The significance of disclosure

by John Egan

From time to time, there is discussion of the function and effectiveness of disclosure in regard to executive reward. Fifteen years ago, disclosure was widely supported as a way to ensure that executives were paid fairly as a result of the operation of market forces United States Supreme Court Justice Louis Brandeis' comment "Sunshine is the best disinfectant." was widely quoted.

Concern was raised about the ratchet effect that disclosure might have and that some executives might use comparisons with other companies' pay levels to gain unnecessary increases. It is highly likely that this has happened. For thousands of years, mankind has relied on observing what a particular peer group has been doing and using that as a guide or reason for a particular course of action.

This occurs in elements of culture, legal precedent or fashion. The ease and pervasiveness of modern communications enhances the effectiveness of this process.

The introduction of a clear requirement to disclose remuneration was a radical change in the treatment of information previously thought to be a personal and confidential matter between employer and employee.

It is understandable that the market might take time to adjust its practice. In light of insights gained from the opportunity to observe the effects of disclosure during several periods of radically different financial performance in the market, it is now possible to make more informed judgements on current remuneration practices.

Notwithstanding these observations our assessment is that compiling accurate information on executive reward has not been helped by varying interpretations of disclosure requirements, particularly having regard to benefits offered and/or arising from executive participation in equity based long term incentive awards.

Recent Government initiatives in relation to the tax treatment of share based awards is likely to curb annual incentive deferral which has been encouraged by APRA in their recent draft report, as well as the Financial Stability Forum on behalf of the G20.

To suggest that Government initiatives have been pre-emptive would in our view understate the importance of APRA's work and the anticipated considered views of the Productivity Commission, particularly in regard to termination.

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