

Hills industries on warpath over expensing options

Listed company Hills Industries is lobbying federal parliamentarians to get a standard requiring the expensing of share-based payment changed.

The company and its employees have been writing letters to various parliamentarians arguing their broad-based employee share plan would need to be cancelled because the accounting rules will require the share plans to be expensed.

A debate in the House of Representatives earlier this month raised the concerns of employees of Hills Industries. The member for Cowan, Graham Edwards, told the parliament that constituents of his had written on the issue of employee share plans.

‘Like many members in this place, I have been subjected to very strong lobbying from members of my constituency. I might say there has been a very genuine endeavour on the part of these constituents to bring this issue to our attention. For instance, I have a letter from just one of my constituents, who is employed by Hills Industries,’ says Edwards.

According to Edwards, the letters indicated David Simmons, the managing director of Hills Industries, has told employees their employee share scheme is under threat because of changes to international financial reporting standards.

‘It seems most unfair that planned changes to international accounting standards aimed at moderating excessive executive benefits should have the unintended consequence of threatening broad-based plans like ours,’ the letter reads.

Another MP, Andrew Southcott from the South Australian lower house seat of Boothby, received similar correspondence.

‘The writer then urged support for an exemption to changes to proposed international accounting standards. The changes are apparently aimed principally at moderating what are considered to be excessive executive benefits. The problem is that most of the employees at Hills would be on modest incomes. They are not receiving large executive benefits or anything of that sort,’ Southcott says.

‘They do value their employee share ownership plan. Most of these people were not shareholders before. They now at least have some shares, and that has enabled them to take an interest in what is going on in the stock market and so on.’

Southcott says the concerns have been taken up with higher political authorities. ‘It is an issue I have taken up with the Minister for Employment and Workplace Relations, and I am pleased that his officers are now talking with Treasury on this matter. Employee share ownership plans are to be encouraged,’ says Southcott.

Hills Industries spells out its concerns with the accounting requirements in its half-year accounts as a part of its disclosures of subsequent events. The company describes the

generic requirements of the share-based payment standard, but states its opposition to the effect the standard has on the reported results.

‘The proposed IFRS [International Financial Reporting Standards] are no doubt motivated by the desire to encourage companies to exercise financial responsibility in relation to the granting of executive options. On this front, the directors have absolutely no concerns with the proposed changes and believe that they will improve accountability in relation to options,’ the half-year accounts for 31 December 2004 state. ‘In the case of Hills Industries Limited, it is more likely than not that our plan will be cancelled due to the impact on reported profits.’

The company’s half-year report makes clear a campaign is being run to seek a change to the proposed change to financial reporting.

‘The directors believe broad-based employee share ownership plans ... should be exempted from the proposed requirements,’ the company’s report says.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The Age*, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.