



11 November 2005

The Chairman
 Australian Accounting Standards Board
 PO Box 204
 Collins St West
 Melbourne Vic 8007

Dear Sir

**Comments on 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 proposed changes to AASB 124. I wish to take this opportunity to comment on two major areas of concern.

Specified director, executive and specified executive

The change in the definition now means that those that are in a position of authority and responsibility for planning, directing and controlling the activities of the entities may actually broaden the scope of those required to be reported in the financial statements of a Management Investment Scheme (MIS). More clarification needs to be sought on what is meant to "determine its Key Management Personnel (KMP) from among the management personnel of the responsible entity". This could be interpreted one of two ways.

- Does this only encompass the KMP of the responsible entity that are responsible for the planning, direction and controlling the activities of the responsible entity itself; or
- Does it have a broader meaning that it encompasses the KMP responsible for the planning, direction and controlling the activities of the MIS that are employed by the responsible entity.

The later definition would result in additional complexity to the preparation of compensation disclosures since each MIS may have different KMP responsible for its management. In most cases those responsible for reviewing satisfactory investments (planning) may differ to those making the final commitment to the investment decision (controlling). This is an important point when considering the comment below in relation to its application to MIS.

We disagree with the use of the term KMP unless the definition is made clearer. The use of KMP should be restricted to those that are controlling the final investment decision as they are in effect controlling the direction of the MIS.

Application to managed schemes (including MIS)

- (a) *Do you agree that when a managed scheme (including 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 purpose of paragraph 16?*

As indicated there is an inconsistency in the treatment of compensation of KMP for different fund structures. The use of platform arrangements, where one responsible entity pays a management fee to another in exchange for their management skills

results in no compensation being attributable to the MIS in the financial statements as discussed further in point (b) below. This results in inconsistent treatment within the industry which is likely to confuse the users of financial statements.

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

Apportionment of KMP compensation in relation to Managed Schemes has been a concern that has resulted in many differences of opinion of its treatment. The industry standard has been to apply some arbitrary apportionment method which has seen a combination of methods being used as the basis for the apportionment. These include:

- Funds under Management (FUM),
- Investment Type; and
- Time spent.

This has added to the confusion of external auditors and delays in the audit process, especially when complex structures exist as that provided above. In the absence of hard data such as timesheets it has made the process unnecessarily complex.

Without delving into the complexities of each method it does not matter which process is applied none is satisfactory and result in the apportionment of unreasonable amounts to funds.

The majority of time spent by KMP in the operations of the business relate to the following matters:

- Corporate strategy;
- Client relationship management;
- Marketing; and
- Human Resource Management

All of which have nothing to do with the operation of the funds but in the absence of time sheets is not able to be apportioned. Only a small amount of time is actually spent directly in relation to the management of the fund as decisions are made based on the analysis and research activities of staff that do not fit the classification of KMP.

What this change means is that AASB 124 will require all entities that create financial statements to disclose the compensation of KMP making the reporting process even more complex. As part of their licensing requirements responsible entities are registered with an Australian Financial Services Licence (AFSL) and are required to prepare general purpose financial statement which are lodged with the Australian Securities and Investments Commission (ASIC) results in compensation being disclosed in two publicly available locations.

- Management Investment Scheme financial statements; and
- Responsible entity financial statements

Both of these locations will potentially disclose different amounts and could result in greater confusion to financial statement users.

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

As previously indicated it is generally not the case that the KMP of the MIS are paid by the responsible entity. In an industry that is focused on risk it has become more standard for responsible entities to have other entities performing the investment function, who themselves employ KMP. As such the management fees charged to the MIS have no relationship to the compensation paid to KMP.

Summation

The Accounting Standards Board has reduced the repetition of the disclosure of compensation in both the remuneration report and the notes to the financial statements for listed companies. In the circumstances where the KMP are compensated via the management fees paid by the MIS simplification of disclosure requirements should be extended. In this case where both the responsible entity and the MIS are required to disclose inconsistent information in relation to the same KMP it is preferable that compensation of KMP should only be restricted to the KMP of the Responsible Entity. In addition remove the requirement to disclose compensation of KMP in the financial statements of the MIS. This will reduce the confusion and provide greater clarity and consistency of reporting to financial statement users.

Yours sincerely

R. Halstead
Finance Director