

CPA in crisis: why more associations will have to disclose CEO pay

Written by Julie Walker, Associate Professor in Accounting, The University of Queensland

The wave of public discontent that's changed how corporate Australia reports and discloses executive pay, is now moving to other types of organisations. The most recent example is professional accounting body Certified Practising Accountants of Australia (CPA), which has been subject to [heated member debate](#) about the remuneration of its CEO and management team.

CPA Australia [ultimately disclosed](#) the individual remuneration of its executive and board after extended lobbying by members.

Public disclosure of executive remuneration has not always been a feature of the Australian corporate landscape. Events over time have amplified public concerns about executive pay, cementing reporting and disclosure into law. Ultimately this may lead to a trend of voluntary disclosure among professional organisations.

Poor pay practice is associated with large unexpected corporate collapses and is a red flag for ineffective corporate governance. At the same time, the gap between executive salaries and the average Australian wage has widened. The [Productivity Commission reports](#) that the average remuneration of ASX100 company executives grew from 17 times average earnings in 1993 to 42 times in 2009.

In the past, member organisations like CPA Australia have only had to prove their value to members through their services but now members are calling for the disclosure of executive remuneration as a way to enhance corporate transparency and accountability. This is in the same way that public disclosures have allowed listed companies' shareholders to better monitor the performance of their executive team.

Until 1998, disclosure of the remuneration paid to individual company executives was not required from Australian listed companies. Instead, a banded disclosure showing the number of executives in each relevant salary band was required.

The push to disclose executive pay started in 1998, when the [Company Law Review Act \(1998\)](#) introduced the

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requirement for listed companies to disclose the details of the nature and amount of the salaries of each director and the five officers of the firm receiving the highest salary.

Listed corporations responded slowly to this requirement. One problem was the confusion over whether the term used in the legislation - “emoluments” - covered equity-based remuneration like options. To assist companies in interpreting the new requirements, in November 1998 the Australian Securities and Investment Commission (ASIC) issued a [Practice Note](#) with the intent of clarifying some of the accounting-related requirements introduced by legislation.

Generally, corporate disclosures about executive remuneration were of pretty [low quality](#) after the legislation was introduced, especially disclosures about the value of equity-based remuneration. However, the unexpected collapse of telecommunications company One.Tel and insurance company HIH Insurance in 2001, amid concerns that poor remuneration practice was [partly to blame](#), brought the issue of executive pay clearly into public focus.

In June 2003, ASIC issued a [media release](#) to provide unequivocal guidance about remuneration disclosures. ASIC’s chief accountant, Greg Pound, stated:

ASIC expects all listed companies to comply with their legal obligations, and will consider action against directors if full remuneration, including option values, is not disclosed.

Around the same time, the Australian accounting regulator, the Australian Accounting Standards Board (AASB), began to draft an accounting standard on remuneration disclosures. This was ultimately released in [January 2004](#). In addition to clarifying many definitional issues, the standard set out explicit and detailed remuneration reporting and disclosure guidelines, including rules for the valuation and disclosure of equity-based compensation.

Also in 2004, the [Corporate Law Economic Reform Program Act](#) introduced expanded remuneration disclosures as well as a non-binding shareholder vote on remuneration.

The need for all these regulations became even clearer as poorly designed remuneration played a role in the 2008 global financial crisis. The remuneration practices of overseas financial institutions was [heavily criticised](#) for encouraging excessive risk taking in the lead up to the crisis.

Concerns over executive remuneration ultimately led to a Productivity Commission inquiry into executive pay in Australia. Published in [2009](#), the commission's report recommends (among other things) the implementation of the current "two-strikes rule" for shareholder voting on remuneration. The two-strikes rule was introduced as law in 2011.

This historical path to the current rules on remuneration demonstrates that regulating in this area is fraught with difficulties.

What this means for professional bodies

Organisations like CPA Australia are not required to prepare a detailed remuneration report or to disclose the remuneration of individual directors or executives. Likewise the individual pay of key executives of government supported organisations such as Australia Post or the Australian universities is not a compulsory disclosure.

Along with CPA Australia, the professional accounting body Chartered Accountants Australia New Zealand (CAANZ) disclosed CEO Lee White's 2017 remuneration in response to inquiries from the [Australian Financial Review](#). Similarly, the Tax Institute revealed the remuneration of its [CEO Noel Rowland](#). However, a third Australian accounting body, the Institute of Public Accountants (IPA), has not disclosed individual executive remuneration.

When it comes to how these professional bodies usually report remuneration, a total remuneration figure for the executive team or providing a banded remuneration disclosure (which shows the number of individuals within each relevant salary band above a specified minimum salary) is usually common practice. For example, the Australian Institute of Company Directors (AICD) revealed the collective remuneration of its 12 person executive team but not [individual pay](#). Australian universities generally provide a banded remuneration disclosure but also reveal individual vice chancellor pay levels in response to media inquiries.

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There is murkiness around the clear disclosure of executive pay outside of the public company sector. Individual remuneration is generally not disclosed to members or to the public but can be revealed at the discretion of the organisation concerned if inquiries are made.

It's clear from the scenario unfolding around CPA Australia that members expect disclosure of individual executive and director pay as part of the transparency and accountability owed to them by their professional body. There's also an argument for a similar duty to disclose to stakeholders for government owned or funded organisations.

Further regulation may not be needed to extend remuneration reporting requirements outside of the corporate sector. However, this may be the start of a trend in voluntary remuneration disclosure, as an act of accountability to stakeholders. After all, sunlight is said to be the best disinfectant.

In the past, Julie Walker has received research funding from Chartered Accountants Australia New Zealand (CAANZ). She is currently chair of the CAANZ Education Board, a role which carries zero remuneration.

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