



MEDIA RELEASE

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Cure for Executive Remuneration Problem: Alignment

“The days of some executives walking from the remuneration casino with pockets full of cash, while leaving their company with skeletons in the closet must come to an end,” said Erik Mather, Managing Director of Regnan – Governance Research & Engagement.

“Capital markets have failed when executives get all the reward but shareholders bear all the risk,” Mr Mather said.

“We need fundamental reform of executive remuneration to ensure alignment between executive behaviour and the interests of the company and its shareholders,” Mr Mather said.

Regnan proposes that all executive remuneration exceeding a board-determined threshold to be paid in company shares, vesting from five years after the grant. The effect would be to hard-code rewards based on rolling five year results. The proposal is outlined in the attached paper – *Regnan’s Remuneration Reform Proposal*.

“This proposal does not rely on complex formulas or calculations. Instead it uses time to achieve alignment, which is what has been missing,” said Mr Mather.

Regnan is calling for this proposal to be implemented with immediate effect, ideally via the ASX Corporate Governance Council’s Principles using “if not, why not” reporting to the market.

“The Global Financial Crisis has highlighted misalignment between executive rewards and risks taken by companies,” said Mr Mather. “The time has come to stop talking about the problem and start fixing it.”

This reform preserves the governance function of Boards, who will continue to determine:

- Total remuneration
- Key Performance Indicators (KPIs) for executives
- Hurdles for triggering executive remuneration rewards in excess of the annual threshold

“If shareowners fail to act to address this issue, fiduciary duty is breached,” said Mr Mather.

Regnan has released this proposal in advance of next month’s meeting of G20 leaders and recommends that the proposal also be considered as part of the G20 response to executive remuneration problems globally.

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About Regnan

Regnan – Governance Research & Engagement Pty Ltd was formed in 2007 out of the proven engagement model and resources of BT Financial Group’s Governance Advisory Service. Regnan is owned by eight major institutional investors: ARIA; BT Investment Management; Hermes UK; HESTA Super; NSW Local Government Superannuation Scheme; Vanguard; VicSuper; and VFMC. Regnan provides company engagement services to institutional investors and quantitative data on company Environmental, Social and Corporate Governance performance for mainstream funds management.