

THE EXECUTIVE REMUNERATION REPORTER

**Corporations Legislation Amendment (Remuneration Disclosures and
Other Measures) Bill 2012**

Supplement to primary submission

Disclosing realised versus statutory remuneration: case examples

15 March 2013

Examples of 'realised remuneration' versus 'statutory remuneration'

Set out below are extracts from a small sample of listed company remuneration reports. The purpose is to highlight some challenges with the current practice of 'realised' remuneration versus 'statutory remuneration'. One key challenge is ensuring a sufficiently standard approach to this disclosure is adopted as between companies.

The companies are selected as illustrative examples only of some of the variation that currently exists with 'realised remuneration' disclosures. Where possible I have used a 'snapshot' tool to capture the tables in the relevant annual reports. Where that is not possible, I have included either a table of figures for comparative purposes or page references.

Disclosures need to enable easy monitoring not only of the amounts awarded and the pipeline of potential future payments. Shareholders also need information so they can monitor the existence and strength of the pay for performance link. Share-based payments that vest a number of years after the initial date of award, together with the emerging practice of deferred STI payments vesting typically one and two years after the year in which they were awarded are not always easy to track within the company's remuneration disclosures.

As noted in the primary submission, I support the idea of having one total remuneration figure that represents the total of

- Remuneration granted in previous years but vesting in the current year (routinely, but not exclusively, this will be deferred STI payments and LTI payments) and
- Remuneration granted and paid in the current year.

The proposed amendment s 300A(1)(ca) will require additional support by way of reg. 2M.3.03 to ensure sufficient consistency of disclosures as between companies.

QBE Insurance Group 2012 Annual Report, p. 87

Actual remuneration outcomes in 2012

The table below sets out total remuneration realised by executives in office as at 31 December 2012, including the accrued QIS-cash award and deferred equity values vested during the financial year. The deferred equity value realised in the year has been determined based on the conditional rights and options that vested during 2012 by reference to the closing share price on the vesting date. Options vested were in accordance with the legacy 2006 LTI plan terms and conditional rights vested were in accordance with the legacy 2008 Deferred Compensation Plan (DCP). Award vesting was subject to a tenure hurdle which was achieved by each executive.

Remuneration details in accordance with Australian accounting standards for current and former executives are contained on page 96 of the remuneration report.

CURRENT EXECUTIVES	REMUNERATION EARNED IN 2012		OTHER	DEFERRED EQUITY OUTCOMES IN 2012	TOTAL
	FIXED REMUNERATION ¹ US\$000	QIS-CASH AWARD ² US\$000	US\$000	CONDITIONAL RIGHTS VESTED ³ US\$000	REMUNERATION REALISED IN 2012 US\$000
John Neal ⁴	1,623	-	380	1,080	3,083
Steven Burns	1,477	1,542	30	2,023	5,072
Neil Drabsch	1,093	-	252	458	1,803
Colin Fagen	915	1,048	89	77	2,129
John Rumpier	1,040	-	188	106	1,334
Jenni Smith	695	-	58	212	965
Jose Sojo	479	193	34	108	814
George Thwaites	688	-	35	199	922

1 As determined by the Remuneration Committee. For a definition of fixed remuneration see page 103.

2 Payable in March 2013 for performance in 2012.

3 The value of conditional rights has been determined by reference to the closing share price of \$12.27 (A\$11.85) on the vesting date of 5 March 2012.

4 John Neal was appointed to the role of Group CEO on 17 August 2012. On this date, his fixed remuneration increased from A\$1,248,000 to A\$2,100,000.

The important feature to note in this particular example is the disclosure of the short term incentive (STI) scheme. QBE Insurance Group's STI scheme features a cash component paid for the year's performance (QIS-CASH) and a deferred conditional rights component (QIS-DEA). The deferred component is calculated as an additional amount to the QIS-CASH value and is the lesser amount of 80 per cent of the QIS-CASH STI or 100% of fixed remuneration. The QIS-DEA component only has a time vesting requirement (50 per cent vests in three years; the remaining 50 per cent vests in five years). The deferred component is subject to clawback for material misstatement.

In FY12, the amount of QIS-DEA granted to the three executive listed (Burns, Fagen and Sojo) is not included in the above table because it is not realised in FY12. **Therefore the complete picture of what annual incentive was awarded for the year is not captured by the above disclosure.** Shareholders can work it out by knowing how the group's STI plan works. They could also find the separate disclosure on page 93.

The table below shows the basis of calculation of the QIS-DEA conditional rights based on 2012 performance.

CURRENT EXECUTIVES	QIS-CASH				QIS-DEA ³			
	FIXED REMUNERATION US\$000	PERCENTAGE OF FIXED REMUNERATION	PAYMENT (MARCH 2013) US\$000	MAXIMUM AWARD ¹ US\$000	THREE YEAR CONDITIONAL RIGHTS		FIVE YEAR CONDITIONAL RIGHTS	
					US\$000	SHARES ² NUMBER	US\$000	SHARES ² NUMBER
Group head office								
John Neal	1,623	-	-	-	-	-	-	-
Neil Drabsch	1,093	-	-	-	-	-	-	-
Jenni Smith	695	-	-	-	-	-	-	-
George Thwaites	688	-	-	-	-	-	-	-
Divisional								
Steven Burns	1,477	104	1,542	1,028	617	49,977	617	49,977
Colin Fagen	915	115	1,048	838	419	33,966	419	33,966
John Rumpfer	1,040	-	-	-	-	-	-	-
Jose Sojo	479	40	193	154	77	6,245	77	6,245

1 Based on the lesser of 80% of QIS-cash award or 100% of fixed remuneration, with the exception of Steven Burns whose QIS-DEA is based on the lesser of 66.67% of QIS-cash or 100% of fixed remuneration. Steven Burns' QIS-DEA is determined as 60% of the maximum for each of the three and five year awards.

2 For indicative purposes, the closing share price at 31 January 2013 of A\$11.92 (\$12.43) has been used.

3 Australian accounting standards require deferred equity awards earned under the QIS and the LTI to be measured at fair value at the date of grant and expensed over the relevant performance period, regardless of the value which is ultimately realised by the executive.

Taking Mr Steven Burns as an example, the total STI awarded for FY12 performance is

- (1) QIS-CASH of US\$1,542,000
- (2) QIS-DEA award vesting in three years (US\$617,000 currently but final amount will depend on the share price on the day that the 49,977 conditions rights vest)
- (3) QIS-DEA award vesting in five years (US\$617,000 currently but final amount will depend on the share price on the day that the 49,977 conditions rights vest)

Simply disclosing the QIS-CASH in the 'realised remuneration' table does not reveal the true picture, as the actual amount awarded is more than this cash amount, with the STI value (remembering vesting is only dependent upon time, not further performance) is US\$2,776,000.

QBE's statutory disclosure is found on page 96 of the 2012 annual report. I reproduce a snapshot of this table on the next page.

Taking Mr John Neal as an example, the differences to note between the 'realised remuneration' disclosures above and the 'statutory remuneration disclosures' are

- Other US\$380,000 (realised remuneration) – appears to combine the following two amounts from the 'statutory remuneration' table
 - o Other remuneration US\$57,000 (statutory remuneration)
 - o Long service leave accrual US\$323,000 (statutory remuneration)
- Conditional rights vested in 2012 US\$1,080,000 (realised remuneration)
- Valuations for conditional rights, a share-based payment US\$1,054,000 (statutory remuneration)
- Valuations for options, a share-based payment US\$72,000 (statutory remuneration)

This leads to the total shown of US\$3,129,000 in the statutory remuneration table. This differs from the US\$3,083,000 shown above. The 'relatively' small difference in value in this particular example should not be taken to indicate that the differences in what is being disclosed are 'relatively small'.

3. Remuneration in detail

Statutory remuneration disclosures

The following table provides details of the remuneration of QBE's executives, as determined by reference to applicable Australian accounting standards for the financial year ended 31 December 2012. Remuneration has been converted to US dollars using the cumulative average rate of exchange for the relevant year.

EXECUTIVES	YEAR	CURRENCY '000	SHORT-TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS	OTHER LONG-TERM EMPLOYEE BENEFITS	SHARE BASED PAYMENTS ¹		TERMINATION BENEFITS	TOTAL
			BASE SALARY	OTHER ²	QIS-CASH ³	SUPER-ANNUATION	LONG SERVICE LEAVE	CONDITIONAL RIGHTS	OPTIONS		
Group head office											
John Neal	2012	US\$	1,623	57	-	-	323	1,054	72	-	3,129
	2011	US\$	1,249	154	-	-	317	973	108	-	2,801
Neil Drabsch	2012	US\$	1,076	193	-	17	59	1,258	59	-	2,662
	2011	US\$	1,038	194	-	37	27	656	89	-	2,041
Jenni Smith	2012	US\$	678	14	-	17	44	172	28	-	953
	2011	US\$	656	18	-	15	35	223	41	-	988
George Thwaites	2012	US\$	671	21	-	17	14	170	25	-	918
	2011	US\$	653	27	-	20	18	216	34	-	968
Divisional											
Steven Burns	2012	US\$	1,116	391	1,542	-	-	1,145	138	-	4,332
	2011	US\$	1,083	380	1,004	-	-	1,588	284	-	4,339
Colin Fagen	2012	US\$	898	51	1,048	17	38	92	12	-	2,156
	2011	US\$	386	27	-	11	69	48	8	-	549
John Rumppler	2012	US\$	1,023	75	-	17	113	428	17	-	1,673
	2011	US\$	985	113	878	15	8	285	26	-	2,310
Jose Sojo ⁴	2012	US\$	479	34	193	-	-	153	11	-	870
	2011	US\$	-	-	-	-	-	-	-	-	-
Former KMP executives⁵											
Gary Brader	2012	US\$	242	11	242	-	15	33	-	-	543
	2011	US\$	687	3	-	15	44	95	4	-	848
Des Fogarty	2012	US\$	161	149	-	-	-	50	10	-	370
	2011	US\$	506	66	-	103	-	217	45	-	937
Duncan Ramsay	2012	US\$	276	50	-	-	14	71	11	-	422
	2011	US\$	791	138	-	16	19	276	50	-	1,290
KMP executives who left in 2012											
Michael Goodwin ⁶	2012	US\$	379	265	-	9	22	191	11	378	1,255
	2011	US\$	608	467	-	26	15	409	27	-	1,552
Blair Nicholls ⁷	2012	US\$	242	6	-	-	14	62	10	2,136	2,470
	2011	US\$	692	5	-	16	16	239	55	-	1,023
Frank O'Halloran ⁸	2012	US\$	1,506	337	1,222	17	187	688	93	7,406	11,456
	2011	US\$	2,326	637	-	15	87	1,241	213	-	4,519
Total	2012	US\$	10,370	1,654	4,247	111	843	5,567	497	9,920	33,209
	2011	US\$	11,660	2,229	1,882	289	655	6,466	984	-	24,165

1 The fair value at grant date of options and conditional rights is calculated using a binomial model. The fair value of each option and conditional right is recognised evenly over the service period ending at vesting date. Details of grants of conditional rights and options are provided in note 31 to the financial statements.

2 "Other" includes provision of motor vehicles, health insurance, spouse travel, staff insurance discount benefits received during the year, life assurance and personal accident insurance and the applicable taxes thereon. It also includes the deemed value of interest free share loans which is also disclosed in note 31(C) to the financial statements. Directors' and officers' liability insurance has not been included in other remuneration since it is not possible to determine an appropriate allocation basis.

3 Includes QIS cash award and other amounts which are the accrued entitlement for the financial year, payable in March 2013.

4 Jose Sojo was appointed as Chief Executive Officer, Latin American Operations on 16 January 2011. His remuneration for 2011 in his previous role is not included in this report.

5 Gary Brader, Des Fogarty and Duncan Ramsay ceased being KMP on 1 May 2012 as a result of the Group Executive restructure. In 2012, remuneration shown is for the period 1 January to 1 May.

6 Michael Goodwin ceased his role with effect from 27 July 2012. His termination benefit is analysed in the table on page 97.

7 Blair Nicholls ceased his role with effect from 1 May 2012. His termination benefit is analysed in the table on page 97.

8 Frank O'Halloran retired from the role of Group Chief Executive Officer on 17 August 2012. His termination benefit is analysed in the table on page 97.

Santos Limited 2012 Financial Report

The company discloses realised remuneration on page 11 of the 2012 financial report and makes the statutory disclosures on page 20 of the 2012 financial report.

Set out below is a comparison of the disclosures for 'realised remuneration' and 'statutory remuneration'.

Remuneration item	Realised remuneration	Statutory remuneration
Base salary		\$2,335,128
Fixed Remuneration	\$2,351,250	
Other		0
Superannuation		\$16,122
STI	\$1,598,000	\$1,598,000
Share Appreciation Rights (SARs)		\$1,783,865
Options		\$119,358
Cash-based awards		\$15,660
Other long-term benefits (long service)		\$67,690
TOTAL REPORTED	\$3,950,100	\$5,936,673

As can be seen there is a difference of \$2 million between the totals reported as 'realised remuneration' and 'statutory remuneration'.

Mirvac Group Ltd 2012 Annual Report

Mirvac Group discloses the 'actual value of remuneration receivable' in the following table on page 11 of its 2012 Annual Report.

2 ALIGNMENT OF REMUNERATION STRATEGY AND BUSINESS STRATEGY / CONTINUED

The following table sets out the actual value of the remuneration receivable by the ELT members during the year. The figures in this table are different from those shown in the accounting table in section 4(f). The main difference between the two tables is that the accounting table includes an apportioned accounting value for all LTI grants on foot during the year (some of which remain subject to satisfaction of performance and service conditions and may not ultimately vest). The table below, on the other hand, shows the LTI value based on the awards that actually vested and delivered value to ELT members.

Executive	Year	Fixed remuneration \$	STI ¹ \$	LTI ² \$	Employee loans ³ \$	Termination benefits \$	Other \$	Total \$
Nicholas Collishaw	2012	1,500,000	1,080,000	1,058,378	773,283	-	24,735	4,436,396
	2011	1,875,000	735,000	-	600,523	-	27,465	3,237,988
Andrew Butler	2012	618,000	308,876	-	604,279	-	8,918	1,540,073
	2011	604,815	205,800	-	511,980	-	11,414	1,334,009
Brett Draffen	2012	1,000,000	464,800	238,584	810,080	-	15,231	2,528,695
	2011	1,000,000	269,500	-	638,693	-	17,129	1,925,322
Gary Flowers	2012	648,900	433,790	126,608	266,158	-	8,962	1,484,418
	2011	630,000	216,100	-	216,652	-	10,211	1,072,963
Justin Mitchell	2012	700,001	470,400	88,023	604,279	-	11,403	1,874,106
	2011	700,001	240,100	-	511,980	-	11,374	1,463,455

1) STI values reflect payments to be made in September 2012 in recognition of performance during FY12.

2) LTI amounts represent the value to the participant during FY12 arising from performance rights whose performance period ended 30 June 2012.

3) Amount reported includes amounts forgiven during the year, imputed interest and related fringe benefits tax ("FBT").

It then discloses 'statutory remuneration' in the following table on page 18 of the 2012 annual report.

f) Total remuneration for the ELT

The table below shows the total remuneration for ELT members for the year ended 30 June 2012, as well as comparative figures for the year ended 30 June 2011. The information in the table below has been calculated in accordance with the applicable Accounting Standards and, accordingly, it differs from the information in the table in section 2. The main difference between the two tables is that the table in section 2 includes an LTI value based on the awards that actually vested and delivered value to ELT members, whereas, in accordance with the Accounting Standards, the table below includes an apportioned accounting value for all LTI grants on foot during the year (some of which remain subject to satisfaction of performance and service conditions and may not ultimately vest).

Year	Short term benefits				Post-employment	Security based payment			Other long term benefits Long service leave ("LSL") ⁷	Termination benefits	Total remuneration	
	Cash salary and fees ¹	STI ²	Non-cash benefits ³	Employee loans ⁴		Super contributions	Value of options ⁵	Value of rights ⁵				Cash settled payments ⁶
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$		
Executive Director												
Nicholas Collishaw	2012	1,484,225	1,080,000	-	773,283	15,775	-	1,048,352	187,200	24,735	-	4,613,570
	2011	1,825,000	735,000	2,804	600,523	50,000	262,824	933,012	46,800	24,662	-	4,480,625
Executives												
Andrew Butler	2012	535,540	308,876	66,685	604,279	15,775	-	21,067	-	8,918	-	1,561,140
	2011	528,670	205,800	63,749	511,980	15,199	-	51,129	-	8,610	-	1,385,137
Brett Draffen	2012	884,247	464,800	99,978	810,080	15,775	-	256,510	-	15,231	-	2,546,621
	2011	928,738	269,500	58,867	638,693	15,199	73,595	192,473	-	14,325	-	2,191,390
Gary Flowers	2012	564,672	433,790	68,453	266,158	15,775	-	191,967	-	8,962	-	1,549,777
	2011	610,801	216,100	-	216,652	19,199	26,281	129,280	-	10,211	-	1,228,524
Justin Mitchell	2012	684,226	470,400	-	604,279	15,775	-	50,413	-	11,403	-	1,836,496
	2011	662,067	240,100	22,734	511,980	15,199	45,551	81,825	-	11,374	-	1,590,830
Total	2012	4,152,910	2,757,866	235,116	3,058,079	78,875	-	1,568,309	187,200	69,249	-	12,107,604
	2011	4,555,276	1,666,500	148,154	2,479,828	114,796	408,251	1,387,719	46,800	69,182	-	10,876,506

- 1) Cash salary and fees includes accrued annual leave paid out as part of salary and salary sacrifice amounts where applicable.
- 2) STI payments relate to amounts accrued for the relevant year.
- 3) Non-cash benefits include salary-sacrificed benefits and related FBT where applicable.
- 4) Employee loans are interest free and provided for personal use (excludes EIS loans). Disclosed value includes amounts forgiven during the year, imputed interest and related FBT.
- 5) Valuation of options and rights is conducted by an external accounting firm. Negative amounts (if any) relate to forfeiture of some or all participation in equity plans due to terminations. Refer to note 35(f) to the financial statements for details.
- 6) Represents security based payment expense during the year ended 30 June 2012 in relation to the potential future one-off cash payment linked to Mirvac's TSR performance offered to the Managing Director following his acceptance of a reduction in fixed remuneration.
- 7) LSL relates to amounts accrued during the year.

Compared with the earlier disclosure, the key differences relate to the value of rights and cash settled payments. In the earlier table the value reported relates to the LTI that vested when performance was measured on 30 June 2012. The valuation reported here for the security-based payments reflects the accounting value for all unvested LTI grants during the year.

The other amount that is included in this table (but excluded from the realised remuneration table above) is the annual accrual for the long service leave benefit.

GPT Group Limited 2012 Annual Report

The table on page 21 of the 2012 Annual Report is a further variation on the 'actual' or 'realised' remuneration disclosures. The key feature to note is the three different disclosures used to capture the number of securities

- Already vested and vested during FY12 (total held)
- Performance rights that lapsed during FY12 (number)
- Already granted but yet to vest (number)

This complements the disclosures on the left hand side of the table that mirror the practices noted above where the realised amounts are reported for fixed remuneration, STI, LTI (value of securities vested in FY12) and 'other', with a total figure for remuneration reported.

The statutory disclosures are set out on page 32. As with some earlier examples, the relatively small difference in value between a total reported in 'realised remuneration' and a total reported in 'statutory remuneration' should not be taken as indicative of a small difference between the items disclosed. Rather it reflects the serendipity of the value of the LTI vesting and the accounting value of the LTI yet to vest being somewhat identical.

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