

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 59

**Topic: PC Report ‘Executive Remuneration in Australia’
– Lack of Long-Run Data**

Hansard Page: Written

Senator CAMERON asked:

I note that there is no official consistent long-run data on executive pay, the absence of which the PC says makes it a challenge to analyse executive pay outcomes. In the absence of this data, the PC relies on data produced by Egan Associates, Hay Group, the Financial Review and others.

1. Can the PC explain the methodologies used by the organisations on whose data it relied in preparing the report on executive remuneration?
2. Is the PC sure that the data on which it relied is complete?
3. What steps did the PC take to ensure the accuracy and completeness of the data on which it relied in the preparation of the report?
4. Given that the PC says that the lack of consistent, long-run time-series data is a "challenge", why hasn't the PC made any recommendation to government that would remedy the lack of data for future analysis, such as recommending that the ABS begin collecting consistent time-series data on executive pay?

Answer:

1. The most comprehensive available data spanning 2003-04 to 2008-09 was drawn from the Financial Review Executive Salary Database. That database is compiled from publicly disclosed, verifiable and audited data in companies' remuneration reports. These data were cross-checked against company annual reports, and trends over time were triangulated against other data sets provided by remuneration consultants.

Data from Egan Associates include disclosures from company annual reports as well as data from its extensive client database. Hay Group data are drawn from Hay Group's client database (domestically and internationally).

As stated on page 45, 'the data sources ... include surveys of the top 50 companies, the top 100, top 300 and top 350, as well as surveys of the clients of remuneration consultants'. More detail on the data sources are provided on pp. 419-21.

2. Available data give a complete picture of remuneration trends for the top 300 companies from 2003 onwards, consistent with changes to disclosure laws. Prior to that period, a consistent single long term data set is not available. However,

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presenting a range of available data sets does provide a complete picture of trends from the early 1990s (figure 1, p XVI and chapter 3).

The Commission used the best available data on executive remuneration, subject to the caveats set out on pp. 43–50. Primarily:

- ‘[t]he most detailed and consistent data (the Financial Review Executive Salary Database) cover the ASX300 over the period 2003 04 to 2008 09’ (p. 44).
- ‘It is difficult to estimate the value of equity based incentives’ (p. 45)
- ‘Average remuneration is higher and more volatile than median remuneration’ (p. 50)

Box 3.2 (p. 45) describes the difficulties with comparing executive remuneration over time. Accordingly, the Commission stated that ‘the data only support broad conclusions about historical trends’ (p. 50).

3. In the case of the Financial Review Executive Salary Database, for a sample of executives, data on individual executives’ remuneration in the database were checked against company annual reports. This cross-check confirmed that the data reported in the Financial Review Executive Salary Database were consistent with figures reported in audited company annual reports.

In the case of the time series data from Egan Associates, Kryger (1999), Hay Group and Crichton/Remuneration Planning Corporation, each series was compared with other time series. Trends were found to be generally consistent across the series (for example, see figure 3.1, p. 49 and table 3.1, p. 51).

4. The lack of consistent, long run time series data refers to the period prior to 2003-04. Since 2003-04, the Financial Review Executive Salary Database has collated and published executive remuneration data from the annual reports of ASX300 companies. These data provide sufficient information to analyse future trends in executive remuneration. As noted, because reported data reflect disclosure laws, a *consistent* (that is non-spliced) long term data set is not feasible.