



CHARTERED SECRETARIES  
AUSTRALIA

*Leaders in governance*

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David Boymal  
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Dear Mr Boymal

Exposure Draft 143 on Director and Executive Disclosures by  
Disclosing Entities: Removal of AASB 1046 and Addition to  
AASB 124

Chartered Secretaries Australia (CSA) welcomes the opportunity to comment on Exposure Draft 143 in relation to remuneration reporting.

Chartered Secretaries Australia (CSA) is the peak professional body delivering accredited education and the most practical and authoritative training and information on governance, as well as thought leadership in the field. With over 8,500 members and affiliates representing the majority of public companies listed on the Australian Stock Exchange, members of CSA have a thorough working knowledge of the issues relating to remuneration reporting.

Indeed, CSA members are acutely aware of the difficulties caused in the 2005 reporting season by the conflict between the Australian Accounting Standards Board (AASB) standard 1046 on remuneration reporting and the relevant provision in the *Corporations Act*, in section 300A. As a result, CSA strongly supports the provision of one governing standard on remuneration reportings, rather than parallel, slightly different ones.

*Proposal to remove AASB 1046 and add information to Standard 124*

CSA notes that the AASB, in proposing to remove AASB 1046 on *Director and Executive Disclosures by Disclosing Entities* and add information on this area to Standard 124 on *Related Party Disclosures*, is seeking to align the two governing standards. CSA welcomes the attempt to rectify the duplication of effort and reporting, as well as the confusion engendered by differing definitions in two separate standards.

However, CSA strongly believes that the proposal to remove AASB 1046 on *Director and Executive Disclosures by Disclosing Entities* and add information on this area to Standard 124 on *Related Party Disclosures* will not solve the problem. In proposing to remove the definitions of specified director, executive and specified executive (including the requirement to specify at least five executives with the highest authority) and rely solely on the definition of 'key management personnel' (KMP) already existing in AASB 124, the AASB is compounding the problem by moving from one set of differing definitions to another.

*The problem with the proposal*

The major problem is that the KMP definition potentially covers a larger category of executives. KMP refers to 'those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity'.

The Exposure Draft notes that the AASB expects the KMP to include all executives required by section 300A of the *Corporations Act*, which specifies five named company executives and five named group executives with the highest remuneration. CSA notes that this is a hopeful expectation, and one that cannot guarantee alignment.

Companies are just coming to grips with the remuneration report requirements in their current form, with the attendant difficulties of differing definitions. Changing definitions again, as proposed in the Exposure Draft, will add further to the confusion, not ameliorate it.

Furthermore, CSA notes that Standard 124 uses the word 'compensation', rather than remuneration. Thus another definitional difference will be introduced.

*Practical difficulties encountered in implementing two different standards in 2005*

It is difficult for all corporations to interpret the current regulatory requirements, especially where a group of corporations may be involved, for example, where a holding company may have very few employees. The introduction of the definition of KMP to a listed holding company may, in some instances, apply to only one or two executives.

Under Standard 1046, problems were also experienced by the audit profession in interpretation, with some auditors insisting that the audit and audit report were to be only of the financial accounts and not the directors' report. This interpretation required a duplication of information at considerable additional cost. The adoption of Standard 124 does not seem to overcome this difficulty.

Many CSA members have complained of duplication and confusion between AASB Standard 1046 and section 300A of the *Corporations Act*. As stated earlier, Standard 124 does nothing to address this and in fact introduces a further confusing term – KMP.

*CSA's proposed solution*

CSA recognise that not all bodies regulated by the accounting standards fall under the *Corporations Act*. CSA is aware that the AASB needs to ensure that all bodies it regulates report on remuneration.

CSA strongly recommends that, as the accounting standards are part of the corporations law, all bodies that fall under the *Corporations Act* should report against its standard on remuneration reporting (section 300A and regulations, expanded as necessary to deal with the material currently in the accounting standards). The AASB can issue a standard that adopts the *Corporations Act* requirements by reference, with necessary adaptation for the other groups it regulates that are not covered by the Act.

If this recommendation is implemented, those charged with governance reporting, as well as their directors, will only have to report to one standard.

*Conclusion*

There should be one governing standard on remuneration reporting, rather than parallel, slightly different ones. That standard should sit in the *Corporations Act*.

In preparing this submission, CSA has drawn on the expertise of the members of our national Legislation Review Committee, all of whom are engaged with reporting processes.

Yours sincerely



Tim Sheehy  
CHIEF EXECUTIVE

cc The Honourable Chris Pearce MP