

MEDIA RELEASE

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Regnan welcomes the Productivity Commission's much awaited report on Executive Remuneration

We agree with the Commission's view that:

[At times and for some CEO's] "pay outcomes appear inconsistent with a reasonably efficient executive labour market, including performance pay arrangements and termination payments".

Regnan's view is that these instances of inefficiency have been sufficiently frequent and widespread to justify the Commission's initiatives to provide more power to the people who own companies, the shareowners. Community dissatisfaction with remuneration outcomes has been ongoing and despite governance reforms such as increased disclosure and the non-binding vote, the reality is the community is not being won over by outcomes.

"The Commission's recommendations to better empower company owners can only be a good thing. First, shareowners have demonstrated a strong capacity to exercise reasonable judgement when presented sound arguments by company directors. Secondly, too many boards have failed their owners when dispensing remuneration, communicating their remuneration decisions or often, both of these, and it is this track record that has invited the Commission's recommendation" said Regnan Managing Director, Erik Mather. "And, effective company directors have little to fear from these reforms," Mr Mather continued.

Regnan observes that a significant number of the reforms are common-sense and frequently reflected in existing governance principles. Examples include "independence" for the remuneration committee (this ought to have been well entrenched as a matter of substance many years ago) and prohibitions on executives hedging their "at risk" remuneration (contained in ASX Corporate Governance Council recommendations and more importantly, common sense to align executives and owners).

On the issues of substantive reform Regnan supports:

- An end to the "no-vacancy rule" to cultivate a healthier competition for Board nominations – including a more diverse pool of director talent to draw from,
- The "two strikes rule" to assist shareowners to exercise a binding vote against directors who fail to meet reasonable expectations on remuneration governance, and
- Removal of "cessation of employment" as a barrier to deferred remuneration, including post departure rewards.

"Shareowners have for some time been calling for improved remuneration practices that create better alignment with shareowners, including post departure vesting of share-based rewards to ensure executives have skin in the game for the result of their legacy. Enabling shareowners to now empower boards to expose highly paid executives to the legacy of their tenure – just as shareowners are exposed – is a great leap forward in governance," said Mr Mather.



Regnan notes that the Productivity Commission's recommendation to allow equity based remuneration to vest post-departure removes the previous misalignment between current practice and APRA's proposed remuneration guidelines and the UK's Walker Review.

Regnan also supports the greater use of plain English reporting and disclosure of realisable remuneration as well as the accounting expense of remuneration. To date, the community and media have focused on the accounting measure of remuneration, which may not reflect actual levels of remuneration that may be realised.

"Hopefully the Productivity Commission report is the death of remuneration communication through statutory compliance alone," said Mr Mather.

However, Regnan has seriously questioned the Commission's recommendation that alignment of rewards be de facto limited to seven years, by reason of that being the latest point for the taxing point for equity or rights issued to executives.

"The Commission's report has identified that the typical "long-term" reward is just three years. Regnan has for some time been arguing that the length of time an executive is exposed to the same risks as company owners – via shares – can provide one of the strongest forms of alignment. In an age when long-termism has been a catch cry, support for a seven year limit is an unfortunately material shortcoming in an otherwise strong report," said Mr Mather.

Regnan will be submitting its response to the Commission on these and other matters and will be encouraging its clients to actively encourage skilled Directors to compete for Board positions following the removal of the no-vacancy rule, embrace the two strikes rule in practice, and require Boards to "comply or explain" in relation to post-departure vesting and the other key elements of the Regnan Remuneration Reform Proposal dated 16th March 2009 and summarised Box 10.8 of the Commission's Report.

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About Regnan

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