Stephen Mayne, June 24, 2009

Claim: many estimates of share-based pay are over-stated
Yes, but most of it was under-stated during the boom years. For instance, Babcock & Brown CEO Phil Green had 800,000 hurdle-free options exercisable at $5 a share valued at $1.17m in both 2005 and 2006 annual report (see page 61 here: http://www.asx.com.au/asxpdf/20070420/pdf/31211m2692pq4b.pdf) when the options were worth as much as $20 million at the peak. Should be valued every year based on market movements. 2006 B&B remuneration report approved by 96.6% of shares voted when stated 2005 pay of $12.37m should have been closer to $25m.

Claim: proxy advisers have too much power
Yes, but on the whole they've used this power as a force for good. However, the donkey vote that Risk Metric carries is extraordinary. My average vote in 35 board tilts is 15% but the one time when Risk Metrics recommended at Centro Retail AGM last year, 70% of independent vote went my way.

Remuneration consultants are conflicted
When hired directly by CEOs, this is certainly the case. The most prominent remains John Egan yet he was the consultant who defended one of the most outrageous deals of all – the 1 million free AMP shares for George Trumbull as part of the 1998 demutualisation. Where's the accountability?

KEY MESSAGE: Fix corporate voting, especially the no vacancy rort
The key to corporate governance, including executive pay, is fixing up the director election system. The biggest problem is where boards require a challenger to knock off an incumbent to get elected by declaring there is "no vacancy". The average incumbent gets 96% in favour and when you throw in the typical 10% of the vote as undirected proxies in the chairman's back pocket, it was statistically impossible for me to get elected in the majority of 35 board tilts. 100% of directed proxies in favour would still have lost because success requires more than a simple majority. See list below:

Where 100% of directed proxies in favour would fail due to "no vacancy"/undirected proxies

***NRMA**, 2000: 45.07%*
***WA News**, 2008: 53.3%*
***ASX**, 2000: 69.04%*
***WA News**, 2000: 70.56%*
***ASX**, 2001: 76.6%*
***CommBank**, 2000: 77.43%*
***David Jones**, 2000: 78.53%*
***AMP**, 2000: 80.23%*
***ASX**, 2002: 86.14%*
***WA News**, 2007: 88.4%*
***PMP**, 2001: 89.11%*
***NRMA**, 2001: 90.39%*
***NAB**, 2000: 90.82%*
***Southern Cross**, 2001: 91%*
***John Fairfax**, 2001: 91.76%*
***Woolworths**, 2007: 93.95%*
***John Fairfax**, 2005: 98.8%*

** Assumes 100% of directed proxies in favour and undirected proxies voted against in a poll*

BIGGEST REMUNERATION REPORT PROTESTS – WHY BACK THE DIRECTORS?

This list tracks the 13 protest votes exceeding 40% against remunerations reports at ASX200 companies since 2006 and shows how the unidentified institutional shareholders backed the directors at the same AGMs who got the pay policies wrong. If you vote against rem reports, surely you should vote against the responsible directors.

Valad Property Group, 2008: 76.1% against rem - big bonuses as company close to collapse.
Least popular director: Bob Seidler, 85.8% in favour

Telstra, 2007: 66.18% against rem - not enough performance hurdles or disclosure for Sol Trujillo.
No directors up for election.

AGL, 2007: 62.56% against rem – CEO Paul Anthony pocketed $17 million for 17 months work.
Least popular director: chairman Mark Johnson: 83.2% in favour

Transurban, 2008: 58.56% against rem - $16.6 million farewell to former CEO Kim Edwards.
Least popular director: chairman David Ryan, only 57.1% in favour due to ABC Learning baggage.

Boral, 2008: 58% against rem - big increase in base pay and short term bonuses for CEO Rod Pearce.
Least popular director: Paul Rayner, 99.5% in favour

Wesfarmers, 2008: 50.50% against rem - poor disclosure of incentive scheme for CEO Richard Goyder.
Least popular director: chairman Bob Every, 99.5% in favour

Oxiana, 2006: 46.9% against rem - changed the performance period on CEO Owen Hegarty's options.
Least popular director: Michael Eager, 99.3% in favour

Alumina, 2007: 46.2% against rem - CEO incentives not structured appropriately.
Least popular director: Peter Hay, 99.2% in favour

MFS, 2007: 45.92% against rem - options for chair Andrew Peacock and excessive cash for executives.
Least popular director: Paul Manka, 99.2% in favour

Toll Holdings, 2008: 42.94% against rem - big protest against $55m options buyout in Asciano demerger.
Least popular director: chairman Ray Horsburgh: 99.7% in favour

Qantas, 2008, 41.48% against rem – Geoff Dixon highest paid airline CEO in the world.
Least popular director: Barbara Ward: 59% in favour

Zinifex, 2006: 41.26% against rem - excessive $12 million incentive payment to outgoing CEO Greg Gailey.
Least popular director: Tony Larkin, 99.9% in favour

Suncorp, 2007: 40.61% against rem - excessive incentive payments guaranteed after Promina takeover.
Least popular director: Dr Cherrell Hirst, 98% in favour.

KEY STEPS TO IMPROVE TRANSPARENCY OF CORPORATE VOTING
Full electronic audit trail of direct voting with no undirected proxies defaulting to chairman
Execs can't vote on own remuneration reports (ie Westfield, Toll, Centro Retail, Gunns)
Disclose how institutions vote and allow scrutineers as in political elections
Church and state separation between banks and fund manager – unbundle financial conglomerates
End effective monopoly boards have over shareholder resolutions by adopting US system where any shareholder owning $US2000 worth of stock for 12 months can put up a resolution. Australia requires 100 shareholder signatures or 5% of stock which rarely happens.