



Remuneration Review

Non-executive Director Remuneration Update

Remuneration Review No 27

March 2011

INTRODUCTION

GRG has recently finished analysis of non-executive director (NED) remuneration for the 2011 Board Remuneration Report (2011 BRR). The analysis has revealed interesting developments and this GRG Remuneration Review summarises and comments on those developments. The BRR is an annual Report that GRG and Spencer Stuart jointly publish.

The table provided in the appendix shows the spread of the 500 companies whose NED remuneration data was analysed for purposes of the 2011 BRR. It should be noted that approximately one-third of the companies are in the resources sector which is experiencing boom times.

The areas covered in this GRG Remuneration Review are:

- Share and option plans,
- Increases in fees,
- Increases in aggregated fees limits,
- Multiples of Chair to NED main board fees, and
- Committee fees.

SHARE PLANS DEAD BUT OPTION PLANS SURVIVE

An area of significant change was in relation to the use of fee sacrifice share acquisition plans. The changes to the employee share scheme taxing provisions, which apply to acquisitions after 30 June 2009, means that fee sacrifice share acquisitions needed to be under specific plans that are subject to a statutory limit of \$5,000 per annum. The reduced opportunity for tax deferral has resulted in most companies discontinuing the opportunity for new fee sacrifice share acquisitions.

The incidence of the use of options has not changed with around 17% of companies offering options to NEDs as part of their remuneration. This practice was and continues to be mainly in the resources and biotechnology sectors where lower rates of cash fees are paid to preserve cash and options are used to make the overall remuneration attractive to NEDs.

Companies with overseas operations and which need to attract overseas NEDs to their boards will need to consider offering options as part of NED remuneration as they are an accepted and expected component of NED remuneration, particularly in North America.

GRG expects the use of options to grow over the next few years despite the ASX Corporate Governance Council Guidelines which indicate that options should not be provided to NEDs. These guidelines operate on an "if not why not" basis. Thus, companies that choose to provide options merely need to disclose why they chose to do so.

Options may be provided using one of two approaches being:

- Options which are taxable at grant but have a low or nil taxable value due to the exercise price being set at a premium to the share price at the time of grant of the options, and
- Options which are tax deferred due to having a real risk of forfeiture.

Which is most appropriate will depend upon a company's circumstances.

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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FEE INCREASES

The following table shows the percentage increase in main board packages (total of fees, super, options, benefits etc) for Chairs and NEDs.

Overall Increase in Main Board Packages		
Roles	Chair	Director
P25	0.00%	0.00%
P50	2.00%	2.00%
P75	9.53%	10.30%

While the median increases of around 2% were consistent with GRG's expectations the P75 levels of increase were higher than expected.

GRG expects median increases over the next two years to be around 6% and 4%.

INCREASE IN AFLs

Increases in aggregate fees limits (AFLs), the shareholder approval annual cap on fees, were consistent with previous years' practice in that around 20% of companies sought AFL increases and the median increase was 50%.

It should be noted that those companies that grant options to NEDs are less likely to need increases in their AFLs because option grants are not counted as fees for AFL purposes.

COMMITTEE FEES

Committee fees continue to be used as a means of recognising different workloads of NEDs. Companies which are able to share board work relatively evenly among NEDs tend not to pay committee fees whereas those that are unable to do so tend to pay committee fees.

The two most frequently occurring committees are Audit and Remuneration. Audit Committees attract higher fees than Remuneration Committees but this may change as the responsibilities of Remuneration Committees increase due to changing corporate governance standards and impending legislative changes.

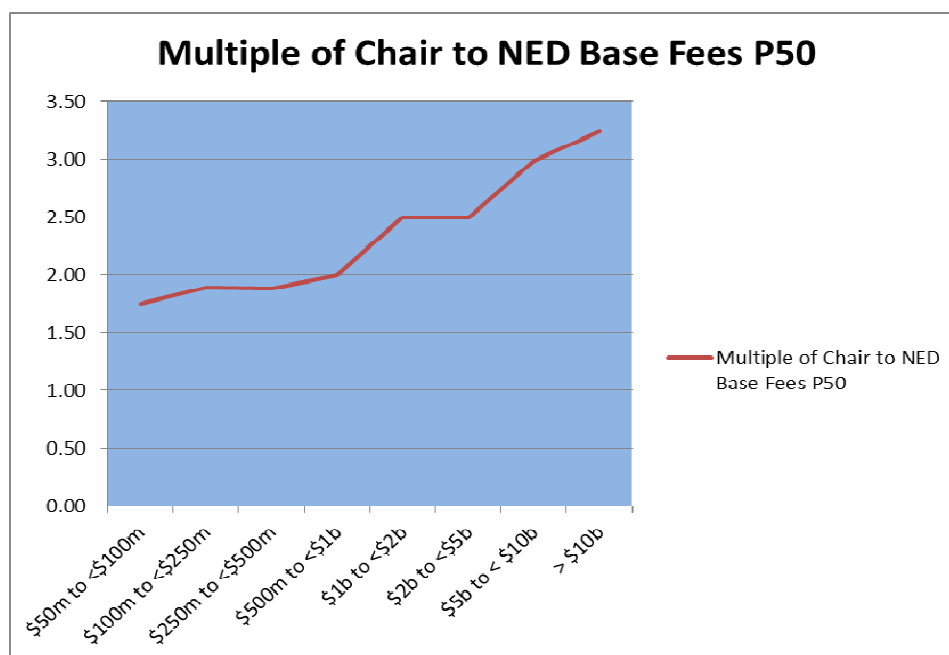
Committee Chair fees tend to be between 1.5 and 2 times the fees for members. The following table shows median levels of fees for Committee Chairs and members.

Market Capitalisation	Audit		Remuneration	
	Chair	Member	Chair	Member
>\$10b	\$50,000	\$25,000	\$13,975	\$10,000
\$5b to <\$10b	\$38,000	\$18,000	\$15,000	\$10,000
\$2b to <\$5b	\$30,000	\$15,000	\$15,000	\$7,669
\$1b to <\$2b	\$24,250	\$10,350	\$18,000	\$11,000
\$500m to <\$1b	\$18,000	\$9,734	\$20,000	\$10,375
\$250m to <\$500m	\$15,000	\$8,000	\$15,000	\$10,610
\$100m to <\$250m	\$12,500	\$7,500	\$15,000	\$7,500
\$50m to <\$100m	\$10,000	\$5,000	\$18,000	\$12,000

MULTIPLE OF CHAIR TO NED MAIN BOARD FEES

It is usual practice for Board Chairs not to receive committee fees, whereas it is common practice for NEDs to receive committee fees. Thus, in order to recognise relativities between fees paid to Chair and NEDs for non-committee board work, it is necessary to look at the fees paid for such work. Many companies disclose the rate of board and committee fees in their Remuneration Reports. These have been analysed to determine the relativities between Chair and NED fees for board work.

The following table shows that the median multiple of Chair to NED main board fees tends to increase as company size increases. There was a trend a few years ago for multiples to be increasing but they have settled back to 2 or less times for companies with market capitalisation below \$1 billion and between 2 and 3 times for companies with market capitalisation of \$1 billion to \$10 billion. Large companies (>\$10 billion market capitalisation) tend to use 3+ multiples.



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Market Benchmarking of Executive & Director Remuneration

GRG databases for top executive and non-executive director remuneration have been updated to include all annual report remuneration data for years ended 2010. Accordingly, now is an ideal time to have your top executive and non-executive director remuneration benchmarked against market practice.

The increased focus being placed on executive and director remuneration makes it more important than ever for Boards to be satisfied that they are adopting practices that are consistent with market practice and appropriate to their companies' circumstances.

If you would like an independent review of the market competitiveness of your company's remuneration practices for top executives and/or non-executive directors then GRG will be pleased to assist.

Please call Denis Godfrey on 02 8923 5701 (direct line) or Mike Carroll on 0416 226 131.

APPENDIX – MATRIX OF TOP 500 ASX LISTED COMPANIES

Top 500 Companies Sector and Size Analysis																		
Market Capitalisation as at 30/06/2010	Sector																	
	Agriculture & Rural Services	Building Materials	Consumer Staples	Developers & Contractors	Energy	Financial Services	Healthcare & Biotechnology	Industrials	Infrastructure	IT Systems & Technology	Property Trusts	Resources (excluding Energy)	Retail	Telecoms & Media	Tourism & Leisure	Transportation Services	Totals	%
>\$10bn	0	0	1	0	3	7	1	0	0	0	1	4	2	1	0	0	20	4%
\$5bn - <\$10bn	0	0	1	1	3	3	0	4	1	1	1	1	0	0	1	0	17	3%
\$2bn - <\$5bn	0	4	0	0	7	6	3	4	3	1	5	3	6	2	3	2	49	10%
\$1bn - <\$2bn	1	2	2	0	4	4	2	5	6	0	1	3	2	8	1	0	41	8%
\$500m - <\$1bn	1	1	2	3	6	5	1	8	5	1	3	21	5	4	1	1	68	14%
\$250m - <\$500m	1	0	3	0	5	10	7	10	8	4	3	17	7	2	0	0	77	15%
\$100m - <\$250m	2	0	5	7	19	30	9	20	8	9	5	46	10	7	2	2	180	36%
\$50m - <\$100m	0	0	0	2	9	5	7	8	2	1	3	5	3	2	0	1	48	10%
Totals	5	7	14	13	56	70	30	59	33	17	22	100	35	26	7	6	500	100%
%	1%	1%	3%	3%	11%	14%	6%	12%	7%	3%	4%	20%	7%	5%	1%	1%	100%	