

eanewsletter

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Editorial Comment

Since our last newsletter in December 2009 financial institutions have had a period of time to consider APRA's position on remuneration policy and practice, the general market has had the opportunity to consider the Productivity Commission's report released in early January and investors are responding to end of year and the first six monthly reporting period outcomes.

read more:

<http://www.pc.gov.au/projects/inquiry/executive-remuneration/report>

Australian businesses, particularly those with a significant international footprint, have also noted the legislative and other initiatives taken by a number of European countries on executive pay and observed the US's modified response to the pay crisis of 2008/2009 as they enter the 2010 proxy season.

There is no question that the global financial crisis and the flow-on effects in the global bourses has established a permanent and increased focus by boards on the level of executive reward and in particular incentive or bonus payments.

2009 in retrospect

The Productivity Commission's recommendations

(<http://www.pc.gov.au/projects/inquiry/executive-remuneration/report>) and those of APRA do not appear to be punitive. The collective assessment is that Australia's leading companies have generally managed remuneration wisely and do not have outliers which have sponsored a number of North American and European government initiatives.

Notwithstanding, the most recent round of Annual General Meetings saw a continuing negative response in a minority of cases to Remuneration Reports or proposals for the granting of equity to senior executives.

We noted in their wrap-up of 2009 that the Australian Shareholders' Association voted against 90 of the 176 Remuneration Reports which they addressed and voted against nearly 80% of equity proposals being put in relation to executive directors.

read more.

<http://www.apra.gov.au/Policy/remuneration-governance-extensions-November-2009.cfm>

Board independent advice

Egan Associates anticipate that 2010, as a result of boards reviewing their own policy and practices, will begin an era when an increasing number will appoint and direct the work of their company's executive remuneration advisers or seek an independent firm to advise them in their review of proposals submitted by management.

We also believe that there will be a number of governance initiatives embraced by the ASX in response to the Productivity Commission recommendations and further believe that there will be enhanced disclosures in Remuneration Reports and the adoption of language which makes company practices more transparent to shareholders in 2010 Annual Reports.

Is what you see ...what they get... - A new initiative in remuneration analysis

The continuing complexity of incentive plans and the variety of reporting structures makes the derivation of reliable statistics on Australian corporate policies very difficult.

Egan Associates have continued in their development of insightful analysis and reporting.

[Read more >>](#)

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Share plan legislation

Also at government level, while we note that the legislation in relation to share plans (read more..) has now been determined, we anticipate that there will continue to be a degree of modification and accommodation to both the legislation and supporting regulations as government and business better understand each other's respective needs in managing the complex area of equity based long term incentives, including the criticality of post employment performance sustainability.

We believe there remain limitations in the legislative and regulatory setting with regard to post-termination holdings of unvested securities, as well as issues of valuation and employee tax obligations.

It would be our judgement that these matters of difference are capable of resolution in the near term without prejudicing government receipts.

[Read more >>](#)

One Minute Survey

As part of our commitment to providing clients with contemporary market data and opinion, we have launched a series of "One Minute Surveys" to help us gauge and report trends quickly.

The current survey covers the frequently used performance measure – Total Shareholder Return.

Click the link to complete this web poll:

[Complete the online survey >>](#)

Executive reward in Australia's second 200 ASX ranked companies

We have also provided our initial summary of reward arrangements in the second 200 companies on the ASX with regard to pay highlighting the stark contrast between remuneration in this key listed sector compared to the media's primary attention on the ASX top 50 companies' elements (fixed pay, annual incentive and share-based incentive) (read more..).

[Read more >>](#)

Directors' emoluments

Since our last newsletter the Korn Ferry/Egan Associates Directors' Report has been published and is now available in e-copy on the website.

[Read more >>](#)

"Two strikes" proposal

We were pleased with the significant shifting of ground by the Productivity Commission in relation to "two strikes and out" in relation to shareholders voting against a company's Remuneration Report.

Clearly our research regarding the proportion of shareholders voting and the implications of the power or influence of the top three shareholders and their proxy advisers in controlling board membership highlighted an unknown fact.

Our submission in this regard can be found on the website under http://www.pc.gov.au/_data/assets/pdf_file/0007/92491/subdd160.pdf

Productivity Commission Report released in January 2010

The Commission has issued its final report to government. The benefits of the consultation process were reflected in the changes to the Commission's first draft recommendations....We provide a summary of the most significant recommendations.

[Read more >>](#)

APRA's Remuneration Recommendations

APRA's governance principles build on the G20 and FSF principles and provide a framework for better regulation.

[Read more >>](#)

International responses to the global financial crisis

The benefits of international co-operation have been demonstrated in the ready acceptance of many aspects of the governance principles espoused by the G20 group.

[Read more >>](#)