

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 66

**Topic: PC Report ‘Executive Remuneration in Australia’
– Directors Club**

Hansard Page: Written

Senator CAMERON asked:

The table on p.151 sets out the incidence of multiple directorships in ASX100 companies. This is a relatively small proportion of the total number of ASX listed companies.

The total number of directors under consideration is 597.

Of these, 55.8% hold one directorship. 41.5% hold between two and four directorships, while 2.7% hold between five and eight directorships.

The report (at p.151) notes that there are concerns that as a result of their networks and experiences, directors may identify too closely with executives in deliberations about executive pay. Having noted the concern, the report doesn't actually address it in any meaningful way other than to suggest that "the point at which 'over-boarding' becomes problematic may be best left to boards, individual directors who face positional liability consequences from poor decision making and shareholders."

1. Can the PC provide a table in similar format to table 6.2 setting out the incidence of multiple directorships for all ASX listed companies?
2. Is the PC satisfied that non-executive directors on the boards of ASX listed companies are sufficiently independent from the executive directors, particularly the CEO, to properly carry out their functions on behalf of shareholders, particularly in relation to executive remuneration?

Answer:

1. The Commission does not have this information. Compiling such a database would require cross-matching the names of directors across Australia's 2000 listed companies (putting to one side the not for profit sector). This would have been infeasible for a nine month inquiry, and not sufficiently illuminating from a policy perspective given that the 'problem' is likely more acute at larger companies where data are available. One means of addressing 'clubiness' addressed in the report would be to facilitate nominations and encourage boards and their nomination committees to better access the diverse talent pool for future directors, particularly women (see pp. 366).
2. As noted on p. 362, 'given the desirability of boards operating independently, any potential conflicts of interest need to be effectively addressed'. To reduce the

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potential for conflicts of interest in relation to executive remuneration, the Commission recommended that:

- remuneration committees comprise at least three members, all non-executive directors, with a majority and the chair independent and that companies have a charter setting out procedures for non-committee members attending meetings (comply or explain).
- executives for ASX300 companies be prohibited from sitting on remuneration committees (listing rule).
- companies disclose executive remuneration advisers, who appointed them, who they reported to and the nature of any other work undertaken for the company (comply or explain).
- for ASX300 companies, advisers on executive pay be commissioned by, and their advice provided directly to, the board, independent of management (listing rule).