Reporting of remuneration in accordance with AASB 124 *Related Party Disclosures*

## Background

As part of the implementation of AASB 124 *Related Party Disclosures,* there have been changes to the reporting of remuneration for Key Management Personnel (KMP) and executive officers in the financial statements, to align FRD 21C *Disclosure of responsible persons and executive officers in the financial report* with the disclosure requirements of AASB 124.

AASB 124 requires remuneration, including non-monetary benefits, to be disaggregated between five specified categories. Revisions to the FRD align the definition of ‘remuneration’ and the disclosure table for executive officers with the requirements in AASB 124, and ensures consistency between the respective disclosures in the financial statements.

## Guidance

### Changes to the definition of remuneration

FRD 21B previously defined remuneration as the remuneration package comprised of any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction.

Under FRD 21C, the definition of remuneration has been aligned with the definition in AASB 124, and now includes all employee benefits (as defined in AASB 119 *Employee Benefits*). This is all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered. It also includes amounts paid on behalf of a parent of the entity in respect of the entity.

Remuneration therefore includes **non-monetary benefits** such as motor vehicles, private health care, relocation or accommodation allowances and free or subsidised goods or services, which may require additional data collection.

### Changes to the disclosure of remuneration

FRD 21B previously required the base and total remuneration package for executive officers to be disclosed as an aggregate figure within $10 000 bands.

Under FRD 21C, the $10 000 bands have been removed, and the components of remuneration have been split into five categories based on the nature of the payment to align the requirements in the FRD with AASB 124.

As an example, benefits previously included in the total remuneration package are now separately disclosed in the relevant category under AASB 124. Long service leave is reported under ‘other long-term benefits’, retirement benefits are reported under ‘post-employment benefits’ and redundancy payments are reported under ‘termination benefits’.

The remuneration categories prescribed in the accounting standard include:

* **Short-term benefits:** wages, salaries, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within 12 months of the end of the period) and non-monetary benefits such as car (parking, e-tags and chauffer allowances), medical care, accommodation (housing) or relocation benefits and free or subsidised goods or services.
* **Post-employment benefits:** pensions, post-employment life insurance, post-employment health care, superannuation entitlements and other retirement benefits.
* **Other long-term benefits:** long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits deferred compensation and profit-sharing and bonuses (not payable wholly within 12 months of the end of the period).
* **Termination benefits:** employee benefits provided on termination of employment as a result of either an entity’s decision to terminate an employee before the normal retirement date, or an employee’s decision to accept an offer of benefits in exchange for the termination of employment (i.e. voluntary departure packages and targeted separation packages).
* **Share-based payment:** benefits paid according to an agreement between the entity and the employee that entitles them to receive cash or other assets for amounts that are based on the price of shares or share options provided the specified vesting conditions, if any, are met. **This category is not applicable to public sector not-for-profit entities.**

#### Previous disclosure in the financial statements

FRD 21B previously required total and base remuneration to be disclosed within $10 000 bands. The following table illustrates the existing note disclosure in the financial statements:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Income band | Total remuneration | | Base remuneration | |
|  | 201Y  No. | 201X  No. | 201Y  No. | 201X  No. |
| $100,000 – 109,999 | 12 | 26 | 27 | 41 |
| $110,000 – 119,999 | 7 | 9 | 9 | 5 |
| $120,000 – 129,999 | 11 | 7 | 12 | 6 |
| $130,000 – 139,999 | 8 | 5 | 5 | 2 |
| $150,000 – 159,999 | 6 | 3 | 1 | 1 |
| $200,000 – 209,999 | 1 | 3 | 0 | 0 |
| $250,000 – 259,999 | 2 | 1 | 1 | 0 |
| **Total number of executives** | 55 | 56 | 55 | 56 |
| **Total annualised employee equivalents (AEE)** | 55.2 | 51.8 | 55.2 | 51.8 |
| Total remuneration | $8 915 851 | $7 303 964 | $7 287 310 | $6 383 420 |

#### Revised disclosure in the financial statements

Remuneration under FRD 21C is disaggregated and separately disclosed according to the nature of the payment, consistent with the requirements of AASB 124. The following table illustrates the proposed note disclosure in the financial statements:

|  |  |  |
| --- | --- | --- |
| Remuneration | 201Y | 201X(a) |
| Short-term benefits | $5 609 300 | $4 967 250 |
| Post-employment benefits | $1 260 070 | $1 365 708 |
| Other long-term benefits | $1 726 701 | $451 006 |
| Termination benefits | $319 780 | $520 000 |
| Share-based payments | n/a | n/a |
| **Total remuneration(b)** | **$8 915 851** | **$7 303 964** |
| **Total number of executives(c)** | **55** | **56** |
| Total annualised employee equivalent (AEE)(d) | 54.2 | 51.8 |

1. Note that for the first year of implementation (2016-17), no comparatives will be required to be disclosed.

*[No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to prior year’s financial statements for executive remuneration for the 2015-16 reporting period.]*

1. Remuneration represents the expenses incurred by the entity in the current reporting period for the employee, in accordance with AASB 119 *Employee Benefits*.
2. The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure.
3. Annualised employee equivalent is based on the time fraction worked during the reporting period. This is calculated as the total number of days the employee is engaged to work during the week by the total number of full-time working days per week (this is generally five full working days per week).

**Note:**

* If a person became a KMP of a reporting entity during the reporting period, no disclosure is required for any remuneration paid to that person prior to that person’s appointment as a KMP.
* If a person ceases to be a KMP during the reporting period, the entity is only required to disclose that person’s compensation for the period up until the end of their term of employment.

### Next steps

The changes to the definition of ‘remuneration’ and the disclosure table requires entities to:

* engage with their respective payroll teams to determine what types of monetary and non-monetary payments, benefits and allowances (in addition to wages and salaries) are provided to their executive officers;
* implement data collection processes to capture the additional information on amounts paid, payable or provided by the entity during the reporting period for inclusion in the note disclosure; and
* perform an assessment to determine how the data will be split into the remuneration categories in accordance with the reporting requirements in AASB 124.

# Appendix – Frequently Asked Questions

The objective of the remuneration disclosure under AASB 124 *Related Party Disclosures* is to capture the total remuneration attributable to the entity’s Key Management Personnel (KMP) for the reporting period.

As a result, amounts reported for KMP under AASB 124 and executive officers under FRD 21C, should reflect the expenses recognised in the entity’s Statement of Comprehensive Income (in line with the relevant accounting standards), for services provided by the relevant employees, for the reporting period.

### How do we disclose monetary and non-monetary benefits for executives?

The Total Remuneration Package (TRP) for executives typically includes:

* salary (including any post-tax contributions or deductibles);
* non-salary benefits (full cost of any benefits met by the executive);
* employer superannuation contributions (compulsory employer contributions and pre-tax contributions directed by the executive); and
* any applicable fringe benefits tax arising from the provision of employee benefits.

Items that may be salary sacrificed as non-monetary benefits include, but are not limited to:

* a motor vehicle;
* accommodation (housing) or relocation benefits; and
* additional pre-tax contributions directed by the executive to be made to their superannuation fund.

**For the purposes of the remuneration disclosure required under AASB 124, all amounts forming an executive’s TRP should be disclosed. Note that for specialist executive officers or equivalent executive officer roles, this may include any benefits negotiated as part of their enterprise bargaining agreement (EBA).**

Amounts that should be **excluded** from the remuneration disclosure include:

* allowances or benefits incurred in the nature of the executive’s position that assist them to perform their role (i.e. laptop, mobile phone, training/workshops); and
* work-related expenses that are reimbursed to the executive (i.e. travel, accommodation, meals, professional membership fees).

In most cases, it should be possible to attribute a dollar value to non-monetary benefits, and entities should make all reasonable efforts to do so. However, where it is not possible to attribute a value entities should provide a qualitative description of the benefit in a footnote to the disclosure table.

Refer to the illustrative example below on how to disclose monetary and non-monetary benefits as part of an executive’s Total Remuneration Package.

### How do we disclose employer superannuation contributions?

For the remuneration disclosure required under AASB 124, employer superannuation contributions should be categorised as ‘post-employment benefits’, in accordance with AASB 119 *Employee Benefits.*

For **defined contribution plans (i.e. accumulation schemes)**, the amount disclosed should be based on the total expense recognised under AASB 119, which is the equivalent of the contributions payable to the plan, for services provided by the executive in the reporting period. The compulsory superannuation contribution rate is currently 9.5 per cent for the financial reporting period ending 30 June 2017.

For **defined benefit plans**, the amount disclosed should be based on the total expense recognised under AASB 119. Appendix I of the *Victorian Public Sector Executive Employment Handbook* provides employment contribution rates to calculate the cost of superannuation that is deducted from the TRP of executives who remain members of the plan.

Note however, the expense recognised under AASB 119 may differ from the contributions payable to the plan. As the contributions payable do not reflect the benefits provided by the entity in exchange for services provided by the employee, entities should include the following footnote:

*Employer superannuation contributions disclosed for members of defined benefit plans represents the total expense recognised by the department/agency for the period. The Victorian Government is committed to fully funding the plan for existing members by 2035, and the contributions to meet this commitment are paid at the Whole of State level and have not been included in this disclosure.*

Refer to the illustrative example below on how to disclose superannuation contributions as part of an executive’s Total Remuneration Package.

### How do we disclose annual leave and long service leave?

For the purposes of the remuneration disclosure, annual leave and long service leave disclosed is the executive’s entitlement for services performed during the year, irrespective of amounts paid or previously accrued, to align with AASB 119*.*

#### Annual leave example

Executive A works full-time for the 201X-1Y reporting period and is entitled to 4 weeks of annual leave each year. At 30 June 201Y, she has taken 2 weeks of annual leave, and has a carried forward leave balance from prior years of 8 weeks.

For the remuneration disclosure required under AASB 124 for the 201X-1Y reporting period, the entity only discloses the annual leave entitlement of 4 weeks (including any associated leave loading) that Executive A is entitled to for services rendered in the current reporting period.

#### Long service leave example

Executive A has worked full-time for one entity for 8 years. As Executive A has completed more than 7 years of service, she has met the vesting period for her long service leave entitlement to be paid out on termination/resignation.

In accordance with the *Victorian Public Sector Enterprise Agreement 2016* and the *Victorian Public Sector Executive Employment Handbook,* Executive A is entitled to three months paid long service leave every ten years of continuous service in the Victorian Public Sector (i.e. 1.3 weeks per year).

For the remuneration disclosure required under AASB 124 for the 201X-1Y reporting period, the entity discloses the long service leave entitlement of 1.3 weeks that Executive A is entitled to for services performed in the current reporting period.

Refer to the illustrative example below on how to disclose annual leave and long service leave as part of an executive’s Total Remuneration Package.

#### Other leave considerations

Non-vesting entitlements are when employees are not entitled to payment on termination or resignation, consistent with the requirements of AASB 119 (i.e. when the employee has not met the vesting period for their long service leave entitlement to be paid out).

In accordance with the standard, a liability for non-vesting leave is recognised when the entity has assessed that there is a high probability that employees will be entitled to their entitlement (i.e. the likelihood that the leave entitlement will vest and therefore there is a high probability that the liability will crystalise). This assessment will be based on management’s judgement and dependent on their own reasonable expectations and their internal policies.

For the purposes of the remuneration disclosure, the methodology for disclosing non-vesting entitlements should align with how long service leave liabilities are recognised in the employee benefits disclosure of the entity’s financial statements.

In general, Victorian public sector entities do not provide a liability for sick leave as it is non vesting, so it is recognised when incurred.

### Illustrative example

#### Example 1 – Where the executive has not taken any long service leave during the period

Executive A has been employed by a department on a full-time basis for 10 years. Executive A’s total remuneration package is $225 000 per year, and receives her TRP as follows:

* $175 000 as salary (includes 48 weeks of work plus 4 weeks annual leave entitlement);
* $21 375 of employer superannuation contributions;
* $16 625 for a motor vehicle under the Executive Motor Vehicle Scheme; and
* $12 000 additional pre-tax contributions made to her superannuation fund.

For the 30 June 201Y reporting period, Executive A has accrued a long service leave entitlement of 1.3 weeks ($4 375). This is calculated as being her weekly salary amount of $3 365 ($175 000 / 52 weeks) multiplied by her long service leave entitlement of 1.3 weeks. During the year, Executive A has not taken any long service leave.

For the remuneration disclosure required under AASB 124 for the 201X-1Y reporting period, the reporting entity discloses Executive A’s TRP of $225,000 which represents all monetary and non-monetary benefits paid, and her leave entitlements, as follows:

|  |  |  |
| --- | --- | --- |
| Remuneration of Executive A | 201Y ($) | Note |
| Short-term benefits | 203 625 | *Representing Executive A’s TRP (including the annual leave entitlement), minus the employer superannuation contribution* |
| Post-employment benefits | 21 375 | *Representing the employer superannuation contribution* |
| Other long-term benefits | 4 375 | *Representing Executive A’s long service leave entitlement accrued during the period* |
| Total remuneration | 229 375 |  |

During the 201X-1Y reporting period, Executive A is provided with a laptop and mobile phone. In addition, she attends a number of business conferences interstate, to which she receives travel, accommodation and meal allowances of $6,000 to cover all costs incurred for the trip.

For the remuneration disclosure required under AASB 124 for the 201X-1Y reporting period, the reporting entity excludes these benefits and allowances when disclosing the remuneration for Executive A. This is because the benefits and allowances are incurred to assist the executive to perform her role, and do not form part of her TRP for the period.

#### Example 2 – Where the Executive has taken long service leave during the period

Executive B has been employed by a department on a full-time basis for 10 years. Executive B’s total remuneration package is $225 000 per year.

For the 30 June 201Y reporting period, Executive B has accrued a long service leave entitlement of 1.3 weeks ($4 375). This is calculated as being his weekly salary amount of $3 365 ($175 000 / 52 weeks) multiplied by his long service leave entitlement of 1.3 weeks.

During the year, Executive B has taken 2 weeks of long service leave, calculated as being $6,730 (weekly salary amount of $3 365 multiplied by two weeks of leave taken). The long service leave taken during the year has been expensed in prior periods as required by AASB 119therefore, it is not included in the disclosure as remuneration represents the expenses incurred by the entity in the current reporting period only*.*

Accordingly, Executive B has received remuneration as follows:

* $168 270 as salary (calculated as 48 weeks of work plus 4 weeks annual leave entitlement, less 2 weeks of long service leave taken);
* $21 375 of employer superannuation contributions;
* $16 625 for a motor vehicle under the Executive Motor Vehicle Scheme; and
* $12 000 additional pre-tax contributions made to her superannuation fund.

For the remuneration disclosure required under AASB 124 for the 201X-1Y reporting period, the reporting entity discloses Executive B’s remuneration as follows:

|  |  |  |
| --- | --- | --- |
| Remuneration of Executive B | 201Y ($) | Note |
| Short-term benefits | 196 895(a) | *Representing Executive B’s TRP (including the annual leave entitlement), minus:*   * *the employer superannuation contribution; and* * *previously accrued LSL taken during the period.* |
| Post-employment benefits | 21 375 | *Representing the employer superannuation contribution.* |
| Other long-term benefits | 4 375 | *Representing Executive B’s long service leave entitlement accrued during the period.* |
| Total remuneration | 222 645 |  |

1. *Where the employee has taken a significant amount of long service leave in the period which results in a material difference in their short-term benefits from the prior year, it is recommended entities include a footnote to demonstrate that the variance is a result of leave taken during the period.*

### How do we disclose temporary/relieving arrangements (i.e. higher duties)?

**For the purposes of reporting remuneration of KMP under AASB 124**, entities will need to apply judgement to determine whether temporary/relieving arrangements of KMPs should be included as part of the remuneration disclosure, based on the specific facts and circumstances of the arrangement. Note that consideration should be made as to how the inclusion of temporary/relieving arrangements will impact on the following year’s comparatives.

As a guide, where the relieving arrangement is temporary, and the substantive KMP remains in their position for the duration of the arrangement (i.e. they are on paid leave), entities should include a footnote to explain that these higher duties expenses have not been included in the remuneration disclosure as remuneration of the substantive KMP has already been reported.

However, where an employee is acting in a KMP position that is vacant (i.e. there is no one appointed in the KMP position), entities may assess that the acting employee is undertaking the KMP position substantively, and disclose amounts paid to the acting employee for the term of the arrangement. Entities are encouraged to include a footnote to explain any temporary/relieving arrangements that have been included in the remuneration disclosure.

**For the purposes of reporting remuneration of executive officers under FRD 21C**, entities should include higher duties paid to an executive officer that acts in the position of the accountable officer (as defined in section 5.1 of FRD 21C) during the reporting period.

Note however, the disclosure of executive officer remuneration should not include any VPS 6 or VPS 7 staff acting on a temporary basis in executive roles, whilst the substantive executive officer is on paid leave or secondment.