Executive General Manager
Strategic Planning
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QANTAS

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We would like to request the Committee to consider this document as a supplement to our Submission. This request arises from recent events initiated by a committee jointly represented by the Australian accounting bodies to review the accounting treatment of employee shares.

As outlined in the last paragraph of Section 5.3 of our Submission, the accounting standards and the tax regime are influential in the decision of Qantas to implement employee share ownership schemes.

The current accounting standards do not require companies to record bonus shares issued under employee share ownership schemes at no consideration as an expense on the Profit & Loss account (P&L). This accounting treatment coupled with the current tax regime which entitles companies to a tax deduction on the cost of issuing the same set of shares, results in a net positive impact on the P&L. This is an incentive for companies to introduce employee share ownership schemes.

There have been recent movements, however, by the Urgent Issues Group (UIG)[1] to review the accounting treatment of shares issued under employee share ownership schemes. The UIG Media release on 28 June '1999 revealed that they were in debate over whether shares issued in lieu of cash dividends, shares issued to employees for past or future employee services, and shares issued as a share election plan should give rise to an expense/liability in company accounts.

Whether the UIG will proceed to alter the current accounting arrangement for shares issued under employee share ownership, or refer the matter to the Accounting Standards Board remains unclear at this stage.

However, given the initiatives of UIG to discuss this matter during their meetings, we would like to highlight our strong support for maintaining the status quo on the current accounting treatment for bonus shares issued under employee share ownership schemes. It is our view that where the employee share scheme results in small grants of shares over a long period to many employees, it does not act as part of remuneration for services rendered by those employees, but is all about building equity in the company to ensure alignment of objectives between employees and investors.

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[1] A committee jointly established by the following accounting bodies in Australia: Australian Society of Certified Practising Accountants (ASCPA); The Institute of Chartered Accountants in Australia (ICAA); the Australian Accounting Standards Board (AASB); and the Public Sector Accounting Standards Board (PSASB).

In addition, we believe that the incentive provided to companies plays an important role in encouraging continuing participation by companies in share ownership schemes, resulting in manifold benefits for employees, shareholders and the wider community as discussed in our Submission. Changing these arrangements may well cause companies to reconsider participation in such schemes, which we believe would be a negative outcome.

If you have any questions, please do not hesitate to contact me on (02) 9691 3470.

Yours sincerely

John Stephen Mann