

30 August 1999

The Secretary House of Representatives Standing Committee on Employment, Education and Workplace Relations Suite R1 116 Parliament House CANBERRA ACT 2600

Dear Sir/Madam

**Share ownership schemes**

The Investment & Financial Services Association (IFSA) makes the following submission to the inquiry of the House of Representatives Standing Committee on Employment, Education and Workplace Relations into:

*The extent to which employee share ownership schemes have been established in Australian enterprises and the resultant effects on:*

*workplace relations and productivity in enterprises; and  
the economy.*

IFSA is a national not-for-profit organisation which represents the retail and wholesale funds management and life insurance industry. IFSA's members manage or own a significant amount of the available capital of companies listed on the Australian Stock Exchange. IFSA's 65 members are responsible for investing over \$450 billion on behalf of approximately nine million Australians.

IFSA takes a leading role in developing standards and guidelines which promote the integrity of the financial services industry. IFSA is committed to improving the performance of Australian companies through encouraging the adoption of high standards of corporate governance.

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Employee share schemes are supported by IFSA as a principle of good corporate governance and a practice which contributes to national savings by encouraging share ownership. Employee share schemes enhance the common purpose between employees, shareholders and the company. Participation in share ownership schemes provide major incentives for employees to increase productivity and share the rewards of the success of the company.

Executive share and options schemes are relatively common practice in Australian listed companies. Executive option schemes form part of a package of remuneration offered to attract, retain and provide ongoing incentives to high quality directors and executives.

IFSA considers that companies should be encouraged to offer share schemes to a broad range of employees. To assist employees who would not otherwise be able to become shareholders, IFSA supports some concessions in terms of price and payment terms. For example, it may be appropriate for employee shares to be issued at a modest discount to the prevailing market price.

IFSA considers that responsibility for the design and implementation of employee share schemes should belong to a remuneration committee of the Board. The remuneration committee should be made up of a majority of independent directors. All employee and executive share schemes should be fully disclosed to shareholders.

For some time, IFSA has published a Guidance Note on Executive Share Schemes and Employee Share Schemes (a copy is attached to this submission). Over the coming months, it is intended to review and update this Guidance Note with the assistance of the Australian Shareholders' Association, the Australian Institute of Company Directors and the Australian Employee Ownership Association. The aim of the review is to ensure these guidelines, which assist companies in adopting best practice, reflect current market practices and developments.

IFSA considers that the reviewed Guidance Notes should encourage companies to offer share ownership schemes to a broad range of employees. Increasing employee share ownership is likely to benefit productivity and long term savings.

IFSA considers that limited tax incentives, such as those contained in Division 13A of the Income Tax Assessment Act, which encourage employees to take up shares is appropriate provided that expenditure is reasonable given the need to ensure a diverse approach to long term savings. Employee share schemes in an individual company should be viewed in the context of overall strategies to encourage employees to provide for retirement via superannuation and other long term savings plans.

Yours sincerely  
Lynn Ralph  
Chief Executive Officer