GRG Remuneration Insight 62

Board Committees & Fees

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INTRODUCTION

The ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations" (3rd Edition) makes it clear that the boards of all ASX listed companies should have four committees being Audit, Risk, Nomination and Remuneration. Further, each committee should be chaired by an independent director and have at least three members with the majority being independent. Of course, this principle operates on an "if not why not" basis and therefore it is up to each company to decide if and to what extent it will adopt the principle. Variations need to be explained in Annual Reports.

Although the "Corporate Governance Principles and Recommendations" clearly see all four committees as being important the practices of many companies suggest that boards may be taking a different view.

Market Practice

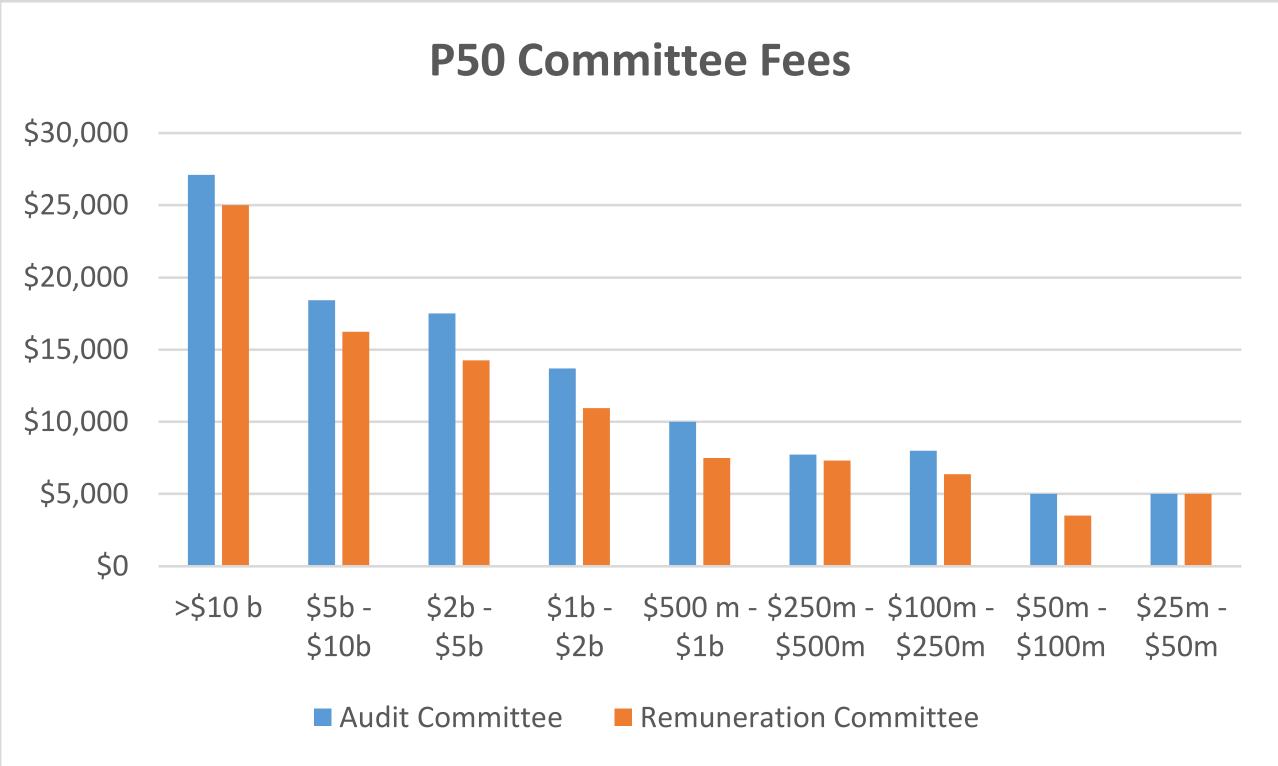
The following data on market practice was extracted from the **2014 GRG All Industries KMP Remuneration Guide**. The following table shows the percentage of companies in each market capitalisation range that disclosed Committee fees.

Market Capitalisation Range	Number of Companies	% Disclosing Committee Fees
>$10 billion (b)	23	91%
$5b - $10b	21	81%
$2b - $5b	49	76%
$1b - $2b	44	84%
$500 million (m) - $1b	53	58%
$250m - $500m	66	44%
$100m - $250m	134	25%
$50m - $100m	127	22%
$25m - $50m	162	15%

It indicates that smaller companies tend to pay committee fees less often than larger companies. To an extent it may be more reflective of board work including committee work being shared evenly in smaller companies and therefore no need to pay separate committee fees than there being no committees. It may also reflect less transparency among smaller companies in disclosures where committee fee rates are not separately disclosed in Remuneration Reports meaning that it is not possible to determine whether they pay committee fees or not.

In relation to disclosed rates of fees for committees it is noteworthy that sufficient data was only disclosed in relation to Audit and Remuneration Committees. This was partly due to Risk Committees often being combined with Audit Committees and then being treated as Audit Committees for data analysis purposes. It was also partly due to Nomination Committees often being combined with Remuneration Committees and then being treated as Remuneration Committees for data analysis purposes. However, the main reasons were that there were very few separate Risk or Nomination Committees and it was common for Nomination Committees to not attract fees.

The following table presents the P50 of market practice for committee fees for members of Audit and Remuneration Committees. It should be noted that the levels of fees are similar although the Remuneration Committee fees tend to be a little lower than for the Audit Committee. The gap between the fees for these two committees has been closing as Remuneration Committee fees have being increasing to a point of close alignment to Audit Committee fees. Higher Remuneration Committee fees have been driven by the higher workloads due to the increased focus on Remuneration Reports, “strike” risks, remuneration governance frameworks and shareholder engagement on remuneration and governance issues.



Generally Committee Chair fees are around double the fees for members of committees. Thus the relationships and trends indicated in the foregoing bar chart also apply to Committee Chair fees.

Review of Nomination and Risk Committees

The lower emphasis that seems to have been given by boards to Risk and Nomination Committees is notable and should be reviewed.

In relation to Risk Committees it may well have been that many companies have seen their risk exposures as being mainly attributable to economic cycles and competition, both of which may be seen as within the scope of normal operating considerations and not warranting a separate Risk Committee. However, most companies now have superannuation funds as significant shareholders either as direct investors or via funds managers. Irrespective of whether the investment is direct or via an intermediary, superannuation funds are increasingly exerting influence on matters that are of concern to them and their members. Such concerns embrace environmental, social and governance (ESG) issues which carry significant risks for most companies. Such risks can directly impact a company’s financial performance and particularly the sustainability of financial performance. Accordingly, it would seem difficult to maintain a position where risk issues are not addressed by a separate Risk Committee. APRA regulated entities are now required to establish a risk committee as of 2013.

In relation to Nomination Committees there are significant aspects that needs to be maintained and regularly updated. These include:

- Board skills matrix,
- Board performance review,
- Director development programs,

- Director succession planning,
- Senior executive development programs,
- Senior executive performance reviews, and
- Senior executive succession planning.

As these aspects involve considerable work if they are to be undertaken properly it would seem preferable to have a separate Nomination Committee rather than to add this work to the onerous responsibilities of a Remuneration Committee.

Other Committees and How to Remunerate Them

The following table indicates the instances where GRG has been able to identify from the Annual Reports of companies where separate committee fees are being disclosed for other types of committees (as classified in our database). The table has been edited to show those instances where three or more cases have been identified, however the list is longer for committees with very few instances.

Committee Type	Count Of Reported Fees
HSE Committee	78
Nominations Committee	68
Risk Committee	66
Corp. Governance Committee	25
Sustainability Committee	25
Finance Committee	14
Investment Committee	14
Technology/IT Committee	10
Compliance Committee	8
Technical Committee	5
Strategy Committee	3

Depending on the industry focus and social or environmental context relevant to a company, some boards clearly see it as prudent to establish additional committees to address specific strategic, stakeholder related or governance related matters. The workloads of these committees is also high enough as to be a material addition to the workload of the board.

It is often challenging for boards to determine the fees appropriate to pay such additional committees since, as demonstrated by the table, it is often difficult to generate market-based statistics relevant to the size and industry of the company. GRG has assisted many clients to address this issue and has developed a methodology for determining the appropriate fee rates that could be considered. This methodology is based on examining the fees paid to board members and number of meetings required to determine a per diem rate, after multiplying the number of meetings by a factor to reflect the preparation and follow up that is generally required of members in relation to actual meetings held. This results in an indicative per-diem rate that may be applied to the actual number of days expected to be contributed by members of less common committees.

Per-diem rate date is available as part of the annual GRG Remuneration Guides and upon request if custom analysis is required. GRG can often also prepare statistics on the more prevalent alternative committees if required.