Submission
Productivity Commission
Regulation of Director and Executive Remuneration in Australia - 2009

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Executive Summary

TOR 1: Trends in remuneration

Table 4 - Trends in CEO and Chairman remuneration relative to other growth indicators

Director and relativity	1999 ($'000)	2008 ($'000)	Value Increase ($'000)	% Increase	Compound Annual Growth Rate %
CEO TFR Median	409	523	114	28%	**2.77%**
CEO TFR 75th percentile	624	902	278	45%	**4.18%**
CEO TFR + STI Median	465	686	221	48%	**4.42%**
CEO TFR + STI 75th percentile	792	1,370	578	73%	**6.28%**
Chairman Median	89	151	62	70%	**6.05%**
Chairman 75th percentile	152	300	148	97%	**7.85%**

Measure	1999	2008	Total Increase	% Increase	Compound Annual Growth Rate %
AWE (*)	610	891	281	46%	**4.30%**
AFL Players AAGE (*)	117	214	97	83%	**6.94%**
CPI (*)	101	136	35	35%	**3.36%**
ASX/S&P 300 (*)	13,138	33,860	20,722	158%	**11.09%**

Public Servant	1999	2008	Total Increase	% Increase	Compound Annual Growth Rate %
Chief of the Defence Force	305	429	124	41%	**3.86%**
Auditor-General for Australia	285	401	116	41%	**3.87%**

(*) 1 July 1998 to 1 July 2008

Prima facie, analysis of the CEO or Chairman’s remuneration data over the period (with LTI excluded) would not support the premise that remuneration paid to CEO’s or Chairman of Australian public companies is excessive.

TOR 2: Effectiveness of regulatory arrangements

In our opinion, heavy handed and prescriptive regulation, particularly in a subject that is so fluid and requiring 'real time' judgement, may create distortions, lead to unforeseen outcomes, often resulting in practices that are less effective than the system it replaced, or at the extreme lead to intentional avoidance.

The four (4) most recent influential 'regulatory' changes that have, in our opinion, had the most profound impact on senior executive remuneration are:

1. Remuneration disclosures in respect of directors and key management personnel (KMP).
2. The non-binding vote by shareholders on Remuneration Reports
3. The introduction of AASB – 2 (Accounting for Share based payments).
4. Changes to taxation rules affecting ESS announced by the Treasurer – 12 May 2009, and subsequent refinements

TOR 3: The role of institutional and retail shareholders

The proxy advisers generally adopt a 'standards based' or 'checklist based' analysis in formulating their recommendations.

A review of the standards commonly applied (sourced mainly from CGI Glass Lewis's "Green' Paper) may highlight for the Committee some of the anomalies or inconsistencies that can result from a formula based approach. See **Appendix J**.

TOR 4: Aligning interests

In our opinion, most of the answers to this complex issue lies in significantly improved research, regular checks and balances by a truly independent third party and vastly improved communication, not based on legal and accounting requirements, but that discloses 'real' benefits received and that are comparable across all companies.

TOR 5: International developments

The very establishment of the Commission is probably a reaction to the 'excessive' remuneration debate internationally that some contend helped cause the recent Global Financial Crisis (GFC). Hopefully, the Commission's conclusions will show that Australia's remuneration practices, generally have been somewhat more sober than our international counterparts.

Several key aspects of senior executive remuneration that have evolved overseas and where Australia is poorly equipped with its current taxation regime to match world's 'best practice', include:

1. Deferred bonuses paid in employer company shares;
2. Long term shareholding, post vesting; and
3. Taxing point for options.

TOR 6: Liaising with the Tax System Review and APRA

Co-ordination between the various regulatory authorities would be ideal, however, somehow in Australia we have evolved a system where our adopted Accounting Standards determine that share based payments represent an expense to the business even where the equity benefit never vests, yet our taxation system does not recognise it as an expense. Conversely, our taxation system proposes to tax a benefit that is only notional and may never be received, which is unrecognised as a benefit by our Accounting Standards.

This emphasises the need for education and communication to ensure Government, regulators, investors and Boards understand the differences and the impact on financial statements.

TOR 7: Recommendations on improving remuneration practices

In no particular order the following recommendations, if adopted, in our opinion, would improve remuneration practices or at least improve the understanding of the practices adopted:

1. Introduction of a supplementary statement for remuneration disclosures which is completely standardised and contains all the key remuneration information in easy to understand and readable format;
2. Significantly greater quantitative analysis in assessing all 'at risk' remuneration, including 'risk' analysis;
3. Rotation of Board appointed remuneration advisors on a regular basis. No more than three years;
4. Mandatory and appropriate qualifications for all Remuneration Committee participants;
5. Mandatory requirement that all remuneration instructions and advice is strictly between the Board and the remuneration advisor, without intervention or direction from the CEO or other executives;
6. Ensuring that remuneration advisors are not conflicted. That is, it would be inappropriate for a remuneration advisor or their firm, for example, to provide legal, taxation or audit services to a company;
7. Alignment between taxation and accounting expense for all equity incentives;
8. Significant standardisation and simplification of the method of valuing equity incentives to allow for better understanding and comparison between companies for all financial statement users;
9. Mandatory reporting of all company provided equity incentive benefits realised by senior executives;
10. Establishment of a public company 'Remuneration Review Tribunal' to review and report on public company remuneration practices;
11. Funded research to guide remuneration practices in Australia relative to local and overseas 'best practice' standards; and
12. Appropriate accreditation of all Board remuneration advisors.

Introduction and Background

CRA Plan Managers Pty Limited (CRA) is an independent company principally involved in advising companies in the design of contemporary remuneration and incentive strategies for their executives and employees. We also assist a number of companies with the establishment and administration of their employee share schemes (ESS). The majority of CRA's clients are public companies in the mid-cap range, although CRA has also provided advice to a number of top 100 companies, from time to time.

Ian Crichton, CRA's principal consultant, has worked in the remuneration advisory industry for more than 15 years. He is the author of the Top 500 Report (and its precedent Top 350 Report) analysing senior executive and director remuneration in Australia's largest 500 (350) companies by market capitalisation, since 1995.

We apologise to the Productivity Commission (the Commission) for our delay in responding to the April issues paper. The reason for the delay is quite simple. We are a relatively small business and the time commitment required in preparing detailed submissions for Government bodies is difficult in the ordinary course of business. This has been compounded by this being a peak period in our annual business cycle and changes to the way ESS are to be taxed announced in the Federal budget on 12 May 2009, has had a major impact on our clients and has therefore dealing with the 'fall out' has been quite dislocating for our business. In fact, in the period from 12 May 2009 to 30 June 2009 we spent an inordinate amount of time working with various lobby groups, meeting with clients to resolve their pre-30 June offer processes and talking to journalists on the important issue of employee equity participation. Finally, our submission to the Senate Inquiry in respect of the changes to ESS was only submitted on Friday 17 July 2009.

We have limited our comments in this submission to the **Terms of Reference** (**TOR**) and where we believe we have some degree of expertise and might add value to the Commission's review.

We would welcome the opportunity of answering any questions the Commission may have arising from a review of our submission.

TOR 1: Trends in remuneration

Remuneration defined

At the outset, we consider that an understanding of the key remuneration terms and definitions is critical in grasping the interrelationship between the various components of senior executive remuneration. **Table 1**, below explains some of the key terms we will use often in our submission.

Table 1 - Remuneration terms and relationships

Total Fixed Remuneration (TFR)	Short Term Incentive (STI)	Medium Term Incentive (MTI)	Long Term Incentive (LTI)
TFR includes cash base salary, allowances, superannuation and any other benefits costed to 'package', including FBT grossed up.	STI is usually a cash 'bonus' paid at the end of the year and determined by a mix of individual and/or business unit and/or group performance outcomes relative to targets set at the beginning of the period.	Cash and/or shares usually awarded as a deferred component of STI.	Usually equity[1] granted subject to service and performance conditions.
Weekly, Fortnightly or Monthly	**Short Term (1 year +)**	**Medium Term (1 - 3 years)**	**Long Term (3 years +)**
No Risk (Fixed)	**At Risk (Variable)**		

[1] Equity could be one or other of many alternatives, including premium priced options, market priced options, discount priced options, zero-priced options (a.k.a. performance rights), loan shares with or without downside risk protection, performance (deferred) shares or hybrid versions. Some companies may use a 'replicated' cash alternative of these, often called phantom, synthetic or notional equity.

The remuneration mix

In our experience, the mix of these remuneration components will depend on each company's individual remuneration strategy. As a guide, and this is very 'rough' science, the remuneration strategy intention of a 'performance' aggressive organisation (**Table 2**) and a 'performance' passive

organisation (**Table 3**) might be something like that set out in the below tables. There is, in fact, no precise 'rule of thumb' to apply and each company will be different and may change its strategic intentions from year to year, or from cycle to cycle, or from position to position. Flexibility and judgement are the key ingredients in ensuring the mix is balanced and appropriate to the circumstances.

It is critical that a Board of Directors (or its designated remuneration committee) establish a coherent senior executive remuneration strategy intention at the outset, because this is fundamental to ensuring that the Board's intended senior executive remuneration positioning, including internal and external relativities are set, measured and maintained in line with the policy. Without a clear remuneration strategy intention to guide decisions, senior executive remuneration decisions become little more than a collection of one off or 'ad hoc' decisions.

It is the remuneration strategy that shareholders should have a say in, before and not after the fact.

Table 2 - Remuneration % mix - Performance Aggressive

Employee Category	TFR	STI	LTI	Total
CEO	33	34	33	100
Direct Reports	50	25	25	100
Management	60	20	20	100
General Employees	80	15	5	100

The most common example of 'so called' performance aggressive organisations, from a remuneration perspective, might include companies involved in 'high risk' businesses, such as resource exploration, technology, start-ups and high growth sectors. Less volatile businesses may adopt performance aggressive remuneration structures, but this would almost certainly lead to a mismatch between their business strategy and their remuneration strategy.

Table 3 - Remuneration % mix - Performance Passive

Employee Category	TFR	STI	LTI	Total
CEO	70	15	15	100
Direct Reports	85	10	5	100
Management	95	5	0	100
General Employees	100	0	0	100

Typical performance passive organisations might include large and mature businesses. For example, companies that have significant established brands or market shares, where growth opportunities may be limited or highly risky or where their market dominance precludes growth. Usually companies with a low stock volatility will fall into this category. A higher component of fixed remuneration would usually be required to retain high calibre executives.

Most public companies and many private companies in Australia would fall somewhere within these remuneration 'boundaries'. Some may also lie outside them. These are very much in the minority.

Remuneration trends in Australia – 1999 to 2008

We base our assessment of remuneration trends in Australia on data we have collected from public company audited financial statements over the last decade or more.

At the outset we acknowledge that the data collected and presented is not perfect. For example, we have not included long term incentives (LTI) in the remuneration comparisons, because the disclosure of long term equity incentives in public company remuneration tables is distorted and with little or no meaningful data provided for comparison in the period before 2005.

Other limitations in the data used, include:

- In the earlier years of data collection, the remuneration information disclosures by many public companies were inconsistent or incomplete. For example, the requirement to disclose values for 'share based payments' included in executive remuneration was first reported in the 2006 year after full transition of the International Financial Reporting Standards were introduced. Even now, there is still much inconsistency in the way companies value and report this component of remuneration.

- The companies included in the data collection process vary over time. For example, of the 350 companies included in the data in 1998, only 287 still remain in the data at 2009. This is due to any number of reasons, including part year remuneration being excluded, takeover, mergers and acquisitions, delisting for a range of reasons and at the margin some companies have grown and are now included, whereas some are now smaller and fall out of the data collection range.

- Even though the data was collected on a consistent and systematic basis, the data collection is subject to variation from year to year.

Notwithstanding these limitations, it is likely that CRA's data base of senior executive and director remuneration is the most comprehensive and longest continuous offering of its type available in Australia.

We have separated our analysis of the data into several categories, as follows:

- Chief Executive Officer (CEO) TFR median (**Appendix A**);
- CEO TFR 75th percentile (**Appendix B**);
- CEO TFR + STI median (**Appendix C**);
- CEO TFR + STI 75th percentile (**Appendix D**);
- Chairman (total remuneration) median (**Appendix E**);

- Chairman (total remuneration) 75th percentile (**Appendix F**); and
- Top 5 relativity comparison (**Appendix G**).

As a control, we have also calculated the growth of the following key indicators.

- Average Weekly Earnings (AWE) over the reference period (**Appendix H**);
- Consumer Price Index (CPI) over the referenced period (**Appendix H**); and
- ASX/S&P 300 Accumulation Index over the reference period (**Appendix H**).

Also, as a further control, and for interest, we have included the growth in player payments to AFL players over the same period. AFL was selected because it is a truly national sport, has 'salary caps' or controls and is not distorted by international influences (cricket and rugby) or administration wars (NRL).

- Average Annual Gross Earnings (AAGE) for AFL players over the referenced period (**Appendix I**).

Rates of remuneration change for selected public servants have also been included for comparative purposes, as sourced from the Remuneration Tribunal data base.

The % compound growth in each of the relevant data groups over the same period was calculated to be as set out in **Table 4**, over.

Table 4 - Trends in CEO and Chairman remuneration relative to other growth indicators

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As is evidenced by the data CEO and Chairman's remuneration (with LTI excluded) at the 75th percentile has not kept pace with the rate of growth in the ASX/S&P 300 Accumulation Index over the period or AFL player payments. CEO TFR at the median has not kept pace with CPI, Average Weekly Earnings, AFL player earnings, public servant remuneration increases or the ASX/S&P 300 Accumulation Index over the period.

Prima facie, analysis of the CEO or Chairman's remuneration data over the period (with LTI excluded) would not support the premise that remuneration paid to CEO's or Chairman of Australian public companies is excessive.

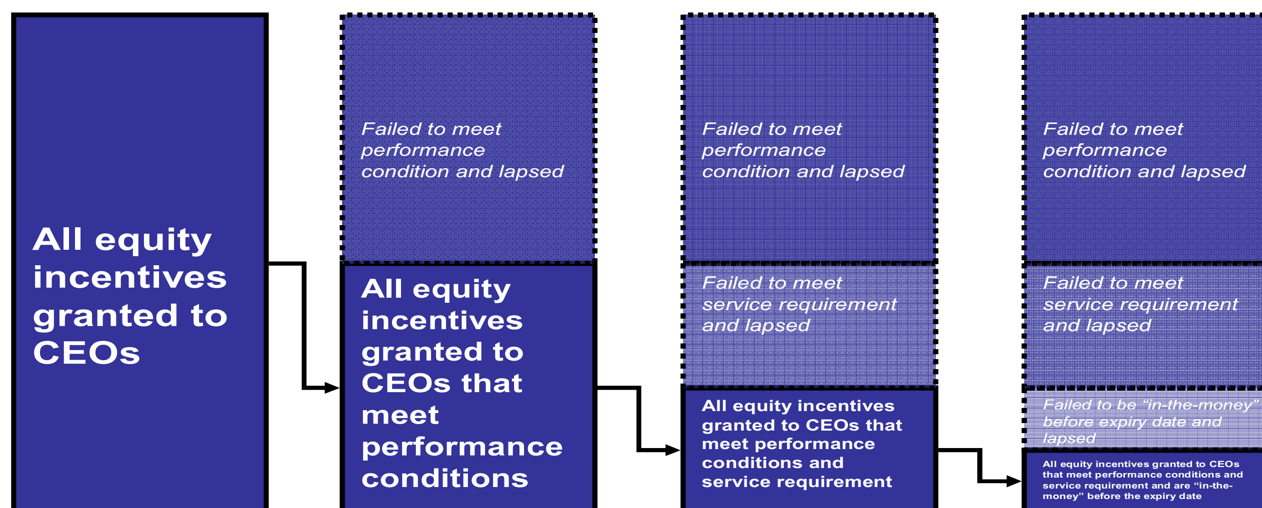
Further, given that the overwhelming majority of public company Chairman do not receive equity as a component of their remuneration, and acknowledging that the regulatory complexities and time commitment of a Chairman is materially greater today than in 1998, it could be argued that with a compound growth in Chairman remuneration at about half the compound rate of growth in the ASX/S&P 300 Accumulation Index, **Chairman are relatively under remunerated in relative terms.**

The conclusion is not as simple in respect of the CEO, because the impact of LTI needs to be factored in, but this is where significant difficulty and distortion in analysis arises. Firstly, in the earlier periods of our data collection, the 'value' of equity incentives was not included in the CEO remuneration disclosures, secondly, under the Accounting Standards the value included for equity incentives is an approximate or 'notional' value only, subject to material variation depending on the assumptions used and, finally, the value reported in virtually every case bears little relationship to the 'real' cash value of the benefit received by the CEO anyway.

The complexity of understanding, measuring, interpreting and comparing equity incentive benefits received by CEO's and other senior executives is probably at the heart of the current 'excessive' senior executive remuneration debate.

We do not have complete data over any worthwhile period or for any statistically relevant group of executives to allow comparison of the 'real' value of benefits received under the range of equity incentive plan programs offered.

Applying some simple logic can help narrow down the extent of the problem, if one exists. If we assume[1] the majority of 'material' equity incentives provided to CEO's and senior executives in Australian listed companies require 'outperformance' of an Accumulation Index, and if that outperformance only permits vesting of an equity incentive, at the median, then, ceteris paribus, only 50% of CEO's and senior executives would receive any benefit, and then logically, only 25% of these would receive 100% vesting, and that is assuming that all CEO's also meet the service condition (unlikely) and that all vested benefits are 'in the money' or have value (unlikely) at exercise or realisation date, as illustrated.



Therefore, is the problem of excessive remuneration as big as we think, or is it a lack of appropriate statistically relevant data to understand the extent of the excess, if any, that is creating the impression of a 'problem', or worse, are we assuming because excesses have occurred in other countries these are somehow infecting Australia? The impact of the Global Financial Crisis in Australia has been less pronounced than in other countries, perhaps the majority of our 'stewards' are also more conservative than in other countries!

[1] The major Australian companies by Market Capitalisation are reviewed by the proxy advisors and they would usually insist on demanding performance hurdles as a pre-condition of their recommendation for shareholder approval.

Given that the ASX/S&P 300 Accumulation Index **fell** 13.2% in 2007 and 20.5% in 2008, it is highly unlikely that there are too many 'windfall' gains likely to emerge from any long term equity incentives provided to CEO's or other senior executives in the last three years, despite the relatively high total 'notional' accounting values recorded for LTI under the Accounting Standards, which might be at the heart of the problem!

Properly funded and directed research is needed to make any worthwhile, accurate and statistically significant conclusions. Currently, this is not available, unless the Commission itself has undertaken this work as part of the current review.

Certainly, there is no evidence, in our opinion, to suggest that excessive senior executive remuneration is entrenched or even wide spread in Australia.

Equity incentives and their use in senior executive remuneration

Equity incentives, in Australia, have been a common feature of executive remuneration for at least 20 years. Since the introduction of tax concessional legislation (Division 13A (ITAA 36) in 1996, general equity participation has also become more prevalent, particularly for listed companies with high employee numbers, such as the major banks and major industrial companies.

In the early days (1980's) employee equity participation was quite simple, and followed mainly US practices. A small group of key executives in a company and more often than not just the CEO, would be granted options struck at an exercise price equal to the market value of the shares at the date of grant, commonly without any performance conditions. If the shares increased in value and the executive was still employed at the exercise date, then a benefit was available to be realised. These schemes were extremely popular because significant wealth could be created for the executive without apparent cost to the Company, other than dilution. In essence it was 'free' remuneration and because shareholders were better off over time, it was seen as a 'win-win'.

Partly paid share plans were also popular until there was the realisation that there was no 'downside' risk protection in partly paid share arrangements. (See Elders IXL Limited and Westpac Banking Corporation Limited for partly paid share plan disasters). The taxing of 'discounts' on the introduction of Division 13A (ITAA 36) effectively ended these type of plans.

Loan based share plans, again often without performance conditions, were a popular general employee equity participation plan before the introduction of Division 13A (ITAA 36), and remained so for those companies who could not meet the qualifying conditions embodied in Division 13A, such as issuers of stapled securities. Limited recourse, interest free loans were provided to employees to pay for the shares acquired. Dividends were then applied against the loan. Usually the shares would vest, subject to service conditions only.

According to our research (Top 350 Report : Director and Executive Remuneration) in 1995, at least 61% of the top 350 (by market capitalisation) public companies in Australia had some form of ESS in place. At least 12% had multiple plans. At 60%, option plans were the most common plan

type, followed by loan based (24%), partly paid (11%) and subscription (5%) plans. By 2005, at least 72% of companies in the top 500 public companies had an ESS and there were many companies with multiple plans. From our data we know that at least 64 companies had active exempt benefit plans, and at least 43 companies had active deferred benefit plans: at least 370 had active option plans.

Since 2005, we estimate that the number of active exempt and deferred plans would have nearly doubled and the incidence of option plans would have declined, with performance rights (zero-priced options) filling the void.

We would estimate that, in an active year, the annual gross value of all ESS issues to executives in Australian listed companies could easily be **$3.0 billion** (*This is based on total market capitalisation of Australia's listed companies ($1,100 billion) times 70% (estimated ESS incidence) times 0.4% (estimate of average ES dilution per company as a % of issued capital) = $3.08 billion*) or more, as these statistics ignore shares acquired on-market for a range of remuneration purposes.

Referring back to **Table 1** we now illustrate in **Table 5** below examples of how different ESS are used for various remuneration and incentive purposes.

Remember, all these plans fall under the one generic term – employee share scheme or plan, but there uses and remuneration purpose are very different.

Table 5 - Remuneration terms and relationships

Total Fixed Remuneration (TFR)	Short Term Incentive (STI)	Medium Term Incentive (MTI)	Long Term Incentive (LTI)
Weekly, Fortnightly or Monthly	Short Term (1 year +)	Medium Term (1 - 3 years)	Long Term (3 years +)
No Risk (Fixed)	At Risk (Variable)		

Employee Share Plans - Example of Applications for each remuneration component

Exempt Share Benefit (Salary Sacrifice) Deferred Share Benefit (Salary Sacrifice)	Deferred Share Benefit (Bonus Sacrifice)	Deferred Share Benefit (Bonus Sacrifice) (Service and/or Performance) Performance Rights (Service and/or Performance)	Deferred Share Benefit (Service and/or Performance) Performance Rights (Service and/or Performance) Option Plan (Service and/or Performance)

There are significantly different costs and benefits for shareholders, employers, employees and governments (state and federal) depending on the plan type and its method of operation. Some are provided out of new issues, others are provided from on-market purchases. Some costs are tax deductible, some are not. Some 'costs' are notional, others are 'real'.

The process of selecting an appropriate ESS for remuneration or incentive purposes is dynamic and relies heavily on the combined inputs of the employer (assisted by their advisors), shareholder commitment and approval, employee investment and 'buy-in' and the taxation concessions offered, if any.

For example, some companies, such as CSR Limited, have a requirement for their directors and selected senior executives to hold a certain percentage of remuneration in company shares. Others such as BHP Billiton Limited make it compulsory for a portion (50%) of all STI earned by selected executives to be deferred for at least 24 months, and for the 'deferred' bonus to be held in company shares, while companies, such as JB Hi-Fi Limited, only offer options to a select few executives.

There is no "one size fits all" approach to senior executive remuneration and the application of ESS to satisfy the remuneration intention.

It should not matter whether a company offers equity under a loan share plan, a performance rights plan, an option plan or a deferred share plan. What matters are the terms of offer within an appropriately determined LTI cost.

Over time the use of equity as a component of senior executive remuneration in one form or another has increased significantly. The majority of companies, in our opinion, apply equity in an appropriate and sensible manner.

Excessive or inappropriate allocations occur from time to time, but these are usually corrected with subsequent improved/changed practices usually driven by shareholder 'backlash'.

TOR 2: Effectiveness of regulatory arrangements

The implication of this proposition is that increased regulation may in some way improve director and executive remuneration practices.

In our opinion, heavy handed and prescriptive regulation, particularly in a subject that is so fluid and requiring 'real time' judgement, may create distortions, lead to unforeseen outcomes, often resulting in practices that are less effective than the system it replaced, or at the extreme lead to intentional avoidance. The Treasurer's recent ill-considered intervention into changing the existing employee share scheme legislation is a case in point.

Today, in Australia, the main drivers of senior executive and director remuneration, apart from the expectations of the executives themselves are the executive placement firms, the Board of Directors (and their advisors) and Institutional Shareholders (and their proxy advisors) and to a lesser extent international practices and trends.

The four (4) most recent influential 'regulatory' changes that have, in our opinion, had the most profound impact on senior executive remuneration are:

1. **Remuneration disclosures in respect of directors and key management personnel (KMP).**

   The free and ready availability of remuneration information has led to a 'ratcheting' up effect on senior executive remuneration through the selective use of benchmark data comparisons driving remuneration changes, rather than any attempt at rewarding 'job value'. Having said that, as shown in **Table 4**, the annual compound growth in CEO and Chairman remuneration does appear to be excessive in comparative terms.

2. **The non-binding vote by shareholders on Remuneration Reports**.

   This requirement has led to tension, mostly healthy, between the Board and management and proxy advisors, particularly in regard to long term equity incentives at least in the top ASX 300 companies. While this tension has mostly been positive, it may give 'outsiders' an undue influence on complex and sensitive remuneration determinations. That is, some Boards may simply do what gives the least grief with proxy advisors rather than doing what is best in a remuneration strategy sense.

3. **The introduction of AASB – 2 (Accounting for Share based payments**).

   This standard, despite its intentions, has led to an unbelievably complex system of valuing senior executive equity incentive remuneration benefits, beyond the grasp of most shareholders, and often rather than adding clarity to an understanding of the 'real' benefits earned by senior executives, has resulted in confusion, uncertainty and misinformation.

   The standard attempts to create a uniform and consistent methodology of valuing the 'fair value' of equity benefits and have that fair value expensed over the relevant service period. The theory is fine, the application of the theory, however, in most cases, has lead to a misstatement of the remuneration benefits 'earned' by executives.

   It is conceivable that two example 'identical' companies audited by different firms and applying different valuation assumptions could come up with materially different fair values.

   For example, Company A issues options to their CEO, who is not a director. Company B issues options to their CEO, who is a director. Both the valuations set out in **Table 6** below, would arguably conform with AASB 2, although we acknowledge that there is an element of exaggeration in the example to 'prove' the point.

Table 6 - Option valuation example for exactly the same offer with different asumptions applied

Variable	Company A		Company B	
Exercise Price	$1.00	As per contract	$1.00	As per contract
Share Price	$0.75	Share Price @ Offer Date	$1.25	Share Price @ AGM Date
Volatility	45%	Estimate of expected	60%	3 year historic
Expected Life	1,095 days	Vesting date	1,450	Vesting date + 12 months
Expected Dividends	3.50%	3 year historic	0%	Expected as per Board
Risk Free Rate	4.50%	3 year swap rate	5%	4 year swap rate
Value before adjustment for service or performance	**$0.15**	**per option**	**$0.71**	**per option**

Both the values determined in the Table are notional, both are wrong and there is no accounting impact for the 'real' end benefit emerging for the executive nor is there a requirement to disclose the benefit arising to that executive.

The valuation gets murkier still when determining the value expensed each year after allowing for performance and service probabilities and how they are shown and referenced in the financial statements.

Significant actuarial input, at significant cost, is drawn by the major audit firms to deduce that the values are mathematically supportable and based on the Accounting Standard. Usually, however, only the actuaries understand the results.

Regrettably, little effort is made to make the values comprehensible to ordinary shareholders.

4. Changes to taxation rules affecting ESS announced by the Treasurer – 12 May 2009, and subsequent refinements

We refer the Commission to CRA's and other submissions to the Senate Inquiry (www.aph.gov.au/Senate/committee/economics_ctte) in respect of ESS. A summary of the possible effect of the changes proposed, extracted from our submission to the Senate Inquiry, are as follows:

- Many companies will suspend their general employee share plan offerings in the September quarter (2009) as they await the results of the Senate Inquiry and the passing of the legislation. Because the taxation law changes are to be back dated to 1 July 2009, most Board's will be reluctant to undertake offer programs without legislative certainty.

- As the majority of CEO and director equity allocations require shareholder approval and the Annual General Meeting season for the majority of companies occur between 1 October and 30 November, we would expect equity offers to these executives to be shaped largely in accordance with the draft or approved legislation. If the legislation is drafted in line with the 1 July press release we would expect two main outcomes. First, performance shares or performance rights are likely to be preferred over options, although 'non-qualifying' share plans, such as loan share plans may make a come back. This will reflect the comparatively adverse taxation treatment for options. Second, the size (number of securities offered) of equity allocations will be greater than would be the case without the change. This will reflect the lesser 'expected life' of the benefit resulting in a lower remuneration value per ESS security, meaning more securities for each $ of "at risk" remuneration will be issued.

- There may be unintended outcomes such as highly structured arrangements purposely constructed outside the new 'qualifying' arrangements that may create improved taxation outcomes for participants.

- There is likely to be an increase in the number of requests for private binding rulings from the Australian Taxation Office, as users seek clarity and definition of such uncertain, highly interpretive terms as 'genuine risk of forfeiture' and 'other restrictions' and so on.

- There is likely to be a significant decrease in the incidence of voluntary and compulsory deferred share benefit programs. This will be disadvantageous to taxation revenue, over time, if on average, the value of securities is greater at the cessation date than at the grant date (all other things being equal).

- Some of the voluntary and compulsory deferred share benefit programs will be replaced or replicated by deferred cash programs, thereby defeating the supposed intention of receiving taxation receipts earlier anyway, but will not have the complimentary 'alignment of interest' benefit imbedded in them.

- Overall, there is likely to be a significant divergence between ESS practices for senior executives and employees. Equity programs will continue for senior executives in modified form accommodating the changes and as suggested in an earlier point the number of securities offered to this group may well increase reflecting the lower notional remuneration value of securities with a shortened "vesting" period. On the other hand, companies may restrict their equity offer programs (that is offer fewer securities to fewer employees) because the taxation concessions are less compelling.

- Because of the adverse taxation consequences, particularly applying to option plans, for illiquid public companies and for most unlisted companies, it is likely that the frequency of equity participation in unlisted companies will be severely reduced. This will impose higher cash costs on these businesses and will disadvantage them in the competition for skilled senior executives.

- If the benefits of 'broad based' employee share ownership are real, as is implied by the international empirical evidence, then the corollary is that, as a collective, Australian companies will become less competitive and productive and the division between capital and labour will become more pronounced. This may take decades to recover from.

Regrettably, because of the absence of properly funded and detailed research, the suggested outcomes noted above, if they eventuate, will probably not even be recorded, or other factors will be assumed to have caused the damage.

TOR 3: The role of institutional and retail shareholders

Institutional shareholders have a strong say in senior executive remuneration determinations, at least in the top 300 companies, because of the role of proxy advisors. Having said that, the proxy advisors comments and recommendations are often limited to an overview of the in-principle issues and do not take into account a company's 'real time' special circumstances. As far as we are aware the proxy advisors do not have the benefit of an in depth understanding of these 'real time' issues affecting a company and executive remuneration decisions or access to detailed information available to the Board or their remuneration advisors.

The resources of the Australian Shareholders Association (ASA), who represent retail investors, are less than the proxy advisers and therefore the detail and depth of their review of remuneration related matters is usually less comprehensive. This is compounded by the spread of their interests across a larger number of companies.

The proxy advisers generally adopt a 'standards based' or 'checklist based' analysis in formulating their recommendations.

A review of the standards commonly applied (sourced mainly from CGI Glass Lewis's "Green' Paper) may highlight for the Committee some of the anomalies or inconsistencies that can result from a formula based approach. See **Appendix J**.

TOR 4: Aligning interests

I am only half joking when I say that, as a remuneration consultant, you only know the point at which your advice is appropriately balanced is when everyone is unhappy! That is, if shareholders are happy, but the Board and executives are not, then the structure or size of the remuneration package is probably inadequate or unbalanced, whereas if a senior executive is happy and the Board and/or shareholders are not, then the remuneration package is probably too high or the performance conditions are too soft, and so on.

If you extend this logic to also include Governments and the interests of the wider community, the Commission can see that there are a lot of people to make unhappy to get the balance right!

It is our view that a healthy tension should always exist between all these ‘vested’ interests. It is virtually impossible to have everyone’s interests completely aligned. What is important is that no one group is ignored and that an attempt to balance the competing interests is addressed.

In our opinion, most of the answers to this complex issue lies in significantly improved research, regular checks and balances by a truly independent third party and vastly improved communication, not based on legal and accounting requirements, but that discloses ‘real’ benefits received and that are comparable across all companies. This may require supplementary reporting.

TOR 5: International developments

Others are better qualified to comment on the full impact of international developments on senior executive remuneration behaviour in Australia. The very establishment of the Commission, however, is probably a reaction to the 'excessive' remuneration debate internationally that some contend helped cause the recent Global Financial Crisis (GFC). Hopefully, the Commissions conclusions will show that Australia's remuneration practices, generally, have been somewhat more sober than our international counterparts.

We will limit our comments to several key aspects of senior executive remuneration that have evolved overseas and where Australia is poorly equipped with its current taxation regime to match world's 'best practice'.

1. **Deferred bonuses paid in employer company shares**

   One of the 'risks' of performance pay is to over reward short term 'performance', particularly where the performance is subsequently proven to be 'one-off' or unsustainable. Bonuses paid at the end of a financial period without a deferred component encourages short term performance, possibly at the expense of long term goals.

   One way of protecting against short term opportunism is to 'defer' a portion of any short bonuses and withhold it subject to further service and/or continuing minimum performance. The best way to maximise the impact of this deferral is have a portion of the bonus invested in company shares, thereby providing an additional alignment of interest between executives and shareholders. These shares can be acquired on-market and therefore not be dilutive to shareholders.

   The proposed changes to the taxation of Deferred Share benefits will restrict or severely curtail these programs.

2. Long term shareholding, post vesting

A desire to have departing CEO's or other senior executives with 'at risk' rewards 'post employment' requires coordination with the Taxation Act, to be effective. Under the present and proposed taxing rules, cessation of employment becomes a taxing event irrespective of the conditional nature of the benefit provided.

3. Taxing point for options

Most advanced economies offer some form of taxation neutrality or concession to ESS benefits. Some countries, such as the United Kingdom and the United States of America offer significant taxation concessions. (*See p.13-18 Employee share ownership and the progressive agenda, June 2009, David Hetherington).*

The proposed method of taxing options will position Australia completely out of step with all comparable countries. **Table 7** below, illustrates the taxing point on employee options for a selection of countries. Of all the countries listed, only Australia will adopt the draconian measure of taxing 'benefits' derived from options by employees based on 'notional' values.

Table 7 - Option taxing point by country (A sample)

At grant date	At vesting date (usually three years after grant date)	At exercise date (usually after three years and before five years)	Not taxed
	Australia #	China	Dubai "
		Germany *	Oman "
		France *	
		Ireland *	
		Malaysia	
		Netherlands *	
		Singapore *	
		India *	
		Spain	
		United Kingdom *	
		United States *	
		Thailand	
		New Zealand	
		Hong Kong *	
	# Income tax by employee, no concession	* Concessional rate or terms applied	" Tax free

As you can see from **Table 7**, many countries not only allow continuing deferral of taxation beyond the vesting date, but also encourage the use of options by offering a complex range of additional taxation concessions. Australia, if the proposed changes are adopted, will assume the position of “world’s worst” practice, at least in respect of employee options.

The impact of these changes will be hardest felt by smaller public companies and all unlisted companies. The impact of imposing a tax on a “notional” rather than a “realised” benefits should not be understated.

TOR 6: Liaising with the Tax System Review and APRA

Co-ordination between the various regulatory authorities would be ideal. The recent changes announced by the Federal Government in relation to Termination Benefits and the method of taxing employee share schemes, while the Productivity Commission and the Henry Taxation Review have yet to report their findings, gives little promise that a co-ordinated approach will ever eventuate.

Somehow, in Australia, we have evolved a system whereby :

- <u>our adopted Accounting Standards determine that share based payments represent an expense;</u>
- <u>even where the equity benefit never vests;</u>
- <u>yet our taxation system does not recognise it as an expense;</u>
- <u>and our taxation system proposes to tax a benefit that is only notional and may never be received;</u>
- <u>and which is unrecognised as a benefit by our Accounting Standards.</u>

We also have Accounting Standards that **do not recognise** a legally binding debt (loan share plan) or legally issued shares, but treats the transaction as if it is an 'in-substance' option. Conversely, the taxation system **recognises** both the debt and the shares.

These examples and many other anomalies and inconsistencies between our legal, accounting and taxation systems add significantly to the complexity and misunderstanding in respect of senior executive remuneration, in Australia, particularly the equity incentive components.

We are sceptical whether an alignment between the various regulatory forces will achieve much with such significant differences entrenched.

This emphasises the need for education and communication to ensure Government, regulators, investors and Boards understand the differences and their impact on financial statements, much of which is notional and illusory.

TOR 7: Recommendations on improving remuneration practices

In no particular order the following recommendations, if adopted, in our opinion, would improve CEO and senior executive remuneration practices in Australia or, at least, improve the understanding of the practices currently adopted by companies.

1. Introduction of a supplementary statement for remuneration disclosures which is completely standardised and contains all the key remuneration information in easy to understand and readable format;
2. Significantly greater quantitative analysis in assessing all 'at risk' remuneration, including 'risk' analysis;
3. Rotation of Board appointed remuneration advisors on a regular basis. No more than three years;
4. Mandatory and appropriate qualifications for all Remuneration Committee participants;
5. Mandatory requirement that all remuneration instructions and advice is strictly between the Board and the remuneration advisor, without intervention or direction from the CEO or other executives;
6. Ensuring that remuneration advisors are not conflicted. That is, it would be inappropriate for a remuneration advisor or their firm, for example, to provide legal, taxation or audit services to a company;
7. Alignment between taxation and accounting expense for all equity incentives;
8. Significant standardisation and simplification of the method of valuing equity incentives to allow for better understanding and comparison between companies for all financial statement users;
9. Mandatory reporting of all company provided equity incentive benefits realised by senior executives;
10. Establishment of a public company 'Remuneration Review Tribunal' to review and report on public company remuneration practices;
11. Funded research to guide remuneration practices in Australia relative to local and overseas 'best practice' standards; and
12. Appropriate accreditation of all Board remuneration advisors.

Appendix A

Chief Executive Officer (CEO) Remuneration (Median) (Total Fixed Remuneration (TFR))

MC Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	158	212	186	314	48%	208	300	-4%	287	288	-4%	103	344	19%	118	320	-7%	94	353	10%	56	367	4%	63	319	-13%	228	400	25%	188	88.68%	7.31%
$200m - $500m	62	504	61	392	-22%	62	381	-3%	70	481	26%	78	431	-10%	86	412	-4%	87	403	-2%	99	425	5%	173	400	-6%	90	551	38%	47	9.33%	1.00%
$500m - $1,000m	35	600	38	580	-3%	36	525	-9%	48	635	21%	42	643	1%	49	475	-26%	41	550	16%	48	544	-1%	75	554	2%	32	646	17%	46	7.67%	0.82%
$1,000m - $3,000m	36	772	39	749	-3%	44	694	-7%	47	800	15%	44	878	10%	58	708	-19%	64	737	4%	40	896	22%	77	764	-15%	59	1,125	47%	353	45.73%	4.27%
$3,000m plus	33	1,217	36	1,347	11%	27	1408	5%	41	1513	7%	37	1,500	-1%	52	1,511	1%	62	1,366	-10%	42	1,523	11%	65	1,708	12%	55	1,792	5%	575	47.25%	4.39%
All	**324**	**409**	**360**	**403**	**-1%**	**377**	**382**	**-5%**	**493**	**378**	**-1%**	**304**	**469**	**24%**	**363**	**448**	**-4%**	**348**	**489**	**9%**	**285**	**490**	**0%**	**453**	**486**	**-1%**	**464**	**523**	**8%**	**114**	**27.87%**	**2.77%**

Appendix B

Chief Executive Officer (CEO) Remuneration (75th percentile)

Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	158	321	186	427	33%	208	402	-6%	287	398	-1%	103	449	13%	118	423	-6%	94	474	12%	56	471	-1%	63	412	-13%	228	511	24%	190	59.19%	5.30%
$200m - $500m	62	656	61	600	-9%	62	572	-5%	70	654	14%	78	584	-11%	86	529	-9%	87	539	2%	99	556	3%	173	548	-1%	90	692	26%	36	5.49%	0.60%
$500m - $1,000m	35	774	38	755	-2%	36	694	-8%	48	957	38%	42	823	-14%	49	657	-20%	41	746	14%	48	774	4%	75	892	15%	32	982	10%	208	26.87%	2.68%
$1,000m - $3,000m	36	1,062	39	892	-16%	44	946	6%	47	928	-2%	44	1,140	23%	58	1,111	-3%	64	1,093	-2%	40	1,252	15%	77	1,120	-11%	59	1,627	45%	565	53.20%	4.85%
$3,000m plus	33	1,500	36	1,519	1%	27	1,638	8%	41	1980	21%	37	1,787	-10%	52	2,051	15%	62	1,863	-9%	42	2,271	22%	65	2,393	5%	55	2,490	4%	990	66.00%	5.79%
All	**324**	**624**	**360**	**670**	**7%**	**377**	**619**	**-8%**	**493**	**680**	**10%**	**304**	**854**	**26%**	**363**	**743**	**-13%**	**348**	**858**	**15%**	**285**	**866**	**1%**	**453**	**880**	**2%**	**464**	**902**	**3%**	**278**	**44.55%**	**4.18%**

Appendix C

Chief Executive Officer (CEO) Remuneration (Median) (Total Fixed Remuneration (TFR) plus Short Term Incentives (STI))

Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	158	309	186	338	9%	208	319	-6%	287	300	-6%	103	396	32%	118	350	-12%	94	401	15%	56	425	6%	63	375	-12%	228	470	25%	161	52.10%	4.77%
$200m - $500m	62	452	61	458	1%	62	449	-2%	70	561	25%	78	497	-11%	86	457	-8%	87	473	4%	99	535	13%	173	470	-12%	90	695	48%	243	53.76%	4.90%
$500m - $1,000m	35	551	38	710	29%	36	573	-19%	48	705	23%	42	831	18%	49	606	-27%	41	709	17%	48	712	0%	75	675	-5%	32	938	39%	387	70.24%	6.09%
$1,000m - $3,000m	36	918	39	910	-1%	44	834	-8%	47	975	17%	44	1176	21%	58	1,036	-12%	64	1,048	1%	40	1,253	20%	77	1,321	5%	59	1,646	25%	728	79.30%	6.70%
$3,000m plus	33	1,477	36	1,747	18%	27	1,807	3%	41	2,258	25%	37	2482	10%	52	2,440	-2%	62	2,248	-8%	42	2,467	10%	65	2,984	21%	55	3,420	15%	1,943	131.55%	9.78%
All	324	465	360	454	-2%	377	433	-5%	493	401	-7%	304	552	38%	363	516	-7%	348	605	17%	285	623	3%	453	639	3%	464	686	7%	221	47.53%	4.42%

Appendix D

Chief Executive Officer (CEO) Remuneration (75th percentile) (Total Fixed Remuneration (TFR) plus Short Term Incentives (STI))

Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	158	403	186	479	19%	208	454	-5%	287	417	-8%	103	505	21%	118	476	-6%	94	554	16%	56	608	10%	63	522	-14%	228	723	39%	320	79.40%	6.71%
$200m - $500m	62	545	61	623	14%	62	642	3%	70	712	11%	78	711	0%	86	639	-10%	87	671	5%	99	721	7%	173	729	1%	90	976	34%	431	79.08%	6.69%
$500m - $1,000m	35	674	38	910	35%	36	902	-1%	48	1,307	45%	42	1,125	-14%	49	1,000	-11%	41	970	-3%	48	1,130	16%	75	1,230	9%	32	1,554	26%	880	130.56%	9.73%
$1,000m - $3,000m	36	1,248	39	1,293	4%	44	1,206	-7%	47	1,285	7%	44	1,649	28%	58	1,514	-8%	64	1,619	7%	40	2,069	28%	77	1,971	-5%	59	2,370	20%	1,122	89.90%	7.39%
$3,000m plus	33	2,038	36	2,275	12%	27	2,508	10%	41	2,852	14%	37	3,250	14%	52	3,571	10%	62	3,523	-1%	42	4,089	16%	65	4,315	6%	55	4,698	9%	2,660	130.52%	9.72%
All	324	792	360	808	2%	377	765	-5%	493	815	7%	304	1,190	46%	363	1,099	-8%	348	1,257	14%	285	1,222	-3%	453	1,321	8%	464	1,370	4%	578	72.98%	6.28%

Appendix E

Chairman Remuneration (Median)

Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	121	60	154	59	-2%	221	60	2%	212	58	-3%	82	65	12%	114	68	5%	108	76	12%	51	78	3%	58	118	51%	232	117	-1%	57	95.00%	7.70%
$200m - $500m	54	94	56	90	-4%	54	86	-4%	61	97	13%	66	84	-13%	66	77	-8%	90	87	13%	98	99	14%	148	112	13%	80	151	35%	57	60.64%	5.41%
$500m - $1,000m	27	114	33	127	11%	41	109	-14%	30	119	9%	36	131	10%	41	98	-25%	40	124	27%	50	105	-15%	68	160	52%	35	175	9%	61	53.51%	4.88%
$1,000m - $3,000m	34	150	36	135	-10%	44	151	12%	49	163	8%	43	172	6%	50	166	-3%	63	158	-5%	39	225	42%	70	207	-8%	57	300	45%	150	100.00%	8.01%
$3,000m plus	27	203	30	201	-1%	39	243	21%	33	298	23%	31	260	-13%	47	276	6%	62	271	-2%	39	322	19%	58	392	22%	48	427	9%	224	110.34%	8.61%
All	263	89	309	78	-12%	399	78	0%	385	80	3%	258	97	21%	318	93	-4%	363	107	15%	226	115	7%	402	131	14%	452	151	15%	62	69.66%	6.05%

Appendix F

Chairman Remuneration (75th percentile)

Ranges	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
Up to $200m	121	78	154	77	-1%	221	81	5%	212	81	0%	82	87	7%	114	88	1%	108	109	24%	51	113	4%	58	156	38%	232	181	16%	103	132.05%	9.80%
$200m - $500m	54	112	56	110	-2%	54	123	12%	61	128	4%	66	108	-16%	66	125	16%	90	121	-3%	98	142	17%	148	156	10%	80	210	35%	98	87.50%	7.23%
$500m - $1,000m	27	135	33	147	9%	41	135	-8%	30	146	8%	36	161	10%	41	155	-4%	40	171	10%	50	162	-5%	68	267	65%	35	296	11%	161	119.26%	9.11%
$1,000m - $3,000m	34	178	36	197	11%	44	202	3%	49	189	-6%	43	212	12%	50	230	8%	63	246	7%	39	277	13%	70	313	13%	57	366	17%	188	105.62%	8.34%
$3,000m plus	27	263	30	257	-2%	39	300	17%	33	346	15%	31	345	0%	47	356	3%	62	387	9%	39	412	6%	58	489	19%	48	561	15%	298	113.31%	8.78%
All	263	152	309	128	-16%	399	126	-2%	385	131	4%	258	170	30%	318	170	0%	363	177	4%	226	204	15%	402	236	16%	452	300	27%	148	97.37%	7.85%

Appendix G

Top 5 relative remuneration relativity

Total Fixed Remuneration (TFR)	2000	2001	2002	2003	2004	2005	2006	2007	2008
Highest paid	100%	100%	100%	100%	100%	100%	100%	100%	100%
2nd Highest	68%	71%	77%	74%	57%	74%	71%	69%	57%
3rd Highest	57%	51%	59%	58%	47%	58%	56%	55%	48%
4th Highest	49%	46%	53%	51%	45%	51%	50%	49%	44%
5th Highest	44%	42%	50%	44%	41%	44%	45%	46%	41%
6th Highest	41%	39%	46%	43%	38%	43%	44%	44%	39%

Appendix H

Average Weekly Earnings (AWE)

Annual Consumer Price Index (CPI)

S&P/ASX 300 Accumulation Index*

Ranges	1999		2000		2001		2002		2003		2004		2005		2006		2007		2008		Overall Increase ($'000)	% Increase	Annual Compound Rate
	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.	#	% Inc.			
Average Weekly Earnings	610	1.80%	634	3.94%	663	4.61%	689	3.91%	725	5.28%	752	3.65%	794	5.55%	829	4.46%	867	4.60%	891	2.77%	281.20	**46.11%**	**4.30%**
Annual Consumer Price Index (CPI)	101	1.10%	104	3.20%	111	6.00%	114	2.80%	117	2.70%	120	2.50%	123	2.50%	128	4.00%	130	2.10%	136	4.50%	35.02	**34.64%**	**3.36%**
S&P/ASX 300 Accumulation Index*	13,138	13.58%	15,304	16.49%	16,986	10.99%	16,215	-4.54%	15,954	-1.61%	19,421	21.73%	24,476	26.03%	30,355	24.02%	39,221	29.21%	33,860	-13.67%	20,722.00	**157.73%**	**11.09%**

* As at 30 June of the year

Appendix I

National Sport Average Weekly Earnings (AFL player earnings)

National Sport Salaries	1999		2000			2001			2002			2003			2004			2005			2006			2007			2008			Overall Increase ($'000)	% Increase	Compound Annual Growth Rate
	#	$'000	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.	#	$'000	% Inc.			
AFL Average Gross Earnings	576	117	568	127	8.5%	539	150	18.1%	529	167	11.3%	530	176	5.4%	542	184	4.5%	547	187	1.6%	549	193	3.2%	546	203	5.2%	554	214	5.4%	97	82.91%	6.94%

Appendix J
Proxy Adviser checklist of issues relating to executive remuneration and ESS

Issue	Comments
Rationale of LTEI It is generally accepted that grants to employees and executives under equity participation schemes are justified if they:	
a) Align the interests of the offeree with the interests of shareholders	Dividends? Capital Growth? Short Term? Long Term?
b) Do not unduly dilute the holdings of the owners (a 5% limit is common).	5% of a small cap stock is too limiting
c) Provide clear incentive to improve the performance of the Company.	Performance needs to be defined - company by company
Schemes should encourage long term equity ownership by the executive Boards should design equity participation schemes that encourage recipients to retain and grow their shareholdings and therefore align executive interests with the interests of all shareholders. This 'motherhood' statement should be referred to and reinforced in all employee and shareholder communications relating to the plans.	
Schemes should contain limits on dilution In the case of companies with established or relatively established businesses, schemes should require prior approval if any grant or series of grants	
a) Together with grants already made under all schemes, would exceed 10% of total issued capital on a rolling 10 year basis, or	Any variation from this limit should be carefully communicated to shareholders.
b) In the case of a grant to executives would exceed 5% of total issued share capital, calculated on a rolling 10 year basis	Any variation from this limit should be carefully communicated to shareholders.
Equity reward for genuine "out-performance" Investing institutions take exception to high levels of remuneration paid for average or below average performance.	Communication is the key to this ensuring this issue is properly understood, whatever performance conditions are chosen
Who should get equity awards? Equity awards should be directed primarily at executive directors and those other executives who are in a position and have responsibility for decisions that can affect shareholder returns.	Usually, a company will include the CEO, Direct Reports and key other executives, as a minimum. Some organisations have "all employee" equity programs. This is acceptable as long as the cost/benefit of the programs are clearly communicated and understood.
Stretching performance hurdles are essential The principal difference between equity awards to key executives and equity awards to other employees is that equity awards to key executives should always be subject stretching financial performance hurdles.	The definition of 'stretching' will vary from company to company and industry to industry and from year to year. Again, communication is a key aspect of convincing shareholders of the appropriateness of any performance hurdles selected.

Issue	Comments
Performance should measure both internal and external performance Performance should be measured against relevant benchmarks that are preferably both external and internal with an appropriate proportion of the equity incentive attributable to each benchmark.	TSR measured against a well selected sector index is the preferred external measure. Net EPS is the preferred internal measure.
Disclosure of full current remuneration package Full disclosure of all remuneration benefits should be provided when approval of equity grants is sought. If shareholders know the value of the equity benefit in the context of other remuneration elements they are in a position to form an opinion on the reasonableness of each component and the total. Estimates of the full accounting cost and dilutionary impact should be fully disclosed.	
Sign-on awards Sign-on rewards should be discouraged, but if necessary then they should be fully explained. Sign-on rewards are at odds with the concept of ‘pay for performance’.	
Expected outcomes The expected outcomes of equity rewards should be explained. Expected outcomes making both “high” and “low” assumptions as well as central case. Again, if shareholders know the value of the likely range of equity benefit in the context of other remuneration elements they are in a position to form an opinion on the reasonableness of each component and the total.	
Simple share price hurdles are deemed inadequate Achievement of an equity reward should not be dependant simply on a share price increase. Similarly, the denial of a benefit should not be share price driven if an executive has met other performance expectations.	
Minimum period and sliding scales Vesting should be over a minimum of three years and on a sliding scale in order to motivate cascading and sustained performance, rather than ‘cliff face’ performance.	
Regular awards Awards should be made on a regular basis. Annual allocations, if any, are recommended.	

Issue	Comments
No retesting If awards are considered on a regular basis then no retesting of performance hurdles should be considered without shareholder approval. If irregular offers are considered, or if there are adverse accounting consequences arising under AIFRS-2 then retesting could be considered, but only after careful evaluation of the circumstances and with detailed explanation of the reasons.	
Loan Finance Loan finance on favourable terms to take up small allocations is unobjectionable. Non or limited recourse loans for senior executives should not be made.	
Takeover, reconstruction, change of control etc. These events should not give rise to early vesting of entitlements. A pro-rata entitlement is appropriate subject to satisfying performance conditions.	
No grants at a discount to market Options, if offered, should never be issued at a discount. Therefore, performance rights are 'prima-facie' unacceptable.	
No repricing or extensions Any repricing or extensions should be submitted to shareholders.	
Long term options Options, if granted, should not have a term of greater than 5 years unless the rationale is fully justified to shareholders.	
Options or other share incentives and retirement Options should not be offered to executives approaching retirement.	
Other issues to consider Benchmark comparisons for LTI are notoriously inaccurate. Great care needs to taken in comparing and analysing this data. If an argument to justify a remuneration approach is used, then it must be consistently applied. The standards and approach adopted for the CEO and his/her direct reports should be adopted and applied across the group for at least a portion of all equity incentives. Best practice remuneration standards will usually involve an element of tension between both executive and shareholder expectations. Keeping shareholders happy (at approval) and losing key talent is not 'best practice'. Any equity approvals should be discussed with major institutional shareholders before they are finalised to 'test the waters'. Long term equity incentives should be re-evaluated every year to ensure there is an appropriate alignment between the cost of the equity and the perceived benefit.	