GRG Remuneration Review

AGM Voting on Remuneration Resolutions

Remuneration Review No 23

June 2010

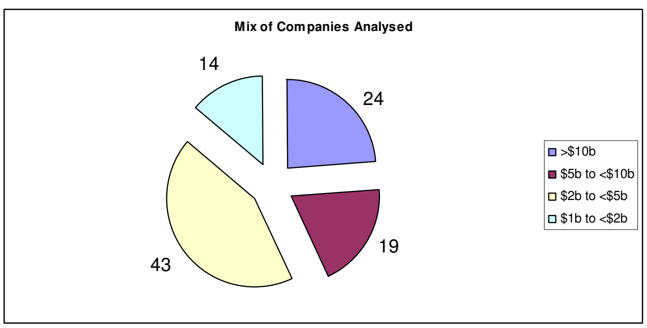
INTRODUCTION

Changes that are to be implemented as a result of recommendations of the Productivity Commission mean that Boards will need to even more carefully consider the likely views of shareholders when making decisions in relation to director and top executive remuneration. The most onerous change is the two strikes trigger for re-election i.e. if two consecutive "no" votes of 25% or more of votes cast are received on Remuneration Reports then elected directors must submit for re-election within 90 days. The Annual General Meetings (AGMs) to which this new provision will apply has not yet been determined but the Government is working on amendments to the Corporations Act to give effect to this change. Other changes that will affect Remuneration Reports include:

- the requirement for a plain English summary of remuneration policies, and
- the need to disclose actual remuneration received (how this will be interpreted remains to be clarified).

So as to get an indication of how many companies may be affected, particularly by the "two strikes" rule, we have analysed the voting patterns on remuneration related resolutions at 2009-10 AGMs i.e. AGMs in relation to 2008-09 Annual Reports, of 100 companies being the larger companies listed on the Australian Securities Exchange (ASX). Some companies were excluded because we could not obtain details of voting patterns mainly because of the timing of their AGMs.

The companies whose voting patterns were analysed fell into the following market capitalisation ranges.



As the companies are larger companies it may be expected that their remuneration policies and Remuneration Reports would be of the highest standard and should be well supported by shareholders. These companies would have:

- high calibre boards which would be seeking to be leaders in corporate governance,
- internal teams dedicated to remuneration management and developing proposals for consideration by the board, and
- advice from top tier firms of solicitors, accountants and remuneration advisors.

The resolutions analysed related to the following aspects:

- Remuneration Reports,
- Increases in aggregate fee limits, and
- Equity (shares, rights and options) grants to directors.

Details and commentary follow.

GRG Remuneration Reviews are articles to assist directors and senior executives who have responsibilities in relation to Board and senior executive remuneration and other human resources issues. Their role varies between articles with some aimed at stimulating critical thinking, others updating information and others simply acting as a reminder of principles and approaches where awareness may need to be heightened.

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REMUNERATION REPORTS

The votes in relation to Remuneration Reports are advisory in nature i.e. non-binding. The following table shows the 25th percentile (P25), 50th percentile (P50) and 75th percentile (P75) of the percentages of supportive votes cast. It tends to indicate that the vast majority of Remuneration Reports were supported by shareholders.

Market Capitalisation	Percentage of Votes Supporting Resolution		
	P25	P50	P75
>$10b	92%	95%	98%
$5b to <$10b	85%	90%	95%
$2b to <$5b	86%	94%	98%
$1b to <$2b	94%	97%	99%
Overall	89%	95%	98%

The following table shows the number of cases where the negative votes exceed 25% of cast votes.

Market Capitalisation	No. of Companies	Votes of More Than 25% Against	
		No. of Companies	% of Companies
>$10b	24	1	4%
$5b to <$10b	19	2	11%
$2b to <$5b	43	8	19%
$1b to <$2b	14	1	7%
TOTALS	**100**	**12**	12%

Of the 12 companies with negative votes at 2009-10 AGMs, four also had negative votes of more than 25% in the previous year. Thus, if the "two strikes" change had applied at that time then non-executive directors would have needed to stand for re-election within 90 days of the last AGM.

The percentage of companies with negative votes exceeding 25% is higher than GRG would have expected amongst the companies in this sample. As indicated earlier, larger companies tend to devote more resources to the remuneration function and would be expected to be quality leaders in relation to remuneration and other corporate governance matters. Thus, it may be expected that a larger proportion of smaller companies may have negative votes in relation to Remuneration Reports. Those companies in this situation will be at risk of their directors needing to stand for re-election should more than 25% of votes be against their Remuneration Reports in two consecutive years. This risk may warrant Boards reviewing their remuneration strategies with a view to making them more acceptable to shareholders.

In this regard it should be noted that making remuneration policies more acceptable to shareholders does not necessarily mean that companies need to blindly follow guidelines released by various stakeholders, some of which at times appear to be in conflict with each other. However, each company should have a sound rationale for the remuneration policies it has adopted. Further, the adopted policy should be capable of clear and simple explanation such that it is easily understood by and acceptable to most shareholders as being reasonable and appropriate to the company's business circumstances.

AGGREGATE FEE LIMITS (AFLs)

The following table shows the number of companies that sought approval from shareholders for an increase in their AFLs. The percentage was lower than GRG would normally expect and was probably attributable to the global financial crisis which influenced many boards to defer increases in their fees.

Market Capitalisation	No. of Companies in Range	Increase in AFL Sought	
		No. of Companies	% of Companies
>$10b	24	2	8%
$5b to <$10b	20	0	0%
$2b to <$5b	43	8	19%
$1b to <$2b	13	3	23%
TOTALS	**100**	**13**	**13%**

The following table shows that the voting was strongly supportive of increases in AFLs.

Market Capitalisation	% of Votes in Support of Increase in AFL		
	P25	P50	P75
>$10b	92%	95%	97%
$5b to <$10b	0%	0%	0%
$2b to <$5b	97%	98%	99%
$1b to <$2b	84%	93%	96%
Overall	**93%**	**98%**	**99%**

The following table shows the amount of AFL increases approved by shareholders expressed as a percentage of the previous AFL. The data for the $2b to $5b group, which is the largest sample, is consistent with previous analysis by GRG.

Market Capitalisation	% Increase in AFL Approved		
	P25	P50	P75
>$10b	21%	25%	29%
$5b to <$10b	0%	0%	0%
$2b to <$5b	32%	50%	75%
$1b to <$2b	83%	150%	158%
Overall	**25%**	**50%**	**100%**

EQUITY GRANTS TO DIRECTORS

Under the ASX listing Rules it is necessary for companies to seek shareholder approval before making grants of equity units (shares, rights and options) to directors if those grants will or may result in a new issue of shares. Given that the LTI component of executive remuneration is typically provided in the form of grants of equity units that vest based on company performance, the number of companies seeking shareholder approval of grants was lower than GRG expected. This may be accounted for by:

- the use of on-market share purchases which does not need shareholder approval,
- companies using the ASX Listing Rule provision which allows grants to be approved for up to three years in advance,
- the appointment of Managing Directors (MDs) close to the AGM not allowing time for the relevant resolutions to be placed in the notice of meeting,
- MDs nearing retirement and grants being made in prior years to cover the period to retirement, and
- the use of cash LTI plans.

Market Capitalisation	No. of Companies	Grant of Equity Units to MD	
		No. of Companies	% of Companies
>$10b	24	11	46%
$5b to <$10b	20	9	45%
$2b to <$5b	43	19	44%
$1b to <$2b	13	3	23%
TOTALS	**100**	**42**	**42%**

The following table shows that when resolutions are put to shareholders they tend to be strongly supported. Such support would indicate that the size of the grants and the vesting conditions are acceptable to shareholders and therefore consistent with good corporate governance.

Market Capitalisation	% of votes in Supportive of Equity Grants to MDs		
	P25	P50	P75
>$10b	95%	95%	98%
$5b to <$10b	86%	92%	98%
$2b to <$5b	87%	89%	98%
$1b to <$2b	96%	96%	97%
Overall	89%	95%	98%

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