

Accounting alert

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A copy of AASB 1046 can be downloaded from the AASB's web site: www.aasb.com.au.

AASB 1046 brings the financial statement disclosures more in line with directors report disclosures for listed entities.

AASB Issues AASB 1046 Director and Executive Disclosures by Disclosing Entities

The Australian Accounting Standards Board (AASB) has released AASB 1046 *Director and Executive Disclosures by Disclosing Entities*. This release represents the first part of the AASB's Director and Executive Disclosures project.

This *Accounting Alert* provides an overview of AASB 1046 and highlights some of the issues arising from the key requirements.

Overview

AASB 1046 only applies to disclosing entities, and is effective for years ending on or after 30 June 2004. The key changes introduced by the standard are as follows:

- the standard replaces the existing requirements of remuneration banding for executives and directors and the disclosure of aggregate remuneration for directors of each entity in the economic entity
- it instead requires disclosure of the components of remuneration for each director of the entity preparing the financial report and at least five executives in the economic entity with the greatest authority
- it requires the value of equity instruments provided to these directors and executives to be measured at grant date and allocated pro rata to disclosed remuneration between the grant and vesting date. It does not mandate the expensing of equity based remuneration.

Disclosures relating to directors as required by AASB 1017 *Related Party Disclosures* will not apply to disclosing entities applying AASB 1046, however, all other disclosures required by AASB 1017 will still be required.

Requirements applicable to non disclosing entities will continue to be covered by the existing requirements of AASB 1017 and will be reviewed by the AASB when considering the adoption of IAS 24 *Related Party Disclosures*.



Disclosures are only required for directors and five executives with highest authority.

The Standard recommends, but does not require, that the components of remuneration be presented in a tabular format.

Non-equity based remuneration will be included in remuneration disclosures on the same basis as it is recognised in the financial statements.

Disclosure of remuneration of specified directors and specified executives

The Standard requires disclosure of the remuneration of individuals responsible for the governance of the entity, known as specified directors and specified executives.

AASB 1046 defines specified directors as the directors of the entity who are required to prepare the financial report. Specified executives are defined as being (at least) the five executives in the economic entity with the greatest authority for the strategic direction and management of the entity. Specified executives cannot also be specified directors.

The five or more executives with the greatest authority, rather than the highest remuneration, are used to determine the specified executives. Remuneration is only used as a 'tie breaker' if two or more executives have equal authority.

AASB 1046 requires that the financial report must also disclose the name of each specified director and specified executive, the position held, the principles used to determine the nature and amount of remuneration, and whether, and if so how, the principles establish a relationship between remuneration and the entity's performance.

Components of remuneration

The Standard requires that disclosing entities disclose the aggregate amount of remuneration for each specified director and specified executive, split into four broad categories and then further sub-divided into various components:

1. primary benefits – salary/fees/commission, cash profit-sharing/other bonuses, non-monetary benefits.
2. post-employment benefits – pension/superannuation benefits, prescribed benefits, other.
3. equity compensation – vested shares/units, vested options/rights, benefits from alterations to terms, other equity compensation.
4. other compensation benefits – termination benefits, prescribed benefits, all other (by significant item).

Comparative information is required for all disclosures, but not for directors or executives where information was not disclosed in the prior financial year.

Measurement of remuneration

The Standard requires that remuneration (other than share based compensation benefits discussed below) be measured in accordance with Accounting Standard AASB 1028 *Employee Benefits*.

This means that the accrual basis of measurement must be applied, and discounting must be adopted for employee benefits that are expected to be paid more than 12 months from reporting date.

Where AASB 1028 does not prescribe measurement for a particular item of remuneration such as superannuation, the value of the benefit is determined on the basis of the cost to the entity.

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Further information on the forthcoming IFRS 2 Share-based Payment can be obtained from the following web sites: www.aasb.com.au and www.iasb.org.uk.

Equity compensation must be measured using fair value of the equity instruments at the grant date.

Significantly more disclosure is required for options and other share-based compensation benefits.

Disclosure of aggregate loans to directors and details by individual director where loans exceed \$100,000.

Share-based payment compensation

The Standard requires disclosing entities to *measure* and *disclose* share-based compensation benefits such as options and other equity instruments issued to directors and executives. However, unlike the forthcoming International Financial Reporting Standard IFRS 2 *Share-based Payment*, entities are not required to *recognise* equity grants as expenses.

Share-based payment compensation that is equity compensation must be measured using the fair value of the equity instruments at the *grant date*, less any amount paid or payable by the recipient for that instrument. The measurement of equity compensation benefits is based on fair values – either known market prices or estimated values using an option-pricing model such as Black-Scholes or a binomial model.

The requirement to measure fair value at *grant date* differs from the Exposure Draft 106 proposal to measure benefits using fair value at vesting date (refer *Action Alert 2002/06* for a summary of this proposal). The *grant date* method is consistent with the forthcoming IFRS 2 *Share-based Payment*.

Disclosures related to equity instruments

Various disclosures relating to equity instruments are required from the *grant date* until the instrument is exercised, converted or lapses.

The Standard requires details of options and rights provided as remuneration including the number of options granted and vested, and the particulars of the terms and conditions of each grant made during the reporting period. In addition, when options or rights are exercised, further disclosure of the number exercised and the amount paid and unpaid per instrument is required. Disclosures are also required for options and rights and other equity instruments held by specified directors and specified executives.

Other disclosures

The Standard requires disclosure of the aggregate of loans to specified directors and specified executives. Further details are required on an individual basis for each specified director and specified executive whose loans exceed \$100 000 at any time during the reporting period.

Disclosure of other transactions and balances with specified directors and specified directors is also required. These disclosures are substantially similar to those previously required by AASB 1017.

Feedback and assistance

We welcome your feedback on the matters covered in this *Accounting Alert* – please email your comments to accounting_alerts@deloitte.com.au.

For assistance in applying the requirements outlined above in your organisation, please contact your local Deloitte office or contact our Lead National Technical Partner, Bruce Porter on (03) 9208 7490, or by email to bruporter@deloitte.com.au.

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