

# HR & Tax Alert



Quality In Everything We Do

## Australia – Corporations Amendments Regulations 2006 (No. 4) - Director and Executive Remuneration

June 2006

On 6 June 2006, Parliament issued *Corporations Amendments Regulations 2006 (No. 4)* which modifies Corporations Regulations 2M.3.03 and 2M.6.04 ('Regulations') to refer to AASB 124 *Related Party Disclosures* and remove all references to AASB 1046 *Director and Executive Disclosures*. The following has occurred, applicable to financial reports for the financial year ending after 31 March 2006:

- Regulation 2M.3.03 - All remuneration disclosures provided in the Remuneration Report of the Directors' Report under s300A of the Corporations Act ('the Act') must be measured and disclosed in accordance with AASB 124. As such, all remuneration amounts and components disclosed in the Remuneration Report will be consistent with those disclosed in the financial report
- Regulation 2M.6.04 - Listed companies are permitted to transfer certain remuneration disclosures required in their annual financial reports under AASB 124 to the annual Directors' Report. Any disclosures transferred will be subject to audit.

### Amendments to Regulation 2M.3.03

Section 300A(1)(c) of the Corporations Act (the Act) requires listed companies to disclose the remuneration of their individual directors and executives in the

annual directors' report in accordance with Regulation 2M.3.03.

*Corporations Amendments Regulations 2006 (No. 4)* effectively updates Regulation 2M.3.03 to remove all references to AASB 1046 and replace them with references to AASB 124. The amounts and components disclosed in the Remuneration Report will therefore be consistent with those disclosed in the financial report, but will likely differ to prior year amounts and components which complied with AASB 1046.

### Changes in Measurement of Remuneration

All remuneration amounts disclosed under s300A must now be measured in accordance with AASB 124. The definition of "compensation" in AASB 124 refers to the measurement bases in AASB 2 *Share-based Payments* and AASB 119 *Employee Benefits* in measuring remuneration.

### Changes in Remuneration Components Disclosed

A further difference relates to the remuneration components required to be disclosed in the Remuneration Report under the revised AASB 124 compared to the components which were previously required to be disclosed under AASB 1046.

AASB 1046 previously required remuneration to be disclosed in 4 categories being: primary benefits, post-employment benefits, equity compensation and

other compensation benefits. AASB 124 however requires disclosure of five components as follows:

- short term benefits
- post-employment benefits
- other long term benefits
- termination benefits
- share-based payments

#### Amendments to Regulation 2M.6.04

Corporations Regulation 2M.6.04, issued in July 2005, permitted listed companies to transfer the remuneration disclosures required in their annual financial reports under AASB 1046 to the annual Directors' Report. The *Corporations Amendments Regulations 2006 (No. 4)* updates Regulation 2M.6.04 to remove all references to AASB 1046 and replace them with references to AASB 124.

Now the change exempts listed companies from providing remuneration disclosures required in their annual financial reports by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124, on the condition that those disclosures are included in the annual Directors' Report. The only remaining information to be disclosed in the financial report by AASB 124 in relation to key management personnel of listed companies is the non-remuneration disclosures required by AASB 124.

Disclosures transferred to the annual Directors' Report must be included under the heading of "Remuneration Report" and must be audited. AASB 124 disclosures required to be in the Remuneration Report are in addition to the requirements of the Act.

Listed companies not choosing to adopt this exemption

will be required to provide separate remuneration disclosures in accordance with s300A and Regulation 2M.3.03 in their Annual Directors' Report, as well as in their notes to the financial report in accordance with AASB 124.

#### Additional Disclosures - Remuneration Report

In order to be able to apply the exemption under Regulation 2M.6.04, further specific disclosures must be provided in the Remuneration Report. However, these disclosures are the same as those currently required to be provided by listed companies by Corporations Regulation 2M.3.03.

#### Additional Disclosures - Financial Report and Directors' Declaration

It is recommended that companies wishing to transfer remuneration disclosures from the financial report to the Remuneration Report should include commentary in the related party note of the Annual Financial Report to explain the transfer and provide cross references to where these disclosures can be found. The wording of the directors' declaration must be amended to reflect the fact that the financial report and the additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001.

#### Persons requiring disclosure

The requirement under the new Regulations is to disclose remuneration details of all persons who would be caught by both AASB 124 (key management personnel) and s300A(c) (directors and five most highly remunerated executives) thus ensuring compliance with both the accounting standards and the Act, as well as removing duplication of disclosures.

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