



Insights into Remuneration Reporting

Executive Summary for
Directors

May 2025



Introduction

With continued focus from shareholders, proxy advisors, institutional investors, the media and other stakeholders on the remuneration of directors and Key Management Personnel (KMP), Remuneration Reports have never been more important. The Remuneration Report should tell the story of how the remuneration framework is structured, links to the organisation's strategies (including those related to ESG), 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.

This Executive summary considers some of the main requirements of *the Corporations Act (2001)* (Act) and *the Corporations Regulations (2001)* (Regulations). It provides an overview to help you produce Remuneration Reports that are effective communication tools, aspiring to align with best practice, and which ultimately comply with the Act. For further information on any of the topics included and others please refer to the detailed version of [*Insights into Remuneration Reporting*](#).



Overview

Scope

All Australian companies that are listed disclosing entities must prepare, and have audited, a Remuneration Report as part of their annual Directors' Report. Effective for financial years commencing from 1 July 2023 onwards, the same requirements are also applicable to Registrable Superannuation Entities (RSEs).

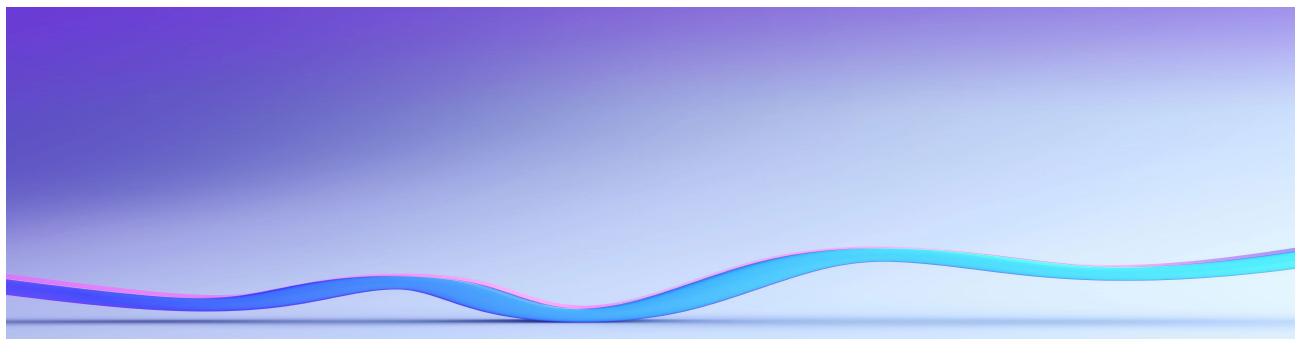
Layout

There is no mandated layout for the Remuneration Report, however, it needs to clearly explain the remuneration strategy and link that to the organisation's performance. This might include the use of graphs and diagrams where they help to simplify the message to readers.

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 would also flag any changes made to the remuneration framework, and potentially any planned future changes. Where a malus or clawback clause 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, the letter should also discuss how the organisation has addressed the issues driving the strike. While not mandatory, 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 and other statutory disclosures are included towards the back of the Remuneration Report.

The mandatory quantitative disclosures required in the Remuneration Report should reflect the requirements of relevant accounting standards. That is, the information in the Remuneration Report should align with the financial statements.





Non-statutory information

Some organisations also provide non-statutory remuneration information in the Remuneration Report to help explain the outcomes of KMP remuneration. Organisations often refer to this information as 'realised pay', 'take home pay' or other similar descriptions. This non-statutory remuneration information is 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 them in 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* should be applied by analogy.

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



Audit of the Remuneration Report

The Remuneration Report is required to be audited. The audit covers both qualitative and quantitative 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 the Act.

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

If material errors or misstatements are identified that impact the Remuneration Report, 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 error and impact on previously disclosed amounts. Material prior year errors might also impact the audit opinion over the Remuneration Report and require possible notification to ASIC. We encourage early engagement by all parties.

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



Variable awards

The Regulations require specific details about variable awards to be provided. It is not sufficient to only provide a high-level overview of the awards. Disclosures should include details of any relevant features such as change in control, Board discretion or other terms which may impact the remuneration the KMP will ultimately be entitled to. Such details provide readers a better understanding of the risks and potential payoffs the KMPs are exposed to.

A clear story of the variable remuneration plans is necessary to assist readers in understanding the effectiveness of the organisation's remuneration strategy. It is important to present this information in a manner that allows readers to understand that the performance conditions were suitably challenging, and that the outcomes were appropriate in the circumstances.

This will include:

Performance conditions

- First, clearly articulate the performance conditions that the KMP is required to meet including financial (e.g. Earnings Before Interest and Tax (EBIT), revenue growth) and non-financial (e.g. work safety measures, climate targets).
- Where the measure is a non-statutory measure (e.g. underlying profit), provide an explanation of what adjustments are made to the relevant statutory measure to assess the KMP's performance and why the adjustments are considered appropriate.
- Where performance conditions are based on a comparison to other organisations, disclose details about the organisations included in the comparator group.

Why performance condition was chosen

- Discuss why the hurdles represent an appropriate measure of performance for the KMP and how they align with shareholder interests and the organisation's strategic priorities.

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.
- 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 alter the achieved outcome, explain the Board's rationale for exercising that discretion.



ESG measures

ESG measures are generally more prevalent within short-term incentive plans but as focus on ESG heightens and organisations start mandatory sustainability reporting (commencing from 1 January 2025 for some organisations), these measures are increasingly being included in long-term incentive plans. Under mandatory sustainability reporting, organisations are required to outline whether and how climate-related considerations are factored into executive pay, and the percentage of remuneration recognised in the current period that is linked to climate-related considerations.

ESG measures are essentially variable awards which require specific disclosure in the Remuneration Report as already discussed. Organisations should:

- outline how the ESG measure selected aligns to the organisation's long-term strategic plans and business activities, thereby articulating why the measure is important to the creation of long-term value for shareholders.
- describe the ESG measure(s) and targets that are expected to be achieved for vesting, as well as the weighting of the ESG measure.
- disclose how performance against the measure will be assessed, including how data will be captured.

As ESG measures evolve and mature, they may initially be more discretionary rather than clearly quantifiable. In such cases, the Board or Remuneration Committee will determine whether vesting has occurred. It is essential that the factors considered by the Board in making this determination are transparently disclosed. Additionally, for long-term incentive measures, annual updates on the company's progress should be provided to support the final vesting outcomes.



Who is included in the Remuneration Report?

The Act requires remuneration information to be disclosed for all individuals who are KMPs under the accounting standards. 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 that organisation.

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 while for a small organisation with an outsourced CFO function with limited responsibilities, the CFO role may not be a KMP.

In addition, careful analysis may be required of any interim appointments (e.g. acting CEO etc.). If an interim CEO or CFO (or any other interim role) meets the definition of a KMP, then they must be included in the Remuneration Report from the date of their commencement in the role. However, an interim appointment may have limited responsibilities and authorities and therefore might not be considered a KMP.



Changes in KMPs

When an individual becomes a KMP during the year, they are included in the Remuneration Report from the date they were appointed to that KMP role. The remuneration disclosed should reflect all amounts attributed to the period they are a KMP, including any payments made to the person before they started to hold the position as part of the consideration for holding that position. Where an individual continues to earn share-based payments (SBP) awards or bonuses granted while they were 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.

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

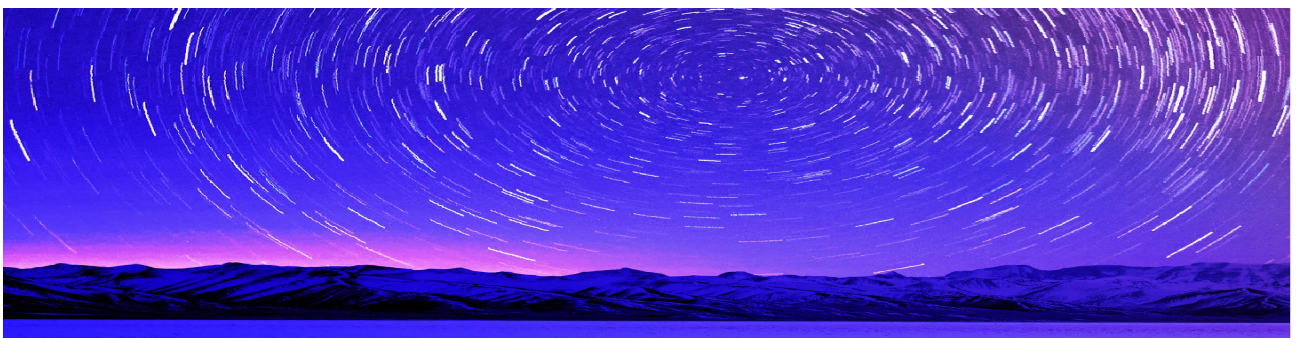
Complexities may arise when an individual steps away from a KMP role and enters into a separate arrangement with the organisation to provide future consulting or other services. Careful consideration of all the facts and circumstances will be required to determine if the payment relates to their KMP role or to the separate arrangement for consulting services.

Generally, if the amount paid or to be paid relates to the individuals' services as a KMP or is for no substantive future services, this will be disclosed as part of KMP remuneration in the current year.

When a KMP departs, only amounts that arise due to them ceasing employment are disclosed as termination benefits in the statutory remuneration table. Other amounts paid out such as their annual leave and long service leave entitlements or amount relating to SBP awards which may remain on foot, would not be disclosed as termination benefits, and would continue to be presented in their respective categories. Payments may be made subject to the KMP providing active service during a notice period. Such payments would be disclosed as salaries and not as termination benefits.

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

The requirements of the Act are focused on remuneration arrangements for the current year KMPs. Therefore, if an individual was only a KMP in the prior year, whilst less common in practice, that individual can be removed entirely from the Remuneration Report if the organisation wished to take this approach.





Modification of share-based payment awards

Modifications refer to any changes to the terms and conditions of SBP awards granted to KMPs. These may include adjustments to the number of instruments granted, the option exercise price, service period, performance conditions, or the method of settlement (e.g. equity vs. cash).

Modifications can also involve changes to performance measures such as 'underlying profit' or other non-IFRS metrics used in SBPs. For example, if an organisation alters the calculation of underlying profit in a way not anticipated by the KMP, this may be considered a modification.

Modifications are only accounted for if they are beneficial to the employee (e.g. increase in number of instruments granted, reduction in option exercise price). In such cases, any additional fair value at the modification date is recognised as an extra expense over the remaining vesting period.

Regulations require disclosure of the nature and impact of any modification. These changes can significantly increase reported KMP remuneration. Clear communication explaining the rationale, alignment with broader remuneration strategy, link to company performance, and reasons for any increase in fair value can help build stakeholder support.



Malus and clawback clauses

Malus and clawback clauses reflect strong governance and should be disclosed in the remuneration policy and KMP award terms. Given the serious nature of events triggering these clauses, organisations are encouraged to be transparent about their application and the impact on KMP remuneration. This signals accountability and reinforces that misconduct has consequences.

Although these clauses are usually triggered by past events uncovered later, they do not require restatement of prior Remuneration Reports. Instead, the financial impact is reflected in the current reporting period.

For cash bonuses, applying a malus clause results in a downward adjustment, potentially reducing or even resulting in a negative bonus in the current year.

For a SBP, a malus is treated as a forfeiture, and previously recognised expense is reversed. For clawbacks, which apply after vesting and full expense recognition, there is typically no change to the remuneration already disclosed.



'Two strike' rule

At each AGM, shareholders cast a non-binding vote on the adoption of the Remuneration Report. 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'. The Remuneration Report that is presented the year following the first strike must provide an explanation of the organisation's proposed action in response to the first strike, or, if they do not propose any action, the reasons for inaction.

The organisation will need to understand the reasons behind the 'no vote'. Engagement with the relevant shareholders, investor groups and/or proxy advisors will be critical in gaining this understanding. The organisation can then consider the concerns raised and:

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

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



Registrable Superannuation Entities

Under Section 300C of the Act, Registrable Superannuation Entities (RSE) are required to prepare a Remuneration Report.

The Remuneration Report discloses information about remuneration of KMP of the RSE, which may also include directors and employees of its RSE Licensee or a related party of the RSE Licensee. 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 NAV. The appropriate basis will depend on facts and circumstances. An allocation is required even where KMP compensation is paid by another entity and not recharged to the RSE.

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.

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For more information on any of these and other topics, please refer to our publication *Insights into Remuneration Reporting* or speak to your KPMG Advisor.



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