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Dear David

**Submission in relation to ED 143 - Director and Executive Disclosures by  
Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124**

Thank you for the opportunity to comment on the above Exposure Draft. In addition to responding to the specific matters for comment, key points on our overall position on the removal of AASB 1046 are as follows:

- We strongly support the removal of AASB 1046 which would reduce the regulatory burden and complexity caused by the existence of remuneration requirements in multiple legislative instruments
- It is our understanding that any amendment to AASB 1046 will require a review of current regulations relating to remuneration disclosures, as the regulations only relate to the standard that existed at the time of making the regulation
- We support the IASB's approach whereby the standards deal with financial reporting and leave the corporate governance aspects of remuneration to be addressed in the jurisdiction's corporation legislation.

**Removal of AASB 1046**

There is strong sentiment in the business community and the accounting profession to address the regulatory burden caused in part by the duplication of requirements in multiple legislative instruments. Reporting of remuneration provides a good example of the complexity of Australian laws due to regulatory overlap in that requirements relating to remuneration disclosures are contained in the Corporations Act, Corporations Regulations, accounting standards and the ASX listing rules through the Corporate Governance Council recommendations. Australian Securities and Investments Commission (ASIC) Class orders exist to provide some relief from duplication. KPMG would encourage the AASB to take this opportunity to respond to the need to reduce the regulatory burden. We believe that AASB 1046 should be withdrawn completely and no additional Australian specific requirements included in AASB 124.

This would leave the Corporations Act to prescribe individual remuneration disclosure requirements, which would be disclosed only in the Director's report. KPMG recognise that this aspect of the Corporations Act has recently been subject to extensive due process resulting in significant amendment as part of the Corporations Law Economic Reform Program (CLERP 9). Withdrawing AASB 1046 will require the Corporations Regulations to be reviewed and amended accordingly. Currently, regulation 2M.3.03 and 2M.6.04 refer to AASB 1046 for various required disclosures. The review of these regulations would provide an opportunity to address any concerns that may remain with disclosure requirements that may be removed when AASB 1046 is removed.

During the 2005 year, the complexity of the overlap in regulatory requirements resulted in the need for Corporations Regulations allowing disclosure requirements contained within AASB 1046 to be contained in the Directors report in order to reduce the confusion to users of financial reports. However, these transferred AASB 1046 disclosures are audited and the audit report was amended to reflect this, potentially leading to further confusion for users. We note that if AASB 1046 is completely withdrawn, remuneration requirements contained within the Directors' report will not be subject to audit, which is consistent with the balance of the content of the Directors' report.

Currently AASB 1046 applies to all disclosing entities. Should AASB 1046 be completely withdrawn, it is important to note that the Corporations Act Section 300A requirements apply to listed companies. Throughout the CLERP 9 process, the focus of the debate surrounding remuneration disclosures was listed entities and there was no specific request for the extension of the Directors' Report disclosures to disclosing entities.

KPMG acknowledge that if AASB 1046 was completely withdrawn, certain inconsistencies would exist between information disclosed under the Corporations Act and AASB 124. For example, AASB 124 requires aggregate disclosure of remuneration of key management personnel and contains no minimum number of key management personnel for which to provide aggregate compensation disclosures. The Corporations Act currently refers to the five named company executives and five named group executives for which the disclosure requirements apply. The differences in terminology and the prescriptive minimum number may result in unreconciled differences and give rise to user confusion. These differences between the aggregate remuneration disclosures required by AASB 124 and the total of individual disclosures contained within the Directors' report may be addressed as part of the review of Corporations Regulations and in the longer term by amendment to the Corporations Act if required.

It is noted that when the International Accounting Standards Board (IASB) reissued IAS 24 in 2003, it did not include individual remuneration disclosure requirements. It could be argued that if the IASB felt that these individual remuneration disclosures were of significant importance to financial reporting as opposed to corporate governance, they would have been incorporated in the revised IAS 24.

KPMG support the approach taken in the United Kingdom, where individual remuneration disclosures are not prescribed by the accounting standards. Instead the UK Companies Act requires individual director remuneration disclosures to be included in the Directors' remuneration report, which is attached to the financial statements.

If the AASB does proceed to incorporate into AASB 124 the disclosing entity requirements currently contained in AASB 1046, we believe that amendments to certain requirements, such as disclosure of loans to key management personnel, could remove some anomalies that appear to exist for disclosing entities, as well as providing clearer information to the users of financial reports. Our detailed comments are set out below.

### **Disclosures relating to Managed Investment Schemes (MIS)**

We do not agree that the Key Management Personnel (KMP) of a Responsible Entity (RE) or any other third party service provider which provides services to Managed Investment Schemes (MIS) should be attributed the status of KMP of the MIS and subject to the same disclosure regime in the financial reports of those MIS as all other entities. This is irrespective of whether those disclosures relate to paragraph 16 (non-disclosing entities) or paragraphs Aus25.1 to Aus25.7.3 (disclosing entities).

### **Specific Matters for Comment**

Whilst not compromising our overall position as stated at the outset of this submission, we make the following comments in respect of specific matters referred to in the exposure draft.

*1. Do you support the proposals to:*

- (a) remove parent relief from AASB 124: and*
- (b) rely on the definition of KMP and remove the requirement that the director and executive disclosures apply to the directors of the parent entity and at least five specified executives*

*Do you consider that the removal of parent relief from AASB 124 is appropriate and sufficient to ensure IFRS compliance in respect of both parent and group entities?*

We agree with the Board's view that in many cases the KMP of the parent will be the same as the KMP of the group and removing the relief will be inconsequential. We note that without removing the relief, the parent entity would not comply with the requirements of IFRS.

We agree with reliance on the definition of KMP and believe that removing the requirement that the director and executive disclosures apply to at least five specified executives is not expected to result in significantly different executives being disclosed under AASB 124.

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

We agree with the proposal that AASB 124 be applied by all non-corporate for-profit entities. This proposal will assist in achieving consistent disclosures on key management personnel.

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

As noted previously, we believe that AASB 1046 should be withdrawn completely and no additional Australian specific requirements included in AASB 124. Should the AASB proceed to amalgamate AASB 1046 with AASB 124, we believe that some anomalies will exist for disclosing entities. These are discussed in response to question 5 below.

We agree that measurement guidance previously contained within AASB 1046 and its appendices be deleted and not amalgamated with AASB 124, as measurement guidance is contained in other standards such as AASB 2 *Share-based Payment* and AASB 119 *Employee Benefits*.

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

AASB 1046 noted that the concept of specified executive was consistent with the definition of KMP used in AASB 124. We agree that removing the definitions of specified director, executive and specified executive will remove possible inconsistent application of AASB 124.

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

Subject to our preference to have no individual director and executive requirements in AASB 124, we agree with the deletion of the requirement to disclose subtotals for compensation and loans for directors and non-director KMP. In our view these subtotals do not provide significant information to the users of the financial report compared to the provision of one KMP total for the five components of compensation.

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

Subject to our preference to have no individual director and executive requirements in AASB 124, we agree with the proposal to delete the requirement for separate disclosure of transactions or balances with former KMP. Information on former KMP will be provided in comparative period disclosures where applicable.

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

Subject to our preference to have no individual director and executive requirements in AASB 124, we agree with the deletion of the AASB 1046 requirement for separate disclosure of prescribed benefits. If any components of the five categories of compensation require shareholder approval, this information should be disclosed under Principles of Compensation, paragraph Aus25.3.

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

We agree with the proposal that all entities covered by AASB 124, not only disclosing entities, be required to disclose certain minimum descriptive information in respect of each key management person and information on changes that occur in the period after the reporting date and prior to the date when the financial report is authorised for issue. These disclosures provide users of the financial report, especially for non-disclosing entities, with valuable information on the identity and changes in key management personnel.

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

Consistent with our initial comments on ED 143, we believe the Corporations Act alone should prescribe individual remuneration disclosure requirements and these should not be contained in an accounting standard.

If the Corporations Act disclosures are to be included in an accounting standard, all sections of the Act dealing with individual remuneration disclosure requirements should be included, rather than selected sections.

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

The disclosure requirements surrounding loans to KMP of disclosing entities are contained within paragraphs 17, 18 and Aus25.6. Paragraph 17 includes disclosure requirements for loans to key management personnel. Paragraph 18 requires the Paragraph 17 disclosures to be made separately for key management personnel and other related parties.

In addition to Paragraph 17 and 18, Paragraph Aus25.6 requires disclosure of the aggregate of loans to all key management personnel including their related parties.

As currently drafted, different totals will be presented under paragraph 18 and Aus25.6, which will be misleading to users of the financial report. We believe that it would be clearer to users to have only the totals as required by Paragraph 18, rather than the additional totals for all key management personnel, including their related parties, as required by Paragraph Aus 25.6(a).

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

We agree with the Board's proposal to delete all Appendices to this ED when issuing the final revised AASB 124. The current Appendix 2 appears inconsistent with the requirements of paragraph 25.2. Table 2.1 in Appendix 2 includes totals for all components of compensation. These totals are not required under paragraph 25.2 and as disclosed, are difficult to reconcile to the totals required to be disclosed under paragraph 16, shown in table 2.2 in Appendix 2.

We note that there appears to be rounding differences in the 2006 totals disclosed in Table 2.1. Also the 2006 total in table 2.2 for short-term compensation does not agree to the total of short-term compensation components in table 2.1.

12. *Do you consider that transitional provisions should be included in AASB 124 in respect of paragraphs Aus25.1 to Aus 25.7.3, since it is the first time that disclosing entities are required to make the disclosures required by paragraphs Aus25.1 to Aus25.7.3 in respect of KMP rather than specified directors and specified executives?*

We agree with the Board's comments that the change in definitions may result in remuneration disclosures for some KMP previously not considered specified directors or specified executives, and therefore comparative information will be required for such individuals if they were a key management person in the prior period. However it appears that granting transitional relief would result in non-compliance with IFRS. This would not appear to be a satisfactory outcome, considering one of the main objectives of adopting AIFRS was to achieve compliance with IFRS.

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

We do not believe the KMP of the RE should be attributed the status of KMP of the MIS. Accordingly, there is no compensation to measure for the KMP of the RE.

We believe that when management services are outsourced to the RE, the RE meets the definition of a related party under AASB 124.9 as the RE has the "authority and responsibility for planning, directing and controlling the activities" of the fund.

We believe that KMP can be defined as the RE, rather than the directors of the RE, based on the legal principle that the term “person” can include both a “corporate person” as well as a “natural person”. On this basis, we believe that the fee paid to the RE should be disclosed, however there is no need to allocate the fee into components required by AASB 124.16.

We believe that AASB 124 in principle is based on the “persons” being employed by “that entity” (KMP definition). Directors are specifically included in the KMP definition to ensure disclosure of their relationships with “that entity”. Alternatively, if the entity (MIS) does not employ persons acting with “authority and responsibility for planning, directing and controlling the activities of the entity”, we believe that the relationship with the outsourcing partner is that which needs to be disclosed, as this partner is acting in the “persons” capacity and because the objective of the standard (AASB 124.1) is to disclose information necessary to assess the effect on the entity’s financial position and profit or loss of related party transactions. Compensation payments to the employees, including directors of the RE do not effect the financial position or profit and loss of the MIS. It is the RE that has the authority and responsibility over activities of the MIS, the employees of the RE are only the agents of their employers.

We also believe that the proposed application of paragraphs Aus25.1 to Aus25.7.3 and the comments set out in Appendix 1 to the ED are inconsistent with international reporting practices being applied to such vehicles (MIS) in other regulated markets such as the USA, the UK and the EU.

When MIS were more fully brought under the Corporations Legislation (the Act) and the responsibility for MIS meeting their financial reporting requirements was set out in Section 285 of the Act, ASIC made it clear in its Practice Note 68 that Section 285(3)(b) of the Act was not put in place to require detailed disclosure of the individual remuneration of Directors and Officers of Responsible Entities (REs) in the financial reports of MIS.

Accordingly, we do not agree that when an MIS, or similar scheme, pays a management fee to its RE, the MIS indirectly provides the compensation of the KMP for managing the MIS for the purposes of paragraph 16 of AASB 124.

*(b) Do you agree that the KMP of managed schemes that are disclosing entities (including MIS) should be subject to the same disclosure regime as all other disclosing entities in paragraphs Aus25.1 to Aus 25.7.3 or should be required to make fewer disclosures, and perhaps only those required by paragraphs 1 to 22 of AASB 124?*

For the reasons noted above, we do not agree that the KMP of an RE which is responsible for MIS that are disclosing entities should be attributed as the KMP of the MIS and subject to the same disclosure regime in the financial reports of those MIS as all other disclosing entities in paragraphs Aus25.1 to Aus25.7.3.

*(c) Do you agree that the KMP of a managed scheme are among the individuals paid by the responsible entity (or by another entity that provides services to the responsible entity)?*

We do not agree that the KMP of an MIS are among the individuals paid by the responsible entity (or another entity that provides services to the responsible entity).

*14. Are there any other disclosure requirements you believe should be added or deleted?*

Paragraph Aus25.2.1 appears to address an area that is covered within paragraph B21 of AASB 2. Accordingly, we believe it should be removed as it may conflict with the measurement under AASB 2.

The measurement of retrospective grants, bonuses and allocations that are addressed in paragraph Aus25.2.2, would appear to be covered by AASB 119. The current wording in paragraph Aus25.2.2 is misleading, as it can only be the amount expensed in the current year that can be recognised as remuneration. Correction of an error would result in prior year information being restated. Accordingly, there would appear to be no need to include paragraphs Aus25.2.1 and Aus 25.2.2 within the amended related party standard.

Other than the points noted above, there are no other disclosure requirements we believe should be added or deleted.

*15. Are the proposals in the best interest of the Australian economy?*

In general, the proposal to withdraw AASB 1046 is consistent with the Financial Reporting Council's policy of adopting the standards of the IASB. If AASB 1046 was not withdrawn, we would be unable to comply with AASB 124.

However we believe that withdrawing AASB 1046 completely and including no Australian specific requirements relating to disclosing entities in AASB 124 is in the best interests of the Australian economy. This approach would eliminate the current duplication of remuneration disclosure requirements, reduce costs in complying with legislative requirements and provide more consistent information to the users of financial reports.

If the AASB does proceed to incorporate into AASB 124, the disclosing entity requirements currently contained in AASB 1046, we believe that further amendments in certain areas, such as loans to KMP, would provide clearer information to users of the financial reports.



The application of the disclosing entity requirements of AASB 124 to Key Management Personnel of the Responsible Entity for Managed Investment Schemes does not appear to be in the best interest of the Australian economy, as these requirements appear inconsistent with the objectives of IAS 24 and international reporting practices.

If you wish to discuss our comments further, please do not hesitate to contact me on (02) 9335 7108 or Kris Peach on (03) 9288 5297.

Yours sincerely



Chris Hall  
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