

Media Release

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Executive Remuneration Reform – Shareowners short-changed

Regnan is surprised that the Government's response to the Productivity Commission Report on Executive Remuneration has fallen short on a critical test. The Government's response has failed to accept the Commission's recommendation that cessation of employment be removed as a trigger for taxation of equity or rights. This reform would have enabled company directors, as agents of shareowners, to introduce remuneration practices that distribute risks more fairly between executives and shareowners. Instead, the response maintains the hard-coded tax incentive for executives to cash out on departure, leaving investors with all of the risk.

The Government's reference to a "claw back" of bonuses for materially mis-stated financial information (an initiative not mentioned by the Productivity Commission report) falls well short of the improvement to governance that would be achieved if taxation on cessation of employment were reformed.

"While we support the governance disclosures that are encouraged by the Government's response, disclosure is not reform. Today's failure to reform actual pay practices is a significant opportunity lost. Working Australians who are superannuation investors can rightly feel let down by this approach as it ensures they bear long term risks of decisions made by executives who, simply due to tax rules, can be off the financial hook and risk free the day after they depart the company," said Regnan Managing Director, Erik Mather.

While the reasons for not addressing the issue of cessation of employment were said to be a balancing of risks and costs, Regnan notes that Treasury's advice in relation to tax integrity estimated costs of \$230-310 million. This amount is dwarfed by \$34.7 billion of contributions from superannuation investors in 2009 alone. These member contributions to superannuation alone will generate around \$1.15 billion in dividend income (this income subject to taxation). It is not clear that, based on Treasury's estimates, an optimal balance of risks and costs has been struck.

"When the rest of the developed world is working to improve shareowner-executive alignment, the Government's response to the Productivity Commission Report goes against the tide with the decision to retain a tax barrier that prevents such alignment in Australia. The millions of working Australians who invest \$33 of their superannuation savings into the sharemarket each week are right to feel underwhelmed by the response handed down today," said Mr. Mather.

Regnan analysis of superannuation flows has confirmed that 2009 saw working Australians underwrite equity markets via their super, with a worker on average wage investing \$4.69 into BHP every week \$1.34 into Telstra every week and \$1.22 into Woolworths shares, every week of the year. The nature of long term super savings means these investors will continue to hold exposure to risks associated with an executive's decisions long after the executive taken cash and departed the company.



“Today’s response on ‘cessation of employment’ is a reform opportunity lost. It ensures ordinary Australians bear an unfair investment risk burden and does little to embrace meaningful governance improvement. Hard-coding this risk imbalance between executives and working Australians means we are closer, not further, to our next crisis,” said Mr. Mather.

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About Regnan

Regnan – Governance Engagement & Research 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 Victorian Funds Management Corporation. Regnan provides company engagement services to institutional investors and research on companies’ Environmental, Social and Corporate Governance performance for mainstream funds management.