Insights into Remuneration Reporting

KPMG's practical guide to Remuneration Reporting

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Often it seems like the most widely read section of a listed company's Annual Report is not the page that tells us what their profit (or loss) is for the year but rather it's the Remuneration Report that names the key executives and their remuneration.

With shareholders, proxy advisors, institutional investors, the media, and other stakeholders increasing their focus on the remuneration of directors and Key Management Personnel (KMP), Remuneration Reports have never been more important. This is also why they continue to grow in length each year. As directors and KMP have responsibility for the overall management and custodianship of the organisation, stakeholders want to understand how these individuals are remunerated, that their behaviours will support the achievement of the organisation's strategies (including those related to ESG) and that their interests are aligned with those of the shareholders, employees, customers, and society in general.

A clear and understandable Remuneration Report explains how KMP are remunerated in the short, medium, and long term and links that remuneration back to the performance of the organisation. This is challenging as the Remuneration Report is not only about compliance with the relevant Legislation, it is also a key communication tool between the organisation and its stakeholders. The Remuneration Report should tell the story of how the remuneration framework is structured, the remuneration outcomes and how that aligns to the creation of long-term sustainable value, for both shareholders and other key stakeholders. It should be forward looking as well as reporting on what has happened in the current year. This all needs to be balanced against the privacy of the individuals captured in the report which is a challenging balancing act.

Due to the many different facets that the Remuneration Report aims to cover, it often also involves many different parts of the organisation working together to prepare it. Human Resources and Finance are usually the key parties involved, but often the Company Secretary, General Counsel, Investor Relations and even the Board or Remuneration Committee may have significant input as well. With all these competing viewpoints and priorities, it can be easy to lose focus of what the key statutory requirements are that must be included in the Remuneration Report.

This Guide considers some of the main requirements of the *Corporations Act (2001)* and other related regulations and rules. It provides guidance to help ensure that you produce Remuneration Reports that are effective communication tools, aspiring to align with best practice, and which ultimately comply with the Act. We hope this Guide will assist you to create meaningful Remuneration Reports that clearly articulate your organisation's remuneration story.

It pays to know your remuneration reporting.

About this Guide

This Guide addresses the disclosure requirements in the Remuneration Report. It does not seek to replicate all the requirements of the *Corporations Act (2001)* and the *Corporations Regulations (2001)* as they relate to Remuneration Reports but rather focuses on our insights, views, and experiences, in relation to common questions that we are asked. The disclosures are linked to accounting for remuneration and are therefore driven by relevant accounting standards – predominately AASB 2 *Share-based Payments* and AASB 119 *Employee Benefits.* Where necessary to understand the disclosure requirements, we have provided an overview of the recognition and measurement requirements in the accounting standards, however this Guide is not a comprehensive summary of the requirements of the standards. For further information on accounting for employee benefits and share-based payments, please refer to the KPMG Insights into IFRSs® and *Share-based Payments IFRS 2 handbook* or speak to your KPMG Advisor.

Key terms

The following terms have been used throughout this Guide:

AASB 2	*Share-based Payment*
AASB 119	*Employee Benefits*
AASB 124	*Related Party Disclosures*
Act	*Corporations Act (2001)*[1]
Grant date	Date when the fair value of the share-based payment is measured.
KMP	Key Management Personnel – these are the individuals that are included in the Remuneration Report. (Refer question 1.2.1)
Legislation	Collectively refers to both the *Corporations Act (2001)* and section 2M.3.03 of the *Corporations Regulations 2001* which together form the legislative framework covering the Remuneration Report. (Refer to question 1.1.1)
Regulations	*Corporations Regulations (2001)*
SBP	Share-based payments are accounted for under AASB 2 where, in relation to employees and KMP, the organisation receives services in exchange for providing either: • equity instruments (including shares and share options) of the organisation or another group entity; or • cash or other assets to an amount based on the price or value of the equity instruments (including shares and share options) of the organisation or another group entity.
Vesting conditions	Conditions that determine whether the organisation receives the required services from the KMP. Vesting conditions are subdivided into: • service conditions where KMPs are required to complete a specific period of service • performance conditions where KMPs are required to meet specified performance targets and to complete a specific period of service.
Vesting period	Period over which all performance and service conditions associated with the SBP are satisfied resulting in the KMP becoming unconditionally entitled to the SBP.

Contents

1. General overview

1.1 Preparation of Remuneration Reports

1.1.1 What rules govern the disclosures in the Remuneration Report?

s.300A(2)

All Australian companies that are listed disclosing entities must prepare, and have audited, a Remuneration Report under s.300A of the Act as part of their annual Directors' Report. Most of the specific details required to be disclosed for each individual KMP in the Remuneration Report are in section 2M.3.03 of the Regulations.

1.1.2 How should the Remuneration Report be structured?

s.300A(1)

The Legislation does not mandate a specific layout for the Remuneration Report. The only requirement in the Act is that the Remuneration Report is in a separate and clearly identified section of the Directors' Report. However, the Remuneration Report is a key tool for communicating with the organisation's stakeholders and therefore needs to clearly explain the remuneration strategy and link that to the organisation's performance. This might include graphs and diagrams where they help simplify the message to readers.

Over recent years, it has become best practice to include a brief cover letter from the Chair of the Remuneration (or equivalent) Committee, which outlines how the organisation has performed for the year and how this has been reflected in remuneration outcomes. The cover letter also flags any changes made to the remuneration framework, the rationale for those changes, and potentially any planned future changes. Where a malus or clawback clause (refer to section 3.3) was invoked during the year, the cover letter should acknowledge the circumstances leading to the exercise of the clause and discuss the consequences on remuneration. If the organisation had a first strike against its Remuneration Report in the prior year (refer to section 3.6), the letter should also address how this year, the organisation has addressed the issues driving the strike.

Following the letter from the Chair, many organisations include a high-level snapshot of the remuneration framework and the different elements of remuneration including base salary, short-term and long-term incentives, and how this links back to the organisation's strategy. Typically, the statutory remuneration table (refer to section 2) and other statutory disclosures are included towards the back of the Remuneration Report.

1.1.3 What role do accounting standards have in Remuneration Report disclosures?

REG2M.3.03(4) Under the Regulations, the mandatory quantitative disclosures required in the Remuneration Report should reflect the requirements of relevant accounting standards. This applies to the recognition, measurement, and classification of the remuneration information. That is, the information in the Remuneration Report should align with the financial statements. The relevant accounting standards are generally, AASB 119 and AASB 2.

Further, disclosures required by the Regulations that refer to terms used in the accounting standards have the meaning given by those accounting standards. Accordingly, understanding

REG2M.3.03(5) how the different elements of remuneration are accounted for under Australian Accounting Standards is key in determining the disclosures in the Remuneration Report.

Organisations may have arrangements that they call short-term incentive plans (STIs) and long-term incentive plans (LTIs), amongst others. These remuneration arrangements are descriptors of common remuneration structures and do not directly correlate to how these are accounted for under accounting standards. To determine the appropriate statutory disclosures, organisations need to consider the components of these arrangements as each component will be accounted for and disclosed separately. For example, an STI may consist of both a cash bonus and an equity awarded in share rights component. The cash component would be disclosed as a cash bonus and the equity component would be an equity-settled SBP in the statutory table. (Refer to section 2 and question 3.4)

Organisations often provide additional information regarding the remuneration strategy and outcomes in addition to the mandated requirements and these supplemental disclosures are frequently prepared on a basis other than in accordance with the accounting standards. (Refer to question 1.1.4)

1.1.4 Can non-statutory remuneration information be included in the Remuneration Report?

Under the Regulations, the mandatory quantitative disclosures in the Remuneration Report should reflect the requirements of relevant accounting standards (refer to question 1.1.3). In addition, some organisations provide non-statutory remuneration information in the Remuneration Report to help explain outcomes of KMP remuneration. This is often disclosed in a separate table alongside the statutory remuneration tables. (Refer to section 2)

From our experience, the key difference between non-statutory and statutory remuneration information generally relates to SBP awards. The SBP amount disclosed in the non-statutory remuneration table commonly reflects the total number and value of awards that vested during the year, rather than the expense recognised in the current year under accounting standards. Other differences may also arise due to the way paid leave is treated. (Refer to question 2.1.1)

Organisations often refer to this non-statutory remuneration information as 'realised pay', 'take home pay' or other similar descriptions. These tables are used if organisations consider the amounts determined in accordance with the accounting standards are not fully reflective of what the individual received in the year and assists in further explaining their remuneration strategy and outcomes to readers.

If organisations wish to include non-statutory remuneration information, in our view, the guidance in ASIC's Regulatory Guide 230: *Disclosing non-IFRS information* (RG230) should be applied by analogy.

Top tips for improving non-statutory remuneration information:

- Clearly identify information as additional non-statutory information and why it's useful.
- Disclose statutory and non-statutory information in close proximity to each other and provide a clear cross reference to the statutory table.
- Reconcile non-statutory to statutory information in some manner – including through narrative description of different approaches taken for various elements of remuneration.
- Present non-statutory information consistently from one year to the next, regardless of remuneration outcomes.
- Explain the measurement basis in clear and simple terms, avoiding the use of excessive jargon.
- For remuneration that is earned across multiple annual periods, explain the manner in which it is allocated to the different reporting periods.

It is especially important to include a description of why the non-statutory information is useful to the reader and the basis (or bases) of recognition and measurement used in preparing the non-statutory information including any significant judgments applied, so that readers can understand how these amounts differ from the statutory remuneration table. This basis should be consistent year on year. For example, if in times of decreasing share price, organisations choose to disclose the value of vested SBP awards based on the share price at vesting date, then the same information should be provided in periods of increasing share price.

Below is an extract from the NAB Group 2022 Annual Report which illustrates an explanation of the basis of preparation of the non-statutory information in the top paragraph and reconciling items to the statutory remuneration table in the footnote to the table.

5.5 Realised remuneration

The table below is a voluntary non-statutory disclosure that shows the realised remuneration the Group CEO and each Group Executive received during 2022. The amounts shown include fixed remuneration, previous years' deferred variable reward which vested in 2022, and other equity and cash based awards that vested in 2022. The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date. Not all amounts have been prepared in accordance with Australian Accounting Standards and this information differs from the statutory remuneration table (in Section 6 of this Remuneration Report) which shows the expense for vested and unvested awards in accordance with Australian Accounting Standards.

		2022			Prior years			
		Fixed remuneration[1]	Annual VR cash	Total 2022 remuneration	LTI Performance Rights[2]	Other vested/ paid remuneration[3]	Total realised remuneration	Equity forfeited / lapsed[4]
Name		$	$	$	$	$	$	$
Group CEO								
Ross McEwan	**2022**	**2,502,740**	**1,387,500**	**3,890,240**	-	-	**3,890,240**	-
	2021	2,503,866	1,509,375	4,013,241	-	-	4,013,241	-
Group Executives								
Sharon Cook	**2022**	**939,001**	**441,372**	**1,380,373**	**557,019**	**13,790**	**1,951,182**	**(294,095)**
	2021	903,514	396,900	1,300,414	-	8,865	1,309,279	-
Shaun Dooley	**2022**	**1,174,850**	**416,250**	**1,591,100**	-	-	**1,591,100**	-
	2021	1,079,637	424,463	1,504,100	201,543	709	1,706,352	(201,543)
Susan Ferrier	**2022**	**902,116**	**418,142**	**1,320,258**	-	**16,198**	**1,336,456**	-
	2021	900,988	347,288	1,248,276	-	6,942	1,255,218	-
David Gall	**2022**	**1,202,821**	**641,151**	**1,843,972**	**905,143**	-	**2,749,115**	**(477,886)**
	2021	1,209,534	819,000	2,028,534	595,888	-	2,624,422	(472,097)
Nathan Goonan	**2022**	**902,116**	**418,142**	**1,320,258**	-	**4,667**	**1,324,925**	-
	2021	904,279	396,900	1,301,179	201,543	3,117	1,505,839	(201,543)
Andrew Irvine	**2022**	**1,202,822**	**669,027**	**1,871,849**	-	**767,561**	**2,639,410**	-
	2021	1,201,430	787,500	1,988,930	-	1,492,093	3,481,023	-
Gary Lennon	**2022**	**1,102,587**	**562,169**	**1,664,756**	**994,641**	**15,918**	**2,675,315**	**(525,196)**
	2021	1,109,009	577,500	1,686,509	744,849	10,233	2,441,591	(590,116)
Les Matheson[5]	**2022**	**1,052,469**	**487,832**	**1,540,301**	-	-	**1,540,301**	-
	2021	761,178	397,202	1,158,380	-	-	1,158,380	-
Angela Mentis	**2022**	**1,205,315**	**692,367**	**1,897,682**	**1,193,581**	**44,380**	**3,135,643**	**(630,195)**
	2021	1,346,827	893,340	2,240,167	744,849	27,938	3,012,954	(590,116)
Rachel Slade	**2022**	**1,202,822**	**585,399**	**1,788,221**	-	**15,785**	**1,804,006**	-
	2021	1,203,746	787,500	1,991,246	201,543	10,857	2,203,646	(201,543)
Patrick Wright	**2022**	**1,503,527**	**696,903**	**2,200,430**	**1,293,065**	**81,400**	**3,574,895**	**(682,694)**
	2021	1,503,141	984,375	2,487,516	-	52,329	2,539,845	-
Daniel Huggins	**2022**	**1,124,003**	**580,127**	**1,704,130**	-	**696,728**[6]	**2,400,858**	-

(1) Includes cash salary and superannuation consistent with the statutory remuneration table in Section 6.1, excluding accrued annual leave entitlements.
(2) Amounts relate to 2017 LTI Performance Rights granted on 19 December 2017 and vesting on 20 December 2021 (2022 financial year). Further information about the performance hurdles and performance period for this award is provided in Section 5.4. Details of the vested equity awards are provided in Section 6.
(3) Amounts related to other vested equity or cash based remuneration from prior years (excluding LTI performance rights). This includes VR deferred rights, commencement awards, shares received under the General Employee Share Offer and dividends paid during 2022 in relation to any deferred share awards. Details of the vested equity awards are provided in Section 6.
(4) Awards or remuneration lapsed or forfeited during 2022. Details of the awards are provided in Section 6.
(5) Les Matheson was a part-year KMP in 2021, commencing in his role on 11 January 2021.
(6) Daniel Huggins' remuneration includes VR paid during the year relating to the period before he was a KMP.

Reference: Pg. 131, NAB 2022 Annual Report

Below is an extract from the Telstra 2022 Annual Report which provides another illustration of non-statutory information and explanation of why it is useful to the reader and the basis of preparation.

2.5 Detailed remuneration and interests in Telstra shares
The tables in this section disclose Senior Executive information and only represent their time as Senior Executives.

(a) Actual pay which crystallised in FY22 for Senior Executives
As a general principle, the Australian Accounting Standards require the value of share-based payments to be calculated at the time of grant and to be expensed over the performance period and applicable service period. This may not reflect what Senior Executives actually received or became entitled to during the year.

The tables in this section are voluntary disclosures and are not prepared in accordance with Australian Accounting Standards. They are designed to provide greater transparency for shareholders on the pay and benefits the Senior Executives actually received, or became entitled to receive, during FY22 while they were a Senior Executive.

Senior Executives receive a significant portion of their variable remuneration in the form of equity. The value they actually receive from that variable remuneration is tied directly to Telstra's share price performance and whether the variable remuneration vests. We believe this demonstrates that our reward framework effectively aligns with our shareholders' interests and demonstrates the linkage between pay and performance.

Reference: Pg. 60, Telstra Annual 2022 Report

Having regard to the principles of RG230, organisations should also ensure the non-statutory information is clearly identified as non-statutory, if not audited, then identified as non-audited and not given any undue prominence. These disclosures have a better chance of being understood if there is a clear cross reference between the non-statutory information and statutory table.

1.1.5 What information must be disclosed about events impacting remuneration arising after balance date but before the Remuneration Report is issued?

REG2M.3.03(1) ITEM 4 & 5

Generally, disclosures in the Remuneration Report relate to events impacting remuneration that have occurred during the current year. Under the Regulations, changes in the CEO or a director, including the names of the incoming KMP occurring after the balance date but before the Remuneration Report is issued must also be disclosed. If any other KMP retires after year-end, this is required to be disclosed as well.

Whilst not required, some organisations may also choose to disclose significant changes in remuneration arrangements or new policies and plans put in place after year-end impacting remuneration on a prospective basis but before the Remuneration Report is issued. Such information can be useful in explaining the organisation's remuneration policy and is relevant to understanding how the organisation is addressing any stakeholder concerns in their remuneration strategy and policies.

1.1.6 Is a Remuneration Report required if a company lists (or de-lists) after year end but before the financial statements and Directors' Report are issued?

The Remuneration Report forms part of the Directors' Report of a company that is a listed disclosing entity at year-end.

In instances where a company lists after year-end but before the date of the Directors' Report, even though not explicitly required, in our experience, many companies choose to prepare a Remuneration Report.

ASIC INSTRUMENT 2016/190

Where a company ceases to be listed after year-end but before their lodgement date, ASIC provides relief from the requirements of Chapter 2M of the Act. Therefore, subject to certain criteria being met, a Remuneration Report is not required.

Organisations who are unclear about their reporting obligations under Chapter 2M of the Act should seek advice from their KPMG Advisors.

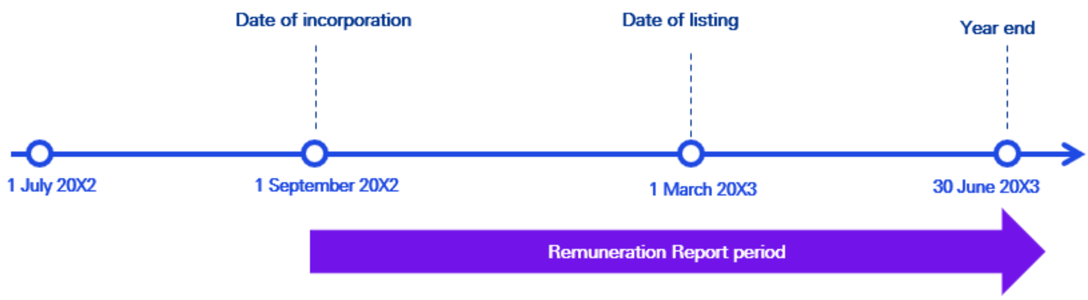
1.1.7 When a company lists during the year, from what date does the Remuneration Report begin?

s.300.A
s.285(2)

When a company lists during the financial year, the company must provide a Remuneration Report as part of the Directors Report for that year-end. However, the Remuneration Report for this newly listed company is for the period from incorporation or the earliest comparative period, whichever is later, and not from the date of listing.

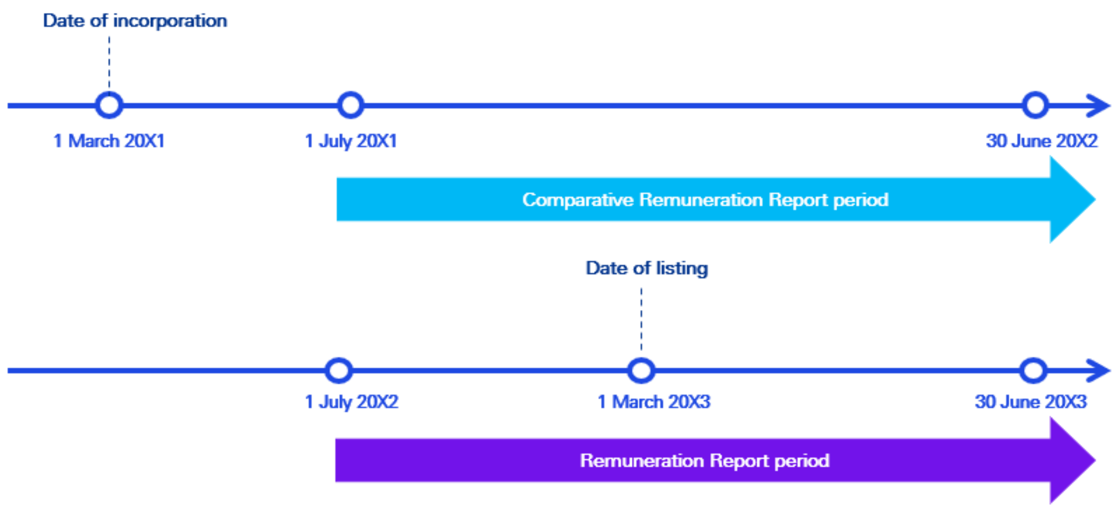
If the company is incorporated and lists in the same financial year, the Remuneration Report begins from the date of incorporation, as illustrated in scenario 1 below.

Scenario 1: Company incorporated in September 20X2, listed in March 20X3 and year end 30 June 20X3



If the date of incorporation is in the previous financial year or before the beginning of the previous financial year, the comparative information begins from the date of incorporation, or the beginning of the comparative year as illustrated in scenario 2. (Refer to question 1.2.4).

Scenario 2: Company incorporated in March 20X1 and listed in March 20X3



When a new entity is created to acquire control of a number of businesses but that acquisition is contingent on the completion of an initial public offering, further analysis may be necessary to determine whether there is a comparative period (i.e. a period before date of incorporation).

1.1.8 Can information be cross referenced from the financial statements to the Remuneration Report?

Although there are overlapping requirements between the accounting standards and the Legislation when it comes to remuneration disclosures, it is not possible to include the disclosures in only one location and cross reference.

s.300A(1)

Remuneration Report	The Act requires all the disclosures to be in the Remuneration Report and the company's auditor must sign off that the Remuneration Report is compliant with the requirements of s.300A of the Act. Accordingly, all the information must be contained in the Remuneration Report and cannot be cross referenced from or to elsewhere in the Annual Report, including the financial statements.
Financial Statements	In order for the financial statements to comply with the Act and the accounting standards, all disclosures required by the accounting standards (including AASB 119, AASB 2 and AASB 124) must be included within the notes to the financial statements and cannot be cross referenced outside the financial statements, for example from the Remuneration Report.

Where there is additional information that is not required by the Legislation but complements the disclosure in the Remuneration Report, this may be cross referenced from the Remuneration Report to elsewhere in the Annual Report, including the financial statements or the operating and financial review.

1.1.9 Is the Remuneration Report required to be audited?

s.308(3C) Yes. The Remuneration Report of listed disclosing entities are required to be audited. The audit covers both quantitative and qualitative disclosures and statements of policy or position. Auditors are required to report to members on whether, in the auditor's opinion, the Remuneration Report complies with s300A of the Act.

An example opinion is provided below:

In our opinion, the Remuneration Report of the Company for the year ended 30 June 20XX, complies with Section 300A of the Corporations Act 2001.

If the auditor is not of that opinion, the auditor's report must say why i.e. issue a modified opinion.

1.1.10 How does the audit of the Remuneration Report differ from the financial statement audit?

The requirement to express a distinct opinion on the Remuneration Report is additional to the auditor's responsibility to express an opinion on the financial statements. While some of the content of the Remuneration Report, such as total KMP remuneration, is also in the financial statements, much of the detail and further statements of policy or position are incremental. Due to the sensitivity of the disclosures within the Remuneration Report, auditors will perform additional test work on the information disclosed and is likely to use a lower threshold of materiality to assess misstatements, than the financial statements as a whole.

1.1.11 What obligations does an auditor have if they consider that the Remuneration Report is not in compliance with the Act?

Remuneration Report misstatements and omissions are assessed separately to the financial statement audit misstatements, generally at a lower threshold of materiality and could be assessed separately based on individual KMP remuneration. Therefore, it is possible for misstatements to be considered material to the Remuneration Report but not material for the financial statements as a whole.

Similar to a financial statement audit, the Remuneration Report misstatements identified can be quantitative (i.e. numerical data is misstated) or qualitative (i.e. narrative information is misstated or there is required information omitted from the disclosure) in nature.

If there is a material misstatement identified or disclosure omitted from the Remuneration Report, and management do not correct the disclosure when requested to do so by the auditor, a modified opinion on the Remuneration Report may be issued.

s.311 Beyond reporting to those charge with governance, which typically consists of the Audit Committee or Board of Directors, auditors have an obligation to report any actual significant breaches or reasonable suspicion thereof relating to the Remuneration Report to the Australian Securities and Investments Commission (ASIC).

1.1.12 What are the considerations if an error is identified in the prior year's Remuneration Report?

If during the current year management identifies an error or misstatement in the prior year Remuneration Report, management should discuss misstatements identified or disclosure omissions in relation to prior year with their auditors to assess whether it is quantitatively or qualitatively material for the Remuneration Report (Refer to question 1.1.10 for discussion on the Remuneration Report's materiality). Consideration should be given to the nature of the error or misstatement and quantum.

If the errors or misstatements are assessed to be material, prior year amounts in the current year Remuneration Report should be restated (for example, by changing the comparative amounts in the statutory table). Where this occurs, consideration will need to be given as to how to highlight that amounts have been adjusted and additional footnotes might be added to explain the nature of the prior year's errors and the impact on previously disclosed amounts as a result of the adjustments or corrections. Material prior year errors might also impact the audit opinion over the Remuneration Report and possible notification to ASIC.

Given the sensitivity with restating prior year amounts, where a material error or misstatement in the prior year Remuneration Report is identified, early engagement with the auditors and Board of Directors is encouraged.

1.1.13 What is the difference between the five highly remunerated officers' disclosure and the Remuneration Report requirements?

S300(1)(D)(II) The Act requires the Director's Report for a financial year to include details of options granted as part of remuneration during or since the end of the year to any of the directors or any of the five most highly remunerated officers of the Company (other than directors). Those disclosures must cover:

- Options over unissued shares and interests of the Company, registered scheme or disclosing entity; and
- S300(3)-(5) If consolidated financial statements are required, options over unissued shares and interests of any controlled entity that is a company, registered scheme or disclosing entity.

S300(3)-(5) For options granted, details must include:

- the company, registered scheme or disclosing entity granting the option;
- the name of the person to whom the option is granted; and
- the number and class of shares or interests over which the option is granted.

REG2M.3.03 Where these officers are KMP and no options were issued since the end of the financial year, the information required would already be included in the Remuneration Report and does not need to be replicated in the Directors' Report elsewhere.

However, additional disclosures are required where options were:

- S300(1)(D) granted to officers who are among the five most highly remunerated officers of the Company but are not KMP; and
- issued since the end of the financial year to these highly remunerated officers.

To the extent the disclosures regarding options issued since the end of the financial year relate to KMPs, then we suggest this disclosure is included in the Remuneration Report order to meet these requirements.

For an example disclosure within the Directors Report refer to the KPMG Example Public Guide to annual reports Illustrative disclosures 2022-2023, note 12 footnote (b) of the Director's Report.

1.2 Who is included in the Remuneration Report

1.2.1 Who should be included in the Remuneration Report?

s.300A(1)(c)

The Act requires remuneration information to be disclosed for all individuals who are considered KMP under AASB 124. This includes all persons who have the authority and responsibility for planning, directing, and controlling the activities of the organisation either directly or indirectly and includes any director (whether executive or otherwise) of the parent organisation.

Accordingly, at a minimum all directors of the parent organisation will be included in the remuneration disclosures. Other senior executives of the organisation will usually meet the definition of a KMP, where they have significant authority and responsibility.

The term KMP refers to a function, rather than a specific title. Therefore, identification of KMPs will require judgement and different organisations may reach different conclusions for the same job titles. For example, for many organisations the Chief Financial Officer (CFO) is considered a KMP role. However a small organisation with an outsourced CFO function with limited responsibilities may conclude the CFO role is not a KMP role for their organisation.

1.2.2 Does an interim executive, for example, an acting Chief Executive Officer, need to be included in the Remuneration Report?

An interim Chief Executive Officer (CEO) or CFO may be appointed until a permanent candidate is found. If an interim CEO or CFO (or any other interim role) meets the definition of a KMP for that interim period, then they must be included in the Remuneration Report from the date of their commencement in the role.

Although the CEO role may normally be a KMP, an interim CEO may have limited responsibilities and authorities and therefore might not be considered a KMP. Understanding the specific authority and responsibilities of that interim position will be key. (Refer to question 1.2.1)

1.2.3 What happens when a non-executive director becomes an executive director and both roles are considered KMP?

While some organisations disclose KMP remuneration split by executives and non-executives, the Legislation does not prescribe such a format. Therefore, when an organisation chooses to present their remuneration disclosures in such a way and an individual has both an executive and non-executive role during the year, various approaches are possible. Alternative presentations include:

- allocate remuneration between the individual’s role as an executive and non-executive and include a footnote to explain the individual’s circumstances; or
- present all the remuneration for the individual according to their role at the end of the year and include a footnote to explain that for a portion of the year, the individual held an alternate role.

Other practices may also be acceptable. The key will be ensuring clear disclosure of the approach adopted.

1.2.4 Who needs to be included in the comparative year disclosures?

REG2M.3.03(2)(A)

The requirements under the Legislation are focused on remuneration arrangements of current year KMPs. Therefore, if an individual was only a KMP in the prior year, that individual can be removed entirely from the Remuneration Report. That is, comparative information is not required for KMPs who resigned or ceased holding a KMP role in the prior year (former KMPs).

REG2M.3.03(2)(B)

Where an individual is a KMP in both the current and prior year, comparative information is required for the statutory remuneration table (refer to section 2). If the individual becomes a KMP for the first time in the current year, comparative information of their remuneration as a non-KMP will not be required. (Refer to question 1.2.6)

Although comparative information is only required for the statutory remuneration table, best practice would include providing comparative information for other disclosures in the Remuneration Report where appropriate to assist readers in understanding how remuneration has changed compared to the prior year.

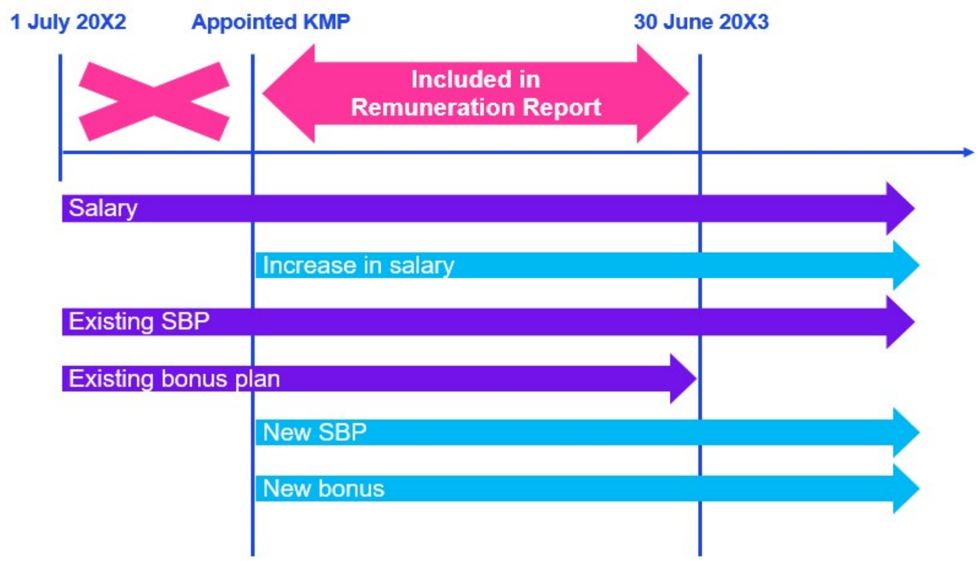
Organisations wanting to provide comparative information consistent with those disclosed in the related party note in the financial statements and the prior year's Remuneration Report, may choose to include former KMPs in their comparative disclosures. In our experience, this is the preferred approach.

1.2.5 What remuneration information is included when an individual becomes a KMP for the first time in the current year?

REG2M.3.03(1)
ITEM 10

When an individual becomes a KMP during the year, they are included in the Remuneration Report from the date they were appointed to that KMP role. The remuneration disclosed should reflect all amounts attributed to the period they are a KMP, including any payments made to the person, before the person started to hold the position, as part of the consideration for the person agreeing to hold the position.

The diagram below illustrates the period to include in the 30 June 20X3 Remuneration Report where an individual becomes a KMP for the first time during the year:



Where an individual continues to earn SBP awards or bonuses granted while not a KMP, these components should be apportioned between the periods before and after the individual becomes a KMP. The Remuneration Report disclosures will then only include the amounts attributable to the period they are KMP.

REG2M.3.03(1)
ITEM 17 & 18

Consideration also needs to be given to how the table of movements in share and option holdings or other similar tables will reflect the new KMP's existing holdings at the date they become a KMP. The number of instruments held immediately prior to commencing the KMP role can be disclosed in several ways, including as:

- an "other change" during the year and "N/A" as the opening balance; or
- the opening balance with a footnote to explain the balance disclosed reflects the numbers held when the individual commenced as a KMP.

Other practices may also be acceptable. The key will be ensuring clear disclosure of the approach adopted.

1.2.6 What remuneration is included when an individual ceases to be a KMP?

When an individual ceases to be a KMP in the current year, the remuneration disclosed should reflect the amounts attributed to the period they were a KMP.

Where they cease rendering active services, amounts disclosed include amounts paid or payable at the end of the KMP's employment, for example, termination benefits, annual leave, long service leave etc. (Refer to question 2.1.6).

Complexities may arise when an individual steps away from a KMP role and enters into a separate arrangement with the organisation to provide future consulting or other services. Careful consideration of all the facts and circumstances will be required to determine if the payment relates to their KMP role or to the separate arrangement for consulting services. This will include understanding whether the new role meets the definition of a KMP and whether substantive future services are required in exchange for the payments. Generally, if the amount paid or to be paid relates to the individual's service as KMP in the current year or is for no substantive future services, this will be disclosed as part of KMP remuneration in the current year. (Refer to question 2.1.6)

REG2M.3.03(1)
ITEM 17 & 18

Consideration also needs to be given to how the table of movements in share and option holdings or other similar tables will reflect the exiting KMP's holdings at the date they cease to be a KMP. The number of instruments held immediately prior to ceasing the KMP role can be disclosed in several ways, including as:

- an "other change" during the year and "N/A" as the closing balance; or
- the closing balance with a footnote to explain the balance disclosed reflects the numbers held the day the individual ceased being a KMP.

Other practices may also be acceptable. The key will be ensuring clear disclosure of the approach adopted.

1.3 General disclosures

1.3.1 What details of variable awards should be disclosed?

REG2M.3.03(1)
ITEM 12

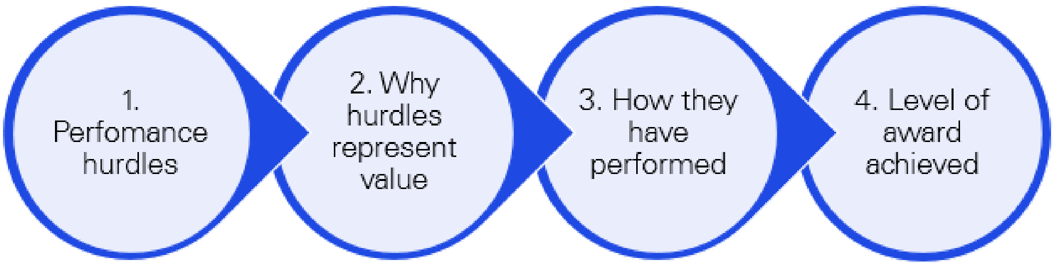
The Regulations require specific details about variable awards to be provided, including grant date, service requirements and performance hurdles, as well as estimates of minimum and maximum potential outcomes. It is usually not sufficient to only provide a high-level overview of the awards; these specific details must be included.

Disclosures should also include details of any other relevant features which may impact the remuneration the KMP will ultimately be entitled to such as Board discretion or other terms. It may also be relevant to include information regarding leaver provisions, treatment on a change of control event and malus and clawback clauses (refer to section 3.3). Such details provide readers a better understanding of the risks and potential payments the KMPs are exposed to.

The terms and conditions of awards may differ between KMPs, such as between the CEO and other KMPs. In these instances, it may be appropriate to disclose award details by category of KMPs, so these differences are easily understood. Similarly, some awards are only provided to certain KMPs such as sign-on awards for newly hired KMPs. In these cases, the readers of the Remuneration Report should be able to identify which KMPs are entitled to different types and amounts of awards.

1.3.2 How should variable remuneration performance hurdles and outcomes be disclosed in the Remuneration Report?

A clear description of variable remuneration plans, both cash and equity-based, are necessary to assist readers in understanding the effectiveness of the organisation's remuneration strategy. It is important to present this information in a way that allows readers to understand that the performance hurdles were suitably challenging, and that the outcomes were appropriate in the circumstances. The different requirements in the Legislation broadly encourages the following approach to telling this story:



1. Performance hurdles

S.300A(1)(BA) First, clearly articulate the performance hurdles - both financial measures (e.g. Earnings Before Interest and Tax (EBIT), revenue growth) and non-financial measures (e.g. work safety measures, climate targets) - the KMP is required to meet. As part of that disclosure, provide a clear link to the organisation's strategy and remuneration principles. Where the measure is a non-statutory measure (e.g. underlying profit), provide an explanation of what adjustments might be made to the relevant statutory measure to assess the KMP's performance, why the adjustments are considered appropriate and clearly label as an adjusted amount (e.g. Adjusted EBIT). When more than one performance hurdle is used, disclose the relative weighting assigned to the more significant hurdles. Refer to question 1.3.3 for specific considerations relating to ESG measures.

Where the specific targeted performance level is not disclosed due to market sensitivities, say so and provide the detail retrospectively.

S.300A(1)(BA)(IV) Where performance hurdles are based on a comparison to other organisations, disclose details about the organisations included in the comparator group. Disclosure of the comparator organisations does not always need to name the actual organisations, but should be specific enough to enable a reader to arrive at the actual list of comparators.

2. Why hurdles represent value

S.300A(1)(BA)(II) Discuss why the hurdles represent an appropriate measure of performance for the KMP and how they align with shareholder interests and the organisations strategic priorities. This discussion might include why other hurdles were not adopted (e.g. absolute TSR vs relative TSR) as readers will want to understand why certain more common performance hurdles were not considered to represent value for this organisation and their KMP remuneration arrangements.

Top tips for disclosing performance hurdles and outcomes in remuneration reporting:

- Be as specific as possible about the nature of the hurdles, even if targeted performance level is not disclosed due to market sensitivities.
- If short-term hurdles are commercially sensitive, say so, and provide detail retrospectively.
- When more than one hurdle is used, disclose the weighting assigned to the more significant hurdles.
- Explain why the Board chose the hurdles and how the hurdles are relevant to the organisation's business or strategy.
- Explain why other hurdles may not have been adopted.
- Where discretion is used to increase (or decrease) variable remuneration outcomes, in spite of the performance hurdle outcome, explain the Board's reasons for exercising that discretion.

When explaining the link between remuneration and performance, the drivers that resulted in the vesting (or forfeiture) of incentive awards in the current period should be discussed. There should be clear explanation as to why the organisation has selected the performance conditions (both in the financial and non-financial performance conditions), in the context of the organisation's strategic objectives.

The following extract from Westpac Group's 2022 Remuneration Report clearly articulates why the directors consider that the hurdles selected are aligned with shareholders' interests and the performance of the organisation.

Executive remuneration framework

Fixed remuneration	STVR	LTVR
Purpose		
Attract and retain high quality executives through market competitive and fair remuneration.	Ensure a portion of remuneration is variable, at-risk and linked to the delivery of agreed targets for financial and non-financial measures that support Westpac's strategic priorities. The STVR outcome can range from 0% to 100% of target depending on performance relative to targets agreed at the beginning of the year, or exceed 100% (up to a maximum of 150% of target) when exceptional performance is achieved.	Align executive accountability and remuneration with the long-term interests of shareholders by rewarding the delivery of sustained Group performance over the long term.
Delivery		
Comprises cash salary, salary sacrificed items and superannuation contributions.	Awarded in cash (50%) and restricted shares[1] (50%) based on an assessment of performance over the preceding year. Restricted shares vest in equal portions after one and two years subject to continued service and adjustment.	Awarded in performance share rights which vest after four years subject to the achievement of a relative TSR performance hurdle, continued service and adjustment.
Alignment to performance		
Set with reference to market benchmarks in the financial services industry in Australia and globally as well as the size, responsibilities and complexity of the role, and the skills and experience of the executive. Individual performance impacts fixed remuneration adjustments.	Performance is assessed using a scorecard comprising: • a values and behaviours assessment against Westpac's values; • financial and non-financial measures linked to Westpac's key strategic priorities; and • a modifier to support the adjustment of the outcome, upwards or downwards (including to zero), for risk and reputation, people management, environmental, social and governance considerations and any other matters as determined by the Board.	Performance is assessed against relative TSR which is a comparative measure of Westpac's performance (measured over four years) relative to a group of Australian financial services companies.
Alignment to shareholders		
Minimum shareholding requirements[2] equivalent to five times annual fixed remuneration excluding superannuation for the CEO and $1.2 million for Group Executives. These requirements must be satisfied within five years of appointment.	Half of the STVR award is deferred into equity for a period of up to two years to support alignment with shareholders over the medium term.	The LTVR is delivered in equity and the relative TSR performance hurdle is aligned to long-term shareholder returns and value creation.

1. The Group Executive outside of Australia receives deferred STVR as unhurdled share rights.
2. Revised minimum shareholding requirements are effective from 1 October 2022. Refer to Section 5.2 for further detail.

Reference: page 76, Westpac Group 2022 Annual Report

3. How they performed

Whilst not explicitly required by the Legislation, we recommend disclosing how the KMP has performed against each of the hurdles in the award. This provides linkage between the hurdle and the level of award achieved (see below) and can be part of the explanation of how the award links to the organisation's performance. (Refer to question 1.3.1)

4. Level of award achieved

REG2M.3.03(1) ITEM 12

Where the award had a maximum possible outcome, disclose the percentage attained because the hurdle was achieved, and percentage forfeited as the hurdle required to achieve the maximum outcome was not achieved. Where an award had a range of potential outcomes, disclose where in the range the achievement sits.

Where discretion was used by the Board to increase or decrease the award achieved, explain the Board's rationale for exercising that discretion.

This extract from Orica's 2022 Remuneration Report highlights an approach for disclosing the amount for the CEO of the potential variable remuneration achieved during a year when there is a range of possible outcomes.

3.2 Short-term incentive outcomes – link to performance

(a) Summary of FY2022 STI performance conditions and performance level achieved

Consistent with the prior year, performance is measured against a suite of Safety, Sustainability, Financial and Strategic metrics as part of each Executive's performance review. Key drivers of performance within each STI scorecard component are outlined below.

Safety continues to be our most important priority and we saw an improvement in Group and Regional SICR throughout the year. Tragically in FY2022, we are reporting two fatalities, one relating to an incident at a customer site in far-east Russia and the other, an event in 2021 at a site in Kazakhstan. Detailed investigations into both incidents have been conducted with learnings implemented across the business including reinforcement of the critical safety measures in place to keep our people, customers and communities safe. In determining overall STI outcomes, the Board considered the impact of these fatalities, and with the support of management has exercised its discretion to reduce the STI outcomes for all Executives by 10%. This adjustment reflects Orica's long-held view that all Executives have a responsibility to ensure our people return home safety.

In relation to Loss of Containment, we are pleased that both the number and time to resolve spills have improved, with the majority of events attracting a Severity 0 classification (the lowest severity rating). Strong progress has also been made towards our stated greenhouse gas emissions target of at least a 40% reduction in net Scope 1 & 2 operational emissions by 2030, with tertiary abatement technology successfully operating at Carseland and installation of this technology expected to begin at Kooragang Island early into FY2023. However, during FY2022, the Board endorsed decision to rapidly increase production at our Yarwun and Bontang manufacturing sites to offset the impact of restrictions on the sale of Russian AN resulted in a below target Scope 1 & 2 emissions reduction metric outcome. Despite this outcome being the result of external factors and the Board endorsed production decision, no adjustment has been made by the Board, reinforcing our strong commitment to our sustainability targets so early in our journey.

Against a backdrop of global uncertainty, extensive supply chain disruption and high inflation, the business delivered improved financial results across all regions, with Group EBIT and RONA well above stretch targets set by the Board. Our financial performance reflects solid volume growth, a greater demand for premium products across the regions and improved commercial discipline in both customer and supply contracts. In response to changing external conditions and in accordance with a Board endorsed decision to maintain higher levels of inventory from December 2021 to ensure security of supply to our customers, trade working capital was higher than originally planned. Given this, the Board considered it appropriate to exercise its discretion to calculate CGE after removing the impact of higher AN inventory volumes that were held as a result of the disruption in Russian AN supply from December 2021.

The CEO's FY2022 STI outcome was 82.9% of his maximum STI opportunity. Outcomes against each STI scorecard metric are summarised below.

Measure	Target	Weighting (at target)	2022 performance: Threshold 50%	2022 performance: Target 100%	2022 performance: Max 150%	Weighted Outcome (%)	Performance commentary
Safety and Sustainability	*Rewards a continuous focus on ensuring safe and reliable operations, and reducing the impact of our business on the environment*						
SICR(1)	0.143	10%				8.1%	While SICR outcomes significantly improved from FY2021, we were still disappointed with our overall safety performance in FY2022. Improving Group SICR will be a major focus along with other key controls over the coming year.
Loss of Containment(2)	29	5%				7.1%	We again saw a strong focus on minimising the impact of LOC events, leading to a reduction in total events compared to FY2021.
Global Scope 1 & 2 GHG Emissions Reduction(3)	14.7%	10%				6.7%	Net emissions reduced slightly from the prior year (FY2021: 1,898; FY2022: 1,883) despite the unexpected material production uplift due to the Russia-Ukraine conflict; however, with ambitious targets set for FY2022 the outcome fell short of target.

Remuneration Report (audited)

Financials	Rewards improvements to earnings, enhanced returns from invested capital, developing enabling technology and adjacency growth, optimising capital allocation and reallocation			
EBIT(4)	$501.4	30%	45.0%	EBIT was above stretch, underpinned by improved commercial discipline and solid volume growth.
RONA(4)	10.1%	30%	45.0%	RONA was above stretch, predominantly due to higher EBIT, noting that net assets were adjusted in the final calculations to remove any benefit to management from one-off significant items such as FY2022 impairments.
CGE(4)	49.0%	15%	22.5%	Discretion was exercised by the Board to assess CGE after adjusting for the impact of higher AN inventory volumes to ensure security of supply following the disruption in Russian supply.
Board discretion	*In acknowledgement of the two fatalities that occurred in our Russia and Kazakhstan businesses, a downward adjustment of 10% has been applied to the final outcome. The CEO and management team are committed to ensuring we learn from these tragic events and reinforce critical safety measures in place to keep our people, customers and communities safe.*			
Overall STI outcome	**% of Target 124.4%** **% of Maximum 82.9%**			

(1) SICR measures the total number of Severity 3 and Severity 4 injuries and illnesses per 200,000 hours worked by an employee/contractor. Excludes non-work-related injury/illness and occupational disease or illness that are attributable to chronic exposure to harmful agents over an extended period.

(2) LOC measures the total number of uncontrolled releases of material from a primary containment that results in a Severity 1 or greater environmental impact on water or soil. From FY2022, the targets exclude events occurring in transit, the focus being on events that are with Orica's direct operational control.

(3) Scope 1 and 2 refers to emissions under Orica's operational control, measured in accordance with the GHG Protocol and National Greenhouse and Energy Reporting (NGER) Measurement Determination.

(4) Refer section 3.1 for the definitions of EBIT, RONA and CGE for FY2022 STI purposes.

Strategic objectives relevant to each Executives' accountabilities were determined and approved by the Board at the start of the financial year with clear alignment to Orica's refreshed corporate strategy. As applicable, FY2022 Executive STI scorecards included metrics relating to the commercialisation of new technologies, growth within key focus areas, business efficiencies, operating model improvements and sustainability. Achievement against these objectives was generally assessed as being between target and stretch. Overall outcomes for Executive KMP (other than the CEO) ranged from 25.0% to 82.0% of their maximum opportunity.

Reference: Page 11 & 12, Orica Annual Report 2022

1.3.3 How should ESG measures and outcomes be disclosed in the Remuneration Report?

ESG measures have generally been incorporated within short-term incentive plans but as focus on ESG heightens, these measures (both environmental and social) are starting to be included in long-term incentive plans.

In our view, a similar approach of describing non-ESG performance hurdles and outcomes related to variable remuneration should be used for describing ESG measures and outcomes where possible. (Refer to question 1.3.2)

In order to garner external support, it is important that these measures and targets are transparent, quantifiable (where possible), stretching and clearly linked to the long-term strategic plan.

As a starting point, the organisation should outline how the ESG measure selected aligns to its long-term ESG strategic plans and business activities. By doing this, the organisation will be able to articulate why the measure is important to the creation of long-term value for shareholders. Ensuring there is a clear link between pay targets and stated ESG strategic goals, creates a clear bridge between the short and long term plans.

A clear description of the ESG measure(s) and the targets that are expected to be achieved for vesting should be provided (e.g. reduction of greenhouse gas by 'X' percent over 'Y' years), as well as the weighting of the ESG measure.

Disclosure in the Remuneration Report should also include how performance against the measures will be assessed, including how data will be captured. This is especially important for ESG measures given the relative infancy of the practice and the developing processes an organisation will have in place to capture data and assess performance.

Below is an extract from AGL Energy's 2022 Annual Report, which together with the 'Glossary for the Business Value Drivers' and disclosure that these measures are subject to limited assurance, provides a clear and transparent description of their carbon transition measure and targets.

FY23 offer - terms

What are the performance measures?

In the context of the ongoing review of AGL's strategic direction, the performance measures for the FY23 LTI offer will align with the FY22 offer, to provide stability and continuity to both participants and external stakeholders and to ensure that the focus remains on enhancing overall value for shareholders and delivering against carbon transition objectives.

The performance measures for the FY23 LTI remain unchanged:

1. **Relative TSR** = 75% weighting. A comparative, external market performance benchmark against companies in the S&P/ASX100 Index. Provides a direct link between executive reward and shareholder return.
2. **Carbon transition metrics** = 25% weighting. Provides the focus for executives to deliver against carbon transition objectives. Comprises the same three sub-metrics as FY22 to ensure a balanced assessment.

The vesting schedule for relative TSR will align to the FY22 LTI plan and the vesting schedules for the carbon transition metrics are provided below.

Carbon transition vesting schedules

Controlled intensity at 30 June 2026	Vesting of award (% of maximum)	% Controlled renewable & storage electricity capacity at 30 June 2026	Vesting of award (% of maximum)	Green energy & carbon neutral products & services in FY26	Vesting of award (% of maximum)
More than 0.875	0%	Less than 30.8%	0%	Less than 22.2%	0%
0.875 to 0.800	Straight-line vesting between 50% and 100%	30.8% to 39.8%	Straight-line vesting between 50% and 100%	22.2% to 27.0%	Straight-line vesting between 50% and 100%
Less than 0.800	100%	More than 39.8%	100%	More than 27.0%	100%

Reference: Pg.71, AGL Energy Annual Report 2022

As ESG measures evolve and mature, it may be the case that initially these measures are more discretionary in nature (rather than clearly quantifiable), with the Board or Remuneration Committee determining whether vesting has occurred. Where this is the case, the factors considered by the Board in determining whether vesting has occurred should be clearly disclosed and, in case of a long-term incentive measure, annual updates on how the organisation is tracking should be provided to support the final vesting outcomes.

1.3.4 What performance metrics should be included in the five-year summary of the organisation's performance?

s.300(A)(1AA)-(1AB)

Organisations are required to include a summary of their performance for the current and previous four financial years to demonstrate how remuneration is linked to the overall performance of the organisation. The Act mandates specific performance measures to be disclosed including earnings, dividends and share price.

If a measure of performance has been selected as a performance hurdle for a KMP's variable remuneration (refer to question 1.3.2), this is an indication the organisation sees the measure as a key measure of its overall performance (refer question 1.3.2). Accordingly, it follows that the relevant measure is included in the five-year summary of the organisation's overall performance, e.g. adjusted profit, adjusted earnings per share, or total shareholder return (TSR) information.

The following extract from Woolworths Group's 2022 Remuneration Report, shows the five-year summary of performance, including measures used in their variable remuneration such as return on funds employed (ROFE) and sales per square metre (sales/SQM).

Reference: Page 74, Woolworths Group Limited 2022 Annual Report

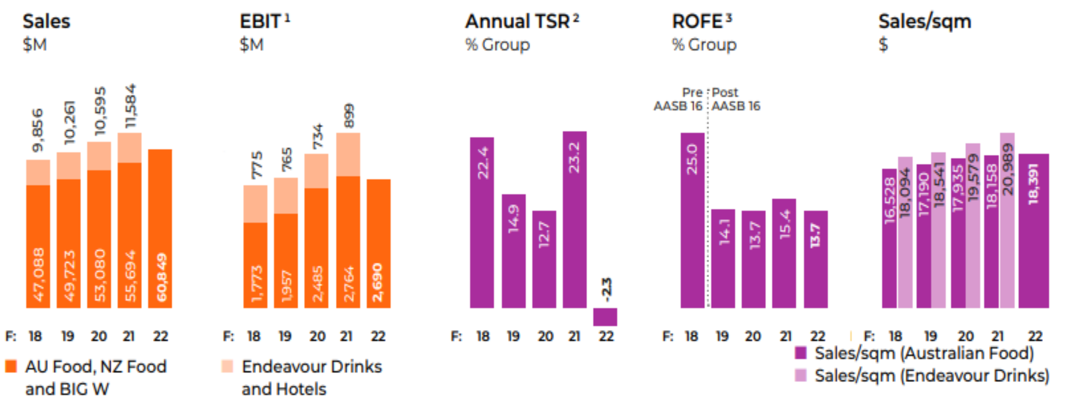
1.3 How we performed and remuneration received

Group five-year performance summary

The remuneration outcomes for our executive KMP are aligned to short-term and long-term performance outcomes. The graphs and table below show executive KMP remuneration outcomes and the Group's core financial performance measures over the past five years.

Short-term measures

Long-term measures



STI and LTI outcomes

STI and LTI outcomes	F18	F19	F20	F21	F22
STI (% of Target)	91.2	68.1	70.0[4]	115.5	**70.0**[5]
LTI (% of Maximum)	Nil	78.4	64.3	77.5	**66.7**
Woolworths Group ordinary share price closing ($)[6]	25.38	28.15	30.83	36.78	**35.46**

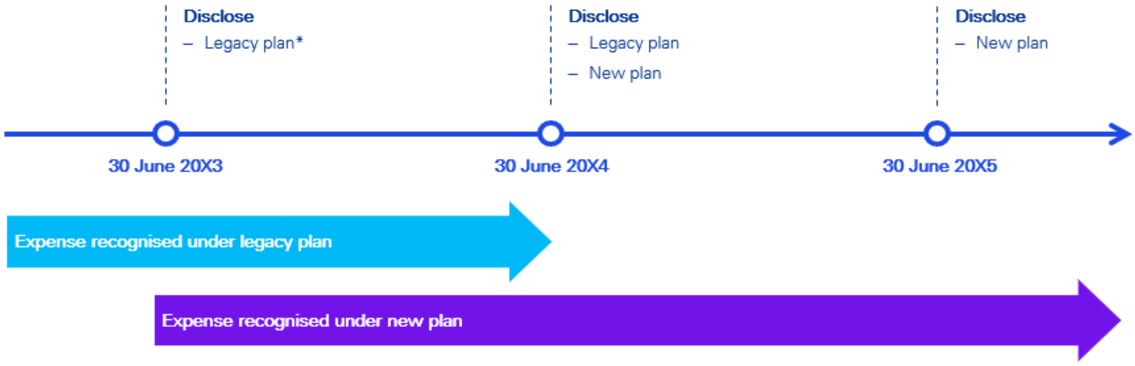
1 EBIT from continuing operations before significant items. For F22, significant items from continuing operations was a net gain before tax of $1 million. Details of significant items are included in the 2022 Financial Report.
2 Annual TSR is point to point TSR for the financial year. For F21, annual TSR includes the value of Endeavour Group shares distributed on demerger.
3 ROFE is defined on page 77.
4 The F20 STI scorecard outcome of 104% was capped at 70% for the Group Executive Committee. Mr Banducci waived his F20 STI.
5 Adjusted scorecard outcome. Further details of adjustment outlined on page 76.
6 Closing Woolworths Group share price on the last trading day of Woolworths Group's financial year, adjusted to exclude Endeavour Group. Source: FactSet.

1.3.5 Are disclosures about legacy plans required?

When organisations change their remuneration arrangements, there may be awards issued under legacy plans, typically LTIs and deferred components of STI awards, that continue to impact remuneration in the current year. Disclosures about legacy plans should be included in the Remuneration Report if they continue to impact the current and any future years' remuneration.

Whilst disclosure of the terms and conditions of remuneration arrangements should be focused on active plans that awards are currently issued under, the level of detail provided to comply with the legislation should be sufficient for an understanding of how these legacy plans impact the current year total remuneration.

The diagram below sets out the disclosure considerations for each year:



*Best practice would be to provide a summary of the details of the new plan if known, as it will impact future remuneration. (Refer to question 1.1.6)

Below is an extract from the Ridley Corporation Limited 2022 Annual Report which includes details of legacy long term incentive plan. The disclosure sets out the relevant details to understand of how these legacy plans impact the current year total remuneration.

Current year issues under the Ridley Corporation Long Term Incentive Plan

For FY20, FY21 and FY22, there are two performance measures, namely Return on Funds Employed (**ROFE**) and Absolute Total Shareholder Return (**TSR**).

The number of Rights issued to each participant in FY22 is divided equally into two tranches, Tranche A and Tranche B. The performance measure for Tranche A Rights issued in FY22 is the ROFE hurdle as applied to all three years of the performance period (FY20 and FY21: year three of the performance period only). The Absolute TSR is the performance hurdle for Tranche B Rights as applied across the entire three-year performance period (FY20 and FY21: also the full three years). The testing of each tranche is independent of the other tranche, such that one tranche could hypothetically result in 100% vesting while the other could result in 100% forfeiture, or any combination thereof.

The fair value of Tranche B Rights has been calculated by an independent expert in accordance with AASB2 on an option-equivalent basis, while the accounting fair value of Tranche A Rights is estimated excluding the impact of the ROFE hurdle (as this is considered a 'non-market condition'). The impact of the ROFE hurdle is then taken into consideration via adjusting the estimated number of Tranche A Rights that will vest based on current and projected performance.

The model inputs for the Tranche A and Tranche B Rights granted during the reporting period under the LTIP included:

	2022	2021	2020
Grant date	**1 July 2021**	1 July 2020	1 Sept 2019
Expiry date	**30 June 2024**	30 June 2023	30 June 2022
Share price at grant date	**$1.15**	$0.75	$1.08
Fair value at grant date: Tranche A/Tranche B	**$1.04[1]/$0.31**	$0.67[1]/$0.22	$0.96[1]/$0.25
Expected price volatility of the Company's shares	**25.0%**	25.3%	22.5%
Expected dividend yield	**5.00 cps**	3.50 cps	4.25cps
Risk-free interest rate being the Commonwealth Government Bond rate at the date of grant	**0.195%**	0.27%	0.68%

1. The fair value of Tranche A Rights before adjusting for the initial estimate of the likelihood of exceeding the ROFE hurdle. A 100% probability was attached to the likelihood of exceeding the ROFE hurdle.

The expected share price volatility is based on the historic volatility (based on the remaining life of the Rights), adjusted for any expected changes to future volatility due to publicly available information.

Reference: Pg. 66, Ridley Corporation Limited 2022 Annual Report

1.3.6 What disclosures about loans to and transactions with KMP and their related parties are required in the Remuneration Report?

Loans
Refer to section 3.1 for a discussion of full and limited recourse employee share loans to KMP.

Other transactions
Disclosure of any other transactions with KMP and/or their related parties is required, unless the transactions are:

REG2M.3.03(1)
ITEM 22-24
REG2M.3.03(3B)

- on an arm's length basis
- the information would not impact a reader's decision making or the discharge of accountability by the director or executive, and
- are considered 'trivial or domestic' in nature.

Although 'trivial or domestic' is not defined in the Legislation, we note the helpful guidance included in the superseded accounting standard, AASB 1046 (paragraph 10.6.1) *Director and Executive Disclosures by Disclosing Entities* which explained:

"Transactions or balances are trivial in nature where they are of little or no interest to users of the financial statements in making and evaluating decisions about the allocation of scare resources. Transaction or balances are domestic in nature where they relate to the personal household activities of individuals."

Nevertheless, determining what is trivial and domestic in nature will require judgement.

When an organisation leases assets from a KMP, the Remuneration Report must disclose the details of all amounts recognised by the organisation under AASB 16 *Leases*. Therefore, the Remuneration Report should disclose the right of use asset, lease liability and all amounts recognised in the profit (or loss) in the current year, including interest expense, depreciation, and any impairments, and not just the monthly lease payments paid to the KMP during the year or outstanding at year end.

1.3.7 Are amounts paid to a KMP from a subsidiary included in the Remuneration Report?

REG2M.3.03(1)
ITEM 18

The Act requires remuneration information of each KMP for the consolidated entity if consolidated financial statements are required or if consolidated financial statements are not required, remuneration information for each KMP for the company to be disclosed. Remuneration (referred to in AASB 124 as compensation) includes all forms of employee benefits paid, payable or provided by the organisation, or on behalf of the organisation in exchange for services rendered to the organisation.

Therefore, if a KMP of a consolidated entity has been identified, all remuneration paid to that KMP by the consolidated entity or on behalf of the consolidated entity should be included in that KMP's remuneration and disclosed in the Remuneration Report.

For example, a director of the parent in the consolidated group is also a director of a subsidiary within the consolidated group. The director is paid by the parent for services provided to the parent and paid by the subsidiary for services provided to the subsidiary. The remuneration for the director disclosed in the Remuneration Report of the consolidated entity includes amounts paid by the parent and those paid by the subsidiary.

1.3.8 When should newly granted equity instruments be included in the equity instrument rollforward table?

The Regulations require disclosure which reconciles the movement in the number of equity instruments for each KMP from the beginning to the end of the year in the form of a rollforward table. One of the key inputs to this table is the number of equity instruments "granted" or "awarded" in the year.

The Regulations do not have a prescribed meaning of "granted" and the requirement could be interpreted in two ways:

- a legal approach and therefore reflect the date of when the equity instrument is legally granted (i.e. issue date); or
- a AASB 2 approach, from when an equity instrument is required to be accounted for and therefore, it is directly linked to the commencement of the performance assessment or service period.

This is typically an issue when the legal issue date differs to the commencement of the service or performance assessment period.

For example, deferred equity instruments under a STI plan are commonly legally granted after the employees have begun rendering service that earns them the deferred equity instruments (Refer to question 3.4.2). The other practice where this issue could arise is when the equity instruments are to be approved at the Annual General Meeting (AGM) and therefore legally issued soon after the AGM but, subsequent to the commencement of the performance or service period.

As the Regulation does not specifically define "granted," there is a mixed practice on when equity instruments are included as part of "granted" in the equity rollforward table.

In our view, organisations may choose to apply either the legal or AASB 2 approach so long as it is applied consistently for all types of equity instruments and KMPs from period to period. Additional disclosure (e.g. in the form of footnotes) in the Remuneration Report may be added to provide further explanation. The key will be ensuring clear disclosure of the approach adopted.

2. Overview of the statutory remuneration table

One of the key disclosures in the Remuneration Report is the 'Statutory remuneration table' because it contains each KMP's remuneration, measured in accordance with accounting standards and should therefore be comparable across different organisations. In this table, each KMP's remuneration is required to be disaggregated into specific components. Here we set out a common example of a statutory remuneration table and explanatory guidance on the types of remuneration included within each category:

Example statutory remuneration table

	Short-term				Post-employment benefits		Other long term	Termination benefits	Share-based payments				Total	Proportion of remuneration performance related
	Salary and fees	Cash bonus	Non-monetary benefits	Other short-term benefits	Pension and Superannuation benefits	Other			Equity-settled		Cash-settled	Hybrids & other		
									Shares & units	Options & rights				
R Li														
T Smith														
…														
TOTAL														

	Compensation	How is it measured?	Common examples
REG2M.3.03(1) ITEM 6	Salary and fees	Amounts paid or to be paid within 12 months of year-end relating to service received during the year i.e. amounts expensed during the year.	• Salary • Fees invoiced under service arrangements • Potentially annual leave when they are short-term benefits. (Refer to questions 2.1.1 and 2.1.2) • Potentially salary sacrificed to acquire cars or shares. (Refer to question 2.1.7)
REG2M.3.03(1) ITEM 6	Cash bonus	Amounts paid or to be paid within 12 months of year-end relating to service received during the year i.e. amounts expensed during the year.	• Cash bonuses when they are short-term benefits. For example, a cash bonus based on performance during the year, paid in its

	Compensation	How is it measured?	Common examples
			entirety three months after year end on finalisation of financial results. (Refer to question 2.1.3) • Cash elements of STI award schemes when they are short-term benefits. (Refer to questions 2.1.3 and 3.4.3) • Profit share schemes settled in cash when they are short-term benefits. (Refer to question 2.1.3)
REG2M.3.03(1) ITEM 6	Non-monetary benefits	In our view, measurement could be based on the organisations net marginal cost of providing the benefit relating to service received during the year, unless other standards specifically require fair value measurement of the asset or obligation.	• Potentially annual leave when they are short-term benefits. (Refer to questions 2.1.1 and 2.1.2) • Car parking and fuel • Healthcare coverage • Taxation services • Professional indemnity insurance contributions • Free or discounted goods and services • Potentially salary sacrificed to acquire motor vehicle (refer to question 2.1.7) • Potentially fringe benefits tax (FBT). (Refer to question 2.1.8)
REG2M.3.03(1) ITEM 6	Other short-term benefits	Amounts paid or to be paid within 12 months of year-end relating to services received during the year i.e. amounts expensed during the year.	• Relocation benefits • Some sign-on bonuses • Termination payments for substantive future service (refer to question 2.1.6)
REG2M.3.03(1) ITEM 7	Pension and Superannuation benefits	Amounts paid or to be paid relating to services received during the year.	• Superannuation Guarantee contributions and other defined contribution schemes • Total costs (or service cost) for defined benefit plans • Contributions to foreign pension plans
REG2M.3.03(1) ITEM 7	Other post-employment benefits (refer to 2.1.6)	Amounts paid and to be paid relating to services received during the year.	• Total costs (or service cost) for defined benefit medical plans. • Termination payments for substantive future service (refer to question 2.1.6)
REG2M.3.03(1) ITEM 8	Other long-term employee benefits	Amounts paid and to be paid relating to services received during the year, separately identifying amounts attributable to long-term incentive schemes. That is, LSL expense is presented separate from long-term profit scheme expense.	• All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits are other long-term benefits. • Potentially long service leave (LSL). (Refer to question 2.1.1) • Potentially annual leave when it is an other long-term benefit. (Refer to questions 2.1.1 and 2.1.2) • Profit share/bonus schemes when they are other long-term benefits. (Refer to question 2.1.3).

	Compensation	How is it measured?	Common examples
Reg2M.3.03(1) Item 9	Termination benefits (refer to 2.1.6)	Amounts paid and to be paid at year end relating to terminations during the year.	• Salary in lieu of notice when no substantive service is required. (Refer to question 2.1.5) • Redundancy payments
Reg2M.3.03(1) Item11	Equity settled SBP, separately disclosing: — Shares and units; and — Options and rights	The proportion of the grant date fair value recognised during the year (will include reversals, of previously recognised expenses, true-ups, and acceleration of SBP expense, refer to question 2.1.9 and 2.1.10).	• Share options to be settled in shares • Share rights to be settled in shares • Deferred shares. (Refer to question 3.4.3) • Non-recourse loans accounted for as in-substance share options (refer to section 3.1), which will be settled in shares.
Reg2M.3.03(1) Item 11	Cash-settled SBP	The proportion of fair value recognised during the year (may include remeasurements of amounts recognised in previous periods and reversals of previously recognised expenses, refer to question 2.1.9).	• Share options to be settled in cash • Share rights to be settled in cash • Share appreciation rights to be settled in cash.
Reg2M.3.03(1) Item 11	Hybrid and other forms of SBP compensation	SBP transactions containing a choice of settlement in either equity or cash. The expense recognised, including both the cash-settled (see above) and any equity-settled portions (see above) of the hybrid instrument (will include reversals of previously recognised expenses, true-ups and acceleration of SBP expense, refer to questions 2.1.9 and 2.1.10).	• Share options to be settled in cash or equity • Share rights to be settled in cash or equity
s.300A(1)(e)(i)	Proportion of remuneration performance based	Percentage of total remuneration which is performance related	Performance related remuneration includes cash bonuses and SBPs which are contingent on the performance of the individual or organisation, for example most STI and LTI arrangements. SBP based on continued service only are not considered performance based.
	Totals	Total remuneration either per KMP or in aggregate for all KMPs is not required to be presented, however is commonly included as it may be considered useful to a reader of the Remuneration Report and reconciles to the related party note in the financial statements.	

2.1 Treatment of specific transactions in the statutory remuneration table

2.1.1 How is the amount for annual leave and long service leave determined?

Diversity in practice exists with most organisations adopting one of the following approaches for the disclosure of annual leave and LSL:

- *Approach 1:* Annual leave/LSL accrued during the year i.e. the expense recognised in the financial statements in accordance with AASB 119; or
- *Approach 2:* Movement in the balance sheet annual leave/LSL provision year on year.

The measurement of salary disclosed will also depend on the approach taken to annual leave/LSL.

Example scenario
A KMP earns a salary of $240,000 and accrues four weeks of annual leave each year. In year 1, three weeks of leave are taken and one week is carried forward to year 2. In year 2, five weeks of leave are taken, and no weeks are carried forward to year 3.

The impact of the two approaches on the statutory remuneration table is illustrated below:

	Approach 1	Approach 2
Year 1: Annual leave	$18,462 = 4 weeks annual leave earned	$4,616 = 1 week of annual leave (provision increase of 1 week)
Year 1: Salary	$226,164 = 49 weeks worked	$240,000 = 49 weeks worked, and 3 weeks annual leave taken
Year 1: Total	**$244,616**	**$244,616**
Year 2: Annual leave	$18,462 = 4 weeks annual leave earned	($4,616) = 1 week of annual leave (provision decrease of 1 week)
Year 2: Salary	$216,923 = 47 weeks worked	$240,000 = 47 weeks worked, and 6 weeks annual leave taken
Year 2: Total	**$236,386**	**$236,386**

Arguably approach 1 is more consistent with how the expense is recognised and classified under accounting standards. However, given salary is usually quoted inclusive of annual leave, some organisations prefer Approach 2 as it discloses the contractual pay of the KMP as salary each year, regardless of the leave taken. Approach 2 helps avoid a disconnect with information presented elsewhere in the Remuneration Report and possibly announced to the market.

Key will be ensuring clear disclosure and consistency of the approach adopted.

2.1.2 Where is annual leave presented in the statutory remuneration table?

It depends on whether annual leave is a short-term or long-term employee benefit as determined under AASB 119. Annual leave is short-term when it is expected to be used wholly before 12 months after the year in which it is earned. This should be determined consistently for all employees based on the general expectations of when the leave is taken rather than the specific circumstances of an individual KMP at year-end.

Where annual leave is a short-term employee benefit, there is diversity in practice between including it within salary and fees, non-monetary benefits, or other short-term benefits. (Refer to question 2.1.1)

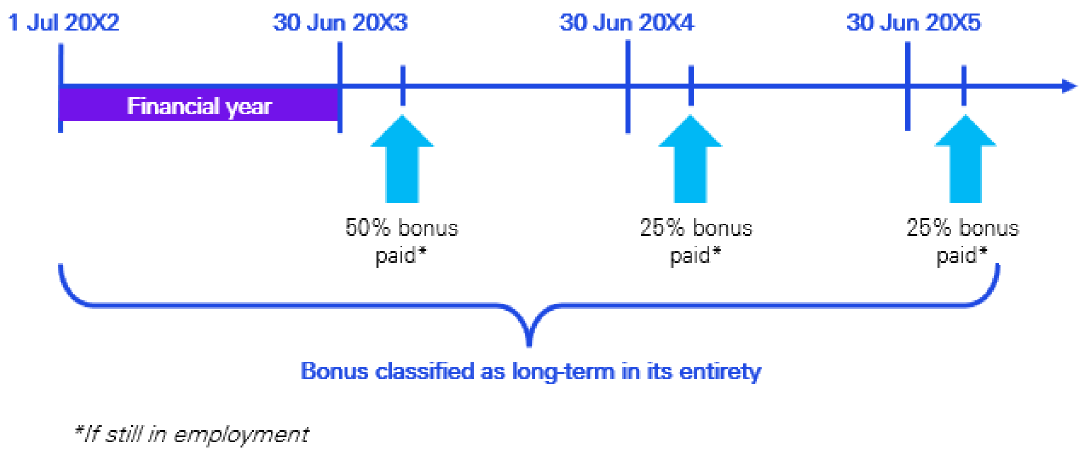
Key will be ensuring clear disclosure and consistency of the approach adopted.

2.1.3 When are cash bonuses considered to be short-term and when are they considered long-term benefits?

When payment is expected to be settled within 12 months after the year in which the services are rendered, they are short-term benefits. Otherwise they are considered long-term benefits.

Where a profit share payment occurs at more than one date (staged vesting), the benefit is classified as either a short-term benefit or another long-term benefit in its entirety. This means the benefit is only short-term if all payments are expected to be settled within 12 months after year-end.

For example, an organisation has an annual profit share plan whereby 6% of profit is allocated to KMPs as a bonus. Payment of the bonus is staged as illustrated below and this results in it being classified as long-term in its entirety as two of the payments are more than 12 months after the balance date.



2.1.4 Is long service leave reclassified to short-term employee benefits when employees have the right to cash out or use the leave within 12 months?

No. Employee benefits are classified either as short-term or long-term at the outset and this classification is not changed subsequently. Therefore for LSL classified as a long-term employee benefit, there is no reclassification to short-term when the employee has the right to the benefit within 12 months after year-end. This is different to the presentation of LSL in the balance sheet which requires a split of current and non-current liabilities.

2.1.5 What is the difference between termination benefit and other employee benefits?

Employee benefits arise from the employee's service whereas termination benefits arise from the termination of employment.

Indicators that remuneration is an employee benefit include the benefit being conditional on future service, including if the benefit increases if further service is provided, or the benefit is provided in accordance with the terms of an employee benefit plan.

Some examples include:

Termination benefits[1]	Short-term employee benefits	Post-employment benefits
Redundancy payments	Wages and salaries	Superannuation contributions
Salary in lieu of notice	Paid annual leave	Defined benefit plans

1 Employees have not provided a substantive future service for these termination payments

In our experience, a common challenge for organisations is differentiating between termination and other employee benefits. This can be especially challenging when an individual is announced as leaving the organisation in the future and is required to continue to provide services to receive payment post this service period. In such a situation, organisations should assess whether the required services are substantive future services. Payments at the end of the service period, dependant on the provision of substantive future services are accounted for as employee benefits over the service period. This could be the case even if the employment arrangement refers to the payment as a "termination payment' or 'payment in lieu of service."

Below examples illustrate the difference between termination benefits and other employee benefits:

Example 1 – Termination benefit
An organisation announces the CEO will leave the organisation. Instead of fulfilling the six-month notice period in their contract, the CEO will receive $600k payment in lieu of notice. During this six-months, the CEO will not participate in decision-making; the only condition of payment is for the CEO to assist with transitioning the incoming CEO. It is not expected this "transition" will involve any more than infrequent phone calls if that.

REG 2M.3.03(1) ITEM 9

In our view, the exiting CEO is not required to provide substantive future service, the payment is recognised as an expense immediately and classified as a "termination benefit" in the statutory remuneration table since the benefit is provided as a result of employee termination rather than in exchange for service.

Example 2 – Short-term benefit
An organisation announces that a KMP will leave the organisation in six-months' time. As part of the termination agreement, the KMP will receive $600k at the end of the six-months, if the KMP continues performing their ongoing duties and take part in the decision-making process to aid the acquisition and integration of a new subsidiary. The KMP will not receive the $600k if the KMP leaves during the six-month period. The $600k is in addition to the KMP's normal salary.

REG 2M.3.03(1) ITEM 7

The $600k payment is recognised as an expense over the six-months and classified as a "short-term employment benefit" in the statutory remuneration table since the benefit is provided in exchange for substantive future service rather than the employee's termination and payment is made within 12 months of the year end in which the services are provided.

2.1.6 Are all amounts paid to the departing KMP on termination included in termination benefits?

REG2M.3.03 (1) ITEM 9

No, only termination benefits (refer to questions 1.2.6 and 2.1.6) are disclosed in the termination benefits category. In addition to termination benefits, KMPs may be paid out their annual leave and LSL entitlements. Some SBP awards may remain on foot, for example subject to a TSR hurdle being achieved in the future, even though no further services are required from the departed KMP. Payments may also be made subject to the KMP providing substantive service during a notice period. These payouts and entitlements would not be disclosed as termination benefits in the statutory remuneration table. Instead:

- Annual leave and LSL would continue to be disclosed consistent with previous years and other KMPs (refer to questions 2.1.1 and 2.1.2);
- Any expense and reversals of expense relating to SBP will continue to be presented as SBP remuneration (refer to questions 2.1.9 and 2.1.10); and
- Payments made subject to the KMP providing substantive service would be presented as either salaries, other short-term benefits or post-employment benefits, depending on the arrangement.

The Act contains restrictions in relation to termination payments, including requirements for shareholder approval where the value of termination benefits exceeds the termination benefits cap. 'Termination benefits cap' is defined in the Act as opposed to accounting standards. As a result, termination payments for the purposes of this restriction may not align with the termination benefits disclosed in the statutory remuneration table.

2.1.7 How are salary sacrifice arrangements presented in the statutory remuneration table?

Arrangements under which employees can put part of their salary towards purchasing/leasing motor vehicles or non-mandatory employee share purchase plans are common. Some organisations present salary sacrificed amounts within salary and fees as they consider them salary earnt which has then been used by the employee to lease motor vehicles or to invest in the organisation's shares. Other organisations present salary sacrificed amounts based on the nature of what the KMP is receiving instead, for example the motor vehicle benefit is viewed as a non-monetary in nature or the investment in shares as an equity-settled SBP.

The key will be ensuring clear and consistent disclosure.

2.1.8 Is fringe benefits tax an employee benefit?

Fringe benefits tax (FBT) may be incurred by the organisation on employee benefits provided to KMPs. In our view, for these FBT amounts, an organisation has an accounting policy choice to either account for the FBT as an employee benefit under AASB 119 or a provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Where FBT is accounted for under AASB 119 as an employee benefit, then the FBT amount is included in the statutory remuneration table consistent with the underlying benefit to which it relates, usually a non-monetary benefit. We note this is the predominant practice.

2.1.9 Can share-based payment remuneration be negative?

Yes. Whilst it may seem strange to see negative amounts of remuneration, in some circumstances a reversal of previously recognised SBP expense is required under AASB 2. This can result in a negative amount in the SBP category of the statutory remuneration table.

Circumstances where this could occur include but are not limited to:

- A KMP does not achieve a service or non-market based performance condition (e.g. EBIT) in a SBP award and therefore forfeits future shares or cash; or
- For a cash-settled SBP awards, a decrease in the fair value of the award at year-end requiring a reversal of previously recognised expense to true-up the cumulative expense to fair value.

Footnotes should be added to explain the nature of negative remuneration amounts.

Whilst some reversals of previously recognised SBP expense result in negative amounts being disclosed, there can also be other changes in estimates, "true-ups", of SBP expense that can be positive (Refer to question 2.1.10).

2.1.10 Are changes in estimates, "true-ups," of share-based payment expense disclosed in the statutory remuneration table?

Yes. Under AASB 2, organisations are required to assess if there is any change in expectation of meeting service or non-market vesting conditions in the period in which the change of expectation occurs. Changes in expectation could result in either positive or negative "true-up" of SBP expense.

In question 2.1.9, we discussed instances where the SBP remuneration could be negative. However, positive "true-ups" could also result. For example, a KMP achieves a non-market performed condition in a SBP award where it was previously expected not to be met and therefore, no expenses were recognised in the prior period. As result, a positive true-up will be recognised in the current period to reflect the cumulative catch-up of expenses.

True up of expenses (both positive and negative) are considered part of SBP expense and should be disclosed as part of the SBP category in the statutory remuneration table in the year when the change in expectation occurs.

Footnotes could also be added to explain the nature of the SBP true-up.

2.1.11 Can remuneration be excluded from the statutory remuneration table if it is provided by way of footnote to the statutory remuneration table?

REG2M.3.03 (4)

No. Under the Regulations, organisations should include in the statutory remuneration table all the KMP's remuneration as determined under relevant accounting standards. Additionally, all this remuneration is required to be disaggregated into specific categories. Therefore, elements of remuneration should not be excluded from total amounts by specific categories in the statutory remuneration table.

Footnotes are used to provide additional information and explanation to assist the reader to understand the amounts included as remuneration in the statutory table and should not be used as an alternative to disclosing information about remuneration that has been excluded from the statutory remuneration table.

That is, where items are considered KMP remuneration under the accounting standards, it is not sufficient to only disclose statutory remuneration information in the footnote for items excluded from the table.

2.1.12 Is the cost of purchasing treasury shares when settling share options or rights for KMPs included in the statutory remuneration table?

No. It is common for organisations to purchase its own shares on market (treasury shares) to settle share options or rights issued in SBP arrangements when they are exercised or vest. The amount paid by the organisation to acquire treasury shares is classified as an equity transaction (i.e. recognised directly to equity).

The cost associated with purchasing treasury shares (even if it exceeds the amount expensed as a SBP) is a separate equity transaction from the SBP transaction and does not represent KMP remuneration.

3 Complex areas in practice

3.1 Employee share loans (ESLs)

Organisations may provide loans to employees to enable them to purchase shares with the same terms and conditions as other shareholders, often known as employee share loans (ESLs). Terms and conditions of the ESLs may vary, impacting the accounting and therefore the disclosure of the arrangement in the Remuneration Report.

One key consideration impacting the accounting is whether the ESLs are non or full recourse loans. When the organisation has recourse only to the value of the shares, it is a non-recourse loan. This typically means, if the market value of the shares is less than the ESL balance, the employee may return the shares as full settlement of the loan. In contrast, a full recourse loan gives the organisation recourse to the employee's other assets to fully recover the loan.

3.1.1 How are ESLs accounted for?

The accounting depends on whether the ESL is a non or a full recourse loan.

A non-recourse ESL is accounted for as an in-substance option in accordance with AASB 2 because of its option like characteristics: the employee is able to benefit from increases in share price over the loan's face value while being protected from decreases below the loan's face value over the life of the ESL. The repayment of the loan represents the "exercise" of the option and returning the shares as settlement of the loan is the expiry of an unexercised option.

An option pricing model is used to determine the fair value of the in-substance option and expensed in the financial statements over the service period and disclosed as remuneration in the Remuneration Report. Neither the loan receivable nor the shares issued is recognised in the financial statements whilst the loan remains non-recourse.

In contrast, a full recourse ESL is generally accounted for in accordance with AASB 9 *Financial Instruments*, with the loan receivable and share issue recognised in the financial statements.

3.1.2 What disclosures are required for full recourse ESLs?

A number of disclosures required for loans with KMPs apply to full recourse ESLs. These include:

REG2M.3.03 (1) ITEM 20

- Disclosure in aggregate of all loans, including the full recourse ESLs, made to all KMPs and their related parties, including a summary of the terms and conditions of the loans, aggregate balances, and interest during the year.

REG2M.3.03 (1) ITEM 21

- If the full recourse ESL to an individual KMP is greater than $100,000, a summary of the terms and conditions of the loans for each KMP and their related parties and details of the loan balance, including the highest amount of the loan during the reporting period and interest during the year.

REG2M.3.03 (1) ITEM 18

- Shares issued are included in the shareholding movements table as an 'other change.' Best practice would be to include a footnote to explain the movement.

3.1.3 What disclosures are required for non-recourse ESLs?

As the non-recourse ESLs are accounted for as in-substance share options, the relevant share option disclosures apply to the non-recourse ESLs. The in-substance options are considered a separate class of options and the following disclosures are provided separately for those in-substance options compared to other options on issue.

300A (1) REG2M.3.03 (1) ITEM 12
- Discussion of the terms and conditions of the in-substance share option awards. Disclosures that these are non-recourse ESLs and accounted for as in-substance share options should also be included. (Refer to question 1.3.1)

REG2M.3.03 (1) ITEM 11
- In the statutory remuneration table, the non-recourse ESL is a SBP and is included in "options and rights" if they are equity-settled, or cash-settled or hybrid if appropriate.

REG2M.3.03 (1) ITEM 12 & 15
- In the year the loans are issued as in-substance share options, option disclosures including the grant date fair value, amount paid, exercise price (loan value), expiry date (date loan must be repaid or becomes full recourse) are made. The number of in-substance options vested during the year is also required.

REG2M.3.03 (1) ITEM 14
- Any changes to the terms and conditions of the in-substance share options that are considered modifications should be disclosed (Refer to section 3.2).

3.1.4 Whilst the loan is still outstanding, are shares issued under a non-recourse ESL included in the disclosures of KMP shareholdings?

No. The shares are not considered issued for accounting purposes but rather as in-substance options.

REG2M.3.03 (1) ITEM 17

For each KMP a disclosure of share options held at the beginning and end of the year along with the different movements during the year is required. This is often referred to as a 'roll-forward' disclosure. The in-substance options from ESL's should be included in these disclosures until settlement of the non-recourse ESL.

When the non-recourse ESL is repaid, the shares are included as "shares received during the year on exercise of an option" in the shareholding movement table.

3.1.5 What is disclosed when a KMP repays their non-recourse ESL?

REG2M.3.03 (1) ITEM 16

As the ESL is an in-substance share option, the repayment is disclosed as an exercise of the option in the roll-forward of the in-substance share option. In addition, the shares are included as "shares received during the year on exercise of an option" in the shareholding movement table. The amount paid on exercise of the in-substance option (i.e. the loan value at repayment date) should also be disclosed.

3.1.6 What is disclosed when a KMP does not repay their non-recourse ESL and walks away from the arrangement?

As the non-recourse ESL is accounted for as an in-substance share option, when the non-recourse ESL is not repaid, this event is included as lapsed or forfeited options in the share option movement table, depending on the circumstances of the ESL.

3.2 Modifying share-based payment awards

3.2.1 What is considered to be a modification to a SBP award?

Modifications are changes to terms and conditions of SBP transactions granted to a KMP.

Modifications may impact:

- the number of instruments granted
- the exercise price of an option
- the service period required from the KMP to vest in the SBP award
- the performance hurdles the KMP, or organisation must achieve for the KMP to vest in the SBP award
- how the SBP award will be settled – from equity to cash, from cash to equity, or adding settlement options.

3.2.2 How is a modification to a SBP award accounted for and disclosed in the statutory remuneration table?

Modifications are only accounted for and the fair value of the award updated if the modification is beneficial to the employee (e.g. increase in instruments granted, shorter service period etc). Any incremental fair value resulting from the modification will be recognised as an additional expense over the remaining vesting period. Where no further services are required from the KMP, but the KMP may still vest in the award (e.g. they remain on foot subject to the achievement of a future TSR hurdle) the expense related to these awards would be "accelerated" and brought forward to the current year. This will result in additional SBP remuneration in the statutory remuneration table.

Modifications can lead to significant variations in the SBP remuneration disclosed in the year of modification compared to previous years. In these instances, footnotes to the statutory remuneration table explaining the impact of the modification would provide useful contextual information.

When modifications are non-beneficial, there is no change to the amount recognised as an expense based on the grant date fair value of the original award in either the current year, or future financial statements. Accordingly, no change to the amount of remuneration disclosed as SBP in the statutory remuneration table is made.

3.2.3 Are organisations required to make specific disclosures when they modify SBP awards?

REG2M.3.03 (1) ITEM 14

Yes. The Regulations require specific disclosures about the details and impacts of the modification, including the fair value of the award before and after the modification.

When there is a non-beneficial modification, we consider it reasonable to omit disclosure of the difference in fair value in the Remuneration Report, consistent with the decrement in fair value at modification date not being recognised (refer to question 3.2.2). However, the remaining disclosures should be provided.

Modifications can sometimes result in significant additional expense recognised in the financial statements and disclosed as additional remuneration for the KMP. Although not mandatory, a well communicated explanation for why the modification was considered appropriate, how the modification relates to the broader remuneration strategy, linkage to the organisation's performance and the factors driving the increase in the fair value (and additional remuneration) would encourage stakeholder support for the modification.

For as long as the SBP award is outstanding, organisations should continue to provide the modified terms in the overview of the terms and conditions of the award.

3.2.4 Is there a modification if the organisation changes what it includes or excludes from a non-IFRS based performance hurdle?

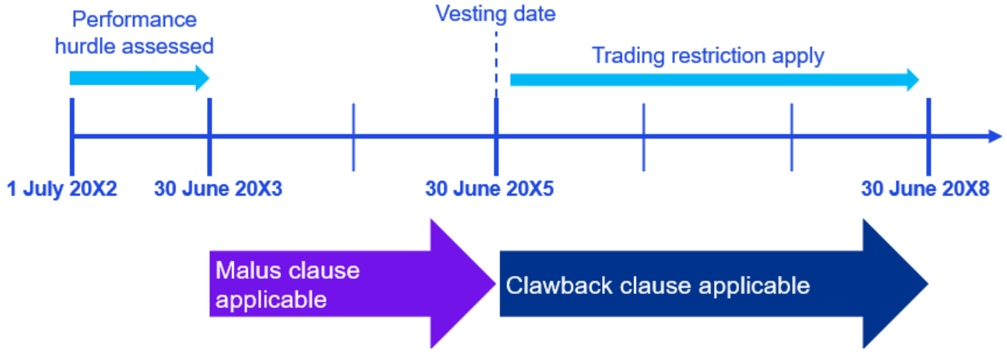
Organisations might use performance hurdles such as underlying profit or other non-IFRS measures as performance hurdles in SBPs. These measures often align with how the organisation evaluates and communicates its performance to shareholders in the operating and financial review and analyst presentations. (Refer to question 1.3.2)

Where organisations make “new” adjustments in their underlying profit for the purposes of assessing performance, they will need to consider whether this will trigger a modification to the SBP award. Whether this change triggers a modification or not will require judgement and will depend on the specific facts and circumstances. In our view, the guiding principle is whether the KMP had an understanding and expectation at the grant date that these adjustments might be made to the performance hurdle incorporated into their awards. If the KMP had this understanding and expectation, the change will likely not be a modification.

If the KMP did not have this understanding or expectation, the change will likely be a modification and the disclosures discussed in question 3.2.2 and 3.2.3 required.

3.3 Malus and clawback clauses

Often seen in SBP awards and sometimes in cash awards, malus clauses provide the organisation with discretion to adjust an award downwards during its vesting period, if matters arise that in the organisation's opinion indicates the award previously granted is no longer appropriate. Clawback clauses are similar but typically apply once an award is fully vested but is still subject to trading restrictions.



When malus and clawback clauses will be triggered depend on the specific terms in the award agreement. Types of events that may trigger the enactment of these clauses could include fraud, significant misconduct, or material restatements of financial statements.

3.3.1 Should the existence of malus and clawback clauses in awards be disclosed?

Yes. The existence of these clauses demonstrates good governance and as such should be disclosed as part of the organisation's remuneration policy and the terms and conditions of KMP awards.

Malus and clawback clauses are important features of the remuneration arrangement with the KMP, imposing requirements to provide service to the organisation of a particular standard during the specified period. As these clauses may result in a reduction to the previously granted award, it is important for readers to understand the additional requirements on the KMP and the circumstances under which the clauses could be enacted and the consequent impact on remuneration.

3.3.2 Should enactment of the malus or clawback clause be disclosed?

Malus and clawback clauses are generally only enacted for very significant matters. These matters are typically discussed elsewhere in the Annual Report and would generally have been announced to the market previously, possibly through continuous disclosure requirements. Due to the significant nature of the events triggering the exercise of the clauses, it is generally in the organisation's interest to be upfront about and disclose the enactment of these clauses, the circumstance of the enactment and the consequential impact on remuneration. This demonstrates to readers that the organisation is dealing with the misconduct, and that there are penalties to the KMPs in question.

3.3.3 Does the enactment of a malus or clawback clause result in a restatement of the prior year Remuneration Report?

Generally, no. While enactment of malus clauses typically arises from historical events that come to light sometime later, this does not mean the accounting for the award and the remuneration disclosed in previous Remuneration Reports is inappropriate and required to be restated. Accounting for the SBP and/or bonuses are based on estimates at year-end based on the latest available reliable information at that point in time. It is assumed in the prior year; the organisation did not have an expectation of enacting the malus clause. Therefore, in our view, the appropriate treatment is to consider the adjustments for malus clauses as revisions to an estimate which are recognised in the year the clause is enacted.

Similarly, there will generally[2] be no impact on the prior year comparatives when a clawback clause is enacted. (Refer to question 3.3.6)

3.3.4 How is the enactment of a malus clause presented in the statutory remuneration table?

As a revision of an estimate, the enactment of a malus clause in a cash bonus will result in a reduced or possibly even negative remuneration in the current year cash bonus or other long term benefit category, consistent with how the adjusted category was originally disclosed in prior years.

Similarly, for a SBP award, if the KMP is still an employee, the enactment of a malus clause would generally be considered a forfeiture of the award. As a forfeiture, the previously recognised remuneration is reversed, possibly resulting in negative SBP remuneration in the current year statutory remuneration table, depending on what other SBP awards impact remuneration in the current year. (Refer to question 2.1.9)

For transparency, we recommend footnoting the SBP or bonus amounts in the statutory remuneration table to explain how these amounts have been impacted by the enactment of the malus clauses. (Refer to question 3.3.2)

3.3.5 How is the enactment of a clawback clause presented in the statutory remuneration table?

In our experience, clawback clauses usually arise in SBP awards. As clawback clauses apply after the award has vested, in our view, they are considered non-vesting conditions and the probability of them being enacted is factored into the grant date fair value of the award. Consequently, there is no subsequent adjustment to remuneration that is recognised when the clawback clause is enacted[2].

[2]Further assessment may be required if the event resulting in the clawback being enacted is a restatement of prior period financial statements.

3.3.6 What other disclosures in the Remuneration Report might need to be updated for malus and clawback clauses?

Other impacts of enacting a malus or clawback clause will depend on the nature of the award affected. There may be impacts on the disclosures of the options or shares held. Where relevant these should be shown as forfeitures in appropriate tables and footnoted to explain the movement.

Where the enactment of the clause impacts the award of shares and the shares have not yet vested, there should be no need to adjust the shareholding table itself, as the shares should not have been included in that table until they have vested. However, it may still be useful to include a footnote to explain why there is no impact.

Where organisations disclose remuneration on a non-statutory basis, consideration will need to be given to how the enactment of the malus or clawback clauses are reflected. The treatment will depend on how the organisation has defined and constructed their non-statutory remuneration basis of preparation. It may be possible to restate the comparative year of the non-statutory remuneration table, however clear disclosure of the approach adopted will be key. (Refer to question 1.1.4)

3.4 Deferred short-term incentive arrangements

Deferred short-term incentives (deferred STIs) are often incorporated in KMP compensation packages. A deferred STI is a hybrid plan that combines awards payable or potentially payable under an annual cash bonus plan with a long-term incentive (LTI) share plan.
Under these plans, generally:

- a portion of the STI is paid in cash soon after the performance period – "Cash component"
- a portion is delivered in equity instruments subject to continued employment – "Deferred component."

3.4.1 What accounting standards apply to deferred STIs?

Two accounting standards are applicable to deferred STIs:

- the cash component is accounted for under the employee benefits standard, AASB 119 since it meets the definition of a short-term employee benefit, and
- the deferred equity component is accounted for under the share-based payment standard, AASB 2 since the remuneration is settled in equity instruments for services provided.

3.4.2 How is a deferred STI accounted for?

Cash component
The cash component is recognised as an expense over the period the KMP provide services. Generally a performance condition is present in the plan for the KMP to receive the cash bonus (e.g. achieving a certain profit target). Therefore, the organisation assesses the probability (i.e. more likely than not) of whether the KMP will meet the performance condition. If the performance condition is not expected to be met, then no expenses are recognised.

In practice, the cash bonus is paid two to three months after the end of the performance period conditional on the KMP remaining in service until the payment date ("loyalty" period). Therefore, an estimate for any forfeitures expected in this loyalty period is also made in determining the expense to recognise.

In our view, as the cash bonus is dependent on whether the KMP will meet performance conditions during a service period, the expense is spread across the service period (i.e. the performance assessment period) and not including the "loyalty" period.

Deferred component
The grant date fair value of an equity-settled SBP arrangement is expensed over the vesting period. Normally this is the period between the grant date and the vesting date. However, the accounting standard acknowledges that expenses associated with services are recognised when they are received and that in practice the grant date may occur after the employees have begun rendering service. In this instance, the expenses will need to be recognised from the service commencement date until the vesting date.

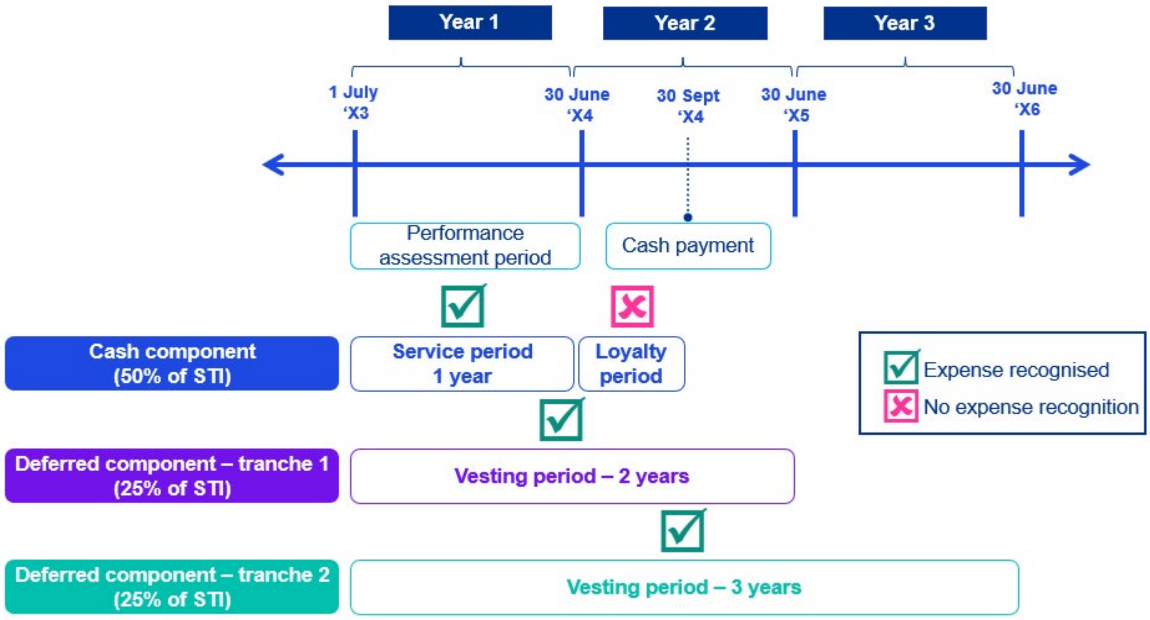
Organisations might also grant the deferred component in multiple tranches that are deferred for different periods. In this instance, organisations will need to apply a graded-vesting approach which results in amounts for all tranches being expensed from the commencement of the service period (i.e. front-loaded expense) until the end of each tranche's vesting period, which is illustrated in the example scenario below.

Example scenario

An organisation provides its KMPs with a deferred STI subject to the KMP achieving certain performance targets, which is assessed from 1 July 20X3 to 30 June 20X4.

The STI awarded is to be paid 50% in cash on 30 September 20X4 and 50% in equity which is deferred based on continued service and has two tranches. The first tranche (25% of the STI) and second tranche (25% of the STI) is deferred for one year (to 30 June 20X5) and two years (to 30 June 20X6) respectively.

The below diagram illustrates the timing of expense recognition for both the cash and deferred equity components.



3.4.3 What disclosures are required for deferred STIs?

REG2M.3.03 (1) ITEM 6 The cash and deferred components are assessed separately when determining the required disclosures.

The cash component is disclosed in the 30 June 20X4 financial year as part of "short-term cash bonus" in the statutory remuneration table.

The deferred equity component is disclosed in the following sections of the Remuneration Report:

REG2M.3.03 (1) ITEM 11
- In the statutory remuneration table, as part of the "equity-settled share-based payments." Using the diagram in question 3.4.2 as an example, expenses related to 50% of tranche 1 and 33% of tranche 2 will be included in the 30 June 20X4 statutory remuneration table.

REG2M.3.03 (1) ITEM 12 The terms and conditions of the deferred component affecting compensation in the reporting period or future reporting period are required to be disclosed.

REG2M.3.03 (1) ITEM 17 - 18
- The number of equity instruments related to the deferred STI held directly or indirectly by each KMP is disclosed as part of equity roll-forward to show the movements throughout the reporting period. (Refer to question 1.3.8)

The expense related to the deferred component is recognised in multiple financial years into the future dependent on the vesting period profile. Further, where organisations award new deferred

STIs in the future, there will be additional expenses relating to the new plan that will also be included in the statutory remuneration table in line with the recognition of the expense. For example, if a similar arrangement is awarded for the year ended 30 June 20X5, then the "equity-settled share-based payment" amounts will include 50% of tranche 1 related to the 30 June 20X5 award, 50% of tranche 1 related to the 30 June 20X4 award, 33% of tranche 2 related to the 30 June 20X5 award and 33% of tranche 2 related to the 30 June 20X4 award.

Refer to Section 2 for an example of the statutory remuneration table structure.

3.5 'Two strikes' rule

260R (2) At each AGM, shareholders cast a non-binding vote on the adoption of the Remuneration Report. If more than 26 percent of the votes cast in the non-binding vote are against the adoption of the Remuneration Report, the organisation has a 'first strike'. If at the AGM immediately following that where the first strike occurred, more than 26 percent of the votes cast in the non-binding vote are, once more, against the adoption of the Remuneration Report, the organisation has a 'second strike'.

Where a second strike against the Remuneration Report is received, a resolution to hold fresh elections for directors at a special meeting is put to vote at the AGM (a spill vote). If successful, the spill vote requires another separate spill meeting to be held within 90 days of the AGM, where the entire board, except for a managing director, is required to resign and seek re-election. A director must receive at least 60 percent of the votes cast to get re-elected.

3.5.1 What are the required disclosures when an organisation receives a first strike against the Remuneration Report?

300A(1)(G) The Remuneration Report that is presented the year following the first strike must provide an explanation of their proposed action in response to the first strike, or, if they do not propose any action, the reasons for inaction.

The organisation will need to understand the reasons behind the 'no vote.' Engagement with the relevant shareholders, investor groups and/or proxy advisors will be critical in gaining this understanding. In some circumstances, the strikes are received for reasons unrelated to the Remuneration Report, however the Remuneration Report strike is the shareholders best mechanism to signal their dissatisfaction. The organisation can then consider the concerns raised and either:

- Adjust the remuneration framework to address shareholder concerns and explain the adjustments, with supporting rationale, or
- Communicate why they consider the chosen framework to be appropriate.

Organisations in such a situation may wish to seek advice from their KPMG Advisor when responding to a strike.

3.5.2 What areas are typically addressed by directors in the disclosures to alleviate shareholder concerns?

Many strikes received by companies reflect dissatisfaction with transparency and accountability of KMP's remuneration. This is particularly the case when an organisation's performance appears misaligned with the remuneration received by the KMPs, or there is no obvious remuneration consequence for behaviour that is viewed to be inconsistent with societal norms and/or shareholder expectations.

In most cases, organisations make a clear statement of the percentage of votes cast against the adoption of the Remuneration Report at the previous AGM.

Organisations should also outline the process of engagement undertaken with shareholders, investors, and proxy advisors. This allows them to summarise the key areas of concern that led to the first strike and the organisation's response to those concerns. In addressing the concerns raised, organisations may engage specialist remuneration consultants.

3.5.3 Where in the Remuneration Report should an organisation disclose their response to a first strike?

300A(1)(G) An organisation is required to include its response to a first strike in the Remuneration Report, however, there is no specified location within the report.

Organisations should be open and transparent in their disclosures, to help reduce the risk of receiving a second strike. Accordingly, they typically address the issue upfront in the introduction to the Remuneration Report, with the detailed response in a separate section of the report. Organisations also tend to address the matter elsewhere in the front part of the Annual Report, in either or both the Chairman's Review and Chief Executive Officer's Review.

3.5.4 Are there any specific disclosures required after an organisation receives a second strike?

Unlike a first strike, there is no specific disclosure requirements in the Remuneration Report after an organisation has received a second strike. However, if there are further adjustments to the remuneration policy, then in our view, it would be appropriate to include disclosures consistent with the required first strike disclosures.

In addition, if the spill of the Board results in any directors not being re-elected, it is likely to be relevant to make reference to the second strike in any of the disclosures around their departure.

Detailed List of Questions

Contact us

Publication

Kim Heng
Partner, Audit, Assurance &
Risk consulting
+61 2 9455 9120
kheng@kpmg.com.au

Anita Pozo-Jones
Director, Audit, Assurance &
Risk consulting
+61 2 9335 7201
apozojones1@kpmg.com.au

Natalie Rooney
Senior Manager, Audit,
Assurance & Risk consulting
+61 3 9838 4108
nrooney1@kpmg.com.au

Steffany Kurniasari
Manager, Audit, Assurance &
Risk consulting
+61 2 9455 9653
skurniasari1@kpmg.com.au

Remuneration

Ben Travers
Partner,
Performance & Reward
+61 3 9288 5279
btravers1@kpmg.com.au

Tim Nice
Partner,
Performance & Reward
+61 2 9335 8049
timnice@kpmg.com.au

Andrew Holland
Director,
Performance & Reward
+61 3 9288 6612
aholland1@kpmg.com.au

Rachel Tucker
Director,
Performance & Reward
+61 3 9288 5732
rtucker1@kpmg.com.au

KPMG.com.au