Accounting Standard **AASB 1028**

June 2001

Employee Benefits

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Defined words appear in *italics* each time they appear. The definitions are in Section 8. Standards are printed in **bold** type and commentary in light type.

MAIN FEATURES OF THE STANDARD

The Standard:

(a) prescribes general recognition criteria for employee benefits (excluding certain equity-based compensation benefits, and post-employment benefits that are superannuation or medical benefits). In addition to prescribing general recognition criteria, the Standard prescribes specific recognition criteria for wages and salaries (including non-monetary benefits), compensated absences, profit sharing and bonus plans (including certain equity-based compensation benefits), termination benefits and certain post-employment benefits;

(b) requires liabilities that arise in respect of wages and salaries (including non-monetary benefits), annual leave, and sick leave (regardless of whether they are expected to be settled within 12 months of the reporting date) and other employee benefits expected to be settled within 12 months of the reporting date to be measured at their nominal amounts;

(c) requires employee benefit liabilities (other than wages and salaries, annual leave and sick leave) expected to be settled more than 12 months after the reporting date to be measured at present value;

(d) requires the market yields on national government bonds to be used in determining the present value of employee benefit liabilities; and

(e) requires disclosures to be made about:

    (i) liabilities and assets that are a consequence of employing employees;

    (ii) defined benefit superannuation plans;

    (iii) equity-based compensation benefits; and

    (iv) the nature and terms of arrangements under which employees are offered an opportunity to acquire equity in the employer and thereby derive a benefit, directly or indirectly, by virtue of the employer/employee relationship, not otherwise specifically required to be disclosed by the Standard.

    In relation to the disclosures required for equity-based compensation benefits, the Standard requires disclosure of details about equity-based instruments, including share options or other similar rights (such as performance rights), granted as employee compensation during a reporting period and, as at each subsequent reporting date, details about the instruments that remain unexercised. Disclosure is required of the fair value of vested fully-paid shares issued by an employer to equity-based compensation plans or to employees or distributed by equity-based compensation plans to employees.

Future Action

The Standard does not yet require the fair value of share options or other similar rights granted to be disclosed. This will be reviewed by the Australian Accounting Standards Board in light of the outcome of the forthcoming proposed Standard on Director and Executive Disclosures, which will address the disclosure of the fair value of such instruments. This will include consideration of the date (or dates) at which fair value should be determined (for example grant date and/or vesting date) and disclosed. It is likely that amendments will be made to the Standard arising from the forthcoming Director and Executive Disclosures Standard.

ACCOUNTING STANDARD AASB 1028

The Australian Accounting Standards Board makes Accounting Standard AASB 1028 "Employee Benefits" under section 334 of the Corporations Law.

F.K. Alfredson
Dated 28 June 2001 Chair – AASB

ACCOUNTING STANDARD

AASB 1028 "EMPLOYEE BENEFITS"

1 Application

1.1 This Standard applies to:

(a) each *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law and that is a *reporting entity*;

(b) *general purpose financial reports* of each other *reporting entity*; and

(c) financial reports that are, or are held out to be, *general purpose financial reports.*

1.1.1 The standards specified in this Standard apply to the financial report where information resulting from their application is material in accordance with Accounting Standard AASB 1031 and Australian Accounting Standard AAS 5 "Materiality".

1.2 This Standard prescribes *recognition* requirements for all *employee benefits* other than:

(a) *equity-based compensation benefits* that will be settled with *equity instruments* of the *employer*;

(b) *equity-based compensation benefits* that may, as opposed to will, be settled with *equity instruments* of the *employer*, but only until a decision is made that *employees* will not receive *equity instruments* of the *employer*; and

(c) ***post-employment benefits* that are superannuation or medical benefits.**

1.2.1 The definition of *equity-based compensation benefits* in paragraph 8.1 includes *employee benefits* where the amount of the benefits depends on the future value of *equity instruments* of the *employer*, even if *equity instruments* will not be issued to *employees* (for example, whether due to the nature of the *entity* or there is no provision in the arrangement with the *employee* for *equity instruments* to be issued). This Standard treats *equity-based compensation benefits* where *equity instruments* of the *employer* will not be issued as profit sharing or bonus plans. This Standard prescribes *recognition* requirements for such benefits (see paragraphs 4.5 to 4.6.5). In circumstances where *equity-based compensation benefits* may be settled with either *equity instruments* of the *employer* or other compensation in lieu, this Standard does not prescribe *recognition* requirements. However, when it is known that such benefits are not to be settled with *equity instruments* of the *employer*, they are treated in the same manner as profit sharing or bonus plans. The disclosure requirements in paragraphs 6.3 to 6.9 of this Standard apply to all types of *equity-based compensation benefits*, including where they are treated as profit sharing or bonus plans.

2 Operative Date

2.1 This Standard applies to *annual reporting periods* beginning on or after 1 July 2002.

2.2 This Standard may be applied to *annual reporting periods* beginning before 1 July 2002. An *entity* that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Law may apply this Standard to *annual reporting periods* beginning before 1 July 2002, where an election has been made in accordance with subsection 334(5) of the Corporations Law.

2.3 When applied or operative, this Standard supersedes:

(a) Accounting Standard AASB 1028 "Accounting for Employee Entitlements" as approved by notice published in *Commonwealth of Australia Gazette* No. S 106 on 29 March 1994; and

(b) Australian Accounting Standard AAS 30 "Accounting for Employee Entitlements" as issued in March 1994.

2.3.1 Notice of this Standard was published in the *Commonwealth of Australia Gazette* on 29 June 2001.

3 Purpose of Standard

3.1 The purpose of this Standard is to:

(a) prescribe *recognition* and measurement requirements for *employee benefits*, other than certain *equity-based compensation benefits*, and *post-employment benefits* that are superannuation or medical benefits; and

(b) require specific disclosures to be made in relation to *employee benefits*, including *equity-based compensation benefits*, and *post-employment benefits* that are in respect of defined benefit superannuation plans.

4 Recognition

Liabilities and Expenses Arising in Respect of Employee Benefits

4.1 Subject to paragraph 4.16, *liabilities* and *expenses* arising in respect of *employee benefits* must be *recognised* when, and only when:

(a) they are capable of being measured *reliably*; and

(b) in respect of:

(i) *expenses*, it is probable that the consumption or loss of future economic benefits has occurred; and

(ii) *liabilities*, it is probable that settlement will be required.

Paragraphs 4.2 to 4.12 must be applied in implementing the above *recognition* criteria to particular types of *employee benefits*.

4.1.1 As an *employer* consumes *employees'* services, an obligation to compensate *employees* for those services arises. Consequently, an *expense* of the *employer* arises unless the amounts qualify for *recognition* as *assets* (see paragraphs 4.1.6 and 4.2(b)). These obligations will normally result in either cash outflows in the current reporting period or, if they remain unpaid, *liabilities* of the *employer.*

4.1.2 *Liabilities* arising in respect of *employee benefits* need not arise solely from legal obligations. *Liabilities* arising from equitable or constructive obligations may also qualify for *recognition.* For example, an *employer's* long service leave *liability* usually comprises both legal and constructive components, as discussed in paragraphs 4.4.9 and 4.4.10.

4.1.3 Costs that are a consequence of employing *employees,* but which are not *employee benefits,* such as payroll tax and other similar on-costs, are *recognised* as *liabilities* and *expenses* when the *employee benefits* to which they relate are *recognised* as *liabilities* and *expenses.* For example, where the settlement of *employee benefit liabilities*, such as long service leave, gives rise to the payment of employment on-costs, such as payroll tax and workers' compensation insurance, a *liability* is *recognised* for those on-costs as well as for the *employee benefits.*

4.1.4 *Liabilities* arising in respect of *employee benefits* are *recognised* when it is probable that settlement will be required and when the *liabilities* can be measured *reliably*. *Liabilities* that involve multiple individual *employee* claims with differing probabilities of settlement, such as long service leave, are generally considered on a group basis, rather than on the basis of individual claims.

4.1.5 Clarification of the application of the general *recognition* requirements specified in paragraph 4.1 for *liabilities* arising in respect of *employee benefits* in the form of wages and salaries (including non-monetary benefits), compensated absences, profit sharing and bonus plans (including certain *equity-based compensation benefits*), *termination benefits* and *post-employment benefits* is provided in paragraphs 4.2 to 4.12.

4.1.6 Some *employee benefits* that are paid or become payable during a reporting period may give rise to future economic benefits and thus are *recognised* as *assets* rather than as *expenses*. For example, consistent with Accounting Standard AASB 1019 and Australian Accounting Standard AAS 2 "Inventories" and Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 "Acquisitions of Assets" the cost of *employee benefits* such as wages and salaries incurred in producing inventories or other *assets* is included when determining the cost of the inventories or other *assets*. This is because *employee* costs associated with inventories or other *assets* represent part of the cost of acquiring the future economic benefits embodied in those *assets*. The consumption of the future economic benefits associated with the inventories or other *assets*, and therefore the *expense*, will not occur until the inventories or other *assets* are sold or otherwise consumed.

4.1.7 Where the *entity* has paid an amount to *employees* that exceeds the entitlement for services rendered to date by the *employees*, the excess represents future economic benefits controlled by the *entity* that is *recognised* as an *asset* (prepaid *expense*) in accordance with paragraph 4.13. This *asset* represents a prepayment that will lead to a reduction in future payments or a cash refund.

Wages and Salaries, including Non-Monetary Benefits

4.2 When an *employee* has rendered service to the *entity* during a reporting period, the *entity* must *recognise* the amount of wages and salaries, including non-monetary benefits, expected to be settled in exchange for that service:

(a) as a *liability*, after deducting any amount already paid; and

(b) as an *expense*, unless *recognised* as part of the carrying amount of an *asset* in accordance with another Accounting Standard or an Australian Accounting Standard.

4.2.1 Wages and salaries (including components of a wage or salary package, such as payments by the *employer* of an *employee's* personal costs and the related fringe benefits tax) arising from the services rendered by *employees* during the reporting period would generally satisfy the *recognition* criteria and would be *recognised* as *expenses* unless they satisfy the *recognition* criteria for *assets*. This is because they are capable of being measured *reliably* and because *employees* obtain their entitlement to wages and salaries as they provide their services.

4.2.2 An *employer* may provide *employee benefits* in the form of non-monetary benefits. Such benefits may take the form of payment of health insurance premiums, housing, motor vehicles, and free or subsidised goods or services (for example, interest free or subsidised loans, including such loans that are associated with *equity-based compensation arrangements*). In most circumstances, *employees'* rights to non-monetary benefits do not accrue in proportion to their periods of service and do not accumulate. Usually, the right to receive those benefits in each period exists irrespective of the duration of service provided by *employees.* In such circumstances, an *employer recognises* the cost associated with providing the benefits in the period during which the benefits are taken by *employees*. The amount of cost is determined on the basis of the net marginal cost (if any) to the *employer* of the benefits provided. A *liability* is not *recognised* for any non-accumulating benefits that the *employees* do not take during the period.

4.2.3 In other circumstances, *employees'* entitlements to non-monetary benefits may accrue in proportion to periods of service and/or accumulate over a number of reporting periods. To the extent that *employees'* entitlements to non-monetary benefits are accumulating and have not been settled, those benefits satisfy the definition of *liabilities*. In such cases, the amount *recognised* as *liabilities* is determined on the basis of the net marginal cost (if any) to the *employer* of the benefits expected to be provided. This requires *employers* to *recognise* as *expenses* (unless *recognised* as part of the carrying amount of an *asset* in accordance with another Accounting Standard or an Australian Accounting Standard) accumulating non-monetary benefits in the reporting periods during which *employees* accumulate those benefits and not in the reporting periods during which the benefits are taken.

4.2.4 Where goods or services have been purchased from other *entities*, the net marginal cost will be the cost of the acquired goods or services less any amount expected to be paid or payable by *employees*. For example, if a retailer (*employer*) has a present obligation to provide discounted merchandise to *employees* as a result of their service to date, the amount *recognised* as *liabilities* is the expected cost of the goods to the *employer* less any amount expected to be paid by *employees* for those goods. In respect of benefits such as low-interest or interest-free loans to be provided to *employees*, the amount *recognised* as *liabilities* is based on the expected marginal cost to the *employer* of borrowing those funds, less the expected interest charged to *employees*. Where goods or services that the *employer* produces or manufactures (for example, motor vehicles) are to be sold to *employees* at a discount, the amount *recognised* as *liabilities* is based on marginal production costs less amounts expected to be paid or payable by *employees*.

Compensated Absences

4.3 A *liability* for *employee benefits* in the form of compensated absences must be *recognised* when, and only when:

(a) in the case of accumulating compensated absences, *employees* render service that entitles them to future compensated absences; or

(b) in the case of non-accumulating compensated absences, the absences occur.

4.4 The *liability* for accumulating compensated absences must be based on the amount that the *entity* expects to pay in future reporting periods as a result of the unused entitlement that has accumulated as at the *reporting date.*

4.4.1 Compensated absences may include compensation paid or payable in respect of absence for various reasons including annual leave, sickness, short-term disability, maternity or paternity, sabbatical and long service. Entitlement to compensated absences falls into two categories: accumulating and non-accumulating.

4.4.2 Accumulating compensated absences are those that are carried forward and can be used in future periods if the current period's entitlement is not used in full. Accumulating compensated absences may be either *vesting* (that is, *employees* are entitled to a cash payment for unused entitlement on leaving the *entity*) or non-*vesting* (that is, *employees* are not entitled to a cash payment for unused entitlement on leaving the *entity*). An obligation arises as *employees* render service that increases their entitlement to future compensated absences. The obligation exists, and is *recognised*, even if the compensated absences are non-*vesting*, although the possibility that *employees* may leave before they use an accumulated non-*vesting* entitlement affects the measurement of that obligation.

4.4.3 Non-accumulating compensated absences are not carried forward. They lapse to the extent that the entitlement is not used in the period and do not entitle *employees* to a cash payment for unused entitlement on leaving the *entity* (that is, they are non-*vesting*). This may be the case for sick leave and maternity or paternity leave. An *entity* does not *recognise* a *liability* until the time of the absence, because *employee* service does not increase the amount of the benefit.

Annual Leave

4.4.4 Unpaid entitlements to annual leave (including annual leave loading) arising from services rendered by *employees* during the reporting period generally satisfy the criteria for *recognition* as *liabilities* specified in paragraphs 4.1 and 4.3. This is because they are capable of being measured *reliably* and because *employees* obtain their entitlement to annual leave as they provide their service.

Sick Leave

4.4.5 Sick leave entitlements can be categorised as either *vesting* or non-*vesting*. *Vesting* sick leave entitlements accumulate and *vest* (whether by agreement or custom) in a similar manner to annual leave entitlements. Unpaid *vested* sick leave entitlements accumulated by *employees* during the reporting period satisfy the definition of *liabilities*, since the *employer* will have consumed *employees'* services during the reporting period and entitlements accumulate with the provision of those services. Thus, *vesting* sick leave is of the same nature as annual leave.

4.4.6 Non-*vesting* sick leave entitlements may accumulate in a manner similar to annual leave entitlements, but do not *vest* and are paid only upon a valid claim for sick leave by an *employee*.

4.4.7 In measuring the *liability* to be *recognised* for non-*vesting* accumulating sick leave, only that component of the entitlements accumulated as at the *reporting date* that is expected to result in payments to *employees* is *recognised* as a *liability*. This is because not all accumulated non-*vesting* entitlements will result in payments being made by the *employer*.

4.4.8 Non-*vesting* accumulating sick leave entitlements are normally measured on a group basis, rather than on the basis of individual *employees*. Where experience indicates that, on average, sick leave taken each reporting period is less than or equal to the entitlement accruing in that period, and this experience is expected to recur in future reporting periods, it is improbable that existing accumulated entitlements will be used by *employees*. Unused entitlements give rise to a *recognised liability* only when it is probable that sick leave taken in the future will be greater than entitlements that will accrue in the future.

Long Service Leave

4.4.9 Whilst differences exist between the various Acts, Awards and Workplace Agreements specifying long service leave entitlements in Australia, the following entitlement categories are common:

(a) an unconditional legal entitlement to payment arises after a qualifying period of service (usually ten or fifteen years). Accumulation of long service leave entitlement continues after this point, until the leave is taken. This entitlement is termed the "unconditional" entitlement category in this Standard;

(b) in certain circumstances (for example, death, retrenchment, or early retirement under some Awards), a legal entitlement to pro rata payment in lieu of long service leave arises (sometimes only after a qualifying period of service). This entitlement is termed the "conditional" entitlement category in this Standard; and

(c) no legal entitlement to any payment or leave exists before the accumulation of the period of service necessary to qualify for the entitlement described in (a) or (b) above. This entitlement is termed the "pre-conditional" entitlement category in this Standard.

At any point in time, an *employer* could have *employees* in more than one of the above categories.

4.4.10 To the extent that it is probable that long service leave entitlements accumulated by *employees* in the unconditional, conditional and pre-conditional entitlement categories during the reporting period will result in cash outflows by an *employer* in future reporting periods, they satisfy the criteria for *recognition* of a *liability*. The *employer* has consumed *employees'* services during the period and the entitlement accumulates with the provision of *employees'* services.

4.4.11 It will often be possible for *employers* to estimate the present value of the future cash outflows associated with their long service leave *liabilities* by using "short-hand" measurement techniques. For example, experience may indicate that accrual of an *employer's* long service leave *liability* based on remuneration rates current as at the *reporting date* for all *employees* with five or more years of service provides an estimate of the long service leave *liability* not materially different from the estimate determined by using the present value basis of measurement and detailed group-based estimates.

4.4.12 Whilst most *employers* provide long service leave benefits to *employees* directly, some *employers* participate in industry-based long service leave schemes. Where an *employer* has an obligation to contribute to any funding shortfalls of such a scheme, that obligation satisfies the definition of *liabilities*. This is because the *employer* has a present obligation to make future cash outflows as a result of the long service leave scheme arrangements. Accordingly, an *employer's* obligations to industry-based long service leave schemes are *recognised* as a *liability* of the *employer*.

4.4.13 Some industry-based long service leave schemes operate so that *employers* directly meet their long service leave obligations to *employees*, and subsequently receive reimbursement from the scheme for all or part of the payments made to *employees*. In such cases, consistent with the requirements of paragraphs 4.3 and 4.13, *employers recognise* separately as *liabilities* the amount of payments expected to be made to *employees* and as *assets* the amount expected to be reimbursed by the scheme (see also paragraph 4.15.2).

Profit Sharing and Bonus Plans

4.5 A *liability* for *employee benefits* in the form of profit sharing and bonus plans must be *recognised* when, and only when:

(a) the *entity* has no realistic alternative but to settle the *liability*; and

(b) the amount of the *liability* is capable of being measured *reliably* in accordance with paragraph 4.6.

4.6 A *liability* for *employee benefits* in the form of profit sharing and bonus plans is capable of being measured *reliably* when, and only when, at least one of the following conditions is met:

(a) there are formal terms in the plan for determining the amount of the benefit;

(b) the *entity* determines the amounts to be paid before the *time of completion* of the financial report; or

(c) past practice gives clear evidence of the amount of the *entity's* obligation.

4.6.1 Under some profit sharing plans, *employees* receive a share of the profit only if they remain with the *entity* for a specified period or meet other criteria during subsequent periods. Such plans create a constructive obligation as *employees* render service that increases the amount to be paid if they meet those criteria. The measurement of such constructive obligations reflects the probability that some *employees* may leave without receiving part or all of the profit sharing payments.

4.6.2 The *entity* may have a practice of paying bonuses, even though it may have no legal obligation to do so. In such cases, the *entity* has a constructive obligation because the practice of paying bonuses creates an expectation that bonuses will be paid in the future. The measurement of the constructive obligation reflects the probability that some *employees* may leave without receiving part or all of the bonus.

4.6.3 An obligation under profit sharing and bonus plans results from *employee* service and not from a transaction with the *entity's* owners. Therefore, the *entity recognises* the cost of profit sharing and bonus plans as an *expense* rather than as a distribution of profit.

4.6.4 Consistent with paragraph 1.2, profit sharing and bonuses that are *equity-based compensation benefits*:

(a) that will be settled with *equity instruments* of the *employer*; or

(b) that may, as opposed to will, be settled with *equity instruments* of the *employer*, but only until a decision is made that *employees* will not receive *equity instruments* of the *employer*,

are not required to be *recognised* by this Standard. In contrast, profit sharing and bonuses that are other types of *equity-based compensation benefits*, some of which are commonly referred to as stock appreciation rights, phantom schemes or shadow schemes are subject to paragraphs 4.5 and 4.6. Disclosures about profit sharing and bonuses that are *equity-based compensation benefits* are made in accordance with paragraphs 6.3 to 6.9.

4.6.5 Section 5 of this Standard specifies measurement requirements for *employee benefit liabilities*, including *liabilities* arising from profit sharing and bonus plans. The measurement of *equity-based compensation benefits* that will not be settled with *equity instruments* of the *employer* is based on expected future cash outflows, which requires an estimate to be made of the future increase in the price of *equity instruments* of the *employer*. Where *reliable* estimates of future increases are not available, the measurement of the *liability* is based on the price of the *equity instrument* of the *employer* at the end of the reporting period.

Termination Benefits

4.7 A *liability* and an *expense* for *termination benefits* exist when, and only when, the *entity* is presently obliged to provide benefits that relate to either:

(a) terminating the employment of an *employee* or group of *employees* before the normal retirement date; or

(b) providing *termination benefits* in accordance with a voluntary redundancy scheme.

4.8 Except for *liabilities* for *termination benefits* that arise under paragraph 4.9 and qualify for *recognition* under paragraphs 4.10(a)(ii) and 4.10(b), an *entity* is presently obliged to provide *termination benefits* when, and only when, the *entity* has:

(a) developed a detailed formal plan for the terminations identifying at least:

(i) the location, function, and approximate number of *employees* who will be compensated for terminating their services;

(ii) the *termination benefits* for each job classification or function; and

(iii) when the terminations will occur; and

(b) raised a valid expectation in those *employees* affected that it will carry out the terminations.

4.8.1 The *entity* may be committed, by legislation, by contractual or other agreements with *employees* or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to *employees* if it terminates their employment. Such payments are *termination benefits*. *Termination benefits* are typically lump-sum payments, but sometimes also include:

(a) an enhancement of retirement benefits or of other *post-employment benefits*, either directly or indirectly, through an *employee benefit* plan; and

(b) salary until the end of a specified notice period during which the *employee* renders no further service that provides economic benefits to the *entity*.

4.8.2 In some jurisdictions, some *employee benefits* are payable regardless of the reason for the *employee's* departure. The payment of such benefits is certain (subject to any *vesting* or minimum service requirements) but the timing of their payment is uncertain. Although such benefits may be described as "termination benefits" or termination gratuities, they are *post-employment benefits*, rather than *termination benefits*, and the *entity* accounts for them as *post-employment benefits* (see paragraph 4.12). Some *entities* provide a lower level of what they refer to as "termination benefit" for voluntary termination at the request of the *employee* (in substance, a *post-employment benefit*) than for involuntary termination at the request of the *entity*. Only the additional benefit payable on involuntary termination is a *termination benefit*.

4.8.3 *Termination benefits* do not provide the *entity* with future economic benefits and are *recognised* as an *expense* when the present obligation to provide them to *employees* arises.

4.8.4 Evidence that the *entity* has raised a valid expectation in those *employees* affected that it will carry out terminations would be provided, for example, by starting to implement the termination plan or notifying *employees* (or their representatives) that their services will be terminated. A public announcement of a detailed plan to terminate the employment of *employees* by itself constitutes a constructive obligation only if it is made in such a way and in sufficient detail (that is, setting out the main features of the plan) that it gives rise to valid expectations of *employees* (or their representatives) that the *entity* will carry out the terminations.

4.8.5 For a termination plan to give rise to a present obligation when communicated to those *employees* affected by it, its implementation is scheduled to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the terminations begin or that the termination plan will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of *employees* that the *entity* is at present committed to the terminations, because the timeframe allows opportunities for the *entity* to alter its decisions.

4.8.6 A decision of the *entity's* management or governing body to terminate *employees* made before a particular date does not give rise to a constructive obligation at that date unless the *entity* has, before that date:

(a) started to implement the termination plan; or

(b) announced the main features of the termination plan to those *employees* affected by it in a sufficiently specific manner to raise a valid expectation in them that the *entity* will carry out the terminations.

4.8.7 When the *entity* starts to implement a termination plan, or announces its main features to those *employees* affected, between the *reporting date* and the *time of completion* of the financial report, disclosure of this event may be required under Accounting Standard AASB 1002 and Australian Accounting Standard AAS 8 "Events Occurring After Reporting Date".

4.8.8 Although a constructive obligation is not created solely by a management or governing body decision, a present obligation may result from earlier events together with such a decision. For example, negotiations with *employee* representatives for termination payments may have been concluded subject only to approval by the *entity's* management or governing body. Once that approval has been obtained and communicated to the other parties, the *entity* has a constructive obligation with respect to *termination benefits*, if the conditions in paragraph 4.8 are met.

4.8.9 For some *entities*, the ultimate authority is held by a supervisory board the membership of which includes representatives of external parties (for example, *employees*). Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to provide *termination benefits.* However, if further consultations or major modifications to the plan are likely to be subsequently required, it is unlikely that the *entity* has a present obligation. If significant changes are possible, for example, as a result of the outcome of further negotiations, the *entity* does not have a constructive obligation in respect of a specific termination plan.

Liabilities for Termination Benefits Recognised as a Part of an Acquisition of an Entity or Operation

4.9 For *termination benefits* relating to *employees* of an acquired *entity* or operation that arise as a consequence of the acquisition, a *liability* for *termination benefits* exists as at the date of acquisition when, and only when, the acquirer has:

(a) at, or before, the date of the acquisition, developed the main features of a plan that relates to compensating *employees* of the acquiree for termination of their employment;

(b) by the earlier of:

(i) three months after the date of the acquisition; and

(ii) the *time of completion* of the annual financial report;

developed the main features of the plan described in paragraph 4.9(a) into a detailed formal plan that identifies at least the items set out in paragraphs 4.8(a)(i) to 4.8(a)(iii); and

(c) at, or before, the date of the acquisition, raised a valid expectation in those *employees* affected that it will carry out the terminations.

4.10 A *liability* for *termination benefits* must be *recognised* by the acquiree as at the date of the acquisition of an *entity* or operation, and taken into account by the acquirer in measuring the fair value of the net assets acquired, when, and only when:

(a) either of the following applies:

(i) the acquiree has satisfied the conditions specified in paragraph 4.8 for the existence of a *liability* for *termination benefits* at, or before, the date of the acquisition; or

(ii) the acquirer has satisfied the conditions specified in paragraph 4.9; and

(b) the *liability* satisfies the *recognition* criteria for a *liability* that are specified in paragraph 4.1.

4.10.1 The requirements for the *recognition* and measurement of a *liability* for *termination benefits* arising as a consequence of the acquisition of an *entity* or operation are consistent with the requirements for the *recognition* and measurement of restructuring provisions arising as a consequence of the acquisition of an *entity* or operation that will be specified in a forthcoming Accounting Standard "Provisions, Contingent Liabilities and Contingent Assets".

4.10.2 *Liabilities* for *termination benefits recognised* under paragraph 4.10 include only the costs incurred in compensating *employees* of the acquiree for termination of their employment.

4.10.3 *Liabilities* for *termination benefits* that failed the criteria for *recognition* as at the date of acquisition are excluded from the determination of the fair value of the net assets acquired (and accordingly any goodwill or discount on acquisition). Applying this policy is pertinent to applying Accounting Standard AASB 1013 and Australian Accounting Standard AAS 18 "Accounting for Goodwill" and Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 "Acquisitions of Assets". However, *termination benefits* can subsequently qualify for *recognition* because they meet the tests in paragraph 4.8, even though they fail to qualify to be taken into account in measuring the fair value of the net assets acquired.

4.11 The outstanding balance, or any part thereof, of a *liability* for *termination benefits recognised* under paragraphs 4.10(a)(ii) and 4.10(b) must be reversed when, and only when:

(a) settlement is no longer probable; or

(b) the detailed formal plan, developed in accordance with paragraph 4.9(b), is not implemented:

(i) in the manner set out in the detailed formal plan; or

(ii) within the timeframe established in the detailed formal plan.

Where the acquisition gave rise to goodwill or discount on acquisition (or could have so given rise), the reversal must be *recognised* directly as an adjustment to goodwill or discount on acquisition (and outside equity interest, where applicable). If the adjustment is a decrease in goodwill, the adjusted carrying amount of goodwill must be amortised prospectively in accordance with Accounting Standard AASB 1013 and Australian Accounting Standard AAS 18 "Accounting for Goodwill" from the date as at which the reversal is *recognised*. If the adjustment is an increase in discount on acquisition, a corresponding proportionate reduction must be made to the remaining carrying amounts of the non-monetary *assets* acquired until the discount is eliminated. Where a discount balance remains after reducing to zero the recorded amounts of the non-monetary *assets* acquired, the discount balance must be

***recognised* immediately as *revenue*. Following any adjustment to the carrying amounts of the non-monetary *assets* acquired, the remaining carrying amounts of those *assets* must be depreciated prospectively in accordance with Accounting Standard AASB 1021 and Australian Accounting Standard AAS 4 "Depreciation".**

4.11.1 A reversal normally is not necessary in respect of *liabilities* for *termination benefits recognised* under paragraphs 4.10(a)(ii) and 4.10(b) because the detailed formal plan is required to identify the terminations that will occur. Where such terminations do not occur in the planned manner, in the planned timeframe, or are no longer probable, the *entity* reverses the carrying amount (to the extent the plan is not likely to be implemented or settlement is no longer probable), immediately prior to reversal, of those *liabilities* for *termination benefits*, with a corresponding adjustment to the amount of goodwill or discount on acquisition (and outside equity interest, where applicable). Where a reversal made in accordance with paragraph 4.11 reduces the carrying amount of goodwill, no adjustment is *recognised* to compensate for the fact that past amortisation was based on a higher carrying amount prior to the reversal. Similarly, where a reversal increases the amount of discount on acquisition, no adjustment is *recognised* to compensate for the fact that past depreciation of the acquired non-monetary *assets* was based on higher carrying amounts for those *assets* prior to the reversal. If subsequently an obligation arises under paragraph 4.8 that is required to be *recognised*, the *entity recognises* a corresponding *expense*.

4.11.2 In certain circumstances under Australian Accounting Standard AAS 21 "Acquisitions of Assets", AAS 27 "Financial Reporting by Local Governments", or AAS 29 "Financial Reporting by Government Departments", acquisitions can be accounted for in a way that does not give rise to goodwill or discount on acquisition. An example is the acquisition by a government department of the net assets of another government department for nominal consideration as a result of a restructuring of administrative arrangements. In those circumstances, the reversal required by paragraph 4.11 is *recognised* as *employee benefit revenues* in the reporting period in which the reversal is invoked.

4.11.3 Disclosure requirements regarding provisions, especially provisions for restructurings, will be contained in a forthcoming Accounting Standard "Provisions, Contingent Liabilities and Contingent Assets". The forthcoming Standard will require disclosure of provisions that arise as a consequence of an acquisition of an *entity* or operation, including *liabilities* for *termination benefits recognised* as part of such acquisitions. The aggregate amount of these provisions will be required to be disclosed for each acquisition.

Post-Employment Benefits

4.12 A *liability* for *employee benefits* in the form of *post-employment benefits* must be *recognised*:

(a) progressively over the reporting periods up to the time when the benefits become *vested*, where the benefits *vest* after a specified qualifying period; and

(b) in the reporting period an *employee* is appointed to a specified position, where the benefits *vest* at the time of appointment

and continue to be *recognised* until they are settled.

4.12.1 In accordance with the definition in paragraph 8.1, *post-employment benefits* are *employee benefits* which become payable after employment ceases, but do not include *termination benefits* (see paragraph 4.8.2) and *equity-based compensation benefits*. Consistent with paragraph 1.2(c), paragraph 4.12 does not apply to *post-employment benefits* that are superannuation or medical benefits. Examples of *post-employment benefits* to which paragraph 4.12 applies include the provision of free or subsidised non-monetary benefits after retirement, such as air or train travel, office accommodation, administrative support and the use of a motor vehicle.

4.12.2 *Post-employment benefits* that *vest* after a specified qualifying period of service are *recognised* as a *liability* progressively over that same period. For example, if an *employee* will receive $2,000 worth of annual free air travel upon retirement after having completed 25 years of service, the estimated net marginal cost (if any) to the *employer* of that benefit is *recognised* progressively over those 25 years. As with the measurement of long service leave, the measurement of a *post-employment benefit liability* takes into account the fact that some *employees* will not attain the requisite years of service to become entitled to part or all of the benefit.

Assets and Revenues Arising in Respect of Employee Benefits

4.13 Subject to paragraph 4.16, *assets* and *revenues* arising in respect of *employee benefits* must be *recognised* when, and only when:

(a) they are capable of being measured *reliably*; and

(b) in respect of:

(i) *assets*, it is probable that the future economic benefits will eventuate; and

(ii) *revenues*, it is probable that the inflow or other enhancement or saving in outflow of future economic benefits has occurred.

4.13.1 *Revenues* arise in relation to *employee benefits* in the circumstances where a reassessment of a related *liability* results in the amount of that *liability* decreasing from one *reporting date* to the next. For example, where an *employer's* long service leave *liability* decreases from one *reporting date* to the next because of a change in circumstances, such as a significant reduction in the size of the workforce, *revenues* in the form of savings in estimated future cash outflows would arise. *Revenues* may also arise in the rare circumstances where a related *liability* (or part thereof) is forgiven.

4.13.2 *Employee benefit revenues* are *recognised* when it is probable that inflows or other enhancements or savings in outflows of future economic benefits have occurred and when the *revenues* can be measured *reliably*. Assessments of the probability of *revenues* having arisen will usually be straightforward and will be linked to the *recognition* of decreases in *employee benefit liabilities*.

Recognition on a Net Basis

Revenues and Expenses

4.14 *Employee benefit revenues* and *expenses* that arise in respect of wages and salaries (including non-monetary benefits), compensated absences and profit sharing and bonus plans must be *recognised* on an overall net basis.

4.15 For any *employee benefit* type not specified in paragraph 4.14, each *employee benefit revenue* and *expense* that arises must be individually *recognised* on a net basis.

4.15.1 Various types of *employee benefits* may exist, including *termination benefits*, *post-employment benefits* and those identified in paragraph 4.14. Both *revenues* and *expenses* may arise within the one *employee benefit* type in any one reporting period. For example, in relation to long service leave, one *employer* within an *economic entity* may have an increase in its long service leave *liability* (*expense*) and another *employer* within the *economic entity* may have a reduction in its long service leave *liability* (*revenue*). In such cases, the *revenue* and *expense* are *recognised* by the *entity* on a net basis, in accordance with paragraph 4.14, so that only net *revenue* or net *expense*, as the case may be, is *recognised*. Similarly, where an *employer* has, for example, a *revenue* arising in respect of long service leave and an *expense* arising in respect of sick leave or wages and salaries, these are *recognised* on a net basis in accordance with paragraph 4.14. Furthermore, where an *entity* has a *revenue* arising in respect of one type of *employee benefit* that falls outside the scope of paragraph 4.14 and an *expense* arising in respect of the same type of *employee benefit*, paragraph 4.15 requires the *employee benefit* to be *recognised* on a net basis. Accordingly, except for the netting-off of *revenues* and *expenses* arising from *employee benefits* of the types identified in paragraph 4.14 or within the same type of other *employee benefits* as dealt with in paragraph 4.15, the netting-off of *revenues* and *expenses* is not permitted. For example, *revenues* arising from long service leave are not permitted to be offset against *expenses* arising from *post-employment benefits*.

Assets and Liabilities

4.15.2 *Assets* and *liabilities* arising from *employee benefits* are only netted-off against each other where there is a right of set-off in accordance with Accounting Standard AASB 1014 and Australian Accounting Standard AAS 23 "Set-off and Extinguishment of Debt".

Non-Recognition of Assets and Liabilities

4.16 The *entity* may elect not to *recognise employee benefit liabilities* and *assets* arising from agreements equally proportionately unperformed, except where this Standard or another Accounting Standard or an Australian Accounting Standard sets out specific requirements for the *recognition* of such *liabilities* and *assets*.

4.16.1 In practice, *liabilities* and *assets* arising from agreements equally proportionately unperformed that would satisfy the *recognition* criteria set out in this Standard have usually not been *recognised*. For many agreements associated with *employee benefits*, such as employment contracts, significant uncertainty may exist as to whether the definitions of, and *recognition* criteria for, *liabilities* and *assets* would be satisfied. In addition, substantial difficulties may arise in determining a *reliable* and appropriate measure for *liabilities* and *assets* that may arise from these agreements.

5 Measurement

Nominal Basis of Measurement

5.1 ***Liabilities* that arise in respect of:**

(a) **wages and salaries (including non-monetary benefits), annual leave, and sick leave (regardless of whether they are expected to be settled within 12 months of the *reporting date*); and**

(b) **other *employee benefits* expected to be settled within 12 months of the *reporting date***

must be measured at their nominal amounts.

5.1.1 *Employee benefits* that are required to be measured at their nominal amounts include those arising from:

(a) wages and salaries (including non-monetary benefits such as medical benefits provided during employment, housing, motor vehicles and free or subsidised goods or services);

(b) annual leave and sick leave;

(c) profit sharing and bonuses that are expected to be settled within 12 months of the end of the reporting period in which the *employees* render the related service;

(d) *termination benefits* that are expected to be settled within 12 months of the end of the reporting period; and

(e) other *employee benefits* that are expected to be settled within 12 months of the end of the reporting period in which the *employees* render the related service.

5.1.2 The nominal basis of measurement uses remuneration rates that the *entity* expects to pay as at each *reporting date* and does not discount cash flows to their present value.

Present Value Basis of Measurement

5.2 Subject to paragraph 5.1, *employee benefit liabilities* that are expected to be settled more than 12 months after the *reporting date* must be measured as the present value of the estimated future cash outflows to be made by the *employer* in respect of services provided by *employees* up to the *reporting date.*

5.2.1 *Employee benefits* that are required to be measured using the present value basis of measurement include those arising from:

(a) compensated absences such as long service and sabbatical leave that are expected to be settled more than 12 months after the end of the reporting period;

(b) profit sharing and bonuses that are expected to be settled more than 12 months after the end of the reporting period in which the *employees* render the related service;

(c) deferred compensation that is expected to be settled more than 12 months after the end of the reporting period;

(d) *termination benefits* that are expected to be settled more than 12 months after the end of the reporting period; and

(e) *post-employment benefits* that are expected to be settled more than 12 months after the end of the reporting period.

5.2.2 Measuring *employee benefit liabilities* at their present value requires all factors that are expected to affect the ultimate amount payable to be taken into account. For example, where *employees* will receive leave benefits that are determined by reference to the total remuneration package, rather than the salary component of an *employee's* remuneration package, the non-salary components (such as *employer* superannuation contributions) are included in the measurement of the leave *liability*, to the extent that the non-salary components are not otherwise *recognised* as a *liability*. Also, expected future increases in remuneration rates are taken into account since they will increase the amount that the *employer* is required to pay to settle the *liability*.

Discount Rate

5.3 In measuring *employee benefit liabilities* in accordance with paragraph 5.2, market yields as at the *reporting date* on national government bonds must be used to discount estimated future

cash flows. The currency and term of the bonds must, to the extent practicable, be consistent with the currency in which the *employee benefit* obligations are to be settled and the estimated term of the *employee benefit* obligations.

5.3.1 Where the *entity* has *employee benefit* obligations that are to be settled in a foreign currency, the rate used to discount those obligations is determined by reference to market yields on bonds of the pertinent national government.

5.3.2 In applying paragraph 5.2, pre-tax cash flows are discounted to their present value. Accordingly, the discount rate used in determining the present value of *employee benefit liabilities* is a pre-tax bond rate.

5.3.3 Where a particular *employee benefit liability* is settled progressively over a number of reporting periods, the discount rates used are the market yields for the pertinent bonds with terms to maturity that match as closely as possible the periods to settlement of the *liability*. In practice, an *entity* often calculates a single weighted average discount rate that reflects the estimated amount and timing of the payments and the currency in which the payments are to be made.

5.3.4 In some cases, there may be no market in the pertinent bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments. In such cases, the *entity* uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

5.3.5 The portion of the increase in the *liability* arising in respect of *employee benefits* from the previous *reporting date* to the current *reporting date* which is due to discounted *employee benefit liabilities* not yet settled being one period closer to settlement, conceptually, ought to be classified as interest. However, the view adopted in this Standard is that the cost of distinguishing the interest component of the increase in *employee benefit liabilities* exceeds the benefit that may be gained from reporting it separately. Accordingly, such an increase is treated as *employee benefits* rather than interest.

5.3.6 Where *employee benefit liabilities* have been measured at their present value, users' understanding of the amount of the *liabilities recognised* is likely to be enhanced if assumptions adopted in determining the present value were disclosed. Accordingly, this Standard encourages disclosure of:

(a) changes in the estimated timing and amount of future cash outflows to settle *employee benefit liabilities*; and

(b) the weighted average discount rate used, and its source (that is, the bonds used).

5.4 For the purposes of Accounting Standard AASB 1013 and Australian Accounting Standard AAS 18 "Accounting for Goodwill" and Accounting Standard AASB 1015 and Australian Accounting Standard AAS 21 "Acquisitions of Assets", the amounts calculated in accordance with paragraphs 5.1 to 5.3 are deemed to be equal to the fair values of *employee benefit liabilities*.

6 Disclosures

The Nature and Terms of Employee Benefit Arrangements

6.1 The financial report must disclose *relevant* details (including the nature and terms) of arrangements under which *employees* are offered an opportunity to acquire *equity-based instruments* in the *employer* and thereby derive a benefit, directly or indirectly, by virtue of the *employer/employee* relationship, not otherwise specifically required to be disclosed by this Standard.

6.1.1 An example of the type of arrangement that would give rise to disclosures under paragraph 6.1 is where an *employer* provides an interest free loan to a trust for the on-market acquisition of *equity* in the *employer* on behalf of *employees*. In such circumstances, compensation is in the form of an interest free loan, rather than in the form of *equity-based compensation benefits*, and therefore *relevant* details of the arrangement are not disclosed under paragraph 6.5 but instead are disclosed under paragraph 6.1. Under such arrangements, the nature and terms of the loan (including payment conditions), the number of *equity instruments* involved, and the relationship between the *employer* and the trust and between the trust and *employees* is disclosed. Another example is where an *employer* operates an *equity-based compensation arrangement* under which, at the discretion of management, depending on performance, *employees* are offered shares in the *employer* for no payment. At the time the arrangement is established, no *equity-based instruments* have been *granted* (due to the discretion retained by management) and therefore *relevant* details of the arrangement are not disclosed under paragraph 6.5 but instead are disclosed under paragraph 6.1.

Details of Amounts Recognised in the Financial Statements

6.2 **The financial report must disclose the aggregate *liability* and the aggregate *asset* arising from *employee benefits* and related on-costs that have been *recognised* in the financial statements, identifying current and non-current portions where applicable.**

6.2.1 The aggregate *liability* required to be disclosed by paragraph 6.2 includes *liabilities* from providing *employee benefits* and *liabilities* relating to payroll tax and other similar on-costs. This Standard does not require disclosure of the components of the aggregate. However, the components may be required to be disclosed in certain circumstances in accordance with Accounting Standard AASB 1040 and Australian Accounting Standard AAS 36 “Statement of Financial Position”.

6.2.2 *Employee benefits* that have been capitalised into non-*employee benefit* related *assets* (such as inventories – see paragraph 4.1.6) are not included in the amounts disclosed in relation to aggregate *assets* in accordance with paragraph 6.2. *Assets* to be disclosed in accordance with paragraph 6.2 include an *asset recognised* for the overpayment of *employee benefits*. Where an *asset* and a *liability* relating to *employee benefits* are netted-off against each other (see paragraph 4.15.2) the net amount is included in the aggregate *liability* (or *asset*) disclosed in accordance with paragraph 6.2.

Equity-Based Compensation Benefits

6.3 **The financial report must disclose:**

(a) **the *accounting policy* for *equity-based compensation arrangements*, including whether the arrangements have given rise to *recognised* amounts; and**

(b) **the amounts *recognised* in the financial statements as a result of applying the *accounting policy* disclosed in accordance with paragraph 6.3(a) for *equity-based compensation arrangements*.**

6.3.1 The amounts disclosed in accordance with paragraph 6.3(b) include, where applicable, amounts relating to *equity-based compensation* *arrangements* that are included in the amounts disclosed in accordance with paragraph 6.2.

Equity-Based Instruments at the Beginning of the Reporting Period

6.4 The financial report must disclose:

(a) for each type of *equity-based instrument granted* by the *entity* that is held by *equity-based compensation plans* at the beginning of the reporting period:

(i) the nature and number of instruments;

(ii) *grant* dates;

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) the terms under which those instruments become *vested*, the extent to which the instruments are *vested* in the plan and the extent to which *employees'* entitlements to the instruments are *vested*; and

(v) other terms (including, where applicable, conversion rights, exercise dates, exercise prices and expiry dates); and

(b) for each type of *equity-based instrument* (such as share options and performance rights), other than *vested* fully-paid shares, *granted* by the *entity* that are held by *employees* at the beginning of the reporting period:

(i) the nature and number of instruments;

(ii) *grant* dates (and, where applicable, dates of distribution from *equity-based compensation plans*);

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) the terms under which those instruments become *vested* and the extent to which *employees'* entitlements to the instruments are *vested*; and

(v) other terms (including, where applicable, conversion rights, exercise dates, exercise prices and expiry dates).

Comparative information need not be disclosed.

Equity-Based Instruments Granted/Distributed During the Reporting Period

6.5 The financial report must disclose:

(a) except for shares issued as a result of the exercise of options or other rights, for each type of *equity-based instrument* that is *granted* by the *entity* and held by *equity-based compensation plans* during the reporting period:

(i) the nature and number of instruments;

(ii) *grant* dates;

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) other terms (including, where applicable, performance conditions, conversion rights, exercise dates, exercise prices and expiry dates); and

(v) the fair value of any consideration received by the *entity* from the plans on *granting* the instruments;

(b) except for shares distributed as a result of the exercise of options or other rights, for each type of *equity-based instrument* that is distributed by *equity-based compensation plans* to *employees* during the reporting period:

(i) the nature and number of instruments distributed;

(ii) dates of distribution from *equity-based compensation plans*;

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) other terms (including, where applicable, performance conditions, conversion rights, exercise dates, exercise prices and expiry dates); and

(v) the fair value of any consideration received by the plans from *employees* on distributing the instruments; and

(c) except for shares issued as a result of the exercise of options or other rights, for each type of *equity-based instrument* that is *granted* by the *entity* and held by *employees* during the reporting period:

(i) the nature and number of instruments;

(ii) *grant* dates;

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) other terms (including, where applicable, performance conditions, conversion rights, exercise dates, exercise prices and expiry dates); and

(v) the fair value of any consideration received by the *entity* from *employees* on *granting* the instruments.

The *entity* must also disclose the fair value as at issue date of *vested* fully-paid shares issued to *equity-based compensation plans* that do not result from the exercise of share options and other rights and, separately, *vested* fully-paid shares issued directly to *employees* as *employee benefits* that do not result from the exercise of share options and other rights. It must also

disclose the fair value as at distribution date of *vested* fully-paid shares distributed from *equity-based compensation plans* to *employees* that do not result from the exercise of share options and other rights. In addition, it must disclose the basis of determining fair value and *relevant* assumptions adopted in determining that value.

Share Options and other Equity-Based Instruments Exercised During the Reporting Period

6.6 The financial report must disclose for each type of *equity-based instrument* (such as share options and performance rights) *granted* by the *entity* that are exercised by *equity-based compensation plans* during the reporting period:

(a) the nature and number of instruments;

(b) *grant* dates;

(c) exercise dates;

(d) expiry dates, where they differ from exercise dates;

(e) exercise prices;

(f) aggregate proceeds received from plans; and

(g) the number of shares issued and the fair value as at the issue date of those shares.

The *entity* must also disclose the basis of determining the fair value and *relevant* assumptions adopted in determining that value.

6.7 The financial report must disclose for each type of *equity-based instrument* (such as share options and performance rights) *granted* by the *entity* that are exercised by *employees* during the reporting period:

(a) the nature and number of instruments;

(b) *grant* dates;

(c) exercise dates;

(d) expiry dates, where they differ from exercise dates;

(e) exercise prices;

(f) aggregate proceeds received from *employees*; and

(g) the number of shares and the fair value of those shares:

(i) as at their issue date, that are issued by the *entity* directly to *employees*; and

(ii) as at their distribution date, that are distributed by *equity-based compensation plans* to *employees.*

The *entity* must also disclose the basis of determining the fair value and *relevant* assumptions adopted in determining that value.

Share Options and other Equity-Based Instruments Lapsed During the Reporting Period

6.8 The financial report must disclose, separately, the nature and number of each type of *equity-based instrument* (such as share options and performance rights) *granted* by the *entity* that lapsed during the reporting period that were held by:

(a) *equity-based compensation plans*; and

(b) *employees.*

Equity-Based Instruments at the End of the Reporting Period

6.9 The financial report must disclose:

(a) for each type of *equity-based instrument granted* by the *entity* that is held by *equity-based compensation plans* at the end of the reporting period:

(i) the nature and number of instruments;

(ii) *grant* dates;

(iii) whether the instruments provide dividend and/or voting rights and, if so, details of those rights;

(iv) **the terms under which those instruments become *vested*, the extent to which the instruments are *vested* in the plan and the extent to which *employees'* entitlements to the instruments are *vested*; and**

(v) **other terms (including, where applicable, conversion rights, exercise dates, exercise prices and expiry dates); and**

(b) **for each type of *equity-based instrument* (such as share options and performance rights), other than *vested* fully-paid shares, *granted* by the *entity* that are held by *employees* at the end of the reporting period:**

(i) **the nature and number of instruments;**

(ii) ***grant* dates (and, where applicable, dates of distribution from *equity-based compensation plans*);**

(iii) **whether the instruments provide dividend and/or voting rights and, if so, details of those rights;**

(iv) **the terms under which those instruments become *vested* and the extent to which *employees'* entitlements to the instruments are *vested*; and**

(v) **other terms (including, where applicable, conversion rights, exercise dates, exercise prices and expiry dates).**

The *entity* must also disclose the fair value, as at the end of the reporting period, of *vested* fully-paid shares held by *equity-based compensation plans* at that date, and the basis of determining fair value and *relevant* assumptions adopted in determining that value.

6.9.1 The distinction between issue date and distribution date is pertinent to the disclosure requirements in paragraphs 6.5 and 6.7. Issue date is the date at which the *entity* issues shares to an *equity-based compensation plan* or to *employees*, whether or not as a result of the exercise of options over those shares. Distribution date is the date at which an *equity-based compensation plan* distributes *equity-based compensation benefits* to *employees* (including the distribution of shares held by the plan to *employees* on the exercise by *employees* of options over those shares). The distinction between *grant* date and *vesting* date is also pertinent to the disclosure requirements. "Granted" and "vested" are defined in paragraph 8.1 and considered further in paragraph 8.1.9. Depending on the circumstances, *grant* date may coincide with *vesting* date. However, that will not always be the case. For example, options may be *granted* that are subject to performance hurdles and therefore will not *vest* unless and until the hurdles are met. Shares may also be *granted* subject to performance hurdles. Such instruments are commonly referred to as performance rights. The *granting* of performance rights that are held by an *employee* would be disclosed under paragraph 6.5(c). If the hurdles are met (that is, the shares become *vested*), the performance rights result in the *entity* providing shares. Details about the exercise of the performance rights and the issue of shares are disclosed under paragraph 6.7.

6.9.2 When the *entity* has various *equity-based compensation arrangements*, disclosures required by paragraphs 6.3 to 6.9 are made separately for each arrangement, or in such groupings as are considered most useful for assessing the *entity's* obligations to issue *equity instruments* under such arrangements and the changes in those obligations during the current reporting period. Such groupings may distinguish, for example, the location and seniority of the *employee* groups covered. When the *entity* provides disclosures in total for a grouping of arrangements, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

6.9.3 When the *entity* has *granted* share options or other *equity-based instruments*, other than *vested* shares, such as performance rights in the form of *employee benefits* to *employees* or to *equity-based compensation plans*, disclosures are made in such groupings as are considered most useful for assessing the number and timing of shares that may be issued and the consideration that may be received as a result. For example, it may be useful to distinguish options that are "out-of-the-money" (where the exercise price exceeds the current market price) from options that are "in-the-money" (where the current market price exceeds the exercise price). Furthermore, it may be useful to combine the disclosures in groupings that aggregate options with a range of exercise prices or exercise dates. Disclosing exercise dates as a range of dates (rather than individually listing each exercise date) for each type of equity-based instrument may satisfy the requirements of paragraphs 6.6(c) and 6.7(c). It may also be useful to show options under different arrangements, by terms and conditions.

6.9.4 The disclosures about *equity-based compensation arrangements* are required by this Standard irrespective of the *entity* within the *reporting entity* in which the *employees* are entitled to acquire *equity*. Where *employees* are entitled to *equity-based instruments* of different *entities* within a group, separate disclosures are made in relation to each *entity's equity-based instruments.*

6.9.5 The fair value of any consideration received from an *equity-based compensation plan* or *employee* in relation to *equity-based instruments* includes any amount that is funded through loans made by the *entity* disclosed in accordance with paragraph 6.1.

6.9.6 Separate disclosure in relation to *equity-based compensation plans* and *employees* of the number of each type of *equity-based instrument* that has been:

(a) *granted* by the *entity* during the reporting period;

(b) distributed by *equity-based compensation plans* to *employees* (excluding distributions of shares resulting from the exercise of share options or other rights) during the reporting period;

(c) exercised (resulting in issues or distributions of shares) during the reporting period; and

(d) lapsed during the reporting period;

in a presentation that reconciles movements, between the beginning and end of the reporting period, in the number of each type of *equity-based instrument granted* by the *entity*, fulfils requirements to disclose the number of *equity instruments* under *equity-based compensation arrangements* in paragraphs 6.4 to 6.9. The reconciliation avoids double-counting *equity-based instruments granted* by the *entity* to *equity-based compensation plans* and distributed by the *equity-based compensation plans* to *employees*.

6.9.7 The fair value of *vested* fully-paid shares is based on the price of the shares as at the applicable date (that is, the issue date, distribution date or the end of the reporting period), and is the market price (or estimated market price if not publicly traded) of an equivalent share (carrying equivalent entitlements or restrictions) at the applicable date.

6.9.8 The amounts disclosed in relation to the fair value of shares are determined on the basis of cost to the issuing or distributing *entity*. This value reflects the consideration that the *entity* would receive in an active and liquid market if it issued or distributed the shares for cash or another financial *asset*. Restrictions that continue in effect after the rights to benefit have been earned, such as the inability to transfer *vested* shares to third parties, affect the market value of the shares issued or distributed and therefore are reflected in estimating their fair value.

6.9.9 Appendix 1 provides a table summarising the requirements in paragraphs 6.4 to 6.9. Appendix 2 illustrates disclosures that are required to be made in accordance with paragraphs 6.1 and 6.4 to 6.9.

Superannuation

6.10 The following information must be disclosed in respect of defined benefit superannuation plans sponsored by the *employer*:

(a) the following information which has been determined in accordance with Australian Accounting Standard AAS 25 "Financial Reporting by Superannuation Plans" and which, in the absence of more recent information, has been determined as at the date of the most recent financial report of the plan:

(i) for each plan and in aggregate, accrued benefits, the net market value of the plan *assets* and the difference between the two preceding items, and vested benefits (as defined in AAS 25); or

(ii) where the *entity* participates in a multiple *employer* superannuation plan, and the *entity's* proportion of the net market value of plan *assets* cannot be determined *reliably*, the *employer's* share of the difference between *employees'* accrued benefits and the net market value of plan *assets*;

(b) the dates at which amounts required to be disclosed in paragraphs 6.10(a)(i) or 6.10(a)(ii) were measured;

(c) the *accounting policy*, including whether any amounts have been *recognised* in the financial statements of the *employer*; and

(d) the amounts *recognised* in the financial statements as a result of applying the *accounting policy* disclosed in accordance with paragraph 6.10(c).

6.10.1 This Standard requires the *entity* to disclose, in notes in its financial report, information about the defined benefit superannuation plans that it sponsors in respect of its *employees*. These disclosures are required to be determined in accordance with the requirements of AAS 25. Where an *employer* sponsors a defined benefit superannuation plan in which two or more *entities* participate, each *entity* is required to determine its proportionate interest in the benefit *liabilities* and plan *assets* of that plan. An *employer's* proportionate interest in a multiple *employer* defined benefit superannuation plan will often be able to be *reliably* determined by reference to its proportion of total annual contributions to the plan or by reference to its proportion of total plan members. Where the superannuation *liabilities* of the *entity* are assumed by another *entity* (as is often the case, for example, with government departments) the *employer* does not sponsor the superannuation plan in which its *employees* participate. Accordingly, in such cases an *employer* is not required to make the disclosures specified in paragraph 6.10.

6.10.2 The disclosures required by paragraphs 6.10(a)(i) or 6.10(a)(ii) are encouraged to be as at the same date, where practicable.

7 Transitional Arrangements

7.1 Except for the *accounting policies* required by paragraphs 4.9 to 4.11, the *accounting policies* required by this Standard must be applied as at the beginning of the reporting period to which this Standard is first applied. Where this, or the voluntary application of paragraphs 4.9 to 4.11 to *liabilities* or *assets* as at the beginning of that reporting period, gives rise to initial adjustments which would otherwise be *recognised* in net profit or loss/result, the net amount of those adjustments, including any adjustments to deferred income tax balances, must be adjusted directly against retained profits (surplus) or accumulated losses (deficiency) as at the beginning of the reporting period to which this Standard is first applied.

7.1.1 The exception in paragraph 7.1 to the application of paragraphs 4.9 to 4.11 allows the *entity* to continue to apply its existing *accounting policies* to any acquisition of an *entity* or operation that occurs before the reporting period to which this Standard is first applied. Paragraphs 4.9 to 4.11 are applied for any acquisition that occurs on or after the beginning of the reporting period to which this Standard is first applied. Those paragraphs may also be applied to acquisitions that occur before that date.

8 Definitions

8.1 In this Standard:

accounting policies **means the specific accounting principles, bases or rules adopted in preparing and presenting the financial report;**

annual reporting period **means the financial year or similar period to which an annual financial report relates;**

assets **means future economic benefits controlled by the *entity* as a result of past transactions or other past events;**

contributions by owners **means future economic benefits that have been contributed to the *entity* by parties external to the *entity*, other than those which result in *liabilities* of the *entity*, that give rise to a financial interest in the net assets of the *entity* which:**

(a) conveys entitlement both to distributions of future economic benefits by the *entity* during its life, such distributions being at the discretion of the ownership group or its representatives, and to distributions of any excess of *assets* over *liabilities* in the event of the *entity* being wound up; and/or

(b) can be sold, transferred or redeemed;

disclosing entity **is defined in the Corporations Law;**

distributions to owners **means future economic benefits distributed by the *entity* to all or part of its ownership group, either as a return on investment or as a return of investment;**

economic entity **means a group of *entities* comprising the *parent entity* and each of its *subsidiaries*;**

employee **means a natural person (including a director) appointed or engaged under a contract for services who is**

subject to the direction of an *employer* in respect of the manner of execution of those services, whether on a full-time, part-time, permanent, casual or temporary basis. For the purpose of this Standard, in respect of public sector *entities* that are required to prepare *general purpose financial reports* in accordance with Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" or AAS 31 "Financial Reporting by Governments", all elected representatives are deemed to be *employees*;

***employee benefits* means all forms of consideration given by an *entity* in exchange for services rendered by *employees*;**

***employer* means an *entity*, including an *economic entity*, which consumes the services of *employees* in exchange for providing *employee benefits*;**

***entity* means any legal, administrative, or fiduciary arrangement, organisational structure or other party (including a person) having the capacity to deploy scarce resources in order to achieve objectives;**

***equity* means the residual interest in the *assets* of the *entity* after deduction of its *liabilities*;**

***equity-based compensation arrangement* means any formal or informal arrangement, which may include an *equity-based compensation plan*, under which an *employer* provides *equity-based compensation benefits* for one or more *employees*;**

***equity-based compensation benefits* means *employee benefits* in the form of:**

(a) *equity instruments* of the *employer*; or

(b) other compensation, the amount of which depends on the future value of *equity instruments* of the *employer*;

***equity-based compensation plan* means a formal *equity-based compensation arrangement* involving a trust or a similar vehicle;**

***equity-based instrument* means:**

(a) an *equity instrument*; or

(b) any contract that evidences a right to receive an amount which depends on the future value of an *equity instrument*;

***equity instrument* means any contract that evidences a residual interest in the *assets* of an *entity* after deducting all of its *liabilities*;**

***expenses* means consumptions or losses of future economic benefits in the form of reductions in *assets* or increases in *liabilities* of the *entity*, other than those relating to *distributions to owners*, that result in a decrease in *equity* during the reporting period;**

***general purpose financial report* means a financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs;**

granted* means, in relation to *employee benefits*, an *employer* has agreed the terms of *employee benefits* with *employees;

***liabilities* means the future sacrifices of economic benefits that the *entity* is presently obliged to make to other *entities* as a result of past transactions or other past events;**

***parent entity* means an *entity* which controls another *entity*;**

***post-employment benefits* means *employee benefits* (other than *termination benefits* and *equity-based compensation benefits*) which are payable to an *employee* after the completion of employment;**

***recognised* means reported on, or incorporated in amounts reported on, the face of the statement of financial performance or the statement of financial position (whether or not further disclosure of the item is made in the notes);**

***relevance* means that quality of financial information which exists when that information influences decisions by users about the allocation of scarce resources by:**

(a) helping them form predictions about the outcomes of past, present or future events; or

(b) confirming or correcting their past evaluations;

and which enables users to assess the discharge of accountability by the management or governing body of the *entity*;

***reliability* means that quality of financial information which exists when that information can be depended upon to represent faithfully, and without bias or undue error, the transactions or other events that either it purports to represent or could reasonably be expected to represent;**

***reporting date* means the end of the reporting period to which the financial report relates;**

***reporting entity* means an *entity* (including an *economic entity*) in respect of which it is reasonable to expect the existence of users dependent on *general purpose financial reports* for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources, and includes but is not limited to the following:**

(a) a *disclosing entity*; and

(b) a company which is not a *subsidiary* of a holding company incorporated in Australia and which is a *subsidiary* of a foreign company where that foreign company has its securities listed for quotation on a stock market or those securities are traded on a stock market;

***revenues* means the inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in *assets* or reductions in *liabilities* of the *entity*, other than those relating to *contributions by owners*, that result in an increase in *equity* during the reporting period;**

***subsidiary* means an *entity* which is controlled by a *parent entity*;**

***termination benefits* means *employee benefits* payable as a result of either:**

(a) an *entity's* decision to terminate an *employee's* employment before the normal retirement date; or

(b) an *employee's* decision to accept voluntary redundancy in exchange for those benefits;

***time of completion* means:**

(a) **in the case of *entities* required to produce a financial report in accordance with the Corporations Law – the date of the Directors' Declaration; and**

(b) **in the case of other *entities* – the date of final approval of the financial report by the management or governing body of the *entity*, whichever is applicable; and**

***vested* means, in relation to *employee benefits*, *employee benefits* that are not conditional on future employment.**

8.1.1 The definition of *annual reporting period* refers to financial year or similar period and will normally be a twelve-month period. The *annual reporting period* will differ from twelve months in circumstances such as:

(a) the *entity* being established on a date other than a date exactly twelve months before the *reporting date*; and

(b) the *entity* changing its *reporting date.*

8.1.2 An "employee" is defined to encompass all natural persons who are appointed or engaged under a contract of service. Independent sub-contractors and other natural persons who are appointed or engaged under a contract for services and who are not subject to the direction of the *employer* in respect of the manner of execution of those services are not "employees" for the purpose of this Standard. In addition, *entities* that are not natural persons are not "employees" for the purpose of this Standard.

8.1.3 For the purpose of this Standard, elected representatives are treated as *employees* of public sector *entities* that are required to prepare *general purpose financial reports* in accordance with Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" or AAS 31 "Financial Reporting by Governments". They are not treated as *employees* of other public sector *entities*, including those reporting in accordance with Australian Accounting Standard AAS 29 "Financial Reporting by Government Departments".

8.1.4 *Employee benefits* include benefits provided to *employees* that may be settled by payments, or the provision of goods or services, made either directly to the *employees*, or to their spouses, children or other dependants or to others, such as insurance companies.

8.1.5 As noted in paragraph 4.1.3, there may be costs that are a consequence of employing *employees* that are not *employee benefits*, such as payroll tax and other similar on-costs. In contrast, fringe benefits tax related to fringe benefits is an *employee benefit* (see paragraph 4.2.1).

8.1.6 As defined, *equity-based compensation benefits* can be divided into four categories – benefits where *employees* may become entitled to receive:

(a) only *equity instruments* of the *employer*;

(b) at the discretion of the *employer*, *equity instruments* of the *employer* or other consideration;

(c) at the discretion of the *employee*, *equity instruments* of the *employer* or other consideration; and

(d) compensation (other than *equity instruments* of the *employer*) the amount of which depends on the future value of *equity instruments* of the *employer*, that will not be settled with *equity instruments* of the *employer*.

Category (d) *employee benefits* are effectively the same as benefits from profit sharing or bonus plans, and are commonly provided through stock appreciation rights schemes, phantom schemes or shadow schemes. They include *employee benefits* under which the *employer's equity instruments* are either:

(a) not available to be issued to the *employee*; or

(b) available to be issued to the *employee* but there is no provision in the arrangement with the *employee* for the *employee* to receive *equity instruments* of the *employer*;

and the level of cash or other compensation (other than *equity instruments* of the *employer*) depends on the future value of *equity instruments* of the *employer*.

8.1.7 For the purpose of this Standard, *equity-based compensation plans*, where applicable, are treated as holders of the *entity's* share options rather than writers of such options.

8.1.8 *Equity-based instruments* include shares, share options, performance rights and cash stock appreciation rights and similar instruments.

8.1.9 The definitions of the terms “granted” and “vested” are particularly pertinent to the disclosure requirements relating to *equity-based compensation benefits*. *Employee benefits* are not *granted* until an *employer* and *employee* agree the terms of benefits, including the formula by which the benefits will be determined (that is, neither party has discretion to unilaterally determine the amount of the benefits after the agreement has been reached). For example, in relation to an arrangement to provide *equity-based compensation benefits* to an *employee* at the discretion of management, *granting* only occurs when the discretion is exercised and the *employee* has agreed. Where an *employer* agrees to issue shares in the *employer* to the *employee*, subject to performance hurdles, those shares are *granted* at the date of the agreement if the performance hurdles are specified as part of the agreement. When and if the hurdles are met, the shares are *vested*. However, the *granting* of benefits is not necessarily dependent on the amount of the benefits being fixed at the date of the agreement. The formula specified in the agreement may anticipate the amount of benefits varying depending on the level of performance achieved by the *employee* or attained by the *employer*.

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APPENDIX 1

This Appendix forms part of the commentary and is provided to assist in the implementation of the requirements in paragraphs 6.4 to 6.9 of this Standard.

A Summary of Disclosure Requirements for Equity-Based Compensation Benefits

at the beginning/end of the reporting period
the nature and number of instruments
grant dates; and, where applicable, dates of distribution from *EBCPs*
whether the instruments provide dividend and/or voting rights and, if so, details of those rights
the terms under which those instruments become *vested*, the extent to which the instruments are *vested* in the plan and the extent to which *employees'* entitlements to the instruments are *vested*
the terms under which those instruments become *vested* and the extent to which *employees'* entitlements to the instruments are *vested*
other terms (including, where applicable, conversion rights, exercise dates, exercise prices and expiry dates)
the fair value and the basis of determining fair value and *relevant* assumptions adopted in determining that value
during the reporting period
the nature and number of instruments
grant dates; or, where applicable, dates of distribution from *EBCPs*
whether the instruments provide dividend and/or voting rights and, if so, details of those rights
other terms (including, where applicable, performance conditions, conversion rights, exercise dates, exercise prices and expiry dates)
the fair value of any consideration received by the *entity* on *granting* the instruments
the fair value of any consideration received by the *EBCPs* from *employees* on distributing the instruments
exercise dates; and expiry dates, where they differ from exercise dates
exercise prices; and aggregate proceeds received by the *entity* on exercise
the number of shares issued by the *entity*, the fair value as at issue date (or distribution date, as applicable) of those shares, the basis of determining the fair value, and *relevant* assumptions adopted in determining that value
the fair value as at issue date (or distribution date, as applicable) and the basis of determining fair value and *relevant* assumptions adopted in determining that value
the nature and number of instruments that lapsed

[1] *EBCPs* refers to *equity-based compensation plans*.

[2] Other than *vested* fully-paid shares.

[3] Only *vested* fully-paid shares held by *EBCPs* at the end of the reporting period, as at that date.

	For each type of *equity-based instrument granted* by the *entity* and held:		For each type of *equity-based instrument* distributed by *EBCPs* to *employees*	For each type of *equity-based instrument granted* by the *entity* and exercised:	
	by *EBCPs*[1]	by *employees*		by *EBCPs*	by *employees*
	6.4(a)(I) / 6.9(a)(i)	6.4(b)(i)[2] / 6.9(b)(i)[2]			
	6.4(a)(ii) / 6.9(a)(ii)	6.4(b)(ii)[2] / 6.9(b)(ii)[2]			
	6.4(a)(iii) / 6.9(a)(iii)	6.4(b)(iii)[2] / 6.9(b)(iii)[2]			
	6.4(a)(iv) / 6.9(a)(iv)				
		6.4(b)(iv)[2] / 6.9(b)(iv)[2]			
	6.4(a)(v) / 6.9(a)(v)	6.4(b)(v)[2] / 6.9(b)(v)[2]			
	6.9 tail[3]				
	6.5(a)(i)[4]	6.5(c)(i)[4]	6.5(b)(i)[4]	6.6(a)	6.7(a)
	6.5(a)(ii)[4]	6.5(c)(ii) [4]	6.5(b)(ii)[4]	6.6(b)	6.7(b)
	6.5(a)(iii)[4]	6.5(c)(iii)[4]	6.5(b)(iii)[4]		
	6.5(a)(iv)[4]	6.5(c)(iv)[4]	6.5(b)(iv)[4]		
	6.5(a)(v)[4]	6.5(c)(v)[4]			
			6.5(b)(v)[4]		
				6.6(c) & (d)	6.7(c) & (d)
				6.6(e) & (f)	6.7(e) & (f)
				6.6(g) & 6.6 tail	6.7(g)[5] & 6.7 tail
	6.5 tail[6]	6.5 tail[6]	6.5 tail[6]		
	6.8(a)	6.8(b)			

4 Except for shares issued (or distributed, as applicable) as a result of the exercise of options or other rights.

5 Paragraph 6.7(g) requires the fair value of shares as at (i) issue date, if they are issued directly to *employees*; and (ii) distribution date, if they are distributed to *employees* by *EBCPs*.

6 Only *vested* fully-paid shares that do not result from the exercise of share options and other rights.

APPENDIX 2

This Appendix forms part of the commentary and is provided for illustrative purposes only. It illustrates the minimum disclosures in the circumstances assumed in accordance with the requirements contained in paragraphs 6.1 and 6.4 to 6.9 of this Standard. In other circumstances it may be appropriate for an *entity* to include disclosures which are additional to, or more detailed than, the disclosures illustrated. Other methods of presentation which comply with the disclosure requirements in paragraphs 6.1 and 6.4 to 6.9 may be more appropriate in the particular circumstances of the *entity*.

An Illustration of Disclosure Requirements for Equity-Based Compensation Benefits

Entity X

Excerpt from notes in the financial report for year ended 30 June 20X5

Executive Share Options Arrangement

At the discretion of management, Entity X may grant (without payment) vested share options to executives with more than three years service who have satisfied certain performance criteria (consistent with the Scheme approved by shareholders at the annual general meeting held on 26 September 19Y7). The options are granted three months after the end of the financial year. Each option is convertible into one ordinary share of Entity X on payment of the exercise price on the exercise date, which is three years after the option is granted. The exercise price is the closing market price of a share of the entity on the Australian Stock Exchange at the date the option is granted. The options hold no voting or dividend rights and are not transferable. Entity X does not provide any loans or guarantees to enable executives to finance the exercise of their options. When an executive ceases to be employed by the entity the options must be exercised within three months or they lapse. One executive ceased employment in 20X5 (one executive ceased employment in 20X4). The closing share market price of an ordinary share of Entity X on the Australian Stock Exchange on 30 June 20X5 was $5.41 (30 June 20X4 $4.99).

	30 June 20X5	30 June 20X4

Movements in the number of share options held by executives are as follows:

Held by executives as at beginning of year	140,000	103,000
Granted during the year (see (a) below)	75,000	65,000
Exercised during the year (see (b) below)	(40,000)	(18,000)
Lapsed during the year	-	(10,000)
Held by executives as at end of year (see (c) below)	175,000	140,000

(a) *Details of share options granted during the year:*

Grant Date	30 Sept 20X4	30 Sept 20X3
Expiry and Exercise Date	30 Sept 20X7	30 Sept 20X6
Exercise Price	$5.05	$4.78

	30 June 20X5	30 June 20X4
(b) Details of share options exercised during the year:		
Grant Date	30 Sept 20X1	30 Sept 20X0
Expiry and Exercise Date	30 Sept 20X4	30 Sept 20X3
Exercise Price	$4.27	$4.06
Proceeds from Shares Issued	$170,800	$73,080
Fair Value as at issue date of Shares Issued during the year [A]	$202,000	$86,040

(c) Details of share options outstanding as at end of year:

Grant Date	Expiry and Exercise Date	Exercise Price		
30 Sept 20X1	30 Sept 20X4	$4.27	-	40,000
30 Sept 20X2	30 Sept 20X5	$4.51	35,000	35,000
30 Sept 20X3	30 Sept 20X6	$4.78	65,000	65,000
30 Sept 20X4	30 Sept 20X7	$5.05	75,000	-
			175,000	140,000

A Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the entity on the Australian Stock Exchange as at close of trading on the issue dates. The fair value of shares at dates of issue was:

Issue date	Fair value	Number of shares issued
30 Sept 20X3	$4.78	18,000
30 Sept 20X4	$5.05	40,000

Employee Share Arrangement

At the discretion of management, Entity X may grant (without payment) vested shares to senior employees with more than three years service who have satisfied certain performance criteria, at the end of the quarter following their employment anniversary date (consistent with the Scheme approved by shareholders at the annual general meeting held on 26 September 19Y7). When issued, the shares carry full dividend and voting rights. In 20X5, 150 (20X4, 100) employees each received, on average, 500 (20X4, 500) shares in the entity.

	30 June 20X5			**30 June 20X4**		
Date shares granted	Number of shares granted	Fair value at issue date: per share $[B]	Fair value at issue date: aggregate $	Number of shares granted	Fair value at issue date: per share $[B]	Fair value at issue date: aggregate $
30 September	9,000	5.05	45,450	3,000	4.78	14,340
31 December	11,000	4.55	50,050	9,000	4.59	41,310
31 March	30,000	4.81	144,300	20,000	4.60	92,000
30 June	25,000	5.41	135,250	18,000	4.99	89,820
	75,000		375,050	50,000		237,470

B Fair value of shares issued during the reporting period at their issue date is estimated to be the market price of shares of the entity on the Australian Stock Exchange as at close of trading on each of the issue dates.

CONFORMITY WITH INTERNATIONAL AND NEW ZEALAND ACCOUNTING STANDARDS

Conformity with International Accounting Standards issued by the International Accounting Standards Board

IAS 19 "Employee Benefits"

As at the date of issue of this Standard, compliance with this Standard will ensure conformity with International Accounting Standard IAS 19 "Employee Benefits" except in relation to post-employment benefits, some aspects of disclosures concerning equity-based compensation benefits, the discount rate and the treatment of interest cost.

In relation to post-employment benefits, IAS 19 deals with their recognition and measurement. The recognition and measurement of post-employment benefits that are superannuation or medical benefits will be dealt with by the Australian Accounting Standards Board in a separate project. That project will also review the recognition and measurement requirements in this Standard for post-employment benefits other than superannuation or medical benefits.

In relation to disclosures about equity-based compensation benefits, IAS 19 requires disclosure of the fair value, as at each reporting date, of equity financial instruments (other than share options) held by equity compensation plans. This Standard only requires the disclosure of the fair value of vested fully-paid shares held by equity-based compensation plans as at each reporting date. In addition, IAS 19 requires a controlled entity to disclose details of equity financial instruments of its controlling entity provided to its employees in its financial report. This Standard only requires equity-based instruments of the controlled entity provided to its employees to be disclosed as equity-based compensation benefits in its financial report.

In relation to the discount rate, IAS 19 requires the rate used to discount employee benefit obligations to be determined by reference to market yields on, depending on the circumstances, high quality corporate bonds or government bonds. This Standard requires market yields on national government bonds to be used in all circumstances.

In relation to interest cost, IAS 19 requires an increase in the present value of an employee benefit liability which arises because the liability is one period closer to settlement to be treated as interest cost. This Standard does not require that treatment and notes in commentary that the cost of identifying the interest cost component of a change in a liability exceeds the benefit that users may obtain.

IAS 22 "Business Combinations"

Compliance with this Standard will result in conformity with the treatment of provisions (to the extent they are liabilities for termination benefits) arising upon an acquisition of a business as set out in International Accounting Standard IAS 22 "Business Combinations" except in relation to the following:

(a) IAS 22 requires an acquirer (but not an acquiree) to recognise a provision for termination benefits that was not a liability of an acquiree at the date of acquisition if the acquirer has, among other things, by the earlier of three months after the date of acquisition and the time of completion of the annual financial report, developed the main features of a plan for terminating employees of the acquiree into a detailed formal plan. In contrast, this Standard requires, under similar circumstances, the acquiree to recognise a provision for termination benefits on its acquisition by the acquirer, and the acquirer to take it into account in allocating the cost of acquisition and in determining the amount of goodwill or discount on acquisition. Therefore, this Standard requires the acquiree to recognise a provision for termination benefits on acquisition, whilst IAS 22 requires only the acquirer to recognise a liability for termination benefits on acquisition in its consolidated financial statements;

(b) IAS 22 requires the discount rate used to measure the fair value of a provision for termination benefits arising out of an acquisition (that was not a liability of the acquiree at the date of acquisition) to reflect current market assessments of the time value of money and the risks specific to that liability. This Standard requires that the discount rate must be the market yield on national government bonds; and

(c) IAS 22 requires short-term liabilities, including employee benefit liabilities relating to wages and salaries, annual leave, sick leave and other employee benefits expected to be settled within twelve months, to be measured at their nominal amounts unless the difference between the nominal and discounted amounts is material, in which case discounted amounts are required. In contrast, this Standard deems the nominal amounts of these liabilities to be equal to their fair values for the purpose of accounting for the acquisition of an entity or operation.

IAS 1 “Presentation of Financial Statements”

Compliance with this Standard will not result in conformity with the requirement to disclose expenses relating to staff costs in certain circumstances specified in paragraph 83 of International Accounting Standard IAS 1 “Presentation of Financial Statements”. This Standard does not require disclosure of staff costs, or its equivalent.

Conformity with International Public Sector Accounting Standards issued by the Public Sector Committee of the International Federation of Accountants

As at the date of issue, this Standard has no corresponding International Public Sector Accounting Standard.

Conformity with New Zealand Accounting Standards

As at the date of issue of this Standard, the Financial Reporting Standards Board (FRSB) of New Zealand has not issued an equivalent Standard. However, the FRSB has issued Financial Reporting Standard FRS-30 “Reporting Share Ownership Arrangements Including Employee Share Ownership Plans”. In some respects FRS-30 requires more detailed information about employee share ownership plans to be disclosed and in other respects this Standard requires more detailed disclosures.

BACKGROUND TO REVISION

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard.

1 The reissue of the Standard is part of a program commenced by the former Australian Accounting Standards Board and the Public Sector Accounting Standards Board of the Australian Accounting Research Foundation (the former Boards) to achieve greater harmony between Australian accounting standards and those of the International Accounting Standards Committee. The reconstituted Australian Accounting Standards Board (AASB) is continuing this program and has issued the Standard as part of a single series of Standards rather than the former two series of Standards, that is, the Accounting Standard series and the Australian Accounting Standard series.

2 The reissue of the Standard follows consideration of the responses received on Exposure Draft ED 97 "Employee Benefits: Amendments to AAS 30/AASB 1028", which was prepared by the former Boards and released in September 1998. ED 97 contained proposals aimed at harmonising Accounting Standard AASB 1028 and Australian Accounting Standard AAS 30 "Accounting for Employee Entitlements" with International Accounting Standard IAS 19 "Employee Benefits" except to the extent that IAS 19 deals with recognition and measurement of post-employment benefits that are superannuation or medical benefits. IAS 19 was first issued in 1998, replacing IAS 19 "Retirement Benefit Costs" as issued in 1993, and was last amended in 2000.

3 Employers' accounting for post-employment benefits will be dealt with in a separate project. The requirements to disclose information about employers' superannuation obligations is generally retained, although the requirements in respect of multiple employer superannuation plans have been modified. The separate project on post-employment benefits is expected to:

(a) establish requirements for the recognition and measurement of post-employment benefits that are superannuation or medical benefits; and

(b) review the requirements in the Standard for the recognition and measurement of post-employment benefits that are not superannuation or medical benefits;

and either supersede the requirements in the Standard, or result in revisions to the Standard.

Principal Changes from the Previous Standards

Terminology

4 The terminology used in the revised AASB 1028 differs from the previous AASB 1028 and AAS 30. This is done to more closely harmonise with IAS 19. For example, whereas the previous AASB 1028 and AAS 30 referred to “employee entitlements”, the revised AASB 1028 refers to “employee benefits”. In addition, the previous AASB 1028 and AAS 30 referred to “ownership-based remuneration schemes” whereas the revised AASB 1028 refers to “equity-based compensation benefits” and the previous AASB 1028 and AAS 30 referred to various forms of leave entitlements whereas the revised AASB 1028 refers to “compensated absences”. Notwithstanding the changes to some of the terms used in the previous AASB 1028 and AAS 30, the Board considers this has no practical significance.

Recognition

5 To more closely harmonise with IAS 19, the revised AASB 1028 prescribes specific recognition criteria for wages and salaries (including non-monetary benefits), compensated absences, profit sharing and bonus plans, termination benefits and post-employment benefits (other than superannuation and medical benefits). The Board considers the adoption of these specific recognition criteria to be a refinement of, rather than a substantive change to, the general recognition criteria in the previous AASB 1028 and AAS 30. The general recognition criteria specified in the previous AASB 1028 and AAS 30 have been retained in the revised AASB 1028 and also apply to other employee benefit liabilities, expenses, assets and revenues. To harmonise with International Accounting Standard IAS 22 “Business Combinations”, requirements for the recognition of a liability for termination benefits have been added (see paragraph 13 below).

Measurement

6 The previous AASB 1028 and AAS 30 comment that employee benefits that are required to be measured at their nominal amounts are measured using current remuneration rates as at the reporting date. The revised AASB 1028 requires the entity to use remuneration rates that it expects to pay when the obligation is

settled. This change results in the Standard more closely harmonising with IAS 19.

Agreements Equally Proportionately Unperformed

7 The previous AASB 1028 and AAS 30 did not explicitly address agreements equally proportionately unperformed (AEPUs). Consistent with paragraphs 76 and 77 of Statement of Accounting Concepts SAC 4 "Definition and Recognition of the Elements of Financial Statements", the revised AASB 1028 acknowledges that entities are not required to recognise employee benefit liabilities or assets arising from AEPUs in certain circumstances.

Disclosures

8 The disclosures that were required by the previous AASB 1028 and AAS 30 are largely consistent with those required by the revised AASB 1028. However, where IAS 19 requires more detailed disclosures than the previous AASB 1028 and AAS 30, for example in relation to equity-based compensation benefits, the revised AASB 1028 adopts those more detailed disclosures.

9 In contrast to the previous AASB 1028 and AAS 30, the revised AASB 1028 does not require disclosure of the nature of unrecognised liabilities, assets, revenues and expenses relating to each type of employee benefit, and the reasons for non-recognition. Furthermore, in contrast to the previous AASB 1028 and AAS 30, the revised AASB 1028 requires disclosure of:

(a) the aggregate liability which is a consequence of employing employees (including on-costs) that has been recognised in the financial statements rather than the employee benefit liability (excluding on-costs); and

(b) the nature and terms of arrangements under which employees are offered an opportunity to acquire equity in the employer and thereby derive a benefit, directly or indirectly, by virtue of the employer/employee relationship, not otherwise required to be disclosed by the Standard.

10 In relation to disclosures about equity-based compensation benefits, the revised AASB 1028 contains, in general, more comprehensive requirements than the previous AASB 1028 and AAS 30. Issues relating to the disclosure requirements in the revised AASB 1028 are discussed more fully in paragraph 20 below.

Noteworthy Differences from ED 97

11 With the exception of some noteworthy differences from ED 97 identified below, the proposals in ED 97 are included in the Standard.

12 The structure of the Standard differs from the structure of ED 97 by prescribing general recognition criteria for employee benefits, which establishes a context for the specific recognition criteria prescribed for wages and salaries (including non-monetary benefits), compensated absences, profit sharing and bonus plans, termination benefits and post-employment benefits (other than superannuation and medical benefits). That is, the specific recognition criteria clarify the circumstances in which the general "reliable measurement" and "probable" criteria are satisfied for particular types of benefits.

13 The Standard specifies requirements for the recognition of a liability for termination benefits (and the reversal of that liability which may be required in certain circumstances) arising as a consequence of an acquisition of an entity or operation that conform with the relevant requirements in International Accounting Standard IAS 22 "Business Combinations".

14 The Standard requires employee benefit revenues and expenses to be recognised on a net basis in certain circumstances.

15 As noted in paragraph 7 above, the Standard acknowledges that certain employee benefit liabilities and assets arising from AEPUs may not be recognised.

16 In relation to the requirement to discount certain employee benefit obligations, ED 97 proposed, consistent with IAS 19, that all entities should determine the discount rate by reference to market yields on high quality corporate bonds. In the absence of a deep market in such bonds, the market yield on government bonds was proposed to be used. The Standard requires all entities to use yields on national government bonds. The Board considers that the adoption of this requirement does not result in a substantive difference between IAS 19 and the revised AASB 1028 because currently there is not yet a sufficiently active and liquid market for high quality corporate bonds in Australia. This requirement of the Standard facilitates comparability between entities.

17 The Standard does not require disclosure of the aggregate employee benefit expense and revenue. The Board noted that such a

disclosure is of limited usefulness, particularly in the common circumstance where some employee benefits qualify for recognition as part of assets (for example, inventories). As noted in paragraph 9(a) above, the Standard also amends the proposal to disclose aggregate employee benefit liability and asset to a requirement to disclose aggregate employee liability and asset (which includes on-costs). Accordingly, the Standard does not require employee benefits to be distinguished from on-costs for disclosure purposes, and thereby acknowledges the practical difficulty in separating out employee benefits from on-costs. The Standard also clarifies that non-monetary benefits are measured by reference to net marginal cost to the employer, focusing on the cost of employees to the employer, rather than the benefit to employees.

18 The Standard encourages disclosure of information about the rate used to discount employee benefit obligations to present value.

19 The Standard clarifies that elected representatives are not treated as employees of public sector entities other than those reporting in accordance with Australian Accounting Standard AAS 27 "Financial Reporting by Local Governments" or AAS 31 "Financial Reporting by Governments" and does not include a requirement to disclose employee benefit expense or liability (or employee liability) for the elected representatives class of employees. The Board believes that such disclosure should be considered as part of the Director and Executive Disclosures project.

20 In relation to equity-based compensation benefits, the Standard provides guidance to clarify when an arrangement is an equity-based compensation arrangement and clarifies which equity-based compensation benefits are not subject to the recognition requirements specified in the Standard. ED 97 proposed, depending on the circumstances, the disclosure of the fair value of equity instruments (including share options) as at the date of issue and as at each subsequent reporting date. In contrast, the Standard does not require the fair value of share options and similar rights (such as performance rights) to be disclosed. It is intended that the Standard will be revised, following the outcome of the Board's Director and Executive Disclosures project, to include requirements for the disclosure of fair values of share options and similar rights. That project will seek to resolve questions pertinent to the estimation of the fair value of such equity-based instruments including whether the measurement date should be grant date or vesting date, where the two dates do not coincide (for example, where options are subject to performance hurdles). Furthermore, it is ultimately intended that the Standard will be revised to include requirements with respect to the recognition of equity-based compensation

benefits that will or may be settled with equity instruments of the employer. Such requirements will be considered as part of the Board's longer-term project Accounting for Equity-Based Payments. In the interim, the disclosures required by the Standard provide users with information about the economic impact of employers' involvement in equity-based compensation arrangements. Additional guidance is included in Appendix 1 of the Standard to clarify the disclosure requirements and assist in determining an appropriate format for making the disclosures. Guidance is also provided to clarify the distinction between equity-based instruments granted by the employer to equity-based compensation plans and distributed by equity-based compensation plans to employees and those granted by the employer in the form of equity-based compensation benefits directly to employees.

21 As noted in paragraph 9(b) above, the Standard requires disclosure of the nature and terms of any arrangement under which employees are offered an opportunity to acquire equity in the employer and thereby derive a benefit, directly or indirectly, by virtue of the employer/employee relationship, not otherwise required to be disclosed by the Standard.

22 Comparative information requirements have been removed because Accounting Standard AASB 1034 and Australian Accounting Standard AAS 37 "Financial Report Presentation and Disclosures" contain equivalent, generic, requirements.

23 The Appendix from ED 97 has been amended to more extensively illustrate the presentation of information that is useful to users of financial reports in relation to equity-based compensation benefits.