



Submission to the Productivity Commission *Executive Remuneration inquiry*

Inquiry into Executive Remuneration
Productivity Commission
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5 June 2009

Dear Sir/Madam

Re: Inquiry into Executive Remuneration

The Australian Employee Ownership Association (AEOA) was formed in 1986 and is the only non-profit membership based Association in Australia representing the interests of broad based Employee Ownership for both privately owned and publicly traded corporations.

The concern of our Association over the misuse of employee share and options plans has been clearly demonstrated over the years by the AEOA's efforts to establish; in conjunction with associated industry bodies, best practice guidelines.

To counter public outrage over excessive issue of shares and/or options to senior executives in the early 1990's, the then President of AEOA convened a working group with the President of the Australian Shareholders Association (ASA) and the President of the Australian Institute of Company Directors (AICD) to established guidelines for the issue of shares and options to senior executives. Representatives of from the ASX and ASIC were also involved.

The outcome of this initiative was the publication of mutually agreed best practice guidelines in 1993 which were first up dated in 1999. Subsequently, the Investment and Finance Industry Association (ISFA) was invited to join the working group and revised joint guidelines were published in 2002. These joint AEOA, ASA, AICD and IFSA guidelines were again updated in 2007; posted on the web pages of respective organisations, and are available at: <http://www.aeo.org.au/docs/0024/Executive%20Equity%20guidelines.pdf>

Nonetheless, the AEOA's is still concerned with the issue of shares and options. (However, we do not seek to comment on the level of cash remuneration) Understandably, the issue of shares and options is a matter that the law rightly requires shareholders to approve. After all, it was shareholder rejection of some proposals in the early 1990's that propelled AEOA's initiative to form an alliance with the ASA and AICD to address these concerns.



While Corporate law is silent on how the shares and options may be distributed to employees; Division 13A of the Australian Income Assessment Act requires that >75% of permanent employees are; or at some earlier time have been, entitled to acquire shares issued in accordance with Division 13A. Notwithstanding, many companies that use the provisions of Division 13A, also have additional, separate share plans just for senior executives.

It is for this reason; the AEOA recommends that the relevant corporation's law be amended to oblige shareholders, when voting to approve shares or options to be issue to any employee, concurrently vote to nominate the maximum number of shares and/or options that can be issued to any one executive with respect to other employees.

Please note, we are not suggesting that this provision be tied to that of the AIAA which is based on "entitlements;" but on the issue of employee shares and options potentially available to at least 75% of lawfully eligible employees.

The AEOA's recommendations are:

- (i) Executives cannot obtain any shares and options unless there is a broad based plan that includes at least 75% of employees, and
- (ii) The number of shares and options that any executive can obtain, cannot be more than x times the least number of shares and/or options obtained by any employee included in 75% of all employees in the company or group of companies controlled by the executives.

On behalf of the AEOA I wish to thank the Productivity Commission for the opportunity to make known our Association's views on Executive Remuneration and trust that the Commission will find the information contained in this submission helpful when formulating its response Executive Remuneration.

Yours faithfully

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www.aeoa.org.au