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Accounting Alert

Analysis of the latest accounting developments delivered to you via e-mail

The AASB issues amendment to AASB 1046 "Director and Executive Disclosures by Disclosing Entities"

Copies of the Standards can be downloaded from the AASB web site: ***www.aasb.com.au***

The Australian Accounting Standards Board (AASB) has issued an amendment to AASB 1046 "Director and Executive Disclosures by Disclosing Entities". AASB 1046A "Amendments to Accounting Standard AASB 1046" has been issued as an interim measure in advance of an exposure draft expected to bring the requirements of the Standard in line with AASB 2 "Share-based Payment".

This *Accounting Alert* provides an overview of AASB 1046A.

Inclusion of performance conditions which are market conditions in the determination of fair value of equity compensation

Market conditions are to be included in the determination of the fair value of equity compensation

One of the existing differences between AASB 1046 and AASB 2 is the treatment of performance conditions which are market conditions. 'Market condition' means 'a condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities'. AASB 1046, as presently written, would require that no vesting conditions be taken into account in determining the fair value of equity compensation, while AASB 2 requires that vesting conditions which are market conditions be included in the determination of the fair value of equity compensation. The amendment to AASB 1046, which applies to annual reporting periods beginning on or after 1 July 2004, but which may be early adopted, aligns the requirements of the two Standards in this regard.

Restatement of amounts included in comparative remuneration permitted

Disclosing entities should ensure that new valuations are obtained for previously granted share-based equity compensation payments with performance conditions which are market conditions that will affect specified director and specified executive remuneration for annual reporting periods ending 30 June 2005 and onwards. Entities are permitted to restate their comparative equity compensation remuneration disclosures to the (lower) amount that would have been calculated if the amendment to the Standard had been applied in that comparative period.

Deloitte encourages disclosing entities with annual reporting periods ending on or after 1 July 2004, and other entities that have not yet finalised their annual financial reports for their current year ends, to early adopt the amendment to the Standard.

No revision to the fair value determined at grant date despite market conditions not being met

Allocation of the fair value of equity compensation payments

Appendix 6, as amended by AASB 1046A, requires vesting conditions which are market conditions to be taken into account in determining the fair value of equity instruments granted. The fair value is not revised for any changes in the probability of the market condition(s) being achieved, and is allocated proportionately to reporting periods between the grant date and vesting date. Accordingly, if all other vesting conditions other than market conditions are satisfied, there will be an amount to be allocated as remuneration in that reporting period. No revision is made to the pro rata amount of remuneration on vesting date where a grant fails to vest as a result of only the failure to meet a market condition.

The following table summarises the effect of the revision to the principles in Appendix 6 to the Standard in relation to a grant whereby the recipient either receives all equity instruments granted or none, on the satisfaction of, or failure to meet, the specified vesting conditions :

Market conditions met?	Non market conditions met?	Allocation per revised Appendix 6
✓	✓	Include pro rata amount
✓	×	Adjust number of instruments
×	✓	Include pro rata amount
×	×	Adjust number of instruments

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 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**