

HaRe Group newsletter: 2 April 2003

Subject: Corporate governance: executive performance & remuneration

Early this week, the ASX Corporate Governance Council published a set of 10 principles for good governance. In addition to directors, the Council's paper covers "key executives" in its recommendations. These are senior employees who have the opportunity to materially influence business success.

For your information, I have summarised some key parts of the Council's framework that cover executive performance and remuneration.

Principle 8: Encourage enhanced performance

The Council's guidelines include:

- disclosure of the process to regularly review the performance of key executives using both measurable and qualitative indicators;
- executives having access to continuing education to update and enhance their skills and knowledge;
- procedures that allow the board to seek independent professional advice.

Principle 9: Remunerate fairly and responsibly

The Council's guidelines include:

- adopting remuneration policies that attract & maintain talented and motivated employees to encourage enhanced long-term company performance;
- creating a clear relationship between performance and remuneration;
- disclosure of remuneration objectives, policies, structure and procedures that are focused on long-term business success;
- disclosure of the nature and value of all remuneration items received by the 5 highest-paid, "continuing" non-director executives (a Corporations Act requirement for listed companies);
- disclosure of all incentives (eg. bonuses, profit share) accruing within the year, regardless of the payment date;
- the need for a reporting framework for Australian companies that aids disclosure of the value of share options and termination payments;
- establishing a board remuneration committee of at least three directors, with a majority of independent directors, one of these being chairman.

The remuneration committee should independently review and make recommendations to the board on:

- executive remuneration, superannuation and incentive policies & schemes;
- the remuneration of senior managers;
- policies & procedures on senior management recruitment, retention, and termination.

The remuneration committee should also ensure that:

- there is sufficient information gathered for informed decision-making;
- executive remuneration has a balance of fixed pay and variable incentives that reflect short and long-term business objectives.

The ASX will require boards to explain any departures from the Council's best practice recommendations.

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