

EXECUTIVE REMUNERATION – DID IT CAUSE THE GREAT FINANCIAL CRISIS AND WHERE TO FROM HERE

1. LOTS HAS BEEN WRITTEN ON THE ENORMOUS SALARIES AND PAYMENTS MADE TO EXECUTIVES. MANY OF THESE ARTICLES HAVE LINKED THE SIZE OF THESE PAYMENTS WITH THE CAUSE OF THE GREAT FINANCIAL CRISIS.

MOST OF THIS WRITING (IN FACT ALL OF IT SO FAR AS I KNOW) PRODUCE NO EMPIRICAL DATA THAT LINKS THE SIZE OF THE PAYMENTS WITH THE CALAMITIES WHICH MIGHT BE SAID TO HAVE CAUSED THE CRISIS.

INDEED, READING THE ARTICLES DISPASSIONATELY YOU ARE LEFT WITH A FEELING THAT THE BASIS FOR THE ARTICLE AT BEST IS A LINKAGE WITHOUT SUBSTANCE AND AT WORST EVIDENCE OF ENVY AND IN SOME

QUARTERS A NEED TO FIND A CAUSE THAT CAN BE EASILY
FIXED.

WE HAVEN'T IN AUSTRALIA SEEN ENORMOUS PAYMENTS
OF THE NATURE THAT HAVE BEEN SEEN IN AMERICA.
INDEED, WHEN ONE LOOKS AT SOME OF THE LARGER
COMPANIES THAT HAVE GONE INTO ADMINISTRATION
ALLCO, BABCOCK & BROWN AND CENTRO (WHILST IN THE
FORMER SOME OF THE MANAGEMENT WAS SEEN AS RICH)
THE ALLEGATION WAS NOT TO MY KNOWLEDGE ABOUT
HOW MUCH THEY WERE PAID. THIS WAS PARTICULARLY
THE CASE IN CENTRO WHERE ANDREW SCOTT THE CEO
HAD A FAIRLY MODERATE SALARY AND QUITE LARGE
BORROWINGS ON A HOLDING OF SHARES IN THE
COMPANY.

2. A MORE SOPHISTICATED ANALYSIS WHICH ONLY SOME
HAVE IDENTIFIED IS TO SAY THAT THE CAUSE OF THE
GREAT FINANCIAL CRISIS WAS NOT THE AMOUNT PAID TO
EXECUTIVES BUT RATHER THE STRUCTURE OF THEIR
REMUNERATION PAYMENTS.

THIS POSITION I BELIEVE WILL BE SHOWN TO BE MORE
CORRECT ALTHOUGH I HAVE TO SAY I BASE THAT
THINKING ON COMMONSENSE RATHER THAN EMPIRICAL
DATA.

a. SHORT TERM BONUSES

CLEARLY SOME PART OF THE CAUSE OF THE GREAT
FINANCIAL CRISIS MUST BE RELATED TO THE SALE OF
BONDS AND OTHER SECURITIES RELATED TO
MORTGAGES BASED ON UNITED STATES HOUSING

“SUB-PRIME”. IT IS CLEAR THAT THOSE CHARGED WITH SELLING THOSE BONDS WERE REWARDED ON SALES AND NOT UPON THE SUCCESS OF THE PROFIT AND REPAYMENT FROM THE BUYERS POINT OF VIEW. IT IS WELL DOCUMENTED THAT THIS CAUSED MANY MERCHANT BANKS AND BANKS ALIKE TO EXTENSIVELY CANVASS BUYERS INCLUDING LOCAL GOVERNMENT AUTHORITIES ALL OVER THE WORLD ETC TO BUY THIS PRODUCT AND I FEAR FOR MANY USUALLY HARD NOSED BANKERS TO FALL INTO THE TRAP OF ACCEPTING THAT IF YOU PUT GARBAGE INTO A CONTAINER SOME PARTS OF WHAT’S IN THAT CONTAINER CAN BE REGARDED AS SILK.

b. PROFIT BASED CONSIDERATION RATHER THAN
BALANCE SHEET

THERE IS ALSO NO DOUBT THAT IN THE BANKING COMMUNITY ONE CAUSE OF THE GREAT FINANCIAL CRISIS WAS THAT RISK WAS NOT PROPERLY PRICED. ONE OF THE REASONS FOR THIS (AMONGST MANY) MUST BE THAT SO MANY HAD BONUSES AND SUCCESS BASED ON SHORT TERM PROFIT EXPECTATIONS. INDEED, IN ALL THE COMPANIES I WAS INVOLVED IN DURING THIS PERIOD I DON'T EVER REMEMBER A HURDLE IN RELATION TO A BONUS SHORT OR LONG TERM BEING BASED UPON BALANCE SHEET RATIOS BUT I REMEMBER DOZENS THAT WERE BASED UPON EARNINGS PER SHARE IN THE YEAR IN RESPECT TO WHICH THE BONUS IS TO BE PAID.

I THINK IT WOULD BE FAIR TO SAY THAT AT BEST THESE REMUNERATION PRACTICES ENCOURAGED

THE CONTINUATION OF THE FAILURE TO PRICE RISK
AND THE CYNICS MIGHT SAY THIS REMUNERATION
WAS ESSENTIAL TO THAT.

c. THE CONCEPT OF SHORT TERM ALSO APPLIED QUITE

OFTEN IN THE PAST TO THE GRANT OF SHARES.

THERE WERE COMPARATIVELY SHORT PERIODS

OFTEN GIVEN TO QUALIFY FOR SHARE GRANTS

WHICH OFTEN SAW ENRICHMENT BEFORE A

DOWNFALL.

d. HURDLES WHICH HAVE BEEN INHERENT IN OUR

REMUNERATION FOR THE LAST TEN YEARS WERE

FOR SOME TIME REGARDED BY DIRECTORS AS A

NECESSARY EVIL. MOST DIDN'T BELIEVE THAT

HURDLES WERE NEEDED AND I'VE GOT TO SAY IT

WAS THE LARGEST SHAREHOLDERS AND THE

SHAREHOLDERS ASSOCIATION WHO PUSHED FOR HURDLES AND THEY WERE RIGHT. HOWEVER MANY OF THE HURDLES IF YOU LOOK AT THE PLANS WERE SHORT TERM IN NATURE OFTEN RELATED TO EARNINGS PER SHARE IN ONE YEAR AND WERE NOT GREATLY STRETCHING.

e. BONUSES

YEARS AGO BONUSES WERE DISCRETIONARY. BUT LEADING UP TO THE START OF THE GREAT FINANCIAL CRISIS BONUSES HAD BECOME COMPULSORY. I THINK THIS IN SOME SECTORS BROUGHT UPON A MALAISE WHERE PEOPLE WORKED HARD BUT DIDN'T HAVE TO OVER WORK AS THE BONUS WOULD COME IN ANY EVENT.

f. MODERN MANAGEMENT PRACTICES BEGAN TO
MOVE TOWARDS A SILO BASED COMPENSATION.
AND SO PARTICULARLY IN BANKS AND MERCHANT
BANKS ONE HAD A SITUATION WHERE POTENTIALLY
ONE GROUP WERE MAKING ENORMOUS AMOUNTS
OF MONEY AND BEING PAID ACCORDINGLY WHEN
WHAT THEY WERE DOING MIGHT WELL CAUSE LOSS
IN ANOTHER PART OF THE BANK.

IN SHORT THE AMOUNT PAID IN REMUNERATION IN MY
VIEW WAS NOT A PROBLEM. BUT THE STRUCTURE MAY
HAVE ENCOURAGED WRONG PRACTICES. SHORTER TERM
PROFITS AT THE EXPENSE OF THE BALANCE SHEET AND
UNCOORDINATED ACTIVITIES OF THE FIRM OFTEN
PREVAILED IN CIRCUMSTANCES WHERE PEOPLE
EXPECTED A BONUS OR THEY COULD MOVE ON TO BETTER
POSITIONS.

3. IN AUSTRALIA –

- a. AS I SAID PREVIOUSLY, WE DID NOT HAVE THE
LARGE PAYMENTS COMPLAINED OF IN THE U.S.

- b. WE DID HAVE A STRONG MOVEMENT TOWARDS
SHARE PLAN AND SHARE OWNERSHIP WHICH MANY
OF US THOUGHT WOULD BRING US BACK TO A LONG
TERM VIEW. THERE COULD NOT BE A BETTER
ALIGNMENT BETWEEN THE OFFICER AND THE
SHAREHOLDER THAN THE OFFICER BEING
REWARDED WITH PAPER THE SAME AS THE
SHAREHOLDERS HOLD AND WHICH HE HAD TO KEEP
FOR A WHILE.

IT HAS BEEN SUGGESTED THAT THE TAX REGIME THAT APPLIED TO SHARE PLANS WAS EXPLOITED. I'M NOT IN A POSITION TO RULE OUT EXPLOITATION BUT I HAVE TO SAY THAT I'M NOT AWARE OF SUCH ABUSE AND IN TALKING TO OTHERS HAVE NOT BEEN MADE AWARE OF SUCH CIRCUMSTANCES.

- c. WE DID HAVE SOME BIG PAYOUTS AT TERMINATION. THIS WAS SURPRISING AS THERE WAS A CAP ALREADY ON TERMINATION IN OUR CORPORATIONS LAW OF SEVEN TIMES THE AVERAGE TOTAL EMOLUMENTS OVER THE PREVIOUS THREE YEARS. WHILST THIS CAP WAS RELATIVELY HIGH MANY OF THE PAYMENTS THAT WERE MADE WERE BIGGER AND THE REASON FOR THAT WAS THAT THIS CAP WAS EASY TO EXPLOIT AS THERE WERE VARIOUS EXEMPTIONS TO THE PROVISIONS NOT THE LEAST OF

WHICH WAS IT DIDN'T APPLY TO CONTRACTUAL RIGHTS ENTERED INTO PRIOR TO THE PERSON BECOMING A DESIGNATED OFFICER OF THE COMPANY. NATURALLY THEN MOST SENIOR EXECUTIVES GOT SUCH RIGHTS IMMEDIATELY BEFORE THEY STARTED WORK IN THEIR NEW POSITION.

4. SINCE THE GFC THERE HAS BEEN ENORMOUS INTROSPECTION IN RESPECT OF REMUNERATION. IN AUSTRALIA WE HAVE INSTIGATED -
 - a. A PRODUCTIVITY COMMISSION ENQUIRY
 - b. NEW LEGISLATION ON TERMINATION BENEFITS
 - c. NEW APRA RULES
 - d. CHANGES TO THE TAXATION OF EMPLOYEE SHARE PLANS.

5. THE TERMINATION BENEFIT LEGISLATION IS ABOUT TO BE PUT THROUGH PARLIAMENT. IT CHANGES THE LIMIT FROM THE SEVEN TIMES TOTAL EMOLUMENTS REFERRED TO PREVIOUSLY TO ONE TIMES THE FIXED SALARY.

IT WAS PUT TO A SENATE COMMITTEE WHO BASICALLY ENDORSED IT ADDING ONLY ONE SUGGESTION OF MATERIALITY WHICH RELATED TO A LIMIT BEING REQUIRED TO BE PLACED IN ANY SHAREHOLDERS RESOLUTION.

IT IS INTERESTING THAT THE SENATE DIDN'T CONCERN ITSELF WITH HOW THIS CAP ON TERMINATION PAYMENTS COULD SKEW THE MARKET PLACE FOR EMPLOYMENT IN AUSTRALIA.

AS MOST OF YOU WOULD BE AWARE THE TERMINATION PROHIBITION DOES NOT APPLY TO OVERSEAS COMPANIES. SO AN OVERSEAS COMPANY COULD ENTER INTO CONTRACTS WITH AUSTRALIAN EMPLOYEES WHICH HAVE TERMINATION BENEFITS IN THEM WAY BEYOND THE CAPPED AMOUNT. IN ADDITION AS AN EXEMPTION TO THE CAP IS A SHAREHOLDERS MEETING PRIVATE COMPANIES WHICH COULD HAVE LESS PROBLEM WITH GETTING SHAREHOLDER APPROVAL ARE THEREFORE ADVANTAGED. THIS IS THE CASE ALSO WITH LISTED PUBLIC COMPANIES WITH A MAJOR SHAREHOLDER IN THEM.

THIS SEEMS QUITE ARTIFICIAL AND CONCERNING. WHY WOULD ONE WANT TO PLACE WIDELY HELD AUSTRALIAN LISTED COMPANIES IN PARTICULAR AT A DETRIMENT IN TERMS OF THE COMPETITION FOR GOOD STAFF.

IT ALSO SKEWS THE WAY PEOPLE ARE PAID. IT DOESN'T TAKE MUCH MATHEMATICAL ABILITY TO REALISE THAT ONE CAN OFFER BIGGER TERMINATION PAYMENTS TO AN EMPLOYEE IF ONE INCREASES HIS "FIXED PAY" ALLOWING ONE TIMES THE FIXED SUM TO BE GREATER.

I HAVE ALWAYS BEEN AN ADVOCATE OF HAVING A LARGE PART OF THE REMUNERATION PACKAGE AT RISK. PREDICTABLY IF THIS LEGISLATION DOES GO THROUGH WHICH IS LIKELY PEOPLE WILL MOVE TOWARDS LARGER FIXED PAYMENTS AND LESS RISK COMPONENTS. THIS WILL BREAK POTENTIALLY A DESIRED HARMONY BETWEEN BENEFITS TO EMPLOYEES AND SHAREHOLDERS.

WHEN ONE LOOKS AT THE DRAFT IT IS VERY CLEAR THAT AT THE VERY LEAST ONE NEEDS EXPERT ADVICE. DOES

THAT PORTION OF SUPERANNUATION BENEFITS
RELATING TO VOLUNTARY CONTRIBUTIONS FORM PART
OF THE AMOUNT OF A TERMINATION BENEFIT. DO
DAMAGES FROM SETTLEMENTS FALL WITHIN THE
TERMINATION PAYMENT AND WHAT OF ACCRUED LEAVE
AND EARLY VESTING OF EQUITY.

IN ADDITION THE CONCEPT OF RESTRICTIVE COVENANTS
WHICH STARTED IN THE LAW TO PROTECT EMPLOYERS
MAY WELL BE A TOTAL THING OF THE PAST. I ADMIT THAT
THERE WAS SOME ABUSE IN RELATION TO THIS I.E. THAT
PEOPLE WOULD ASK FOR LARGE AMOUNTS TO PROVIDE
AN AGREEMENT NOT TO COMPETE. BUT IF THEY ARE
BROUGHT WITHIN THE TERMINATION PAYMENT
DEFINITION THEN THEY WILL NOT BE ABLE TO BE PAID
AND IT PRESUMABLY FOLLOWS THAT COVENANTS TO
STOP PEOPLE MOVING FROM ONE COMPANY TO ANOTHER

MAY WELL BE A THING OF THE PAST. THIS MAY BE A GOOD THING FOR EMPLOYEES BUT VERY WORRYING FOR EMPLOYERS.

THE ONLY GOOD NEWS IS AS I SAID EARLIER THAT THE ABILITY OF GOOD CORPORATE LAWYERS SHOULD NOT BE UNDERESTIMATED AND LOOP HOLES WILL BE FOUND AND EXPLOITED. FOR EXAMPLE AT THE MOMENT PEOPLE ARE GIVEN A FIXED AMOUNT PLUS AN ASPIRATIONAL BONUS. SOME HAVE ALREADY SUGGESTED THAT IN THE FUTURE THE FIXED AMOUNT WILL BE THE TOTAL REMUNERATION WITH AN AGREEMENT THAT THE LAST PAYMENT OF THE TOTAL REMUNERATION IS ON THE LAST DAY AND NEED NOT BE PAID IF CERTAIN EVENTS OCCUR. (I.E. THE GREATER INCLUDES THE LESSER.)

6. EMPLOYEE SHARE PLANS

A NEW LEGISLATION ON EMPLOYEE SHARE PLANS HAS NOT BEEN PROPERLY FORMULATED AT THIS POINT. ITS EFFECT HOWEVER HAS ALREADY BEEN FELT. SO MANY COMPANIES ARE NOW QUESTIONING WHETHER THEY SHOULD HAVE SHARE PLANS AT ALL AND IF SO HOW DO THEY DEAL WITH THE TAXATION CONSEQUENCES.

SOME ARE TALKING ABOUT PAYING THE TAX OR ALLOWING A CERTAIN NUMBER OF THE SHARES TO BE SOLD TO PAY THE TAX. HOWEVER THIS IS NOT THAT EASY AS THE TAXING POINT MAY WELL COME SOME YEARS INTO THE SCHEME AND IT DEPENDS VERY MUCH ON THE SHARE PRICE WHAT THAT TAX WOULD BE.

THERE IS SOME CONSIDERATION OF LEAVING THIS SHARE PLAN LEGISLATION UNTIL LATER AND INDEED THE BOARD OF TAXATION IS NOW LOOKING AT IT AS WELL.

THE SADNESS IS THE DIRECTION. SHARES UNDOUBTEDLY FORM A MAJOR PART OF A LONG TERM PLAN. IT SYNCHRONISES THE SHAREHOLDERS INTERESTS WITH THE EMPLOYEE AND PREVENTS A LOT OF THE PROBLEMS I MENTIONED EARLIER NAMELY OF SHORT TERM PROFIT TAKING WHICH LATER MANIFEST IN NEGATIVES FOR THE COMPANY.

7. APRA HAVE RELEASED THEIR FURTHER GUIDELINES AND HAVE GIVEN UNTIL THE 2ND OCTOBER FOR PEOPLE TO COMMENT ON IT. THE CONCEPTS THEY ARE PUTTING ARE CAREFUL AND WELL REASONED. THEY ARE WELL AND TRULY CONSIDERING THE QUESTION OF LONG TERM

STRUCTURES TO AVOID SHORT TERM MANIPULATIONS. I
EVEN DETECT A CONCERN ABOUT HOW THE LONG TERM
REMUNERATION STRUCTURE FITS WITH THE
TERMINATION PAYMENT AND MORE PARTICULARLY THE
SHARE INCENTIVE PLAN LEGISLATION.

8. THE PRODUCTIVITY COMMISSION IS OBVIOUSLY GIVING
ITS CONSIDERATION WITH A PRELIMINARY PAPER
COMING NEXT MONTH. IT IS TO BE HOPED THAT THEY
WILL RESIST PUTTING CAPS ON SALARY AND ARTIFICIAL
CLOGS TO PROPER REMUNERATION CONSIDERATIONS.
MOST OF YOU ARE PROBABLY AWARE THAT IN AMERICA
THE CONCEPT OF BONUSES REALLY CAME FROM A
REQUIREMENT IN MANY STATES THAT YOU CANNOT PAY
MORE THAN \$1 MILLION AS A SALARY. THAT'S WHY SO
MUCH OF PEOPLE'S REMUNERATION THERE INITIALLY
WENT ON TO BONUSES.

THE PRODUCTIVITY COMMISSION WILL BE LOOKING AT REMUNERATION REPORTS. MOST OF YOU HAVE DEALT WITH REMUNERATION REPORTS AND IF YOU HAVE WILL KNOW THAT THEIR QUALITY MUST BE QUESTIONABLE GIVEN THEIR SIZE AND DETAIL. AT TIMES I WONDER WHEN I LOOK AT THE REMUNERATION REPORT THAT WE'RE NOT LOOKING AT AN ANNOTATED PHONE BOOK. THERE IS AN ABSOLUTE NEED FOR A REVAMP OF THE REMUNERATION REPORT LEADING TO A BRIEFER AND MORE FOCUSED RENDITION OF REMUNERATION.

I SHOULD HERE NOTE THAT IN ENGLAND THE REMUNERATION REPORT ONLY REFERS TO DIRECTORS NOT TO SENIOR EXECUTIVES AS IT DOES IN AUSTRALIA. I HAVE NEVER UNDERSTOOD WHY THERE IS SO MUCH CONCERN ABOUT REMUNERATION OF EXECUTIVES WHO

ARE NOT ON THE BOARD OF A COMPANY. THE ESSENCE OF PUBLIC LIFE IS TO AVOID CONFLICTS OF INTEREST. THERE IS NO CONFLICT OF INTEREST FOR A BOARD DETERMINING A NON-BOARD DIRECTORS SALARY. LEAVING ASIDE OTHER RELATIONSHIPS WHICH NORMALLY DON'T APPLY IT IS DONE ON AN OBJECTIVE AND USUALLY NON-POLITICAL BASIS.

I ACCEPT THAT THERE IS A DIFFERENT REGIME FOR THE CEO WHO SITS ON THE BOARD. OFTEN HE IS WELL KNOWN TO THE BOARD AND OFTEN A POWERFUL CONTRIBUTOR TO THE BOARD. WHILST I DOUBT THAT THE FOLLOWING SUGGESTION WOULD BE POPULAR I DO BELIEVE THAT THE REMUNERATION REPORT SHOULD START TO CENTRE MORE ON DIRECTORS (EXECUTIVE AND NON-EXECUTIVE) AND MUCH LESS ON EXECUTIVES GENERALLY. THE EFFECT OF INCLUSION OF THE EXECUTIVES GENERALLY

ONLY GOES TO INCREASE THE REMUNERATION OF OTHERS WHO ARE ABLE TO USE THOSE NUMBERS TO JUSTIFY THEIR CLAIM. IT ALSO I FEEL IS BECOMING A DETERRENT TO EXECUTIVES TO WORK FOR PUBLICLY LISTED COMPANIES. HAVING THE STIGMA OF YOUR ENTIRE SALARY BEING KNOWN BY EVERYONE SEEMS TO WORRY MANY.

THE OTHER ISSUE THAT THE PRODUCTIVITY COMMISSION WILL BE REVIEWING IN RELATION TO REMUNERATION REPORTS IS THE QUESTION OF WHAT HAPPENS IF THEY'RE REJECTED AT THE NON-BINDING PLEBISCITE AT THE AGM.

I HAVE ALWAYS BEEN AGAINST THE NON-BINDING PLEBISCITE. I KNOW THAT WHEN NOTHING TURNS ON AN ITEM THE ATTENTION GIVEN BY THE PERSON IN

QUESTION IS USUALLY LIMITED AND OFTEN THE MESSAGE DELIVERED CAN BE FLIPPANT.

ONE SOLUTION THAT HAS BEEN PUT IS FOR THE CHAIRMAN OF THE REMUNERATION COMMITTEE TO RESIGN FROM THE COMMITTEE AND THE BOARD IN CIRCUMSTANCES WHERE THE REPORT IS VOTED DOWN. I HOPE THAT THIS IS NOT THE WAY THE PRODUCTIVITY COMMITTEE GOES. THE ESSENCE OF A BOARD THAT WORKS IS THAT ALL OF THE BOARD MEMBERS ARE EQUAL AND HAVE EQUAL LIABILITY. TO PLACE MORE LIABILITY ON THE AUDIT CHAIRMAN OR THE REMUNERATION CHAIRMAN WILL MEAN THAT NO ONE WILL WANT THE JOB AND THOSE WHO GET IT MAY WELL BE PLACED IN CONFLICTS OF INTEREST WHICH NEED NOT OCCUR (I.E. A CONCERN ABOUT THEIR PERSONAL POSITION IF A DECISION GOES AN UNPOPULAR WAY).

A BETTER SOLUTION I BELIEVE IS WHAT I WOULD CALL THE TWO STRIKES AND YOU'RE OUT POLICY. THE SUGGESTION WOULD BE THAT IF A REMUNERATION REPORT IS REJECTED TWICE IN A ROW BY AN AGM THEN ALL OF THE DIRECTORS WOULD PUT THEMSELVES UP FOR REELECTION WITHIN SAY 90 DAYS OF THAT SECOND AGM. THIS ALLOWS FOR THE BOARD TO GET THE MESSAGE AND TO BE CHANGED IF THEY DON'T. AT THE SAME TIME IT MAKES THE PLEBISCITE MORE IMPORTANT AND MEANS THAT IT SHOULD NOT BE DEALT WITH FRIVOLOUSLY AS A WAY OF EXPRESSING A POINT OF VIEW PERHAPS NOT STRONGLY FELT.

IT IS TO BE HOPED THAT THE PRODUCTIVITY COMMISSION WILL NOTE THE VIEWS OF APRA AND THOSE THAT MANY OF US ARE PUTTING I.E. THAT LONG TERM INCENTIVES

ARE IMPORTANT AND THIS MAY REQUIRE THE
ENCOURAGEMENT OF USE OF SHARES AND PAYMENTS
OVER TIME.

9. I AM VERY KEEN ON THE CONCEPT OF GUIDELINES – NOT
COMPULSORY BUT ASSISTIVE. PEOPLE LIKE ACSI HAVE PUT
OUT SUCH GUIDELINES AND THEY'RE VERY USEFUL. THE
AICD HAS ALSO DONE THE SAME. I THINK THE
PRODUCTIVITY COMMISSION MIGHT BE ABLE TO SUGGEST
HOW FURTHER GUIDELINES COULD BE PUT TOGETHER
ASSISTING US AS DIRECTORS TO MAKE THESE DECISIONS
BUT NOT PROVIDING ARTIFICIAL REQUIREMENTS.

10. GOING FORWARD THERE ARE A NUMBER OF LESSONS
THAT I THINK WE SHOULD HAVE LEARNT –

- i. I THINK THAT WE AS BUSINESS PEOPLE HAVE TO ACCEPT, WHICH MANY OF THE ASIAN COMPANIES AROUND US DO ALREADY, THAT WE'RE IN THIS FOR THE LONG TERM. THAT MEANS THAT THE REMUNERATION SHOULD BE MADE LONGER TERM AND THE WHOLE WAY OF THINKING INCLUDING I MIGHT SAY INVESTORS IN COMPANIES SHOULD ALSO MOVE TOWARDS A LONGER TERM OUTLOOK.

- ii. THE INFORMATION GIVEN TO SHAREHOLDERS NEEDS TO BE RECONSTRUCTED AND THE COVERAGE OF THAT I THINK ALSO SHOULD BE LOOKED AT CAREFULLY.

- iii. REMUNERATION COMMITTEES WILL UNDOUBTEDLY BECOME MORE IMPORTANT INDEED APRA HAS SUGGESTED FOR FINANCIAL INSTITUTIONS THAT

THERE BE A MAJORITY OF INDEPENDENCE ON THE COMMITTEE WHICH IS NOT TO DATE BEEN REQUIRED BUT DOES MIRROR THE CONCEPT OF AUDIT COMMITTEES.

- iv. CONSULTANTS WILL BE USED MORE NOT ONLY TO PROTECT THE DIRECTORS BUT ALSO TO PROVIDE A BETTER GAUGE IN THE SERIOUS MATTER OF REMUNERATION. THIS I THINK IS HEALTHY BUT AS WITH ALL CONSULTANTS, THEIR VIEWS HAVE TO BE TEMPERED BY THE VIEWS OF WHERE THE DIRECTORS WANT THE COMPANY TO GO AND WHAT THEY THINK IS THE RIGHT THING WITHIN THEIR OWN COMPANY.

11. WE WILL GET THROUGH THE GFC THAT IS UNDOUBTED BUT ALSO THERE WILL BE FURTHER FINANCIAL CRISES IN

THE YEAR'S TO COME. JUMPING ON THE QUESTION OF ONE LEVER WITHIN BUSINESS NAMELY REMUNERATION AS A CAUSE AND LIMITING IT WILL NOT BE THE SOLUTION TO THE PREVENTION OF FURTHER FINANCIAL CRISES. WE NEED TO ALLOW BUSINESS TO MAKE ITS DECISIONS BUT TO GIVE IT SOME GUIDANCE. AND FOR THOSE OF US IN BUSINESS WE NEED TO TAKE IT VERY SERIOUSLY, NOT BE GREEDY AND BE HAPPY TO BE INVOLVED WITH THE PROJECTS AND COMPANIES WE'RE IN FOR THE LONG TERM.