives (see item 5 below), would provide scope for companies to reduce duplication by stating that disclosures in respect of Directors are the same for both parent and group, and then provide separate sets of disclosures for executives included in the two sets of KMP.

Companies will have a strong incentive to come to the conclusion that there is only one KMP, the same for parent and for group. Removing the need to include at least five specified executives, and relying on the IASB's definition of KMP, means there would not be an explicit requirement to include any executives (who are not directors). This appears to make it easy for companies to claim their KMP comprises only the board of directors of the parent, the same for parent and group. It is noted that on page 7 of the Preface of ED 143, it is stated that "*the Board expects the KMP group (or groups) for a listed company will generally include all executives identified by section 300A of the Corporations Act*." In the absence of any reference to this in the proposed Standard (even if such expectations were repeated in the Preface to the new AASB 124), it is hard to see how a listed company would either be aware of these expectations or consider that the law required compliance with something that is not mentioned in the legal instrument. If the Board intends listed companies should be required to include such individuals, that intention needs to be stated in the Standard (and not qualified by 'generally'). Further, it would seem anomalous to apply this only to a subset of disclosing entities.

The reason for the proposed removal of parent entity relief appears to arise from an interpretation of the meaning of 'IFRS-compliance' in this context. Insistence on 'IFRS-compliance' by both parent and group is inappropriate in the Australian context, where financial reports required by the *Corporations Act 2001* must include both parent and group. It fails to acknowledge that, in the overseas context, the primary focus of the IASB has been on application to consolidated entities. Compliance within the EU is required only for consolidated financial reports of *listed* companies. It is arguably inappropriate to require 'IFRS-compliance' by entities that would not be required to comply in the EU, especially since non-compliance with Australian Accounting Standards is a breach of the *Corporations Act 2001*, in itself a somewhat different degree of 'compliance' than contemplated in the drafting of IFRSs.

It is particularly inappropriate in the context of AASB 124 since, as noted in the Preface to ED 143 (page 6), the IASB has deemed the related party disclosures to be the responsibility of national standard setters. In the discussions before the re-issue of the 'improved' IAS 24, it was described as a minimum base level, to be used by countries who did not wish to extend or enhance disclosures required in this area. It would seem entirely consistent with this intended purpose for any national standard setter to add to IAS 24 in any manner that provides for improved reporting within the national context. It is simply not a valid criticism of an additional disclosure to say that it is not 'IFRS-compliant'.

However, the AASB's interpretation of 'IFRS-compliance' seems to cause dilution of the existing disclosure regime, by forcing Australian entities to comply with the lowest common denominator and requiring less disclosures than required by AASB 1017 "*Related Party Disclosures*" and (for disclosing entities) AASB 1046.

2. Scope of AASB 124

Do you agree with the proposal that AASB 124 be required to be applied by non-corporate for-profit entities (and not AAS 22)?

The version of AASB 124 that is proposed to be withdrawn (July 2004) already applied to non-corporate for-profit entities (and relieved them of the obligation to simultaneously comply with AAS 22). The words in the proposed Standard appear to apply it to all non-corporate entities, excluding public sector entities, whether for-profit or not-for-profit, despite the comments on page 14 that will apply only to for-profit non-corporate entities. However, the proposals fail to withdraw AAS 22 or exempt non-corporate entities from compliance with AAS 22.

Assuming the new version of AASB 124 will apply to all non-corporate entities, it would be advisable to withdraw AAS 22, to avoid any confusion as to which applies.

3. Amalgamation of AASB 1046 with AASB 124

Do you agree that the quality and quantity of disclosing entity disclosures will not be detrimentally affected by amalgamating AASB 1046 with AASB 124?

We do not agree. The proposals in ED 143, tacking the AASB 1046 disclosures onto the back of AASB 124, substantially reduce the quality and quantity of disclosures. This is illustrated in responses to Questions 4 to 7.

In addition to lowering the quality of disclosures, amalgamation appears detrimental to the quality of both Standards. It confuses the operation of each, increases the difficulty of application and expands the potential for multiple and inconsistent interpretations. Further, in respect of listed companies, withdrawal of AASB 1046 invalidates the recent *Corporations Regulation Amendment No. 4* (July 2005), which provides relief from duplication of remuneration disclosures, and frustrates achievement of a major objective of AASB 1046.

Operation

Amalgamation creates unnecessary difficulties in relation to the interaction with other Australian equivalents of IFRSs and the application of AASB 1 "*First-time Adoption of Australian Equivalents to International Financial Reporting Standards*".

It removes the clear distinction between domestic standards and Australian equivalents to IFRSs. Although it is stated in the preamble, page 14, that compliance with paragraphs Aus25.1 to Aus25.7.3 is not necessary for IFRS-compliance, this is not stated within the actual Standard. All references to 'Australian equivalents to IFRSs' in all other AASB Standards will now refer to *all* paragraphs in AASB 124. The full consequences of this are not apparent.

For example, the requirements in AASB 101 "*Presentation of Financial Statements*" on the provision of the comparative information will apply to all disclosures taken from AASB 1046. AASB 1046 had limitations on providing comparatives that were specifically designed to fit the distinctive circumstances, most particularly disclosure on an individual basis. The difficulty of appreciating the effect of exposing the AASB 1046 requirements to generic IFRS requirements is shown by the fact that the illustrations in Appendices 3 and 4 do not comply with the comparative requirements of AASB 101.

The addition to an Australian equivalent of an IFRS of a substantial number of paragraphs from an Australian Standard that is not being applied for the first time raises questions in relation to AASB 1. It seems inappropriate that such material should be treated as though it is being applied for the first time, and subjected to the retrospectivity inherent in the requirement that the new Standards be applied as though they had always been required. Failing to do so could be construed as non-compliance with IFRS, despite the 'advice' on page 14.

When the IASB alters its IFRSs, particularly IAS 24, the AASB will be required to change its Australian equivalents. This means the 'domestic' reporting regime will be exposed to the uncertain consequences of changes over which the AASB has no control. Assuming the imported AASB 1046 compensation disclosures will continue to required, in some form, by Section 300A of the *Corporations Act 2001* (and related Regulations), it would seem to undermine the power of Parliament to exercise control over its own legislation.

Difficulty of application

With AASB 1046 as a separate standard, it was much easier for disclosing entities and users of accounts to identify the disclosures required in respect of directors and executives. Amalgamation means the requirements are scattered between different parts of the Standard. A disclosing entity will need to examine the new Standard very carefully to work out precisely which those disclosures required by paragraphs 1 to 22 are required in respect of its directors and executives, in addition to those in paragraphs Aus25.1 to Aus25.7.3.

It appears disclosing entities must provide the compensation aggregates specified in paragraph 16, in addition to the components for individuals (paragraph Aus25.2). It is uncertain whether the compensation aggregates required by paragraph 16 are subject to the strict materiality applied by paragraph Aus1.8 to components of compensation (paragraph Aus25.2).

As noted in respect of question 10, it is now unclear if disclosing entities are required to provide aggregates in respect of all other non-compensation transactions, ***in addition to*** the detailed disclosures on an individual basis required by paragraphs Aus25.5 to Aus25.7.3.

Difficulty of application is also increased by removal of the guidance on measurement that was in AASB 1046. Preparers are not given any direction on where to find the "*the measurement principles … located in other Standards*" (page 9, Preface, ED 143). Presumably this means AASB 119 "*Employee Benefits*" and AASB 2 "*Share-based Payment*", but it is uncertain whether loans (and the benefits of low- or zero-interest loans) should be measured using AASB 139 "*Financial Instruments: Recognition and Measurement*" or AASB 119.

Non-disclosing entities will be faced with a Standard that is far more complex than, and significantly different from, the existing AASB 124

Increase scope for multiple interpretations

The provisions of IAS 24 were intended to provide general directions and not designed to cope with disclosures on an individual basis. The purpose of AASB 1046 was to provide a clear and unambiguous description of the details required to be disclosed about those persons specified as being responsible for the governance of the entity.

Combining AASB 124 and AASB 1046 as proposed in ED 143 appears to reduce the certainty of what is required to be disclosed and about whom. The uncertainty of whether disclosing entities are required to provide aggregates for 'other disclosures' under paragraph 18 is discussed in more detail in Question 10 below, together with an explanation of the differing interpretations of KMP open to all entities.

In relation to the provision of comparative data, it is uncertain whether it is intended the comparative compensation of the KMP disclosures required by paragraph 16 should be taken as referring to the compensation of those individuals included as KMP in this reporting period or should refer to the compensation of those individuals who were classified as KMP in the preceding period. Either interpretation appears possible.

In amalgamating the AASB 1046 disclosures into AASB 124, and describing this as a 'principles based Standard' (page 9, Preface ED 143), it appears that the original function of AASB 1046 (specify details) has been forgotten. The attempt to refine the details into principles has led to proposals which have decreased specification and increased the scope for a proliferation of different interpretations.

Withdrawal of AASB 1046

Following the introduction of Section300A into the *Corporations Act 2001*, listed companies objected strongly to the ensuing duplication of remuneration disclosures, in the (audited) financial Report and the (unaudited) Directors Report. In its submission on the CLERP 9 changes, the AASB sought to ease the burden by proposing there should be one authoritative source on remuneration disclosures and that should be the Accounting Standard, AASB 1046. The response of the Government was to issue *Corporations Regulation 2M.3.03* in July 2004, requiring inclusion in the Directors Report of the remuneration details specified by AASB 1046 (as in force at the time the Regulation took effect). This effectively increased duplication and a more effective resolution to the problem was enacted by the issue of *Corporations Regulation Amendment No. 4* (July 2005). This exempts a listed company from including in its Financial Report the remuneration disclosures required by AASB 1046 (as in force from time to time) provided the company included them in the Remuneration Report (part of the Directors Report). A listed company that decides not to take advantage of this relief remains subject to the earlier Regulation.

Withdrawal of AASB 1046 invalidates the relief available in the *Corporations Regulation Amendment No. 4,* since the references in that Regulation will become void when AASB 1046 no longer exists. It is not possible, under the *Legislative Instruments Act 2003*, to construe the references to AASB 1046 to carry over to the new version of AASB 124.

It is unlikely there will be sufficient time for the Government to issue yet another amendment to the Corporations Regulations before the end of the current financial year (30 June 2006). Consequently, listed companies with June year ends are likely to be faced with the problem of complying with the new AASB 124 in the Financial Report and the old AASB 1046 (January 2004) in the Remuneration Report.

4. Specified director, executive and specified executive

Do you agree with the proposal to use the term KMP and remove the definitions of specified director, executive and specified executive?

We do not disagree with the use of the term KMP but we strongly object to the removal of the definitions of specified director and specified executive, and the consequent removal of the pragmatic equation of KMP with specified individuals.

Removal is undesirable on at least two grounds; likely reduction in numbers of individuals included and certain increase in inconsistency and difficulty of application.

1. *It will permit listed companies and other disclosing entities to reduce the number of individuals subject to enhanced disclosures.*

As explained in answer to Question 1, removal of the 'parent entity relief' gives all entities an incentive to remove any differences between the KMP of the entity on a group (consolidated) basis and the KMP of the parent within the group. The easiest way to do this is to remove all executives who are not directors of the parent entity and to claim that it is the Board of Directors of the parent that constitutes the set of people primarily responsible for governance of both parent and group. This reduction in numbers would not be possible if the definition of specified executives was retained, and at least five executives were required to be included in any set of KMP.

It was also noted above in relation to Question 1 that the Board's stated expectation that listed companies would include those executives required under Section 300A of the *Corporations Act 2001* is unlikely to be fulfilled, given it is not proposed there be any reference to this in the final Standard. Further, it is noted that selection of executives under Section 300A is based on the highest level of remuneration, and the five most highly remunerated executives will not necessarily be those with the greatest authority. It would appear open to a listed company to decide that a criterion of high remuneration is inconsistent with the definition of KMP.

2. It provides no certainty as to who should be included as KMP.
The generic definition is vague and provides little help to any entity, disclosing or otherwise, in determining the criteria it will use to decide which individuals shall be classified as KMP.

Removing the definition of specified executive, and 'floor' of at least five, means that entities will have no guidance as to how many executives might satisfy the definition of KMP.

Removing the definition of specified director means there is no longer a distinction between directors of the parent entity and directors of subsidiaries included within the consolidated group. While some may argue it is obvious that only the directors of the parent entity are intended to be treated as directors required to be included under the definition of KMP, it is inappropriate for a legal instrument to rely on 'intentions' and fail to provide clear and explicit identification of the individuals to which it applies.

The definition of KMP is so vague that it is uncertain when it refers to the KMP of the parent whether it is intending to refer to the parent within the consolidated group or to the (external) parent of the consolidated group. In the Australian context, it is possible for a listed company to be a subsidiary of an overseas parent. Under AASB 1046 and AASB 124, it is clear which directors are included; under the proposed changes, it is not. Retention of definitions would save the time of those preparing financial reports and those who audit them.

The difficulty with various interpretations is explained in greater detail in relation to Question 10. Further, as noted in relation to Question 1, it is not a valid criticism of an additional feature of an enhanced disclosure regime to say that it is not 'IFRS-compliant'.

5. Subtotals for compensation and loans for directors and non-director KMP
Do you agree with the deletion of the requirement to disclose subtotals for compensation and loans for directors and non-director KMP (i.e. requiring only one KMP total)?

Removal is a reduction in the quantity of disclosures by disclosing entities per se. It reduces the ability to distinguish between the two types of KMP and imposes on investors and analysts the burden of calculating subtotals, to assist comparison across companies.

Removal also results in degradation of the quality of disclosures, as it reduces the level of detail available and causes greater aggregation of disclosures. This is particularly obvious in relation to the loans disclosures, where there may not be any disclosure on an individual basis, if all KMP individuals have loans of less than $100,000 at any time during the reporting period. For such disclosing entities, it will not be possible for an investor to know if there are any loans to directors or whether all loans are to executives.

Given the present requirement to disclose the number of KMP included in each aggregate of loans, it is possible to calculate an average for directors and an average for executives, and this has some use in providing for a quick comparison between different companies. An average for ***all*** KMP is likely to be much less useful as a comparator. The reduction in usefulness is apparent when the illustration of loans disclosures in Appendix 4 is compared to that in Appendix 5 of AASB 1046.

It is noted that the compensation disclosures required by paragraph 16 require only one aggregate for KMP. Even accepting this is sufficient for non-disclosing entities, proposing to reduce the other disclosures of disclosing entities to the same level seems contrary to the general principle of requiring more detailed disclosures from disclosing entities.

6. Former KMP
Do you agree with the proposal to delete the requirement for separate disclosure of transactions or balances with former KMP?

Removing the requirements in AASB124 will prevent shareholders from a sound evaluation of remuneration practice. The removal of these requirements will discourage companies from disclosing the full effect of their remuneration practice in one year if much of the retirement benefits can be pushed into the next financial year and thereby avoid the angst of explaining the size of the payments. Further the most egregious examples of high reward for poor performance have taken place in termination payments.

Recent experience in the USA, where Walt Disney Inc managed to obscure the $95million payout to Michael Orvitz by ensuring he was not employed on 31 December (the last day of their financial year), highlights difficulties with this proposal.

When the AASB was determining the contents of AASB 1046, it was decided that disclosure in respect of former KMP was needed (to avoid the potential for gaming) but that it was not appropriate to include this in AASB 1046, since former KMP were outside the scope of its application (that is, the specified directors and specified executives of the current reporting period). Accordingly, when AASB 124 was issued in July 2004, the AASB included this disclosure requirement, and defined former KMP as meaning those who were specified directors or specified executives in the preceding reporting period (and not just every individual who had ever been specified in any past reporting period).

As noted in relation to Questions 1 and 4, it is not a valid criticism of an additional feature of an enhanced disclosure regime to say that it is not 'IFRS-compliant'.

On balance, there seems no benefit, only considerable detriment, associated with removing this requirement.

7. Prescribed benefits

Do you agree with the proposal to delete the AASB 1046 requirement for separate disclosure of prescribed benefits in each component of the five categories of compensation?

We believe there is no merit in removing the requirement for disclosing entities to provide separate disclosure, within a component of compensation, of amounts arising from benefits that are prescribed under the *Corporations Act 2001*.

Items that are prescribed by the *Corporations Act 2001* have been prescribed because the law considers them significant. Removal of separate disclosure is arguably inconsistent with the law, since a lack of disclosure substantially invalidates the purposes of prescription.

Further, removal is per se a reduction in the quantity and quality of AASB 1046 disclosures.

8. Entities that have to disclose details of KMP

Do you agree with the proposal that all entities covered by AASB 124, not only disclosing entities, be required to disclose certain minimum descriptive information in respect of each key management person (refer to paragraph Aus16.1) and information on changes that occur in the period after the reporting date and prior to the date when the financial report is authorised for issue (refer to paragraph Aus16.2)?

We agree with the proposal to require all entities to name each individual included as a key management person, and provide the other details. We believe the obligation to provide the name position and date for each person involved for the retirement of any KMP (other than a director or CEO) should be extended to include termination and 16.2 should include resignation or termination.

Given that the removal of parent entity relief means it is possible for there to be two sets of KMP in the Financial Report of a consolidated entity, we suggest it would be helpful to require identification of the composition of each set. Otherwise, a simple listing of *all* KMP would not enable users to readily identify which individuals are included in each (or both) of the sets.

We suggest that it be made clear the requirements of AASB 101 to provide comparative information for the prior year to not apply to this addition.

We believe it is entirely appropriate that the AASB supplement the requirements of IAS 24 by adding disclosures that have been previously required in Australia.

9. Incorporation of section 300A(1)(ba) into AASB 124 paragraph Aus25.3

Do you agree with the Board's proposal to incorporate section 300A(1)(ba) of the Corporations Act into AASB 124?

The reasons for incorporating part (but not all) of Section 300A are not explained. The consequences, whether intended or not, are uncertain.
We are uncertain why specific comment is requested on the inclusion of the specified subsection of Section 300A, as paragraph Aus25.3(c), and not on the inclusion of other subsections of Section 300A. It is noted that:

Paragraph Aus25.3(b)	replicates	Section 300A(1)(b);
Paragraph Aus25.3(f)	replicates	Section 300A(1)(d);
Paragraph Aus25.3(g)	replicates	Section 300A(1)(e)(i); and
Paragraph Aus25.3(h)	replicates	Section 300A(1)(e)(vii).

The replication of subsections of Section 300A appears somewhat redundant, and may possibly lead to some confusion since the disclosures required by the Standard do not necessarily apply to the same individuals as required by Section 300A.

Given the provisions of the Standard will apply to all disclosing entities, the only advantage that appears to result from incorporation is that it will contribute to greater consistency between disclosures of listed companies and other disclosing entities. However, because not all the requirements of Section 300A for listed companies are replicated, differences will still exist. Incorporation does not reduce the current problems with reconciling differences between pronouncements in this area from a variety of authoritative sources (Parliament, ASIC and the ASX).

The position in relation to the intellectual property inherent in the Government's ownership of the contents of the *Corporations Act 2001* is not clear. The replicated subsections will become part of AASB 124, and this is subject to the restricted copyright imposed by the IASB on Australian equivalents to IFRSs, which includes the statement "*All existing rights in this material are reserved outside Australia.*" Although unlikely to cause problems within Australia, it is uncertain whether the IASB should be entitled to assert copyright in overseas jurisdictions over parts of Australian law.

10. Disclosures of 'other transactions'

Do you agree that the "other transaction" disclosures in paragraphs Aus25.5.3 to Aus25.7 should be by individual director when the disclosures in paragraph 18 are disaggregated into "key management personnel of the entity or its parent" and "other related parties"?

We agree that disclosures of the 'other transactions' of the KMP with the disclosing entity (paragraphs Aus25.5.3 to Aus25.7) should be made on an individual basis and not aggregated together. The 'other transaction' disclosures in paragraphs Aus25.7 to Aus25.7.3 (repeated from AASB 1046) appear to have been taken virtually unchanged from the earlier related parties standard, AASB 1017 "*Related Party Disclosures*". Removing the requirement for disclosure on an individual basis would therefore represent a significant (and detrimental) departure from what has been Australian practice for the last seven years since AASB 1017 was issued. Substitution by the aggregation permitted under paragraph 18(f) would be contrary to the principle that disclosing entities should be required to produce more detailed disclosures, on an individual basis, than required from other entities.

Should paragraphs Aus25.5.3 to Aus25.7 be removed and instead disclosing entities required to comply only with paragraph 18, there would be a diminution of disclosure. It is noted that the paragraph references, taken literally, include not only the 'other transactions' disclosures but also those related to Options and Rights Holdings (paragraphs Aus25.5.3), Equity Holdings and Transactions (Aus25.5.4 and Aus25.5.5) and Loans (Aus25.6 to Aus25.6.2) while excluding three paragraphs (Aus25.7.1 to Aus25.7.3) related to Other Transactions. The prospect of such wholesale deletion is not canvassed in the Preface, and it would conflict directly with the stated intention, on page 6 of the Preface, that the changes not "*diminish the quality and quantity of disclosures required from disclosing entities*."

However in relation to the question whether disclosing entities should be required to provide, ***in addition to*** disclosure on an individual basis, aggregates for all transactions other than compensation (being the details required by paragraph 17 aggregated into the category of paragraph 18(f)), our view is that disclosure of additional aggregates is unnecessary and confusing.

It is noted that the provisions in ED 143 do not provide a disclosing entity with any exemptions from paragraph 1 to 22; paragraph Aus25.1 refers to the disclosures required by paragraphs Aus25.2 to Aus7.3 as additional.

To illustrate the superiority and adequacy of individual disclosures, the position in relation to the subset of 'other transactions', paragraphs 25.7 to Aus25.7.3, is explained in detail.
Considering first the issue of deletion of individual disclosures of 'other transactions', it would be inappropriate to remove these paragraphs, leaving only paragraph 18 in their place. In addition to the retrogression noted above, such a change would remove 'other transaction' disclosures from the strict materiality imposed by paragraph Aus1.8 and expose them to the range of different interpretations possible under paragraph 18(f) as to how many 'aggregates' are required.

It is uncertain whether the phrase "*key management personnel of the entity **or** its parent*" is intended to require separate disclosure for each set of KMP or permit one aggregation covering all KMP of the entity and its parent. It is uncertain whether the reference to 'parent' is to the parent with the group entity (i.e. included in the consolidated financial statements) or to the (external) parent of the consolidated group.

Assuming the current 'parent entity relief' is removed, an Australian company could interpret paragraph 18(f) as requiring disclosure in its Financial Report of one aggregate of the paragraph 17 details for:

- all KMP, irrespective of whether employed by (or a director of) the parent within the group, any subsidiary within the group and any external parent entity;

or

- for each of two sets of KMP, the first comprising those employed by (or a director of) the parent and any subsidiary within the group, the second comprising directors and executives of the external parent of the group;

or

- for each of three sets of KMP, the first comprising those employed by (or a director of) the parent; the second comprising the directors of the (internal) parent and executives employed by any member within the group (parent and subsidiaries), the third comprising directors and executives of the external parent of the group.

Each of the three mutually exclusive alternatives above appears to be a valid interpretation of the words in the Standard. Therefore, there is a high potential for differences between Financial Reports, decreasing comparability and increasing the difficulty of users in understanding who is included in each aggregate (or double counted in the third alternative) and extracting meaningful information.

An advantage of disclosure on an individual basis is that it avoids the uncertainty with aggregates as to who is included. In the third alternative, the first two sets of KMP would include many of the same individuals (at a minimum, the same directors), reducing the quality of the disclosures and increasing confusion.

The deficiencies of the aggregates as an alternative to individual disclosures of other transactions are not remedied by adding the aggregates as additional disclosures. The aggregates are unlikely to provide any useful increase in the information available, are more likely to increase confusion and would certainly increase costs for preparers of financial reports.

In relation to the other non-compensation disclosures referred to in the question, Options and Rights Holdings (paragraphs Aus25.5.3), Equity Holdings and Transactions (Aus25.5.4 and Aus25.5.5) and Loans (Aus25.6 to Aus25.6.2), it would seem equally unnecessary to require a disclosing entity to provide additional aggregates under paragraph 18. It would not even be clear as to what level of aggregation among types of transactions would be permitted. For example, would it be possible to include all equity instruments (shares, units, options or other rights) in one aggregate? It is difficult to identify any benefits flowing from the addition of aggregates to the reporting burden of disclosing entities, while the costs are apparent.

Requiring disclosing entities to disclose other transactions on an individual basis and not requiring aggregates does not endanger the goal of 'IFRS-compliance'. Paragraph 22 requires separate (and not aggregate) disclosures when this "*is necessary for an understanding of the effects of related party transactions on the financial statements of the entity."* It does not state that such separate disclosures are additional to aggregate disclosures under paragraph 18.

From the statements in the Preface (page 8) in relation to Transitional Provisions, it appears the Board believes that IFRS-compliance requires aggregate disclosures in all cases from all disclosing entities ***in addition*** to the individual disclosures. We suggest that the Board should examine closely this view of

IFRS-compliance as it appears contrary to the provisions in IAS 24, where there is no requirement to provide aggregates in addition to individual disclosures under paragraph 22. Further, it is believed that, in declaring that national standard-setters could impose a more-detailed disclosure regime, the intention of the IASB was to enable other jurisdictions to set up an enhanced regime (going beyond the basic minimums in IAS 24) as an *alternative*, not a simplistic addition to the basic minimums.
It is suggested the AASB seek clarification of the IASB's intentions from the IASB.

To assist the clear and unambiguous application of the Standard, we suggest that the AASB add some explanation in respect of paragraphs 25.5 to Aus 25.7..3, to make it clear that a disclosing entity is not required to provide additional aggregates under paragraph 18, and that the absence of such aggregates does not cause a financial report to fail the 'IFRS-compliance' test.

11. No Appendices to final revised AASB 124

Do you agree with the Board's proposal to delete all the Appendices to this ED when issuing the final revised AASB 124?

We disagree with the proposed deletion of Appendices 1 to 5 in ED 143 and with the unacknowledged deletion of Appendix 1, AASB 1046. We also disagree with the removal of the commentary and guidance accompanying the disclosure requirements in AASB 1046. Our reasons on the latter are explained in greater detail in the first part of the section below, "Other Concerns". This answer is restricted to the narrower focus of the Appendices.

Appendix 1: Managed Schemes

Removal of the guidance in this new appendix, on the application for MIS, represents a reversal of the AASB's stated intention (Press Release June 2004) to provide more guidance for MIS. It is hoped this proposed deletion is not indicative of the Board's intention to remove MIS from the scope of paragraphs Aus25.1 to Aus25.7.3.

Assuming disclosing MIS remain subject to the same disclosures as other disclosing entities, this guidance is useful to both preparers and users of financial reports. It assists preparers to understand how the regime applies in circumstances specific to MIS and will contribute significantly to consistency and comparability of their financial reports. It enables users to comprehend what it is that is being disclosed by MIS and why it might differ in some respects from the disclosures of other disclosing entities, in order to reflect the distinctive characteristics of MIS.

Appendices 2 to 4: Disclosures illustrated: compensation, equity holdings and loans

It is useful to preparers and users alike to be able to see the manner which complying disclosures can be presented, and this assists the understanding of the meaning of the various disclosure requirements. However, the greatest advantage is that provision of such a template contributes to greater consistency between financial reports, and this in turn improves comparability. Since AASB 1046 was issued, all disclosing entities have followed the general layout, and none have produced idiosyncratic layouts that would impede comparability (such as switching items to rows and people to columns).

Removing these three Appendices increases the opaqueness of the Standard and opens the way for companies to devise new and creative layouts, losing comparability.

Appendix 5: Applying paragraphs Aus25.1 to Aus25.7.3

The contents of Appendix 5 have been taken from AASB 1046, where they were part of more extensive guidance that was an integral part of the Standard and not simply an Appendix that "*accompanies and is not part of*" the Standard. Removing this Appendix will decrease the usefulness to both users and preparers. We do not perceive this guidance as unnecessary nor do we consider it is obvious to the public what is intended by the cryptic descriptions actually in the Standard. Removal reduces the ability of investors to understand what is required and assess what is presented to them in financial Reports.

Rather than removal, we recommend that the guidance in Appendix 5 is reinstated to its earlier locations, directly following the disclosures to which each relates. The current structure is inconvenient (requiring constant forward and backward referencing) and is contrary to the principles of 'plain English'

parliamentary drafting (as espoused by the Office of Legislative Drafting, Federal Attorney-Generals Department).

Removal of Appendix 5 appears contrary to the main objects of accounting standards, as expressed in Part 12 of the *ASIC Act 2001* (Section 224), since the outcome does not facilitate comparability and is not readily understandable.

Removal of the Appendices cannot be justified as being in the interests of greater conformity to the style of IFRSs, because:

- almost every IFRS has appendices; and
- conformity to IFRS-style appears to conflict with the statutory responsibilities of the AASB and elevates form to greater importance than substance.

12. Transitional provisions

Do you consider that transitional provisions should be included in AASB 124 in respect of paragraphs Aus25.1 to Aus25.7.3, since it is the first time that disclosing entities are required to make the disclosures required by paragraphs Aus25.1 to Aus25.7.3 in respect of KMP rather than specified directors and specified executives?

We agree it would be desirable to include transitional provisions in AASB 124 for all entities (for paragraphs 1 to 22) and for disclosing entities (for paragraphs Aus25.1 to Aus25.7.3).

No suggestions are provided as to what sort of transitional provisions are contemplated or how it will be possible, on first-time adoption, to overcome the override in AASB 1 (paragraph 9) that invalidates transitional provisions in all other Australian equivalents to IFRSs.

In respect of paragraphs 1 to 22, we consider it would be desirable to exempt non-disclosing entities from the need to provide comparative information at least in respect of the disclosures required by paragraphs 16 to Aus16.2. It could be argued there should be no relief on first-time adoption for these disclosures, since AASB 124 was issued in July 2004 and non-disclosing entities should have included collection of comparative information as part of the process of first-time adoption. It is argued in the Preface (page 8), that it is impossible to provide relief in respect of the aggregates required by AASB 124, as this could result in non-compliance with IFRSs.

However, the proposals in ED 143, particularly the removal of parent entity relief and definitions of specified individuals, are likely to result in significant changes to the number of individuals involved. It is onerous for all entities to be required, at short notice, to amend the software used to collect data on compensation as well as capture extensive comparative data. A company with a December year end would be faced with the prospect of discovering in December 2005 (when the proposed AASB 124 is issued) that it needs to collect more details than previously expected in respect of the year ending 31 December 2005 and to go back to 1 January 2004 for comparative details.

In respect of paragraphs 1 to 22 and disclosing entities, it is less certain that transitional provisions are needed to relieve the burden of extended and amended data capture, since they have been subject to the requirements of AASB 1046 since 2004. However, the question appears to acknowledge that removal of the definitions of specified director and specified executive will result in different individuals being classified as KMP (subject to the disclosures). The removal of parent entity relief potentially results in two sets of KMP, with neither comprising the same individuals as those included under AASB 1046. Any such differences would affect the compensation aggregates required by paragraph 16, and not simply the disclosures required by paragraphs Aus25.1 to Aus25.7.3. Further, it is uncertain whether companies will consider it necessary to include as compensation *all* the items described as remuneration in AASB 1046 or to measure them in the same manner as previously required.

Given these changes to the platform of Australian equivalents of IFRSs are being proposed at such short notice, it would seem that the AASB should have the power to exempt entities from providing comparatives in the year of first-time adoption if the burden of compilation is too onerous or the difficulties of validation would make the data unreliable. The principle of relief from restatement on the grounds of impracticality is already in AASB 108 "*Accounting Policies, Changes in Accounting Estimates*

and Errors" (paragraphs 50 to 53). The IASB itself has amended IFRS 1 to provide exemptions from comparatives when it has made changes to what was its 'stable platform' (as at the end of March 2004).

The AASB has an obligation to its constituents to allow sufficient lead time for new requirements to take effect and, if it cannot do so in this case without losing IFRS-compliance, it should consider delaying the effective date of the proposed changes.
In respect of paragraphs Aus25.1 to Aus25.7.3, it would be desirable to include some equivalent to that in AASB 1046, stating that comparative information is not required for some specified disclosures or for those individuals who were not specified in the preceding year. Without such a provision (to apply in all years, not just that of transition), the blanket requirement to provide comparative information in AASB 101 is likely to cause an onerous data collection burden for preparers and to reduce the quality of information available to investors. The extent of this problem is not clear from the illustrations in Appendices 3 and 4, since comparative information is not provided for all items (arguably in breach of AASB 101).

13. Application to managed schemes (including MIS)
(a) Do you agree that when a managed scheme (including a MIS) pays a management fee to its responsible entity, the managed scheme indirectly provides the compensation of the KMP for managing the MIS for the purposes of paragraph 16?

We agree that a managed scheme (MIS) that pays a management fee to its Responsible Entity (RE) is thereby obligating the RE to pay compensation, on its behalf, to those individuals responsible for its governance. We do not believe this fails the definition of compensation.

Even though MIS rarely employ executives directly (and there is no 'Board of Directors'), we consider there are individuals who are responsible for the strategic direction and operational management of a MIS.

Accepting there are KMP of a MIS, employed by the RE (or the parent of the RE or a subcontractor), these individuals are compensated and that compensation must be derived from the management fees paid to the RE. We support compensation disclosures on the grounds they do provide additional relevant information. They give investors some idea of what percentage of the management fee goes towards paying the directors and officers of the RE, and enable comparison (of percentages) between different MIS and REs.

It is assumed that the question is phrased to refer to paragraph 16 (and not the detailed compensation requirements of Aus25.5) so that the AASB will effectively gain comment on whether paragraph 16 should continue to apply, even if it decides to exempt MIS from the disclosing entity requirements. As indicated above, we believe indirect payment by the RE is covered by the reference to 'on behalf of' in the definition of compensation.

(b) Do you agree that the KMP of managed schemes that are disclosing entities (including MIS) should be subject to the same disclosure regime as all other disclosing entities in paragraphs Aus25.1 to Aus25.7.3 or should be required to make fewer disclosures, and perhaps only those required by paragraphs 1 to 22 of AASB 124?

We agree that MIS should be required to make the same disclosures as other disclosing entities.

The primary reason the AASB decided to make AASB 1046 applicable to all Disclosing Entities was to ensure that all those entities that solicit money from the public should be required to make roughly the same disclosures to the public about how much they are paying to individuals responsible for the management of the money subscribed by the public. The scope of AASB 1046 was therefore determined by the definition of 'Disclosing Entity' in the *Corporations Act 2001*.

When the AASB has considered MIS and the scope of disclosing entities previously, it has concluded that inclusion is appropriate (most recently, September 2004, *Action Alert*, AASB September 2004).

The claimed difficulties in determining disclosures do not provide sufficient or adequate justification for departing from the principle.

(c) Do you agree that the KMP of a managed scheme are among the individuals paid by the responsible

entity (or by another entity that provides services to the responsible entity)?

The outsourcing of administration does not remove specified directors or specified executives (as defined by AASB 1046). There will be some directors of the RE for it to be a company that is able to be nominated as a Responsible Entity. The board of an RE remains responsible for the governance of the MIS.
If the executives in an company to which the RE has outsourced management are taking the decisions that would otherwise normally be taken by the Directors of the RE, then it appears those executives would be caught under part (b) of the definition of Director in Section 9 of the *Corporations Act 2001* (which applies to persons NOT validly appointed as a director). That would make them 'Directors' of the RE and the deeming in Section 285(3)(b), *Corporations Act 2001,* would apply to make them Directors of the MIS.

By agreeing that the KMP of a disclosing MIS includes individuals employed (and paid) by an RE (or one of its subcontractors), it is not intended this be taken as disagreeing with question (a). The compensation paid by the RE to those responsible for the governance of the MIS is paid indirectly on behalf of the MIS and funded out of the management fees paid by the MIS to the RE.

If an Accounting Standard were to include any paragraphs stating that the Directors and Officers of the RE should not be included as the KMP of a disclosing MIS, it is likely such paragraphs would be invalid, as being inconsistent with Section 285(3)(b), *Corporations Act 2001*.

Our final comment on MIS relates to the reference in the Preface of ED 143 (page 10) to seeking comments on international practice in this area. It is suggested the Board should distinguish, when assessing the relevance to Australia, the legal framework applicable to the MIS-equivalent in the overseas jurisdiction. At the time the single Responsible Entity structure was introduced into the Corporations Law (as it was called prior to the 2001 changes), replacing the earlier split (or dual) responsibilities, it was seen as being unique in the world. The external reporting required from a managed funds scheme like an MIS is unlikely to be appropriate in the Australian context if the jurisdictional framework differs and there is not a single Responsible Entity.

14. Are there any other disclosure requirements you believe should be:
(a) added

No
Apart from re-instatement of disclosures noted re Questions 5, 6 & 7 above, we believe it would be inappropriate to recommend any additional disclosures at such a late stage in the due process.

(b) deleted

Yes.
It would seem appropriate to exclude the comparative information that was excluded in AASB 1046 and appears inadvertently included by the amalgamation (discussed in Questions 3 and 12 above).

We are uncertain whether to recommend that disclosing entities be exempt from providing aggregate disclosures in respect of paragraph 18(f), other transactions with KMP, since it is not clear whether the aggregates are required. If so, we recommend exemption.

15. Are the proposals in the best interest of the Australian economy?
We do not believe the proposals are in the best interests of the Australian economy.

We believe they will reduce comparability between financial reports and increase inconsistencies by permitting the growth of different interpretations and reducing the capacity of numerate investors to perform effective surveillance.

We believe that the introduction of such radical changes at such short notice and so close to the deadline of 31 December 2005 imposes excessive and unjustifiable costs on preparers of Financial Reports. As suggested in Question 12 (and below in issue C), the AASB should consider deferring the effective date for the proposals.

Other concerns

A Absence of adequate guidance on what is included as remuneration and how the remuneration disclosures are to be measured.

We are concerned that the proposed guidance is minimal and will seriously disadvantage both preparers and users of Financial Reports. The statement in the Preface of ED 143 (page 9) that this is a principles-based Standard changes the function of AASB 1046 and its intended role in the context of Section 300A of the *Corporations Act 2001*.

The proposed removal of practically all the guidance that was in AASB 1046 means that preparers are not given any direction on where to find the "*the measurement principles … located in other Standards*" (page 9, Preface, ED 143). Presumably this means AASB 119 "*Employee Benefits*" and AASB 2 "*Share-based Payment*", but possibly includes AASB 139 "*Financial Instruments: Recognition and Measurement*".

The following dot points list some of the more obvious difficulties in respect of AASB 119 (deficiencies re AASB 2 are listed in section B below).

- AASB 119 does not provide any measurement methods in respect of non-monetary benefits for individuals, nor does it acknowledge that the quantum and variety of such benefits is likely to be greater for directors and KMP than that available to the average employee.
- Methods for measuring accrued leave and other accrued benefits are appropriate for calculating aggregates for many employees but are unsuitable for use for individual disclosures.
- Descriptions and measurements in AASB 119 are more focussed on calculating the liability outstanding at the end of the year, instead of the quantum of benefits provided during the year.
- AASB 119 does not provide sufficient direction on valuing the benefits of low- or zero-interest rate loans, and the argument as to whether such loans should be measured under AASB 119 or AASB 139 is unresolved.

As noted in relation to several of the specific questions, the removal of guidance, commentary and Appendices is a major disadvantage for investors and exacerbates the inherent information asymmetry between investors and management. It diminishes the ability of investors to critically scrutinise annual reports and identify anomalies.

We believe the absence of such guidance makes it more difficult for directors to discharge their obligations in relating to financial reporting, reduces the relevance and reliability of information provided to users, detracts from comparability and is not readily understandable. In other words, the proposals are contrary to the main objects of accounting standards in Section 224 of the *ASIC Act 2001*. Under that Act, the AASB has a statutory obligation to advance those objects.

B Failure to provide adequate direction on how AASB 2 "*Share-based Payment*" applies in the specific context of directors and executives, and disclosure on an individual basis

We are concerned that removal of the advice in AASB 1046 on how to apply the principles of measurement in AASB 2 detracts significantly from the proposed Standard and introduces uncertainties and alternatives that were not present in AASB 1046.

The methods of calculation described in AASB 2 are, like those in AAS 119, more geared to focus on calculating totals in respect of groups of employees, and not on calculation for an individual (where the concept of averaging is either irrelevant or generally inappropriate). It is noted that paragraph Aus25.2.1 in ED 143 refers to "*a grant of options (including transactions involving loans that are in substance options)*". However, in AASB 2, there is no mention at all of such 'loans' or any indication of how to measure them. As noted in section A above, there is current controversy on whether loans should be measured using AASB 139 or under AASB 119.

Several of the more obvious deficiencies that result from removal are listed as follows.

- In AASB 1046, it was explicitly stated in respect of share-based payment that it was always possible to measure the benefits. AASB 2 permits a loophole; deferral of measurement based on 'inability to measure'.

- In AASB 1046, all grants of share-based payment were included. Using the cap on retrospective application that was introduced into AASB 1, it is required to exclude from the AASB 2 calculations all grants made prior to 8 November 2002. Companies that included such grants in their previous AASB 1046 disclosures would be required to eliminate them under AASB 2/AASB 1.
- In valuing options, the most subjective factor with the greatest effect on the calculated value is the estimated life of the option. AASB 1046 restricted the capacity to use averages to lower values for individuals; now, there is no such limitation.
- The requirement in paragraph Aus25.2(e)(v) to disclose as compensation the entire value of every modification in the year the modification is made fails to distinguish between modifications to vested and unvested grants. AASB 2 requires that the increase of value to an unvested grant must be added to the value remaining to be allocated over the vesting period. Therefore, including the value of modifications of *unvested* grants in the separate component of modifications will result in double counting.

C Insufficient time for adequate consideration of such major policy changes or for amending software to ensure adequate data collection.

Submissions on ED143 are due by 15 November 2005, and it is assumed the Board plans to consider these at its meeting in December 2005 and issue the new Standards shortly thereafter. Replacement of AASB 1046 is needed before 31 December 2005. However, the Board, after agreeing in principle to the update to AASB 1046 in September 2004, has taken twelve months to issue the ED. It now allows its constituents barely two months to consider its proposals, work out the ramifications, prepare a submission and, in most cases, obtain approval from the governing body of the organisation.

The new Standard will be issued right at the end of the year to which it applies, and companies with December year ends will have an extremely short time in which to implement the requirements (and collect data going back to 1 January 2004), in conjunction with the shift to the new Australian equivalents to IFRSs.

While many disclosing entities are likely to have been aware that changes were going to be made to AASB 1046, it is unlikely any anticipated withdrawal of AASB 1046 (particularly since it was stated in the Board's *Action Alerts* last year and earlier this year that amendment, not withdrawal, was planned). It is unlikely any disclosing entities envisaged the Board would also propose radical changes to AASB 124, removing parent entity relief and core definitions. As for non-disclosing entities, the changes are likely to be a surprise to most, as they would only have been aware that the AASB had recently decided there would be some changes to AASB 124 if they had been closely following the activities of the AASB. Since the Board has stated publicly that it completed the issue of Australian equivalents to IFRSs in July 2004, it would have been reasonable for any entity (disclosing or otherwise) to assume that the AASB 124 issued in July 2004 would be the one they would need to comply with in the year of first-time adoption.

It seems a very excessive burden on all companies to re-issue AASB 124 with such far-reaching changes in December 2005 and not include some transitional relief. The AASB has an obligation to its constituents to allow sufficient lead time for new requirements to take effect, and if it cannot do so in this case without losing IFRS-compliance, it should consider delaying the effective date of the proposed changes.

Given the short notice for these changes to the stable platform of Australian equivalents of IFRSs, the AASB should relieve entities from providing comparatives in the year of first-time adoption if the burden of compilation is too onerous or the difficulties of validation would make the data unreliable. The principle of relief from restatement on the grounds of impracticality is already in AASB 108 "*Accounting Policies, Changes in Accounting Estimates and Errors*" (paragraphs 50 to 53). The IASB itself has amended IFRS 1 to provide exemptions from comparatives when it has made changes to what was its 'stable platform' (as at the end of March 2004).

While there are some disadvantages to deferring the effective date of a revised AASB 124, these appear outweighed by the substantial advantages, primarily giving companies an adequate lead time to assess, understand and implement the changes. AASB 124 (July 2004) could continue unchanged. To address the problem with the cross-references in AASB becoming obsolete, the AASB could, as an interim stop-gap measure, issue a brief amending standard to update the references in AASB 1046. The Government would be given more time to issue another regulation, referring to the new Standard, to minimise duplication of remuneration disclosures by listed companies.

On balance, deferral of the issue, or the effective date, of the revised AASB 124 appears a better alternative than the proposed fast track, and we strongly recommend the Board considers this approach.