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Ref: TJB:SDAH

18 November 2005

Mr David Boymal Chairman Australian Accounting Standards Board PO Box 204 Collins St West Melbourne VIC 8007

By email: standard @aasb.com.au

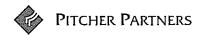
Dear David

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

Our comments in respect of director and executive disclosures, and related party transactions are provided below, together with our responses to the AASB's request for comment on specific matters.

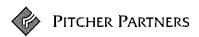
We recognise that director and executive disclosures have attracted increased public interest in recent years, which has resulted in more extensive legislative disclosure requirements in the directors' report. We have observed that inconsistencies between disclosure requirements of the Corporations Act 2001 and disclosure requirements in AASB 1046, have caused a certain degree of confusion in the marketplace. We have also observed that numerous pages of disclosures in respect of director remuneration have done little to improve user (and preparer) understanding of compensation arrangements. It is our view that the 'information overload' in respect of these disclosures has clouded rather than clarified these disclosures.

As a consequence of these observations, we support the withdrawal of AASB 1046 and the incorporation of disclosures aligned with the legislative requirements in AASB 124. We would also encourage the AASB to consider whether the summarised presentation of remuneration disclosures could be improved to promote user understanding.



Specific matters for comment

- In our experience with middle market entities, directors of the parent entity often also comprise the executive directly accountable and responsible for the strategic direction and operational management of the entity and its subsidiaries. Frequently, there are less than five specified executives and the *key management personnel* are a clearly identifiable group. For these entities the disclosures for the parent entity KMP are likely to be the same as for the group. Therefore the proposal to remove parent entity relief is likely to cause a duplication of information. We would prefer to have explicit recognition in the standard, that where the two groups are identical, the disclosures are not required in duplicate.
- 2. We concur with the proposal to apply AASB 124 to non-corporate for-profit entities preparing general purpose financial reports.
- 3. We support the amalgamation of AASB 1046 with AASB 124, and alignment of disclosure with the legislative requirements.
- 4. In respect of middle market entities, we consider that the term key management personnel will frequently comprise only directors. However, we support the reference to KMP as this requires identification of executives where appropriate.
- 5. In respect of middle market entities, one total for KMP will provide more meaningful information.
- Agreed
- 7. No comment we do not have any clients where the entity pays prescribed benefits.
- 8. We consider that the additional requirements in paragraph Aus6 will only add volume rather than benefit for users of reporting entities that are not disclosing entities and therefore we do not concur with this more extensive disclosure.
- 9. We support the incorporation of legislative disclosure requirements into this standard,
- 10. No comment
- 11. We consider that the appendices provide useful information for implementation of this standard, and therefore should be retained.
- 12. We do not consider that transitional provisions are necessary.
- We do not support the application of this standard to a managed scheme with no employees. In our experience remuneration paid to the KMP of the responsible entity may cover a broad range of responsibilities across numerous separate entities, thereby resulting in an arbitrary and potentially extremely subjective allocation of remuneration between those entities. An arbitrary allocation lacks substance and meaning, particularly where scheme participants have agreed to a prescribed level of management fees payable to the responsible entity, based on the scheme performance. Further concerns arise concerning the ability to audit remunerations allocations made by the responsible entity and the availability of reliable audit evidence. Where a managed scheme is a disclosing entity, remuneration disclosures should be restricted to the KMP employed directly by the scheme, and not those employed by the responsible entity. Disclosure of



- amounts paid and payable to the responsible entity as management fees provides appropriate information for scheme participants. Disclosure of amounts paid by the responsible entity to its KMP is of no consequence to scheme participants.
- 14. Although we support alignment of the disclosure requirements with section 300A, we have concerns regarding the duplication of the legislative requirements in this standard, and the consequences regarding where information is placed in the annual report and the extent to which it is audited. In our view it is preferable to have all audited information together in one place (ie in the financial statements and notes) and minimum duplication throughout the annual report. Although we have no explicit comments regarding addition or deletion of material we encourage the AASB to work with both Treasury and ASIC to achieve clarity and consistency in the disclosures provided.
- 15. We reiterate our view that the sheer volume of disclosures required under both AASB 1046 and ED 143 have not assisted user understanding of compensation arrangements but has smothered the issue with an 'information overload'. We question whether the cost to provide this information has provided any real user benefits.

Please contact Dianne (tel 03 8610 5384 or <u>dianne.azoorhughes@pitcher.com.au</u>) if you wish to discuss further any matters arising from this submission.

Yours sincerely

TERRY BENFOLD

Partner

S. DIANNE AZOOR HUGHES

National Technical Director