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Welcome to our May 2019 Newsletter!

We hope you enjoy our newsletter’s new look and layout to complement the launch of our new website and logo.

We’re also making some important changes to our newsletter and report services that we hope you’ll find interesting and beneficial, including:

- The regular publication of **articles and opinion pieces** on our Egan Associates social media;
- The move from a monthly newsletter to a **quarterly newsletter**, comprising articles and opinion pieces published on Egan Associates’ social media during the preceding quarter;
- The introduction of a new **Research Reports Service**, providing access to our data and offering market insight on relevant and important issues.

About our New Research Reports Service

Published periodically, our new Research Reports Service will provide timely information from our benchmark research activities addressing, for example, remuneration payable to Non-Executive Directors, trends in CEO and CFO reward, guidance relating to annual incentives and their alignment with fixed remuneration, information on long term incentive values and trends in performance hurdles, and other issues which our consulting activities inform us are important.

Our first **Research Report will be published in June** and will cover Non-Executive Directors’ remuneration. The analysis will be by ASX rank and also cover the NZX top 50 companies and will provide an industry profile and information on fees paid for those chairing or serving on key Board committees.



ASX Governance Guidelines

INITIAL PUBLIC
OFFERINGS

GOVERNMENT PAY
AND POLICY REVIEWS

INCENTIVE
STRUCTURES

EXPERT EVIDENCE
AND OPINION

The 4th edition of the **Australian Securities Exchange Corporate Governance Principles**, which are voluntary and operate on an 'if not why not' basis, have placed culture, dishonesty and greed front and centre.

The new ASX guidelines set out initiatives considered essential in rebuilding public trust in corporate Australia. The Royal Commission reinforced the necessity for the focus of Directors to be on the longer term benefit of the organisation and its stakeholders, those stakeholders extending well beyond shareholders.

The 8 principles incorporated:

- Board and management – roles and responsibilities clearly defined and regularly reviewed
- Board – skills, commitment, knowledge of company and related industry
- Company – culture of acting lawfully, ethically and responsibly
- Appropriate processes to verify integrity of corporate reports

- The making of timely, balanced disclosure of all matters having material effect on share value
- The provision to security holders of appropriate information facilities to let them exercise their rights effectively
- Sound risk management framework which itself is to be periodically reviewed
- Pay Directors enough to attract and retain quality Directors and design executive pay to attract, retain and motivate quality senior executives and to align their interests with shareholders.

These guidelines represent the well-established expectations of shareholders and, increasingly, customers and suppliers. They do not represent a dramatic change in the intent of the ASX Corporate Governance Guidelines.

There is an expectation that in meeting their obligations, Directors will take a more forensic view of unaudited reports. This should ensure the

integrity of management and the thoroughness of reporting to the Board and ultimately to shareholders.

The new guidelines have also raised the issue of annual elections and a cap on the number of Board seats individuals can hold. This is largely in response to comment arising at the Royal Commission. The guidelines also include recommendations that Boards set measurable objectives for achieving gender diversity at Board, executive and workforce levels.

Revealing a degree of sensitivity to current debate, there is also guidance on climate change risk including specific reference to the taskforce on climate change related financial disclosures.

The AICD, working with these guidelines, is also exploring how they might be implemented while concurrently articulating the market's expectations of Directors' roles and obligations. ■

Your Board is your Reputation

and your reputation and success can often hinge on the effectiveness and compliance your Board.

We can help your Board be the best it can be.

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MINIMUM WAGE

As with previous years, the Fair Work Commission have a comprehensive array of submissions to consider.

Submissions to the Fair Work Commission reflect a diversity of contributors across industry, labour and government. Each submission includes data indicative, in part, of the contributor's sense of the broader national good.

The ACTU is seeking a 6% increase to the minimum wage. In addressing their proposal before President Justice Ross, they highlighted the income and living circumstances of individuals receiving a minimum wage and the challenges which they face in meeting their costs of living.

The ACTU also reported on the earnings of those working variable hours across a number of jobs.

Other submissions from employer groups focused primarily on the economic outlook as reflected in both

the government's April budget papers and the pre-election fiscal outlook.

Submissions also included reference to global growth, Australia's unemployment rates, inflation and variable sector prosperity together with industry sector and regional differentials.

...the re-election of the Federal Coalition government also removes the immediate likelihood of a reinstatement of penalty rates...

Submissions also referenced the variable family settings and living costs being experienced across Australia.

The Australian Chamber of Commerce & Industry (ACCI) put to the President of the Commission, with updated economic data, a minimum wage adjustment of 1.8%

with commensurate increases to other minimum rates and awards and orders consistent with standard practice.

The ACCI stated that this would ensure that wages of low paid employees kept pace with changes in the cost of living and ensure also that those earning minimum wages are not worse off following the decision.

The ACCI highlighted the Australian Bureau of Statistics' (ABS) living cost index which was tracking below wages growth, measured by the wage price index and average weekly ordinary time earnings.

The ACCI also referred to the ABS' updated living cost index in May 2019 which revealed a 0% change in the living costs of employee households in the March...

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quarter of 2019, with annual growth standing at 1.6%.

The ACCI's submission also referenced the challenge which small to medium sized enterprises may face with any increase in their labour costs which could lead to reduced employment as emerging technologies become more economic than employing staff.

With industry's perspective, which differs from that of the ACTU representing unions, the re-election of the Federal Coalition government also removes the immediate likelihood of a reinstatement of penalty rates most recently determined by the Commission. Subject to Parliamentary support, reduced tax on low income

earners would also contribute to their net available income in meeting changing living costs.

In the context of the Federal election result, it would be our view that the Commission would be unlikely to address the ACTU's concept of a living wage in their 2019 decision.

Since submissions to the

steady at 8.3% and the participation rate remained steady at 65.7%.

Recent observations from the Governor of the Reserve Bank foreshadowing a lower cash rate in order to support employment growth, will have potentially both positive and negative impacts on matters before the Commission.

Recent observations from the Governor of the Reserve Bank foreshadowing a lower cash rate in order to support employment growth, will have potentially both positive and negative impacts on matters before the Commission.

Commission were received, the Consumer Price Index (CPI) for the 12 months to the end of the March 2019 quarter stood at 1.3%. The unemployment rate increased marginally in the 12 months to April 2019 to 5.1%, though the under-employment rate remained

Positive will be the impact on mortgage costs, negative may be the impact it has over time on inflation. The inflation effect might be more front and centre at the time the Commission is considering the minimum wage in April/May 2020. ■

It's time to benchmark!

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The Workforce Agenda

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Recent policy debate between Coalition and Labor politicians and the ACTU, the broader union movement and the Business Council of Australia, created headlines sponsoring wider community debate.

GOVERNMENT PAY
AND POLICY REVIEWS

The focus was on which core and fundamental issues need to be considered by government in its cooperation with employers, unions and State governments.

Issues which were foremost in the lead-up to the May Federal election included:

- What constitutes a fair living wage?
- What reforms are required in relation to superannuation for both the employed and the retired?
- What should be the priorities in the training/higher education sectors to prepare the current and future workforce with sustainable employment?
- What perceived workforce inequities require review and consideration, specifically:

- Childcare workers
- Aged care workers
- Disability care workers
- Gender equity

Some critical issues will have a universal impact and require careful independent consideration. These include the setting of the parameters in determining the next minimum wage including the proposed income tax changes and the equitable management of superannuation.

Others listed above, such as current wage levels, have overtones of pay relativity, work value and labour force bias.

Concern was also expressed regarding the education requirements for entry into particular fields of work. Further, discussion included the differentiation that might appropriately arise where occupational input

qualifications are highly varied, as are the knowledge and learning accomplishments of students entering tertiary education following completion of high school.

Independently of the issue of a living wage, the salaries and working conditions of early childcare, disability and aged care workers, have a flow on effect arising from long established relativities with those involved in social work and the education sector through primary school, secondary school, and tertiary education.

At this level workforce productivity, economic and performance elements are likely to continue to be the dominant sources of influence.

Recent questioning of representatives of the ACTU

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by the Fair Work Commission has revealed the Commission’s concern in the current economic environment of adopting the living wage construct which, over a relatively short time frame, would lead to a minimum wage being set at 60% of the nation’s median wage level.

Under the influence of a Coalition government, such concerns are unlikely to lead to a minimum wage increase outside the boundary of its two most recent decisions, given current inflation at below 2% and present levels of unemployment.



The foreshadowed increment of superannuation contributions over the coming years to 12% of annual wages from the current 9.5% will also not be without community and employer cost, presently estimated in the order of \$20 billion.

A key question which arises in meeting these mandatory costs is whether they will be absorbed in annual salary increases or be in addition to such increases.

These general observations do not address some of the underlying concerns expressed by the ACTU and others about gender bias in wages which do not appear, at this stage, to be underpinned by work value criteria. Further discussions are needed to review the contribution of the higher education sector preparing school leavers for the ever changing world of work. ■

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To Be, or Not to Be, a Director ?

GOVERNANCE AND BOARD
MATTERS

REMUNERATION REVIEWS
AND ADVICE

CORPORATE
TRANSACTIONS

BOARD AND NED FEE
REVIEWS

Since the findings of the Hayne Royal Commission, many Boards and their members would have reflected on their effectiveness and thoroughness in addressing a myriad of issues associated with their relationships with customers, suppliers, shareholders and staff.

The spotlight of the Royal Commission also shone on the role of regulators, and their intent in the period ahead became widely discussed and publicised.

The Australian Council of Superannuation Investors ("ACSI") in their review of corporate governance have put forward a number of suggestions including the prospect that Directors face annual elections.

In their most recent report, *'Towards Better Corporate Accountability'* of April 2019, ACSI put forward four key policy proposals:

- Introduce a binding vote on remuneration policy every three years
- Disclose CEO pay ratios to shareholders along with an explanation of how the ratio supports the company's values, strategy and culture
- Introduce annual elections for Directors of listed companies
- Give shareholders the right to bring resolutions to company meetings



APRA recently released an information paper addressing **self-assessment of governance accountability and culture**.

APRA's document is comprehensive, though does not highlight all the current challenges which Boards face.

Among many observations, APRA's report states, *"Whilst most institutions meet APRA's expectations for depth and challenge, only a few self-assessments identified new insights. Assessments often identified a range of weaknesses or opportunities to improve risk management practices, however these were in the main reported to be already known to Boards and leadership teams The extent of issues raised in self-assessments, accompanied with lengthy lists of planned actions, also suggests that many institutions have yet to develop a clear understanding of what factors have caused weaknesses to manifest and persist."*

Overlaying the observations of ACSI and APRA, we also note recent observations by the Australian Institute of Company Directors, particularly in relation to Board capability, as well as observations arising from the Hayne Royal Commission and ASIC in relation to culture and the criticality of the Board in ensuring that the organisation's culture was appropriate in a wider stakeholder environment than might have traditionally been embraced.

We have also noted the emerging focus on ESG and the increasing emphasis on, and breadth of, risk oversight.

Directors today must ensure that investors' expectations are not lost in this flurry of perfecting the Board and refocusing its attention. ■

Let us help you make your Board the best it can be.

Board effectiveness reviews, skill matrices, charter documentation and scenario planning – it's what we do!

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Meet our Principals

John Egan and Zoe Lockyer are two of the most highly regarded professionals in the fields of remuneration and governance in Australia.

John Egan founded Egan Associates in 1989 and is considered to be one of Australia's foremost experts in resolving complex remuneration and governance matters.

Zoe Lockyer has extensive experience in managing all aspects of reward as both an in-house and external consultant at global, regional and local levels.

Call John or Zoe on
02-9225 3225 or visit us at
eganassociates.com.au

Keep an eye out for...

- **30 years in 30 days**

It's our birthday! Egan Associates opened its doors in 1989, so as part of our celebration we'll be featuring "**30 YEARS IN 30 DAYS**" on our [Facebook](#) and [LinkedIn](#) pages.

Each day during June we'll highlight a brief selection of news items for one of the last thirty years. It's a chance to see "how time flies" and recall some of the events that not only made the headlines, but also shaped who we are today.

Join us on FACEBOOK and LinkedIn for these and other exciting updates.

- **Our new website !**

Don't forget to check out [our new website](#).

More services and more offerings of how Egan Associates can make a difference to your business.

- **Search Articles and Newsletters Now Available Online**

Quickly and easily [search](#) all articles, newsletters and KMP reports we've published over the last decade!

- **New Research Reports Service coming in June**

Our new research and data-driven Report Service will launch in June. Published periodically, we'll be providing detailed and insightful analysis and comment on a diversity of topical and important remuneration and governance issues.

Get in touch with us!

We'd welcome your feedback, comments or suggestions on any topic you'd like us to consider or comment on in our newsletter or social media.

Contact us at mail@eganrem.com or call us on **02-9225 3225**.