



# Insights into Remuneration Reporting

KPMG's practical guide to  
Remuneration Reporting

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# Insights into Remuneration Reporting

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.

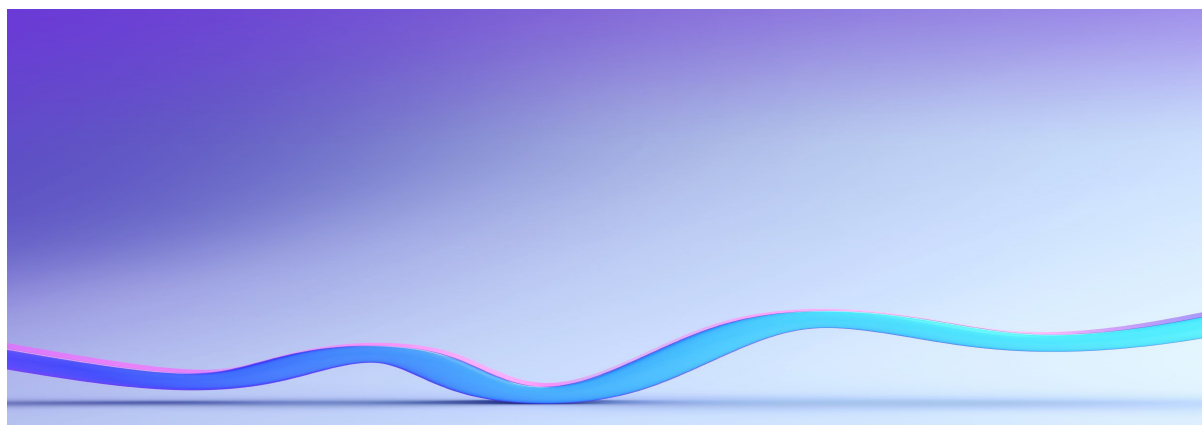
This Guide considers some of the main requirements of the *Corporations Act (2001)* and other related regulations and rules. It provides guidance to help ensure that you produce Remuneration Reports that are effective communication tools, aspiring to align with best practice, and which ultimately comply 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.

The primary purpose of this Guide is to support preparers of Remuneration Reports for listed disclosing entities. Section 4 contains guidance specifically tailored for Registrable Superannuation Entities (RSEs). Overall, the guidance provided in this publication is generally applicable to RSEs unless specific guidance is provided in Section 4. For additional clarity, in the Detailed List of Questions section, FAQs that do not directly apply to RSEs are marked with a hashtag (#) while FAQs for which specific RSE guidance have been provided are marked with an asterisk (\*).



## Key terms

The following terms have been used throughout this Guide:

<i>AASB 2</i>	<i>Share-based Payment</i>
<i>AASB 119</i>	<i>Employee Benefits</i>
<i>AASB 124</i>	<i>Related Party Disclosures</i>
<i>Act</i>	<i>Corporations Act (2001)</i> <sup>1</sup>
<i>Grant date</i>	Date when the fair value of the share-based payment is measured.
<i>KMP</i>	Key Management Personnel – these are the individuals that are included in the Remuneration Report (Refer <a href="#">3.3.1</a> ).
<i>Legislation</i>	Collectively refers to both the <i>Corporations Act (2001)</i> and section 2M.3.03 of <i>the Corporations Regulations (2001)</i> which together form the legislative framework covering the Remuneration Report. (Refer <a href="#">1.1</a> )
<i>Regulations</i>	<i>Corporations Regulations (2001)</i>
<i>SBP</i>	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: <ul style="list-style-type: none"><li>• equity instruments (including shares and share options) of the organisation or another group entity; or</li><li>• 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.</li></ul>
<i>Vesting conditions</i>	Conditions that determine whether the organisation receives the required services from the KMP. Vesting conditions are subdivided into: <ul style="list-style-type: none"><li>• service conditions where KMPs are required to complete a specific period of service</li><li>• performance conditions where KMPs are required to meet specified performance targets and to complete a specific period of service.</li></ul>
<i>Vesting period</i>	Period over which all performance and service conditions associated with the SBP are satisfied resulting in the KMP becoming unconditionally entitled to the SBP.

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<sup>1</sup> Corporations Act (2001) is based on compilation No. 141, which was compiled on 17 March 2025 including amendments up to Act No. 87, 2024

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The background of the slide is an abstract composition of vibrant blue and purple light streaks. These streaks originate from the bottom right corner and fan out towards the top left, creating a sense of dynamic movement and depth. The colors transition from deep blue to bright purple and white highlights, giving it a futuristic or high-tech appearance.

# **1. General overview**

# 1.1 Scope and form of the Remuneration Report

## 1.1.1 What rules govern the disclosures in the Remuneration Reports of listed disclosing entities?

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 [s.300A(2)]. 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?

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 [s.300A(1)]. However, the Remuneration Report is a key tool for communicating with 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 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 [2.2.4](#)) 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 [1.3.1](#) and [1.3.2](#)), the letter should also address how the organisation has addressed the issues driving the strike in the current year. While not mandatory, it is also common for the cover letter to be used to flag any prospective remuneration changes for the coming year.

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 [3.1](#)) and other statutory disclosures are included towards the back of the Remuneration Report.

### Related FAQs

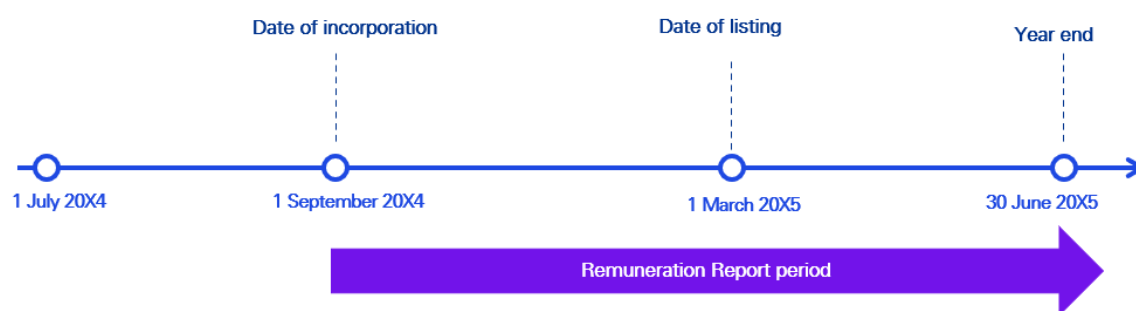
#### 1.1.7 Can information be cross referenced from the financial report to the Remuneration Report?

### 1.1.3 When a company lists during the current financial year, what date does the Remuneration Report start from?

When a company lists during the financial year, it is a listed disclosing entity at year-end and therefore the company must provide a Remuneration Report as part of the Directors Report for that financial year [s.300A(1),(2)]. The first financial year for a disclosing entity starts on the day on which it is registered or incorporated while subsequent financial years start at the end of the previous financial year [s.323D(1),(2)]. Therefore, the Remuneration Report for a newly listed company is for the period from incorporation or the earliest comparative period, whichever is later, and not from the date of listing.

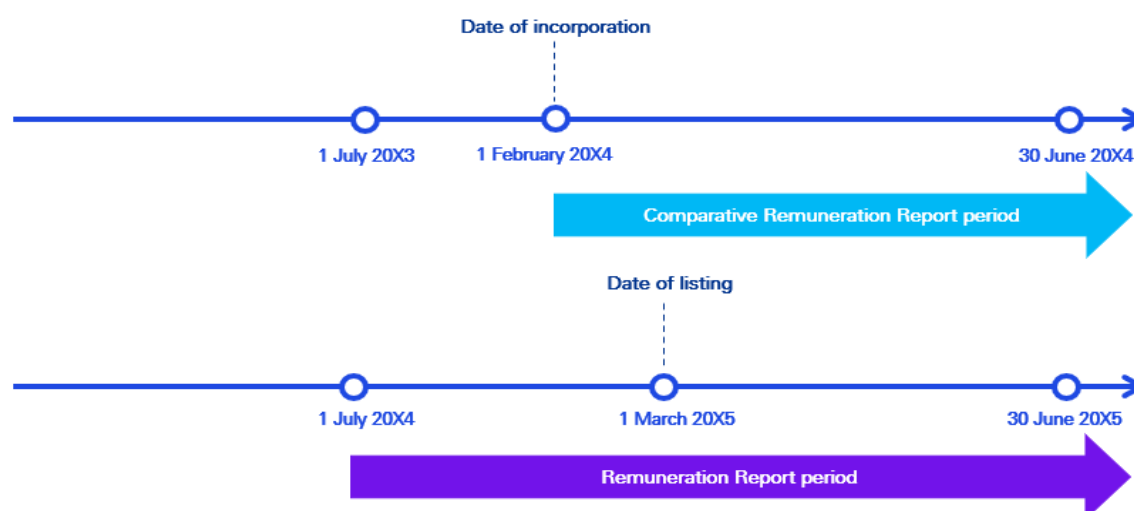
If the company is incorporated and lists in the same financial year, the Remuneration Report begins from the date of incorporation, as illustrated in scenario 1 below.

*Scenario 1: Company incorporated in September 20X4, listed in March 20X5 and year end 30 June 20X5*



If the date of incorporation is in the previous financial year, the comparative information begins from the date of incorporation as illustrated in scenario 2.

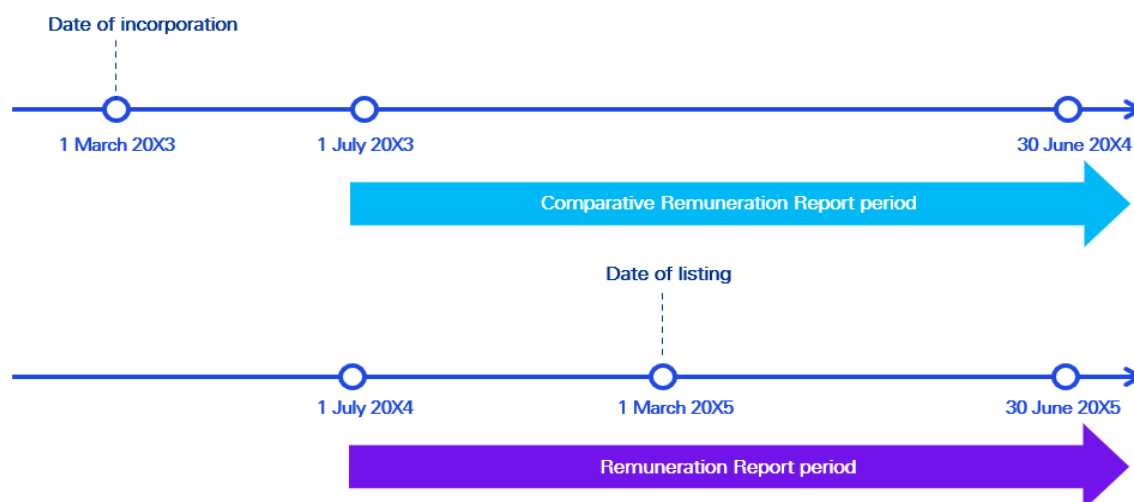
*Scenario 2: Company incorporated in February 20X4 and listed in March 20X5*





If the date of incorporation is before the beginning of the previous financial year, the comparative information begins from the beginning of the comparative year as illustrated in scenario 3.

*Scenario 3: Company incorporated in March 20X3 and listed in March 20X5*



**Related FAQs**

1.1.4 Is the five-year summary of the organisation's performance required where a company lists during the current or preceding four financial years?

### 1.1.4 Is the five-year summary of the organisation's performance required where a company lists during the current or preceding four financial years?

Yes. The Act requires companies to discuss the relationship between their remuneration policies and company's performance in the current and four previous financial years [s.300(A)(1AA)]. The Act further mandates specific performance measures to be disclosed including earnings, dividends and share price. No exemption is provided for the periods before the organisation was listed. Therefore, these disclosures are required for the current and previous four financial years unless they are not relevant to the particular organisation (e.g. a newly listed entity would not have a share price in the preceding financial periods).

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).

**Related FAQs**

1.1.3 When a company lists during the current financial year, what date does the Remuneration Report start from?

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

### 1.1.5 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.

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 [ASIC Instrument 2016/190].

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

### 1.1.6 What role do accounting standards have in Remuneration Report disclosures?

Under the Regulations, the mandatory quantitative disclosures required in the Remuneration Report should reflect the requirements of relevant accounting standards [Reg 2M.3.03(4)]. This applies to the recognition, measurement, and classification of the remuneration information. As such, the information in the Remuneration Report should align with the financial statements. The relevant accounting standards are generally, AASB 119, AASB 124 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 [Reg 2M.3.03(5)]. Accordingly, understanding how the different elements of remuneration are accounted for under the 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 component 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 [3.4.1.1](#) & [3.4.4.4](#))

Unless comparative remuneration information in the statutory remuneration table has not been presented for KMPs who departed in the previous year, the remuneration disclosed in the statutory remuneration table should reconcile to the total remuneration paid to KMPs in the financial statements required by AASB 124. (Refer to [3.3.7](#))

## 1.1 Scope and form of the Remuneration Report

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.

### Related FAQs

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

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

3.4.1.3 What factors are considered in determining whether, and how much, travel and accommodation costs are to be included in KMP remuneration?

3.3.7 Which KMPs are included in the comparative year disclosures?

## 1.1.7 Can information be cross referenced from the financial report 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.

<b>Remuneration Report</b>	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 report.
<b>Financial Report</b>	In order for the financial report to comply with the Act, give a true and fair view of the organisation's financial position at reporting date and financial performance for the year, and complies with Australian 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 report, 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 report or the operating and financial review.

### Related FAQs

1.1.2 How should the Remuneration Report be structured?

1.2.1. Is the Remuneration Report required to be audited?

1.2.2 How does the audit of the Remuneration Report differ from the audit of the financial report?



### 1.1.8 What is the difference between the directors or five highly remunerated officers' disclosure requirements in the Director's report and the Remuneration Report?

The Act requires the Director's report of listed disclosing entities 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) [s.300(1)(d)(ii)]. Those disclosures must cover:

- options over unissued shares and interests of the Company, registered scheme or disclosing entity; and
- 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 [s.300(3)].

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 [s.300(3)-(5)].

Where these officers are KMP, such information would normally be included in the Remuneration Report. However, the additional disclosure above is required in the Directors' report where the options were granted to officers who are among the five most highly remunerated officers of the organisation but are not KMP and therefore not disclosed in the Remuneration Report.

Furthermore, the additional disclosures are required where options were issued since the end of the financial year to these highly remunerated officers [s.300(1)(d)]. To the extent the disclosures regarding options issued since the end of the financial year relate to officers who are KMPs, then we suggest this disclosure is included in the Remuneration Report in order to meet these requirements.

It is important to note that the disclosure requirements in the Directors' report extend to options only while the disclosures required as part of the Remuneration report include both options and rights.

For an example disclosure within the Directors report refer to the [KPMG Example Public Guide](#) to annual reports Illustrative disclosures 2024-2025, note 12 footnote (b) of the Director's Report.

#### Related FAQs

2.1.2 What information must be disclosed about changes to remuneration policies and plans after reporting date but before the Remuneration Report is issued?

### 1.1.9 Do stapled trusts need to prepare a Remuneration Report?

A stapling arrangement is one where two entities (typically at least one of which is a trust) are contractually bound together such that the shares / units of the two entities cannot be bought or sold separately. For example, if a trust and company were stapled together and a person / entity wanted to invest, then each security purchased would consist of one unit in the trust and one share of the company.

For financial reporting purposes the contractual arrangement is treated as a business combination by contract alone under AASB 3 *Business Combinations* and when preparing consolidated financial statements one of the stapled entities needs to be deemed as the parent.

The requirements in s.300A of the Act to prepare and have audited, a Remuneration Report applies to all Australian companies that are listed disclosing entities; therefore, trusts are excluded from this reporting requirement.

On this basis where:

- the 'deemed parent' is a company, then s.300A would apply and a Remuneration Report should be prepared and audited for the consolidated stapled group; or
- the 'deemed parent' is a trust, then s.300A would apply only to the Australian company and its controlled entities. A Remuneration Report for the consolidated stapled group would not be required.

However, when not required by the Act, an entity could elect to voluntarily prepare a Remuneration Report if it would provide useful information to users. We observe that in practice stapled entities that contain at least one Australian company, typically prepare a Remuneration Report for the entire consolidated stapled group, even if the deemed parent is a trust.

Where an entity decides to voluntarily prepare a "Remuneration Report" and call it such in their Director's Report, then in our view, that report should comply with the full requirements of the Act.

## 1.2 Audit of the Remuneration Report

### 1.2.1 Is the Remuneration Report required to be audited?

Yes. The Remuneration Report of listed disclosing entities is required to be audited [s.308(3C)]. 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 s.300A 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.

### Related FAQs

1.1.7 Can information be cross referenced from the financial report to the Remuneration Report?

1.2.2 How does the audit of the Remuneration Report differ from the audit of the financial report?

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

## 1.2.2 How does the audit of the Remuneration Report differ from the audit of the financial report?

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 report.

In the auditor's report of the Remuneration Report, the auditor reports to members on whether, in the auditor's opinion, the Remuneration Report complies with s.300A of the Act.

In the auditor's report of the financial report, the auditor reports to members on whether, in the auditor's opinion, the financial report is in accordance with the Act, gives a true and fair view of the organisation's financial position at reporting date and financial performance for the year and complies with Australian Accounting Standards.

While some of the content of the Remuneration Report, such as total KMP remuneration, is also in the financial report, 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 report as a whole.

### Related FAQs

1.1.7 Can information be cross referenced from the financial report to the Remuneration Report?

1.2.1 Is the Remuneration Report required to be audited?

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

## 1.2.3 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 in nature (i.e. narrative information is misstated or there is required information omitted from the disclosure).

If a material misstatement is 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.

Beyond reporting to those charged 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 ASIC [s.311].

### Related FAQs

[1.2.1 Is the Remuneration Report required to be audited?](#)

[1.2.2 How does the audit of the Remuneration Report differ from the audit of the financial report?](#)

[1.2.4 What are the considerations if an error is identified in the prior year's Remuneration Report?](#)

## 1.2.4 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 the prior year with their auditors to assess whether it is quantitatively or qualitatively material for the Remuneration Report. 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 require 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.

### Related FAQs

[1.2.1 Is the Remuneration Report required to be audited?](#)

[1.2.2 How does the audit of the Remuneration Report differ from the audit of the financial report?](#)

[1.2.3 What obligations does an auditor have if they consider that the Remuneration Report is not in compliance with the Act?](#)

## 1.3 Strikes against the Remuneration Report

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

At each AGM, shareholders cast a non-binding vote on the adoption of the Remuneration Report [s.250R(2)]. If at least 25 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, at least 25 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 [s.250U,V,W].

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 and may instead be a reflection of a broader 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.

The Remuneration Report that is presented the year following the first strike must provide an explanation of the proposed action in response to the first strike, or, if there are no proposed actions, the reasons for inaction [s.300A(1)(g)].

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 early in 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.

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

#### Related FAQs

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

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

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

Most strikes received by companies reflect dissatisfaction with an aspect of KMP 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.

#### Related FAQs

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

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

### 1.3.3 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.

#### Related FAQs

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

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





## **2. The Remuneration Report**

## 2.1 General content

### 2.1.1 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 [1.1.6](#)). 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 [3.1](#))

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 [3.4.2.2](#))

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.

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.

## Insights into Remuneration Reporting

### 2.1 General content

Below is an extract from the NAB Group 2024 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.

#### 4.6 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 2024. The amounts shown include fixed remuneration, and equity and cash-based awards that vested in 2024. The table provides shareholders with enhanced transparency of remuneration received by Executives. The table is not prepared in accordance with Australian Accounting Standards and this information differs from the statutory remuneration table (in Section 6).

Name		2024			Prior years		Total realised remuneration	Equity forfeited / <sup>(4)</sup> lapsed <sup>(2)</sup>
		Fixed remuneration <sup>(1)</sup>	Annual VR cash	Total 2024 Performance remuneration	LTI Performance Rights <sup>(2)</sup>	Other vested/ paid <sup>(3)</sup> remuneration <sup>(2)</sup>		
		\$	\$	\$	\$	\$	\$	\$
<b>Group CEO</b>								
Andrew Irvine (for part year)	2024	1,237,544	506,250	1,743,794	-	-	1,743,794	-
<b>Group Executives</b>								
Sharon Cook	2024	960,525	364,500	1,325,025	916,259	207,623	2,448,907	-
	2023	966,371	460,097	1,426,468	-	421,622	1,848,090	-
Shaun Dooley	2024	1,295,518	386,100	1,681,618	1,018,065	208,579	2,908,262	-
	2023	1,219,188	435,881	1,655,069	-	121,496	1,776,565	-
Nathan Goonan	2024	1,163,769	571,050	1,734,819	-	202,008	1,936,827	-
	2023	972,004	532,508	1,504,512	-	196,018	1,700,530	-
Andrew Irvine (for part year)	2024	627,067	251,797	878,864	-	1,447,626	2,326,490	-
	2023	1,220,937	719,550	1,940,487	-	1,060,691	3,001,178	-
Les Matheson	2024	1,187,613	480,938	1,668,551	-	218,912	1,887,463	-
	2023	1,068,057	532,744	1,600,801	-	113,708	1,714,509	-
Rachel Slade	2024	1,261,151	526,500	1,787,651	1,191,136	341,930	3,320,717	-
	2023	1,220,937	664,200	1,885,137	-	577,998	2,463,135	-
Patrick Wright	2024	1,539,185	622,688	2,161,873	1,985,257	418,982	4,566,112	-
	2023	1,526,171	795,656	2,321,827	-	2,099,910	4,421,737	-
Daniel Huggins	2024	1,195,010	565,176	1,760,186	-	741,500	2,501,686	-
	2023	1,141,636	608,240	1,749,876	-	187,776	1,937,652	-
Sarah White	2024	900,987	382,725	1,283,712	-	76,971	1,360,683	-
	2023	105,814	-	105,814	-	-	105,814	-
Ana Marinkovic (for part year)	2024	486,977	157,795	644,772	-	1,007,445	1,652,217	-
Cathryn Carver (for part year)	2024	289,679	105,366	395,045	-	1,172,428	1,567,473	-
<b>Former Group Executives</b>								
Ross McEwan (for part year)	2024	1,265,753	511,783	1,777,536	-	719,353	2,496,890	-
	2023	2,494,509	1,350,000	3,844,509	-	432,063	4,276,572	-
David Gall (for part year)	2024	1,566,691	449,152	2,015,843	1,588,212	363,411	3,967,466	-
	2023	1,220,965	691,875	1,912,840	-	234,448	2,147,288	-
Angela Mentis (for part year)	2024	730,096	-	730,096	1,588,212	362,148	2,680,456	-
	2023	1,834,347	608,850	2,443,197	-	1,225,383	3,668,580	-
Susan Ferrier	2023	1,376,319	329,598	1,705,917	-	118,051	1,823,968	-
Gary Lennon	2023	1,681,268	583,481	2,264,749	-	520,867	2,785,616	-

(1) Includes cash salary, superannuation and payments on separation consistent with the statutory remuneration table in Section 6.1, excluding accrued annual leave entitlements.

(2) The value of equity awards is calculated using NAB's closing share price on the vesting or forfeiture or lapsing date.

(3) Amounts related to other vested equity or cash-based remuneration from prior years. This includes VR deferred rights, commencement awards, shares received under the General Employee Share Offer and dividends accumulated during the vesting period on VR vesting in the year. Details of the vested equity awards are provided in Section 6.2.

(4) Awards or remuneration lapsed or forfeited during 2024. Details of the awards are provided in Section 6.2.

Reference: Pg. 141, NAB 2024 Annual Report



## 2.1 General content

Below is an extract from the Telstra 2024 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 FY24 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 FY24 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. 72, Telstra Annual 2024 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.

### 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.



### Related FAQs

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

## 2.1.2 What information must be disclosed about changes to remuneration policies and plans after reporting date but before the Remuneration Report is issued?

Generally, disclosures in the Remuneration Report relate to events impacting remuneration that have occurred during the current year. However, 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.

### Related FAQs

1.1.8 What is the difference between the directors or five highly remunerated officers' disclosure requirements in the Director's report and the Remuneration Report?

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

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 [s.300(A)(1AA) and (1AB)].

If a measure of performance has been selected as a performance hurdle for a KMP's variable remuneration (refer to [2.2.1](#)), this is an indication the organisation sees the measure as a key measure of its overall performance. Accordingly, it follows that the relevant measure is included in the five-year summary of the organisation's overall performance and additional footnotes might be added to explain how it is derived when non-IFRS measures are one of the relevant measures used (e.g adjusted profit excluding impairment).

## 2.1 General content

The following extract from Westpac's 2024 Remuneration Report, shows the five-year summary of performance, including measures used in their variable remuneration such as net profit after tax (excluding notable items), return on tangible equity (excluding notable items) and TSR.

3.1. Group performance					
The table below summarises variable reward outcomes and Group performance over the last five years.					
	2024	2023	2022	2021	2020
CEO STVR outcome (% of maximum) <sup>a</sup>	83%	60%	52%	47%	0%
CEO STVR outcome (% of target) <sup>b</sup>	104%	90%	78%	70%	0%
Average Group Executive STVR outcome (% of maximum) <sup>a</sup>	82%	60%	53%	48%	0%
Average Group Executive STVR outcome (% of target) <sup>b</sup>	102%	89%	79%	73%	0%
LTVR outcome (% vested)	50%	0%	0%	0%	0%
Net profit after tax attributable to owners of WBC (\$m)	6,990	7,195	5,694	5,458	2,290
Net profit after tax (excluding Notable Items) (\$m) <sup>c</sup>	7,113	7,368	6,568	6,953	5,227
Return on tangible equity (ROTE) (statutory basis)	11.01%	11.39%	9.17%	8.82%	3.92%
Return on tangible equity (ROTE) (excluding Notable Items) <sup>c</sup>	11.21%	11.67%	10.58%	11.23%	8.95%
TSR – four years	113.10%	(9.27%)	(11.15%)	(1.95%)	(27.28%)
TSR – five years	34.24%	(4.05%)	(13.82%)	10.34%	(27.87%)
Total ordinary dividend (cents per share)	151	142	125	118	31
Special dividend (cents per share)	15	0	0	0	0
Share price – close	\$31.72	\$21.15	\$20.64	\$26.00	\$16.84

a. From 2024, maximum STVR opportunity was reduced from 150% to 125% of target STVR.  
b. From 2024, target STVR opportunity was reduced from approximately 100% to 75% of fixed remuneration for business roles, and maintained at 75% for functional roles.  
c. Refer to the 'Additional Information for non-AAS financial measures' section of the Annual Report for a reconciliation of this measure.

**NPAT (EXCLUDING NOTABLE ITEMS) AND CEO STVR OUTCOME**

NPAT (excluding Notable Items) (\$m)  
CEO STVR outcome (% of target)  
CEO STVR outcome (% of maximum)

**ROTE (EXCLUDING NOTABLE ITEMS) AND CEO STVR OUTCOME**

ROTE (excluding Notable Items)  
CEO STVR outcome (% of target)  
CEO STVR outcome (% of maximum)

**TSR AND LTVR VESTING OUTCOME**  
(percentile rank over the prior 4 year period)

TSR over 4 years (percentile rank)  
LTVR award (% vested)

**TSR**

WBC Peer 1 Peer 2 Peer 3

Reference: Page 73, Westpac 2024 Annual Report

### Related FAQs

1.1.4 Is the five-year summary of the organisation's performance required where a company lists during the current or preceding four financial years?

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

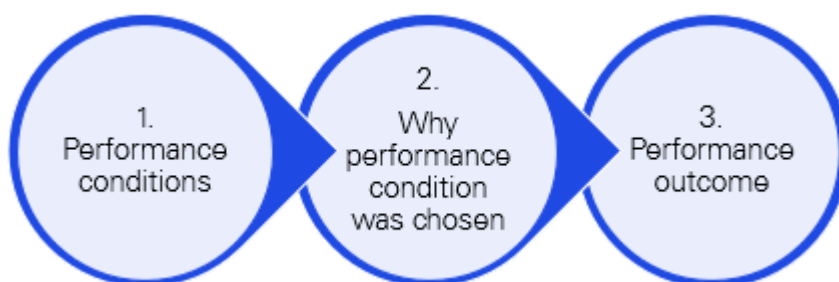
2.2.2 How should ESG measures and outcomes be disclosed in the Remuneration Report?

4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

## 2.2 Remuneration policy and details

### 2.2.1 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:



#### Performance conditions

First, clearly articulate the performance conditions - 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. [s.300A(1)(ba)] 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 condition is used, it is recommended to disclose the relative weighting assigned to each condition.

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

## 2.2 Remuneration policy and details

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 e.g. ASX50 [s.300A(1)(ba)(iv)].

### Why performance condition was chosen

Discuss why the condition represents an appropriate measure of performance for the KMP and how it aligns with shareholder interests and the organisations strategic priorities [s.300A(1)(ba)(ii)]. This discussion might include why other conditions were not adopted (e.g. absolute TSR vs relative TSR) as readers will want to understand why certain more common performance conditions were not considered appropriate for this organisation and their KMP remuneration arrangements.

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.

The following extract from Wesfarmers 2024 Remuneration Report articulates why financial targets were selected as performance conditions and how they align with shareholders' interests and performance of the organisation. The disclosures (not extracted) continue on to explain why the safety, group ecosystem and individual performance measures were selected.

#### 5.3 Details of the 2024 KEEPP scorecards

The 2024 KEEPP scorecards comprise financial performance measures, safety performance measures, Group ecosystem performance measures (including measures relating to the Group's data and digital initiatives) and individual performance objectives relevant to the role of each executive KMP. The Group ecosystem measures were introduced in 2022 KEEPP scorecards and it is expected that these will not be included as a separately weighted measure in scorecards beyond the 2024 financial year. In the KEEPP scorecards, the performance measures set by the Board are designed to drive strategic outcomes that benefit the Group and our shareholders. The Board takes a balanced approach to setting the performance range for objectives, including setting the threshold and stretch performance targets, as well as in assessing the outcomes. The maximum outcome under the KEEPP scorecards can only be achieved if all of the financial performance measures, safety performance measures, the Group ecosystem performance measures and the individual performance objectives are assessed at stretch performance and the Board judges this outcome to be fair and reasonable.

Targets set by the Board are assessed to seek to ensure they are suitably risk-adjusted in accordance with the risk management framework so as to avoid inappropriate customer, team member or financial risk in the pursuit of the KEEPP outcomes. In assessing performance against the KEEPP scorecards, the Board also considers how the outcomes have been achieved, for example, through the demonstration of behaviours aligned with appropriate ethics, values and culture, including a focus on team member safety and wellbeing, and consideration of any actions impacting Group reputation. Section 5.4 contains further information on the KEEPP scorecards for the 2024 financial year.

#### Financial performance measures (55 per cent weighting)

Scorecard financial targets are set in relation to the annual budgets. Group NPAT and ROE were chosen for the Group Managing Director and the Group Chief Financial Officer because they reflect how Wesfarmers uses capital to generate earnings, manages total costs within the business and ultimately generates a profit to provide shareholder returns. Group NPAT and ROE performance is assessed following the preparation and audit of the annual financial statements. Group NPAT and ROE may be adjusted, where the Board considers it appropriate, to ensure participants are not unfairly advantaged or disadvantaged by, for example, portfolio management activity.

Divisional financial measures of EBT, ROC (calculated as divisional EBT divided by divisional rolling 12-months capital employed, where capital employed excludes right-of-use assets and lease liabilities) and sales growth were chosen for the divisional managing directors because they are key financial measures directly linked to accountability at a divisional level that align with the Group financial measures and drive successful and sustainable financial business outcomes. Divisional performance is assessed following the preparation and audit of the annual financial statements. Similar to Group NPAT and ROE, divisional financial measures may be adjusted, where the Board considers it appropriate, to ensure participants are not unfairly advantaged or disadvantaged by, for example, portfolio management activity.

Threshold performance is required for EBT and ROC before any award is made in respect of either of these measures. Threshold EBT performance is also required before any award is made in respect of sales growth.






*Reference: Page 108-109 Wesfarmers 2024 Annual Report (highlights added)*

## Performance outcome

The performance outcome for each performance metric should be clearly disclosed. This provides linkage between the performance condition and the level of award achieved and can be part of the explanation of how the award links to the organisation's performance. (Refer to [3.2.4](#))

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 2024 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.

FY2024 Managing Director and Chief Executive Officer STI scorecard							
Measure	Performance commentary <sup>1</sup>	Weighting (at target)	FY2024 Targets <sup>1</sup>	FY2024 Performance outcomes <sup>1</sup>			FY2024 STI outcome (% of target)
				Threshold 50%	Target 100%	Stretch 150%	
Safety, Environment and Decarbonisation – rewards a continuous focus on ensuring safe, reliable operations and reducing the impact of our business on the environment							
Serious injury case-rate (SICR <sup>2</sup> )	While our overall safety performance included the lowest SICR rate in five years, tragically an accident on a public road in India resulted in the fatality of one of our employees – and the SICR gateway has been applied to reduce the outcome for the CEO and all executives to nil. The accident has led to a review of our transport related key controls with actions taken to reinforce these across our business.	10.0%	0.128			0.0%	
Loss of containment (LOC <sup>3</sup> )	This metric continues to drive awareness of the need to minimise our environmental impact and a focus on reducing both the number and severity level of LOC events. We were pleased to again achieve a strong LOC outcome of between target and stretch in FY2024, particularly in the context of major plant turnaround activity which can increase the risk of LOC events.	5.0%	18			6.3%	
Scope 1 & 2 emissions <sup>4</sup> + Net zero program initiatives	Net emissions continue to reduce against FY2019 baseline levels, and we remain well ahead of our stated emissions reduction targets. Together with the successful completion of tertiary catalyst abatement at Yarwun, a strong Say on Climate outcome at the 2023 AGM and the progress made against other key initiatives (refer page 19 of the Annual Report for further detail), Orica is well positioned to deliver against our net zero objectives. The Board has therefore assessed this metric at stretch.	10.0%	38% (from FY19 baseline)  Delivery against plan			15.0%	
Financial – rewards improvements to earnings across the business, and the efficient and effective management of cash generated from operations							
Earnings before interest and tax (EBIT <sup>5</sup> )	Group EBIT, adjusted to remove the FY2024 EBIT contribution from Terra Insights and Cyanco to align with the targets set, was above stretch. This was underpinned by strong results in the Blasting Solutions segment driven by increased customer adoption of premium products, blasting technology and commercial discipline.	40%	725.6m			60.0%	
Net operating cash flows (NOCF <sup>6</sup> )	The new NOCF metric has supported a focus throughout the business on the management of trade working capital (TWC). This, together with the EBIT result, has delivered a NOCF outcome above stretch.	20%	668.1m			30.0%	



## 2.2 Remuneration policy and details

Measure	Performance commentary <sup>1</sup>	Weighting (at target)	FY2024 Targets <sup>1</sup>	FY2024 Performance outcomes <sup>1</sup>			FY2024 STI outcome (% of target)
				Threshold 50%	Target 100%	Stretch 150%	
Operational priorities – rewards delivery of business efficiencies and critical activities that will ensure we achieve our long-term, sustainable growth objectives							
Operational excellence	During FY2024, we successfully delivered on our major turnarounds work program (including the installation of abatement technology at Yarwun) with these projects completed within targeted schedule and cost performance indicators, with minimal disruption for our customers and no major safety incidents. Substantial SAP upgrades were also completed during the year which will create further efficiency opportunities for the business and improve customer outcomes.	5.0%	Delivery against plan	<div><div></div></div>			6.3%
Operational efficiency	Under Orica's organisational effectiveness program, we centralised a significantly higher number of functional roles to our Global Business Services (GBS) organisation than was targeted for the year, with these moves creating efficiencies in the way we work across our business segments and delivering efficiencies from our investment in SAP. Financial benefits were also realised in FY2024 through other ongoing cost saving initiatives including optimising our footprint, the management of sourcing costs and third party spend.	5.0%	Delivery against plan	<div><div></div></div>			7.5%
Value generation	The completion of two strategic acquisitions positions Orica strongly to capture growth opportunities within Digital Solutions and Specialty Mining Chemicals – the Terra Insights acquisition provides a significant growth pathway for Orica Geosolutions in civil infrastructure, while Cyanco together with Orica's existing manufacturing operations at Yarwun position Orica as the world's leading and largest producer of sodium cyanide. Both acquisitions are delivering against their respective investment cases, with integration work well-progressed. The successful divestiture of surplus land in Deer Park and Yarraville will also support our growth ambitions.	5.0%	Delivery against plan	<div><div></div></div>			7.5%
Overall STI outcome				% of Target		132.5%	
				% of Maximum		88.3%	

1. Outcomes for FY2024 exclude the new acquisitions (Terra Insights and Cyanco) to align with the basis upon which targets were set.

2. SICR measures the total number of work-related Severity 3 and Severity 4 injuries per 200,000 hours worked by an employee and/or contractor. With an increasing focus on occupational illness (including psychological illness cases) and to enable differentiated focus in this area, the Board agreed that from FY2024 the SICR metric would be inclusive only of injury (including fatality and serious injury).

3. LOC measures the total number of uncontrolled releases of material from a containment on an Orica or customer site from an activity within Orica's operational control that results in a Severity 1 or greater environmental impact on water or soil.

4. 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.

5. EBIT is equivalent to profit/loss before financing costs and income tax excluding individually significant items as disclosed in note 1(b) in the financial statements.

6. Equivalent to net cash flows from operating activities, as disclosed in the statement of cash flows in the financial statements.

Reference: Page 38 & 39, Orica Annual Report 2024

**Top tips for disclosing performance conditions and outcomes in remuneration reporting:**

- Be as specific as possible about the nature of the performance condition.
- When more than one performance condition is used, disclose the weighting assigned to each condition, and disclose the performance outcome against each condition individually.
- Explain why the Board chose the conditions and how the conditions are relevant to the organisation's business or strategy.
- Explain why other performance conditions may not have been adopted.
- Where discretion is used to increase (or decrease) variable remuneration outcomes, explain the Board's reasons for exercising that discretion.
- Explain why the overall vesting outcome (across all measures) is appropriate in the context of the organisation's performance, and any additional processes that the Board has taken in making this assessment.

### Related FAQs

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

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

3.2.4 What details of variable awards should be disclosed?

4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

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

ESG measures are generally more prevalent within short-term incentive plans but as focus on ESG heightens and organisations start mandatory sustainability reporting<sup>2</sup>, these measures (both environmental and social) are increasingly being included in long-term incentive plans.

In our view, a similar approach of describing non-ESG performance conditions and outcomes related to variable remuneration (refer to [2.2.1](#)) should be used for describing ESG measures and outcomes where possible.

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

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<sup>2</sup> Commencing from 1 January 2025 for some organisations

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 remuneration 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.

Below is an extract from AGL Energy's 2024 Annual Report, which together with the 'Glossary for the Business Value Drivers and Climate Related Disclosures' and disclosure that these measures are currently subject to limited assurance, provides a clear and transparent description of their carbon transition measure and targets.

9.2.4 FY25 long-term incentive terms					
The performance measures for the FY25 LTI will remain the same as FY24, with relative TSR (70% weighting) and carbon transition (30% weighting) to align with the AGL's strategy of connecting our customers to a sustainable future, transitioning our energy portfolio and driving shareholder value.					
Performance will be measured over a four year period from 1 July 2024 to 30 June 2028; or in reference to the final year of the performance period (FY28). The vesting schedule for relative TSR will align to the FY24 LTI and the vesting schedules for the carbon transition metrics are outlined below:					
Features	Approach				
FY25 carbon transition metrics	Emissions intensity of electricity supplied in FY28		New renewable and firming capacity from 1 July 2022 to 30 June 2028		Revenue uplift of green energy and carbon neutral products & services in FY28 from FY19 base
	Vesting of award (% of maximum)		Vesting of award (% of maximum)		Vesting of award (% of maximum)
	More than 0.838 tCO <sub>2</sub> e/MWh	0%	Less than 3.1 GW	0%	Less than 90%
	0.838 to 0.825 tCO <sub>2</sub> e/MWh	Straight-line vesting between 25% and 50%	3.1 GW to 3.5 GW	Straight-line vesting between 25% and 70%	90% to 96% Straight-line vesting between 25% and 50%
	0.825 to 0.819 tCO <sub>2</sub> e/MWh	Straight-line vesting between 50% and 90%	3.5 GW to 3.7 GW	Straight-line vesting between 70% and 90%	96% to 106% Straight-line vesting between 50% and 100%
	0.819 to 0.812 tCO <sub>2</sub> e/MWh	Straight-line vesting between 90% and 100%	3.7 GW to 4.0 GW	Straight-line vesting between 90% and 100%	More than 106% 100%
	Less than 0.812 tCO <sub>2</sub> e/MWh	100%	More than 4.0 GW	100%	

Reference: Pg. 98, AGL Energy Annual Report 2024

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.

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.

The below extract from Rio Tinto's 2024 Annual Report, includes a discussion of how vesting outcomes will be determined and provides an update as to how the decarbonisation component of the LTI is tracking (one year into the three-year LTI period).

## Decarbonisation

Given the scale and complexity of our emissions portfolio and our decarbonisation ambitions, as well as the multi-year timeframe for this transition, performance and progress will be assessed using a balanced scorecard. The decarbonisation scorecard includes a combination of metrics that address opportunities and risks from the energy transition to incentivise long-term competitive advantage. The balanced scorecard includes the following 4 equally weighted elements assessed over the 3-year performance period:

Objective	Details
<b>Residual emissions</b>	<ul style="list-style-type: none"> <li>- This provides a measure of actual reduction in Scope 1 and 2 emissions with targets set taking into account the Group's stated ambition of a 50% reduction by 2030 (relative to our 2018 baseline). Achieving the maximum outcome would be consistent with the linear trajectory required to achieve the 2030 ambition.</li> <li>- The Committee will take into account the relative contribution of nature-based offsets directly associated with Rio Tinto landholdings or those of its joint ventures when assessing performance. The contribution will be capped at 10% of the reduction and for any outcome above target the contribution from offsets will be ignored.</li> </ul>
<b>Project delivery</b>	<ul style="list-style-type: none"> <li>- The successful delivery of abatement projects will be fundamental to achieving our stretching decarbonisation objectives.</li> <li>- Working with the Decarbonisation Office, the Committee identifies a number of priority decarbonisation projects for which investment approval has been granted, or is expected to be granted in the near future. Four projects for the 2024-2026 performance period were approved by the Committee during 2024. For the 2025-2027 performance period, there are currently 4 projects identified for which investment approval is expected prior to the end of the first half of 2025.</li> <li>- At the end of the 3-year performance period, there will be an assessment of project delivery measuring conformance to plan for both spend and schedule. Using a predetermined framework, each project will be assigned a score out of 10 and vesting will be determined based on the average score of the projects.</li> </ul>
<b>Technology development</b>	<ul style="list-style-type: none"> <li>- Progressing towards net zero will require technology advancement and research and development breakthroughs that convert into implemented projects.</li> <li>- This metric assesses Group spend committed to research and development and the successful implementation of projects that have a meaningful impact on the abatement of emissions (including spend associated with reducing Scope 3 emissions).</li> </ul>
<b>Transition strategy</b>	<ul style="list-style-type: none"> <li>- This measure aligns decarbonisation activity with our value creation strategy, specifically in building new capabilities or commitments towards new growth assets.</li> <li>- For the 2024-2026 performance period, 3 transition strategy outcomes that are significant to Group value were selected, namely: Pacific Operations (PacOps) decarbonisation; aluminium and copper recycling and ELYSIS™ implementation. For the 2025-2027 scorecard, PacOps decarbonisation and aluminium recycling will be retained, alongside a new initiative, lithium growth replacing ELYSIS™ implementation. For the PacOps and recycling initiatives being retained on the scorecard, they will be assessed only on performance achieved during 2025-2027, noting they are also on the 2024-2026 scorecard.</li> <li>- At the end of the 3-year performance period, each transition strategy will be assigned a score out of 10 using a predetermined framework and vesting will be determined based on the average score of the transition objectives.</li> </ul>

The targets under each element of the scorecard for the 2024 and 2025 awards, as well as an update on how performance is tracking over the first year of the performance period for the 2024 award, are summarised below. Based on the performance to date, the best estimate of the potential vesting outcome for the 2024 award is tracking between threshold and target.

Objective	LTIIP weighting	Threshold (22.5% of maximum)	Target (50% of maximum)	Maximum (100% of maximum)
<b>Residual emissions</b> Reduction in residual emissions relative to 2018 baseline, adjusted for changes in equity	5%	3.8Mt CO <sub>2</sub> e	5.3Mt CO <sub>2</sub> e	6.9Mt CO <sub>2</sub> e
<b>2024 performance update:</b> Tracking around threshold – reported emissions at the start of the award period were 33.9Mt CO <sub>2</sub> e adjusted for increased equity at Boyne Smelters and New Zealand Aluminium Smelter, with a net reduction of 3.5Mt for the purposes of the scorecard delivered in the first year of the award. Projected emissions reductions to 2030 are expected to be weighted to the end of the decade.				
<b>Project delivery</b> Conformance to plan for priority decarbonisation projects	5%	Average score of at least 6 out of 10 being a maximum deviation of 25% from planned cost and schedule	Average score of at least 8 out of 10 being a maximum deviation of 15% from planned cost and schedule	Average score of at least 9 out of 10 being less than 10% deviation from planned cost and schedule
<b>2024 performance update:</b> Tracking to target – 4 projects have been included in the assessment of this metric, each of which is a committed project. The projects are early in their development cycle and remain materially in conformance with cost and schedule.				
<b>Technology development</b> Technology advancements and research and development breakthroughs that convert into implemented projects	5%	0.2% of Group revenue on decarbonisation research and development spend At least one project into implementation totalling 250kt annual abatement	0.4% of Group revenue on decarbonisation research and development spend At least one project into implementation totalling 500kt annual abatement	0.5% of Group revenue on decarbonisation research and development spend At least 2 projects into implementation totalling 750kt annual abatement
<b>2024 performance update:</b> Tracking to target – spend on research and development is tracking within target range, with several projects expected to proceed into implementation later in the performance period.				
<b>Transition strategy</b> Alignment of decarbonisation activity with value creation	5%	Average score of at least 6 out of 10 representing more limited progress	Average score of at least 8 out of 10 representing good progress towards strategic goals, some areas of outperformance, substantially achieved or on track to deliver major objectives, or progress with no major failures or impacts on broader performance of the Group	Average score of at least 9 out of 10 representing significant outperformance of expectations, implementation achieved or a major new advancement with scope for material benefits
<b>2024 performance update:</b> Tracking around threshold – significant progress including signing new repowering contracts for our Pacific Operations, including at Boyne Smelters and New Zealand Aluminium Smelter to strengthen their future. For ELYSIS™ implementation, commitments have been made to install carbon-free aluminium smelting cells at Anvida using the first technology licence issued by the ELYSIS™ joint venture.				

Reference: Pg. 135, Rio Tinto Annual Report 2024

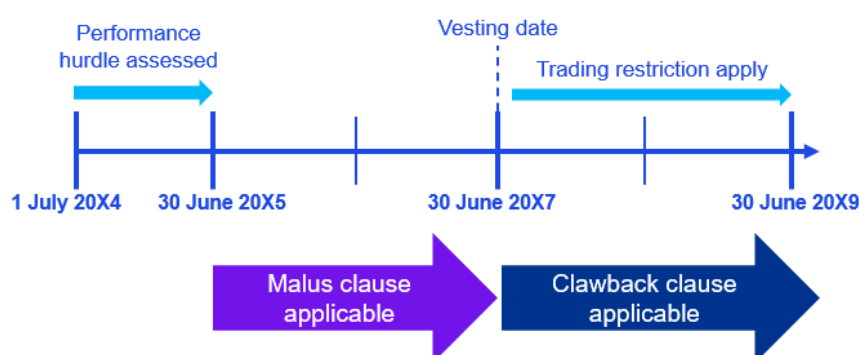
### Related FAQs

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

3.2.4 What details of variable awards should be disclosed?

## 2.2.3 Should the existence of malus and clawback clauses in awards be disclosed in the Remuneration Report?

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 view indicates the award previously granted is no longer appropriate. Clawback clauses are similar but typically apply once an award is fully vested but still subject to trading restrictions.



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

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 [Reg 2M.3.03(1) Item 12].

### Related FAQs

2.2.4 What is the impact of enacting a malus or clawback clause?

3.2.2 How is the enactment of a malus or clawback clause presented in the statutory remuneration table? What other disclosures should be considered?

3.2.4 What details of variable awards should be disclosed?



## 2.2.4 What is the impact of enacting a malus or clawback clause?

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 using 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, it is appropriate 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 be no impact on the prior year comparatives when a clawback clause is enacted. (Refer to [3.2.2](#)) Further assessment may be required if the event resulting in the clawback being enacted is a restatement of prior period financial statements.

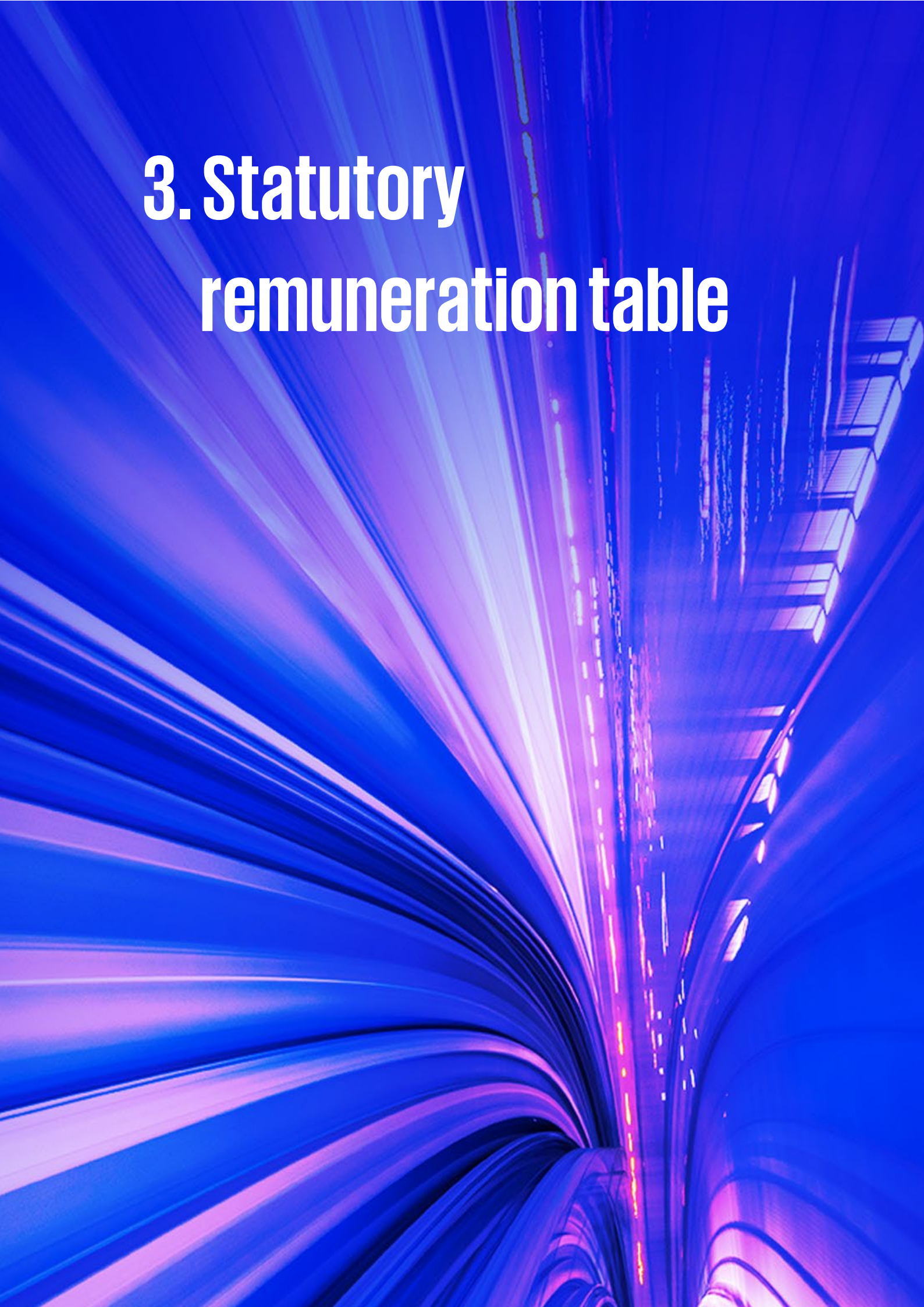
As malus and clawback clauses are generally only enacted for very significant matters, these matters are typically discussed elsewhere in the Annual Report and would generally have been announced to the market previously, possibly through continuous disclosure requirements. Due to the significant nature of the events triggering the exercise of the clauses, it is generally in the organisation's interest to be upfront and in the Remuneration Report for the year the clause is enacted, 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.

### Related FAQs

[2.2.3 Should the existence of malus and clawback clauses in awards be disclosed in the Remuneration Report?](#)

[3.2.2 How is the enactment of a malus or clawback clause presented in the statutory remuneration table? What other disclosures should be considered?](#)

# **3. Statutory remuneration table**

The background of the slide is an abstract composition of vibrant blue and purple hues. It features numerous diagonal light streaks and blurred lines that create a sense of rapid motion or a long-exposure photograph of light trails. On the right side, there is a faint, stylized silhouette of a modern building with a grid-like facade, possibly representing a corporate headquarters or a financial institution. The overall aesthetic is high-tech and dynamic.

## 3.1 Example 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														

## Types of remuneration

Compensation	How is it measured?	Common examples
<i>Reg 2M.3.03(1) Item 6</i>		
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.	<ul style="list-style-type: none"> <li>Salary.</li> <li>Fees invoiced to KMP companies under service arrangements. (Refer to <a href="#">3.2.3</a>)</li> <li>Potentially annual leave when they are short-term benefits. (Refer to <a href="#">3.4.2.1</a> &amp; <a href="#">3.4.2.2</a>)</li> <li>Potentially salary sacrificed to acquire cars or shares. (Refer to <a href="#">3.4.1.5</a>)</li> </ul>
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.	<ul style="list-style-type: none"> <li>Cash bonuses when they are short-term benefits. For example, a cash bonus based on performance during the year, paid in its entirety three months after year end on finalisation of financial results. (Refer to <a href="#">3.4.1.2</a>)</li> <li>Cash component of STI award schemes when they are short-term benefits. (Refer to <a href="#">3.4.1.1</a> &amp; <a href="#">3.4.1.2</a>)</li> <li>Profit share schemes settled in cash when they are short-term benefits. (Refer to <a href="#">3.4.1.2</a>)</li> </ul>
Non-monetary benefits	In our view, measurement could be based on the organisation's 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.	<ul style="list-style-type: none"> <li>Potentially annual leave which are short-term benefits. (Refer to <a href="#">3.4.2.1</a> &amp; <a href="#">3.4.2.2</a>)</li> <li>Some travel and accommodation costs. (Refer to <a href="#">3.4.1.3</a>)</li> <li>Car parking and fuel.</li> <li>Healthcare coverage.</li> <li>Taxation services.</li> <li>Professional indemnity insurance contributions.</li> <li>Free or discounted goods and services.</li> <li>Potentially salary sacrificed to acquire motor vehicle. (Refer to <a href="#">3.4.1.5</a>)</li> <li>Potentially fringe benefits tax (FBT). (Refer to <a href="#">3.4.1.4</a>)</li> </ul>
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.	<ul style="list-style-type: none"> <li>Relocation benefits.</li> <li>Some sign-on bonuses.</li> <li>Termination payments for substantive future service. (Refer to <a href="#">3.4.3.2</a>)</li> </ul>



Compensation	How is it measured?	Common examples
<i>Reg 2M.3.03(1) item 7</i>		
Pension and Superannuation benefits	Amounts paid or to be paid relating to services received during the year.	<ul style="list-style-type: none"> <li>▪ Superannuation Guarantee contributions and other defined contribution schemes.</li> <li>▪ Total costs (or service cost) for defined benefit plans.</li> <li>▪ Contributions to foreign pension plans.</li> </ul>
Other post-employment benefits	Amounts paid and to be paid relating to services received during the year.	<ul style="list-style-type: none"> <li>▪ Total costs (or service cost) for defined benefit medical plans.</li> <li>▪ Termination payments for substantive future service. (Refer to <a href="#">3.4.3.2</a>)</li> </ul>
<i>Reg 2M.3.03(1) item 8</i>		
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.	<ul style="list-style-type: none"> <li>▪ All employee benefits other than short-term employee benefits, post-employment benefits and termination benefits are other long-term benefits.</li> <li>▪ Potentially long service leave (LSL). (Refer to <a href="#">3.4.2.2</a>)</li> <li>▪ Potentially annual leave when it is an other long-term benefit. (Refer to <a href="#">3.4.2.1</a> &amp; <a href="#">3.4.2.2</a>)</li> <li>▪ Profit share/bonus schemes when they are other long-term benefits. (Refer to <a href="#">3.4.1.2</a>).</li> </ul>
<i>Reg 2M.3.03(1) item 9</i>		
Termination benefits	Amounts paid and to be paid at year end relating to terminations during the year.	<ul style="list-style-type: none"> <li>▪ Salary in lieu of notice when no substantive service is required. (Refer to <a href="#">3.4.3.1</a>)</li> <li>▪ Redundancy payments.</li> </ul>
<i>Reg 2M.3.03(1) item 11</i>		
Equity settled SBP, separately disclosing: - Shares & units; and - Options & 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 <a href="#">3.4.4.1</a> & <a href="#">3.4.4.2</a> ).	<ul style="list-style-type: none"> <li>▪ Share options to be settled in shares.</li> <li>▪ Share rights to be settled in shares.</li> <li>▪ Deferred shares. (Refer to <a href="#">3.4.4.4</a>)</li> <li>▪ Equity component of STI award schemes. (Refer to <a href="#">3.4.4.4</a>)</li> <li>▪ Non-recourse employee share loans accounted for as in-substance share options (refer to <a href="#">3.6.2</a>), which will be settled in shares.</li> </ul>



### 3.1 Example statutory remuneration table

Compensation	How is it measured?	Common examples
Cash-settled SBP	The proportion of fair value recognised during the year (including remeasurements of amounts recognised in previous periods and reversals of previously recognised expenses. (Refer to <u>3.4.4.2</u> ).	<ul style="list-style-type: none"><li>▪ Share options to be settled in cash.</li><li>▪ Share rights to be settled in cash.</li><li>▪ Share appreciation rights to be settled in cash.</li></ul>
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 <u>3.4.4.1</u> & <u>3.4.4.2</u> ).	<ul style="list-style-type: none"><li>▪ Share options to be settled in cash or equity.</li><li>▪ Share rights to be settled in cash or equity.</li></ul>
Total	Total remuneration either per KMP or in aggregate for all KMPs is not required to be presented. However, it 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, unless remuneration of KMP who departed in comparative year were removed from the comparative amounts. (Refer to <u>1.1.6</u> & <u>3.3.7</u> )	
<i>s.300A(1)(e)(i)</i>		
Proportion of remuneration performance related	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.

## 3.2 General questions

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

No. Under the Regulations, organisations should include in the statutory remuneration table all the KMP's remuneration as determined under relevant accounting standards [Reg 2M.3.03(4)]. 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 remuneration table and should not be used as an alternative to disclosing information about remuneration that has been excluded from the statutory remuneration table.

#### Related FAQs

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

### 3.2.2 How is the enactment of a malus or clawback clause presented in the statutory remuneration table? What other disclosures should be considered?

#### Malus clauses

The enactment of a malus clause during the year is accounted for 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 [3.4.4.1](#))

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 [2.2.4](#))

## 3.2 General questions

### Clawback clauses

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, no subsequent adjustment to remuneration is recognised when the clawback clause is enacted.

Further assessment may be required if the event resulting in the clawback being enacted is a restatement of prior period financial statements. (Refer to [1.2.4](#))

### Other disclosure considerations

Other disclosure 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. [Reg 2M.3.03(1) Item 17].

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 [2.1.1](#))

### Related FAQs

[2.2.3 Should the existence of malus and clawback clauses in awards be disclosed in the Remuneration Report?](#)

[2.2.4 What is the impact of enacting a malus or clawback clause?](#)

## 3.2.3 Are payments made to a KMP's company considered remuneration?

It depends. Payments made to a KMP's company include payments made to entities that are controlled, jointly controlled or under significant influence of a KMP or a close member of the family of a KMP.

It is important to understand the nature of services for which the payment to a KMP's company is made. If the payment is in relation to KMP services provided by the KMP, the amount is disclosed as remuneration.

However, if the payment to the KMP's company is for other services, e.g. book keeping services, then these amounts are not considered remuneration but would be disclosed as other transactions with KMP [Reg 2M.3.03(1) Item 22, 23 & 24].

## 3.2 General questions

### Related FAQs

4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

3.7.2 What disclosures about loans from and transactions with KMPs and their related parties are required in the Remuneration Report?

### 3.2.4 What details of variable awards should be disclosed?

The Regulations require specific details about variable awards to be provided, including grant date, service requirements and performance conditions, as well as estimates of minimum and maximum potential outcomes [Reg 2M.3.03(1) Item 12]. 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, post-vesting restrictions and malus and clawback clauses. (Refer to [2.2.3](#) & [3.2.2](#)). Such details provide readers a better understanding of the risks, potential payments the KMPs are exposed to and any restrictions on disposal of vested awards.

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.

### Related FAQs

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

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

2.2.3 Should the existence of malus and clawback clauses in awards be disclosed in the Remuneration Report?

### 3.2.5 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.



## 3.2 General questions

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



Below is an extract from the Ridley Corporation Limited 2024 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 FY22, FY23 and FY24, there were two performance measures, namely Return on Funds Employed (ROFE) and Absolute Total Shareholder Return (TSR).			
The number of Rights issued to each participant in FY24 is divided equally into two tranches, Tranche A and Tranche B. The performance measure for Tranche A Rights issued in FY24 is the ROFE hurdle as applied to all three years of the performance period (FY22 and FY23: 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 (FY22 and FY23: 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:			
	2024	2023	2022
Grant date	1 July 2023	1 July 2022	1 July 2021
Expiry date	30 June 2026	30 June 2025	30 June 2024
Share price at grant date	\$2.00	\$1.74	\$1.15
Fair value at grant date: Tranche A / Tranche B	\$1.74/\$0.78	\$1.54/\$0.56	\$1.04/\$0.31
Expected price volatility of the Company's shares	27.0%	26.0%	25.0%
Expected dividend yield	13.8 cps	6.70 cps	5.00 cps
Risk free interest rate being the Commonwealth Government Bond rate at the date of grant	4.03%	3.01%	0.195%
1. The fair 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 Annual Report 2024

## Related FAQs

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

## 3.3 Names and positions of Key Management Personnel (KMP)

### 3.3.1 Who should be included in the Remuneration Report?

The Act requires remuneration information to be disclosed for all individuals who are considered KMP under AASB 124 [s.300A(1)(c)]. 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.

#### Related FAQs

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

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

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

3.3.7 Which KMPs are included in the comparative year disclosures?

### 3.3.2 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 interim role until, if they have not assumed that KMP role on a permanent basis, the date they are no longer in that role.

### 3.3 Names and positions of Key Management Personnel (KMP)

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 [3.3.1](#))

#### Related FAQs

3.3.1 Who should be included in the Remuneration Report?

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

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

3.3.7 Which KMPs are included in the comparative year disclosures?

### 3.3.3 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.

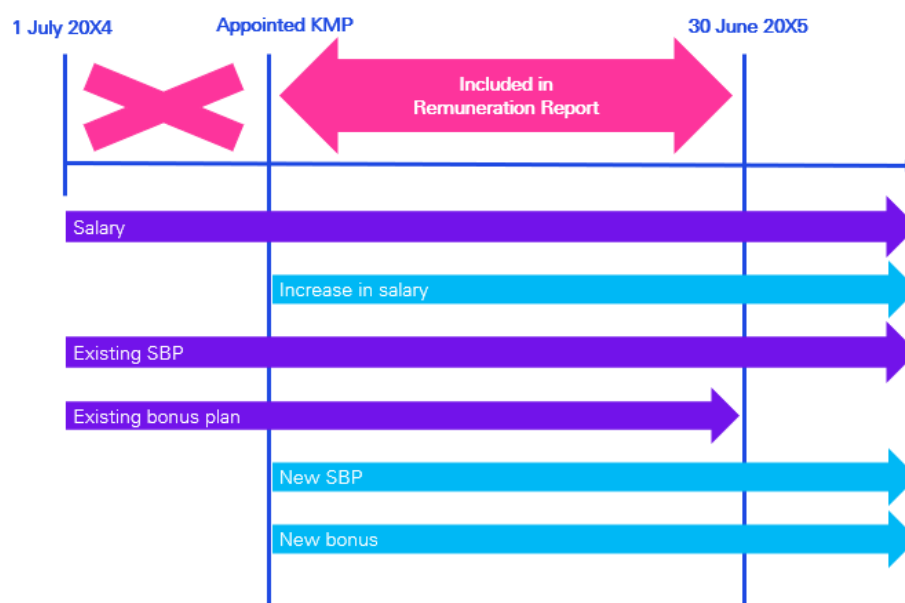
Other practices may also be acceptable. The key will be ensuring clear disclosure of the approach adopted.

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

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 [Reg2 M.3.03(1) Item 10]. The remuneration disclosed should reflect all amounts attributed to the period they are a KMP, including any payments (e.g. relocation costs) 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.

### 3.3 Names and positions of Key Management Personnel (KMP)

The diagram below illustrates the period to include in the 30 June 20X5 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.

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 [Reg 2M.3.03(1) Item 17 & 18]. 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.

Comparative year information of their remuneration as a non-KMP is not required to be disclosed.

#### Related FAQs

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

3.3.7 Which KMPs are included in the comparative year disclosures?



### 3.3.5 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 [3.4.3.2](#)).

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 role 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 [3.4.3.2](#))

If the individual was a KMP in the prior year, comparative year remuneration information is required to be disclosed in the current year Remuneration Report. (Refer to [3.3.7](#))

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 [Reg 2M.3.03(1) Item 17 & 18].

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.

#### Related FAQs

[3.3.2 Does an interim executive, for example, an acting Chief Executive Officer, need to be included in the Remuneration Report?](#)

[3.4.3.1 What is the difference between termination benefit and other employee benefits?](#)

[3.4.3.2 Are all amounts paid to the departing KMP on termination included in termination benefits?](#)

[3.3.7 Which KMPs are included in the comparative year disclosures?](#)

### 3.3.6 What information is disclosed when there are changes in KMPs after balance date but before the Remuneration Report is issued?

Changes in the CEO or a director, occurring after the balance date but before the Remuneration Report is issued must be disclosed [Reg 2M.3.03(1) Item 4]. The disclosures required include:

- the name of each person involved in the change,
- the position involved, and
- the date on which the change occurred.

If any other KMP retires after year-end but before the Remuneration Report is issued, information similar to that required for a change in CEO or director is required [Reg 2M.3.03(1) Item 5].

### 3.3.7 Which KMPs are included in the comparative year disclosures?

The requirements under the Legislation are focused on remuneration arrangements of current year KMPs [Reg 2M.3.03(2)(A)]. 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).

Where an individual is a KMP in both the current and prior year, comparative information is required for the statutory remuneration table [Reg 2M.3.03(2)(B)]. 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 [3.3.4](#))

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.

#### Related FAQs

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

1.1.7 Can information be cross referenced from the financial report to the Remuneration Report?

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

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

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

## 3.4 Payments, benefits and compensation

### 3.4.1 General

#### 3.4.1.1 How is the cash component of a deferred short-term incentive accounted for and disclosed in the Remuneration Report?

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

##### Accounting

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. (Refer to [3.4.4.4](#))

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.

##### Disclosure

The cash and deferred components are disclosed separately [Reg 2M.3.03(1) Item 6]. The cash component is disclosed as part of "short-term cash bonus" in the statutory remuneration table.

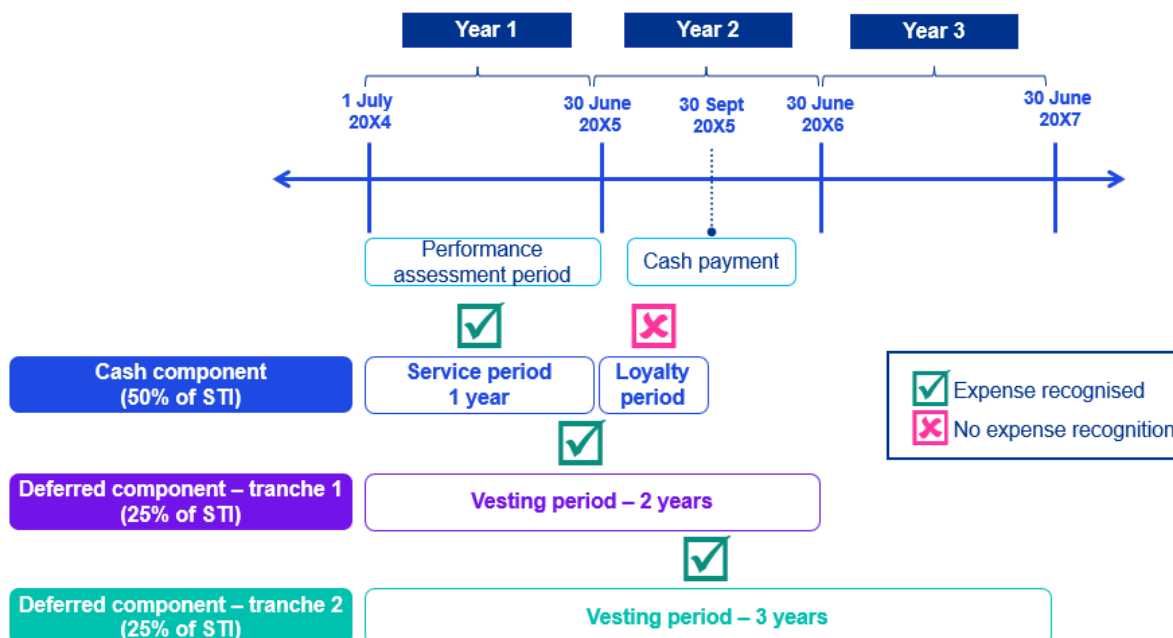
##### Example

An organisation provides its KMPs with a deferred STI subject to the KMP achieving certain performance targets, which is assessed from 1 July 20X4 to 30 June 20X5.

The STI awarded is to be paid 50% in cash on 30 September 20X5 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 20X6) and two years (to 30 June 20X7) respectively.

The below diagram illustrates the timing of expense recognition for both the cash and deferred equity components. (Refer to [3.4.4.4](#))



The cash component is disclosed in the 30 June 20X5 financial year as part of “short-term cash bonus” in the statutory remuneration table.

Refer to [3.1](#) for an example of the statutory remuneration table structure.

### Related FAQs

3.4.4.4 How is the equity component of a deferred short-term incentive accounted for and disclosed in the Remuneration Report?

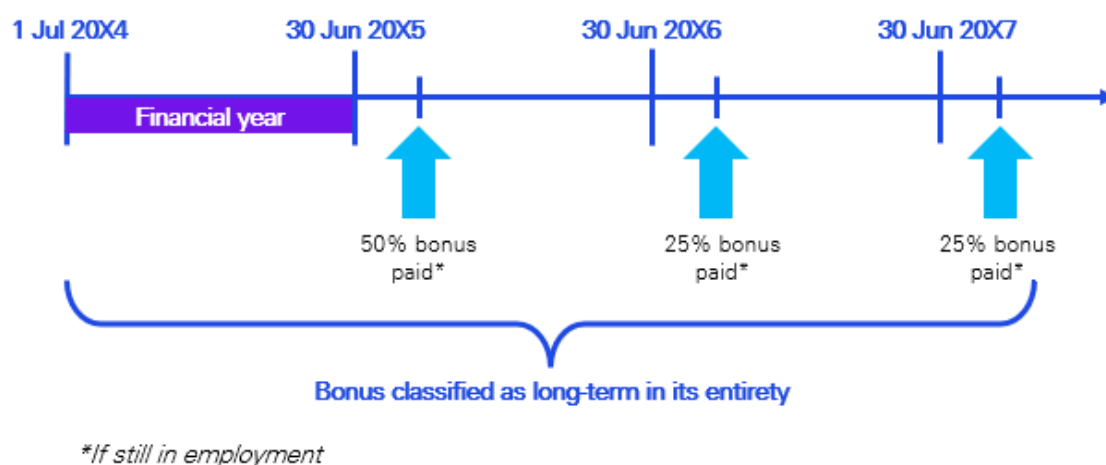
## 3.4.1.2 When are cash bonuses considered to be short-term and when are they considered long-term benefits?

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 [AASB 119.8].

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.



### 3.4.1.3 What factors are considered in determining whether, and how much, travel and accommodation costs are to be included in KMP remuneration?

Inclusion in remuneration and disclosure in the statutory remuneration table will be driven by whether travel and accommodation costs paid in respect of KMP travel is considered an employee benefit under the accounting standards. Under AASB 119, employee benefits are “all forms of consideration given by an entity in exchange for services rendered by employees....”

Costs associated with business travel would not meet the definition of an employee benefit as they are costs that the organisation incurs for the employee to perform its work activities and is not provided in exchange for receiving the employee’s services. This is irrespective of the method or class of travel. In contrast, personal travel costs would meet the definition of an employee benefit.

If a benefit is subject to Fringe Benefit Tax (FBT), this may indicate that the benefit itself constitutes a non-monetary employee benefit that is included as part of KMP remuneration.

In our view, measurement of the non-monetary benefit could be based on the organisation’s 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.

Consider the following example:

A director’s usual place of residence is Sydney, where her employer-company is headquartered. The director is required to attend quarterly board meetings in Melbourne. In addition to paying for the director’s flight and accommodation costs, the organisation also pays for the director’s partner to accompany her to Melbourne when she travels for these meetings. The director’s partner shares the

### 3.4 Payments, benefits and compensation

accommodation provided for the director during these visits. In this example, the director's travel and accommodation costs are business costs, are not considered employee benefits and therefore not included in KMP remuneration. However, the costs of the director's partner's flights represent personal travel costs, would be considered employee benefits and therefore included in the director's remuneration. If there are no incremental costs associated with the director's partner's accommodation in Melbourne, no accommodation costs would be included in the director's remuneration.

If an employee compensates the company for the incremental costs associated with family member travel, then there is no non-monetary benefit to include in the employee's remuneration.

#### Related FAQs

[1.1.6 What role do accounting standards have in Remuneration Report disclosures?](#)

#### 3.4.1.4 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.

#### Related FAQs

[3.4.1.3 What factors are considered in determining whether, and how much, travel and accommodation costs are to be included in KMP remuneration?](#)

#### 3.4.1.5 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 earned 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.

## 3.4.2 Leave

### 3.4.2.1 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 [3.4.2.2](#))

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

#### Related FAQs

3.1 Example statutory remuneration table

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

3.4.2.3 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?

### 3.4.2.2 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 long service leave (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*

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	\$4,615 = 1 week of annual leave (provision increase of 1 week)
Year 1: Salary	\$226,153 = 49 weeks worked	\$240,000 = 49 weeks worked, and 3 weeks annual leave taken
Year 1: Total	<b>\$244,615</b>	<b>\$244,615</b>
Year 2: Annual leave	\$18,462 = 4 weeks annual leave earned	(\$4,615) = 1 week of annual leave (provision decrease of 1 week)
Year 2: Salary	\$216,923 = 47 weeks worked	\$240,000 = 47 weeks worked, and 5 weeks annual leave taken
Year 2: Total	<b>\$235,385</b>	<b>\$235,385</b>

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.

**Related FAQs**

**3.1 Example statutory remuneration table**

**3.4.2.1 Where is annual leave presented in the statutory remuneration table?**

**3.4.2.3 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?**

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

**3.4.2.3 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.

### Related FAQs

#### 3.1 Example statutory remuneration table

##### 3.4.2.1 Where is annual leave presented in the statutory remuneration table?

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

### 3.4.3 Termination benefits

#### 3.4.3.1 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 <sup>1</sup>	Short-term employee benefits	Post-employment benefits
<ul style="list-style-type: none"><li>▪ Redundancy payments</li><li>▪ Salary in lieu of notice</li></ul>	<ul style="list-style-type: none"><li>▪ Wages and salaries</li><li>▪ Paid annual leave</li></ul>	<ul style="list-style-type: none"><li>▪ Superannuation contributions</li><li>▪ Defined benefit plans</li></ul>

<sup>1</sup> 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 post this announcement to receive payment at the end of the 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, dependent on the provision of substantive services after the announcement 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.

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 [Reg 2M.3.03(1) Item 9].

#### *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.

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 [Reg 2M.3.03(1) Item 7].

#### **Related FAQs**

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

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

### **3.4.3.2 Are all amounts paid to the departing KMP on termination included in termination benefits?**

No, only termination benefits (refer to [3.4.3.1](#) and [3.3.5](#)) are disclosed in the termination benefits category [Reg 2M.3.03(1) Item 9]. 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 [3.4.2.1](#) and [3.4.2.2](#));
- Any expense and reversals of expense relating to SBP will continue to be presented as SBP remuneration (refer to [3.4.4.1](#) and [3.4.4.2](#)); and
- Payments made subject to the KMP providing substantive service as KMP would be presented as either salaries, other short-term benefits or post-employment benefits, depending on the arrangement. Payments made subject to the KMP providing substantive non-KMP services is not included in the KMP’s remuneration. (Refer to [3.3.5](#) and [3.4.3.1](#))

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 benefits for the purposes of this restriction may not align with the termination benefits disclosed in the statutory remuneration table.

#### Related FAQs

[3.3.5 What remuneration is included when an individual ceases to be a KMP?](#)

[3.4.3.1 What is the difference between termination benefit and other employee benefits?](#)

### 3.4.4 Share-based payments

#### 3.4.4.1 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 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 [3.4.4.2](#)).

#### 3.4.4.2 Are changes in estimates, "true-ups," of share-based payment expense included in statutory remuneration?

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 [3.4.4.1](#), 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 performance 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 a 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.

#### **3.4.4.3 Is the cost of purchasing treasury shares when settling share options or rights for KMPs included in remuneration?**

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.

#### **3.4.4.4 How is the equity component of a deferred short-term incentive accounted for and disclosed in the Remuneration Report?**

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

##### **Accounting**

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.

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 below.

### Disclosure

The cash and deferred components are disclosed separately [Reg 2M.3.03(1) Item 6]. The deferred equity component is disclosed as follows in the Remuneration Report:

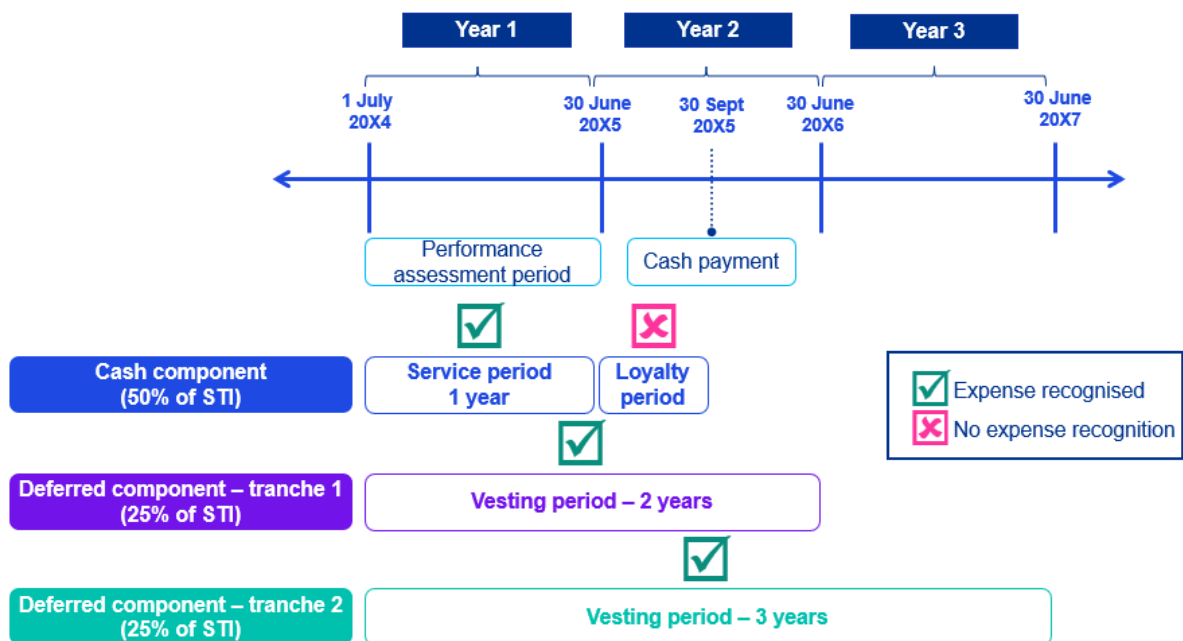
- In the statutory remuneration table, as part of the “equity-settled share-based payments” [Reg 2M.3.03(1) Item 11]. Further, the terms and conditions of the deferred component affecting compensation in the reporting period or future reporting period are disclosed [Reg 2M 3.03(1) Item 12].
- The number 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 [Reg2M.3.03(1) Item 17 & 18]. (Refer to [3.6.1](#))

### Example

An organisation provides its KMPs with a deferred STI subject to the KMP achieving certain performance targets, which is assessed from 1 July 20X4 to 30 June 20X5.

The STI awarded is to be paid 50% in cash on 30 September 20X5 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 20X6) and two years (to 30 June 20X7) respectively.

The below diagram illustrates the timing of expense recognition for both the cash (refer to [3.4.1.1](#)) and deferred equity components.





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

- In the statutory remuneration table, as part of the “equity-settled share-based payments” [Reg 2M.3.03(1) Item 11] Using the diagram, expenses related to 50% of tranche 1 and 33% of tranche 2 will be included in the 30 June 20X5 statutory remuneration table. The terms and conditions of the deferred component affecting compensation in the reporting period or future reporting period are required to be disclosed [Reg 2M 3.03(1) Item 12].
- 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 [Reg 2M.3.03(1) Item 17 & 18].

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 20X6, then the “equity-settled share-based payment” amounts will include 50% of tranche 1 related to the 30 June 20X6 award, 50% of tranche 1 related to the 30 June 20X5 award, 33% of tranche 2 related to the 30 June 20X6 award and 33% of tranche 2 related to the 30 June 20X5 award.

Refer to [3.1](#) for an example of the statutory remuneration table structure.

#### Related FAQs

3.4.1.1 How is the cash component of a deferred short-term incentive accounted for and disclosed in the Remuneration Report?

## 3.5 Modifications of share-based payment awards

### 3.5.1 How is a modification to a SBP award accounted for and disclosed in the Remuneration Report?

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 conditions 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

### 3.5 Modifications of share-based payment awards

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, reduction in exercise price of option 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.

The Regulations require the following disclosures about the details and impacts of the modification:

- the date of the modification,
- the market price of the underlying equity instrument at the date of the modification,
- the terms of the grant immediately before the modification, including the number and class of the underlying equity instruments, exercise price, time remaining until expiry, and each other condition in the terms that affects the vesting or exercise of an option or other right,
- the new terms, and
- the total fair value of the award before and after the modification [Reg 2M.3.03(1) Item 14].

When there is a non-beneficial modification, we consider it reasonable to omit disclosure of the difference in total fair value in the Remuneration Report, consistent with the decrement in fair value at modification date not being recognised. 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 disclose the modified terms in the overview of the terms and conditions of the award.

#### Related FAQs

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

### 3.5.2 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 [2.2.1](#))

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 [3.5.1](#) will be required.

#### Related FAQs

3.5.1 How is a modification to a SBP award accounted for and disclosed in the Remuneration Report?

## 3.6 Options or rights over equity instruments

### 3.6.1 When should newly granted equity instruments be included in the equity instrument roll-forward 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 roll-forward 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 (and expense recognised) that earns them the deferred equity instruments (Refer to [3.4.4.4](#)).

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. If the legal approach is used, the new equity instruments will be included in the table once approved by the AGM. Conversely, if the AASB 2 approach is applied, the instruments will be included as “granted” in the same year as the service or performance assessment period commenced. As the Regulation does not specifically define “granted,” there is a mixed practice on when equity instruments are included as “granted” in the equity roll-forward 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.

### **3.6.2 How are non-recourse employee share loans (ESLs) accounted for and disclosed in the Remuneration Report?**

Organisations may provide loans to employees to enable them to purchase shares, 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- (or limited) 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.

#### **Accounting non-recourse ESL**

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.

### Disclosure non-recourse ESL

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.

- 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 [s.300A(1) and Reg 2M.3.03(1) Item 12]. (Refer to [3.2.4](#))
- 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 [Reg 2M.3.03(1) Item 1].
- 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 [Reg 2M.3.03(1) Item 12 & 15].
- Any changes to the terms and conditions of the in-substance share options that are considered modifications should be disclosed [Reg 2M.3.03(1) Item 14]. (Refer to [3.5.1](#))

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 [Reg 2M.3.03(1) Item 17]. 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. As the shares are not considered issued for accounting purposes but rather as in-substance options, whilst the loan is still outstanding, shares issued under a non-recourse ESL are not included in the KMP shareholdings disclosure.

Repayment of the non-recourse ESL is disclosed as an exercise of the option in the roll-forward disclosure. In addition, the shares are included as “shares received during the year on exercise of an option” in the KMP 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. [Reg 2M.3.03(1) Item 16].

If 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.

### Full recourse loan

A full recourse loan gives the organisation recourse to the employee’s other assets to fully recover the loan. 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 and subject to specific disclosures in the Remuneration Report. These loans to KMP disclosure requirements do not apply to non-recourse ESLs that are accounted for as in-substance options. However, footnote disclosures explaining that these types of loans are not included in the loans to KMP disclosures as they are non-recourse and accounted for as in-substance options may provide useful information.

### Related FAQs

#### 3.6.2 How are non-recourse employee share loans (ESLs) accounted for and disclosed in the Remuneration Report?



## 3.7 Transactions with key management persons and their related parties

### 3.7.1 Are amounts paid to a KMP by another entity included in the Remuneration Report?

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 [s 300A(1)(a)]. 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.

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 entity is also a director of a subsidiary within the consolidated entity. 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.

If a separate Remuneration Report is required for either the parent or a subsidiary, and a KMP provides services to both the parent and to its subsidiary, the respective portion of the compensation paid related to these services is disclosed in the parent's and subsidiary's Remuneration Report, even if the KMPs serviced are not paid by that organisation.

For example, a director provides KMP services to a parent and also provides KMP services to a subsidiary of the parent. Parent discloses only the compensation paid to the director for the services provided to it (e.g. total paid less the amount of compensation for services allocated to the subsidiary) if a separate Remuneration Report is required for the parent. Similarly, the subsidiary discloses only the compensation paid to the director for the services provided to it (e.g. total paid less the amount of compensation for services allocated to the parent). This allocation is required irrespective of whether the total compensation is paid by either the parent or the subsidiary and not recharged.

#### Related FAQs

4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

### 3.7.2 What disclosures about loans from and transactions with KMPs and their related parties are required in the Remuneration Report?

Disclosure of any other transactions with KMP and/or their related parties is required [Reg 2M.3.03(1) Item 22 - 24 & 3.03(3B)] unless the transactions are:

- 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 *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 scarce 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.

The disclosures required by type of transaction of a different nature or if there are different categories of terms and conditions within each type of transaction:

- the terms and conditions,
- the names of the persons involved in the transaction,
- total amounts recognised as revenue and separately identifying, if applicable amounts, recognised as interest revenue or dividend revenue,
- total amounts recognised as expense and separately identifying, if applicable amounts, recognised as interest expense or write downs of receivables or provisions for expected credit losses,
- total of all assets, classified into current and non-current assets and if applicable, any provisions for expected credit losses,
- total of all liabilities, classified into current and non-current liabilities, and
- any further disclosures necessary to provide an understanding of the effects of the transactions on the financial statements prepared in accordance with Australian Accounting Standards.

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.

#### Related FAQs

##### 3.2.3 Are payments made to a KMP's company considered remuneration?

### 3.7.3 What disclosures about loans to KMPs and their related parties are required in the Remuneration Report?

A number of disclosures required for loans to KMPs and their related parties apply. These include:

- Disclosure in aggregate of all loans made to all KMPs and their related parties, including a summary of the terms and conditions of the loans, aggregate balances, interest during the year, difference between interest paid/payable and the amount of interest that would have been charged on an arm's length basis, write-downs and allowance for expected credit losses (ECLs) and number of KMPs included in the group aggregate at the end of the reporting period [Reg 2M.3.03(1) Item 20].
- If the loan to an individual KMP and their related parties is greater than \$100,000, a summary of the terms and conditions of the loans, aggregate balances, interest during the year, difference between interest paid/payable and the amount of interest that would have been charged on an arm's length basis, write-downs and allowance for ECLs, and the highest amount of the loan during the reporting period [Reg 2M.3.03(1) Item 21].

The disclosure requirements above also apply to loans made by the disclosing entity, or any of its subsidiaries, to:

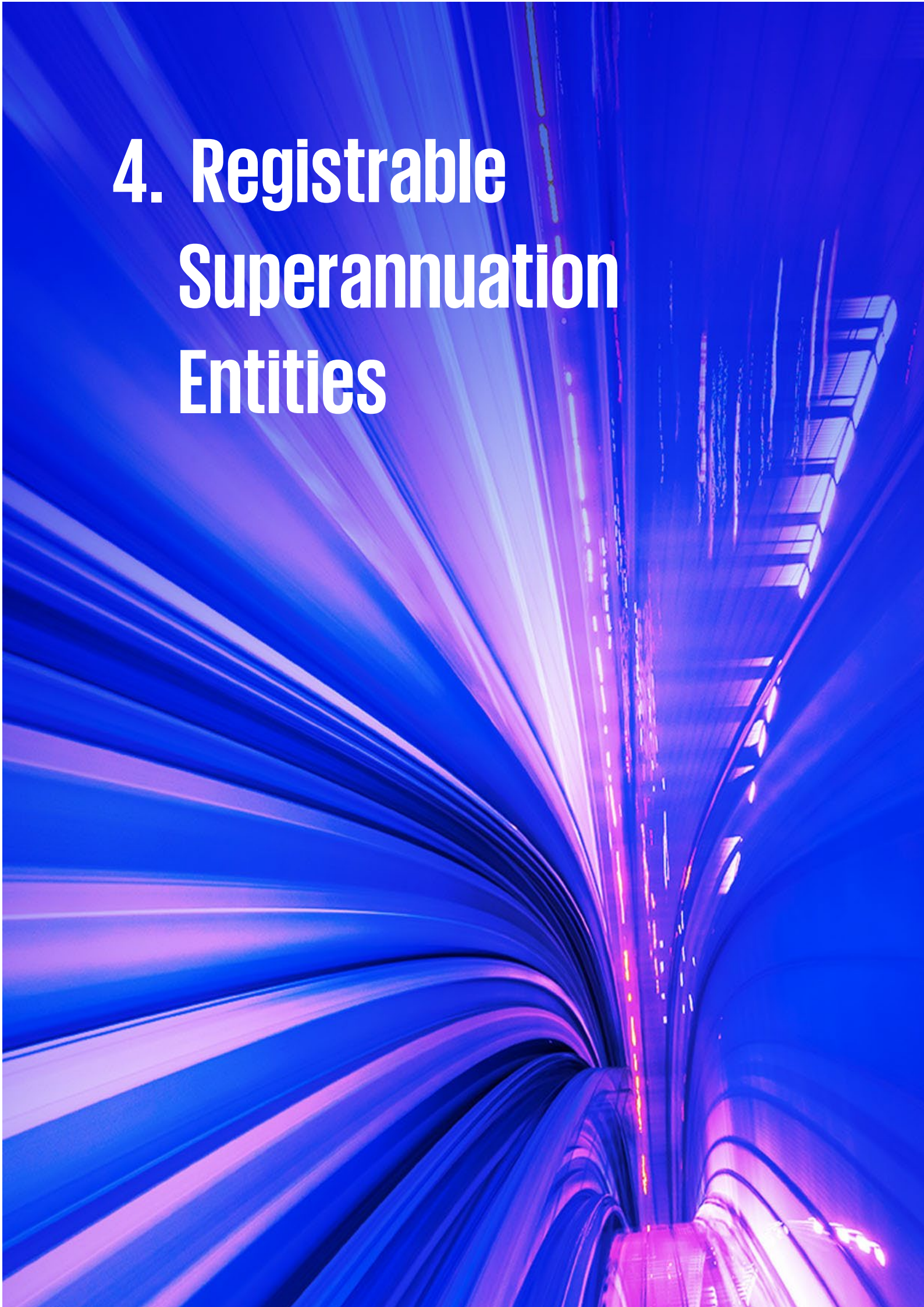
- close members of the family of a member of the KMP; and
- entities over which KMP or their close family members have, directly or indirectly, control, joint control or significant influence.

#### Related FAQs

3.6.2 How are non-recourse employee share loans (ESLs) accounted for and disclosed in the Remuneration Report?



# **4. Registrable Superannuation Entities**



## 4.1 Do Registrable Superannuation Entities (RSEs) need to prepare, and have audited, a Remuneration Report?

Yes. The Corporations Act requires that a Registrable Superannuation Entity (RSE) prepare a Remuneration Report as part of its annual report [s.300C]. This requirement came into effect for RSEs for financial years commencing from 1 July 2023. If the directors' report for the financial year includes an RSE Remuneration Report, the auditor must also report to members on whether the auditor is of the opinion that the Remuneration Report complies with section 300C. If not of that opinion, the auditor's report must say why.

### Related FAQs

1.1.1 What rules govern the disclosures in the Remuneration Reports of listed disclosing entities?

4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

4.4 Should KMP remuneration disclosed in the RSE's Remuneration Report also be disclosed in the RSE's financial statements?

## 4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

The Remuneration Report discloses information about remuneration of KMP of the RSE. KMPs of an RSE may also include directors and employees of its RSE Licensee or a related party of the RSE Licensee.

The prescribed details in relation to remuneration referred to in section 300C(1)(a) of the Corporations Act are detailed in Regulation 2M.3.04 of the Corporations Regulations. The disclosure requirements for RSEs differ from those that apply to listed disclosing entities in a number of instances, most notably:

### Comparative information

Unlike listed disclosing entities, comparative information in an RSE's Remuneration Report is not required by section 300C(1)(a) of the Corporations Act or the accompanying Regulation 2M.3.04.



### Disclosure of remuneration policy and details

The following are the key requirements that apply to listed disclosing entities but are **not** required for RSEs:

- board policy for determining the nature and amount of remuneration for the KMP and the relationship between the remuneration policy and the RSE's performance;
- five-year summary of the RSE's performance;
- details of why selected performance conditions were chosen, methods used in assessing whether performance conditions were met;
- details about the organisations included in the comparator group if performance hurdles are based on a comparison to other organisations;
- if an element of KMP remuneration consists of securities and that element is not dependent on performance conditions, an explanation of why;
- an explanation of the relative proportion of remuneration that is performance related and those that are not;
- detailed reconciliation of balances of options/equity instruments granted as remuneration;
- employment contract terms;
- proposed action if there was a strike against the Remuneration Report in the most recent AGM
- information in relation to remuneration consultants;
- changes in CEO and KMPs after the end of the reporting period and prior to date when the financial report is authorised for issue;
- details of transactions with KMPs and their related parties; and
- details of loans made to KMPs, their close family members or entities over which they have control, joint control or significant influence.

### Share-based payments

Normally, retail or corporate RSEs do not have their own equity-based compensation plans for their KMP. If the RSE Licensee or its related parties provide equity-based compensation to an RSE's KMP, it does not qualify as a group share-based payment (SBP) under accounting standards because RSEs are typically not controlled by the RSE Licensee group offering the compensation.

However, Regulation 2M.3.04 still requires disclosure of information regarding SBP made to a KMP in the remuneration report of the RSE [Reg 2M.3.04(1) Item 10]. It also states that if a KMP receives a payment, benefit, or compensation from a related party of the RSE, the disclosure applies as if it were paid or given by the RSE [Reg 2M.3.04(2)]. Accordingly, where a KMP of a RSE receives equity-based compensation from the RSE Licensee or a related party of the RSE Licensee, details of the equity-based compensation are required to be disclosed in the Remuneration Report of the RSE.

The disclosures in the RSE's Remuneration Report include the following:

- SBPs made to the KMP separated into equity-settled, cash-settled, and other forms of SBP components [Reg 2M.3.04(1) Item 10]
- Terms and conditions of each grant of SBP benefit to a KMP during the year [Reg 2M.3.04(1) Item 11]
- Any modification or alteration made by the RSE Licensee to the terms of SBP transactions during the year [Reg 2M.3.04(1) Item 13]
- Options and rights over an equity instrument issued or issuable by the RSE Licensee or by a related party of the RSE Licensee to a KMP as compensation [Reg 2M.3.04(1) Item 14]
- Details of any issuance of an equity instrument by the RSE Licensee or a related party of the RSE Licensee as a result of an exercise of options and rights that were granted as compensation to a KMP [Reg 2M.3.04(1) Item 15]

Regulation 2M.3.04 does not specify how such equity-based compensation is categorised in the RSE statutory remuneration table. In our view, this may be disclosed either as SBP or in another category (e.g. short-term employee benefits, other long-term employee benefits depending on when the equity-based compensation is provided to the KMP) in the RSE's statutory remuneration table provided that the Remuneration Report clearly identifies that the arrangement relates to equity-based compensations issued by the RSE Licensee (or by a related body corporate of the RSE Licensee).

#### Related FAQs

##### 3.3.7 Which KMPs are included in the comparative year disclosures?

##### 4.1 Do Registrable Superannuation Entities (RSEs) need to prepare, and have audited, a Remuneration Report?

##### 4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

##### 4.4 Should KMP remuneration disclosed in the RSE's Remuneration Report also be disclosed in the RSE's financial statements?

### 4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

'Remuneration' only includes KMP benefits that constitute remuneration for the purposes of the accounting standards. [s. 9 Dictionary]. The relevant accounting standard, AASB 124, defines remuneration to be 'compensation' as defined in that standard and includes all employee benefits as

defined in AASB 119 and AASB 2. Employee benefits are all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity.

The Remuneration Report for the RSE should therefore only include the remuneration related to the services provided by the KMP to that specific RSE. If the KMP provides services to other entities, only the portion of their remuneration that pertains to the RSE should be reported.

This may require allocating the KMP's remuneration between the entities. In practice, the allocation could be based on factors like time and effort or relative net asset value (NAV) of the RSE. The appropriate basis will depend on facts and circumstances.

Where KMP services are received, even where KMP compensation is paid by another entity and not recharged to the RSE, an allocation is required.

#### **Related FAQs**

3.7.1 Are amounts paid to a KMP by another entity included in the Remuneration Report?

4.1 Do Registrable Superannuation Entities (RSEs) need to prepare, and have audited, a Remuneration Report?

4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

4.4 Should KMP remuneration disclosed in the RSE's Remuneration Report also be disclosed in the RSE's financial statements?

### **4.4 Should KMP remuneration disclosed in the RSE's Remuneration Report also be disclosed in the RSE's financial statements?**

Yes. The total remuneration disclosed in the statutory remuneration table should agree to the total remuneration paid to KMPs as disclosed in the financial statements in accordance with AASB 124.

#### **Related FAQs**

4.1 Do Registrable Superannuation Entities (RSEs) need to prepare, and have audited, a Remuneration Report?

4.2 How do the Remuneration Report disclosure requirements for RSEs differ from listed disclosing entities?

4.3 What amount of remuneration is disclosed in the RSE's Remuneration Report for an individual who provides KMP services to both the RSE and other entities?

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# Not applicable to RSEs

\* Relevant RSE guidance provided in Section 4

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