

6 December 2023

Kristin Brandon
Head of Policy and Regulatory Affairs
NZX
Email: kristin.brandon@nzx.co.nz

RE: Remuneration Reporting Template Consultation

Dear Kristin,

The New Zealand Corporate Governance Forum (**NZCGF** or the "**Forum**") appreciates the opportunity to consult with the NZX on the development of a remuneration reporting template which will be a voluntary tool for an Issuer to use when making remuneration disclosures in its annual report. In response, the Forum has set up a sub-group (**Working Group**) to consider the remuneration template. The following comments reflect the initial views and considerations of the Forum's Working Group.

The NZCGF Working Group supports the introduction of a template for remuneration reporting to improve consistency across Issuers, however we are disappointed that the template seeks only codify existing guidance and recommendations in the NZX Corporate Governance Code and does not seek to enhance the underlying substance of remuneration disclosures.

As the template differentiates between disclosures in-line with the Code and optional disclosures outside the Code, we are disappointed that NZX is presenting the template as guidance only. We would like to see the disclosure in line with the Code presented as a formal Recommendation under the Code (i.e., "comply or explain").

We also note that, in our opinion, current disclosure does not meet the "transparent" threshold set out in Principle 5. In our view, some exploration about what transparency means and how it should be translated into the Recommendations in the Code has the potential to materially address current shortfalls.

Executive remuneration disclosures are an important element of corporate governance as they inform upon the nature of the Board-Management relationship and provide insights into the potential agency costs which may be being incurred by shareholders. It is critical for shareholders to understand whether the Board is holding Management accountable, and one way to do that is to understand whether Management is being remunerated appropriately and incentivised on what they can reasonably control in alignment with shareholders' interests.

Our main concern regarding remuneration reporting is that disclosure by NZX Issuers is behind global and especially ASX peers, and the template does not attempt to identify the shortfall in NZX disclosure vs ASX or global standards.

Regarding the executive remuneration template consultation questions, the NZCGF Working Group provides the following initial views:

1. *Do you think the template will be a helpful tool that issuers can use when completing their annual remuneration reporting? Do you think the use of the template will result in improved remuneration information being provided to investors?*

Yes, but only because the template may increase consistency and systemisation of reporting across Issuers. Of course, it will be helpful to shareholders only if Issuers adopt the template.

2. *Do you think the format of the template clearly outlines the expected disclosure in each section? Are there any sections in particular you believe could be clearer in terms of what is expected?*

The template outlines existing practice. Our expected disclosure would be greater in many circumstances. We would be pleased to work with NZX to communicate what disclosures Forum members need to fully meet our fiduciary duties.

3. *Do you think the template strikes the right balance between supplementary explanatory note information and template disclosure?*

Supplementary explanatory information could include discussions of ASX/global standards.

4. *We have assumed that most STIs will only involve cash payments for simplicity reasons. Do you think the template should also contemplate the issuance of financial products or other instruments in relation to STIs (please refer to section 4 in relation to the Executive Remuneration Policy, and section 6 CEO Remuneration Arrangements and Outcomes, in particular)? If so, what changes should be made?*

Yes, disclosure of short-term incentives (STI) should include all benefits, cash and financial products, etc.

5. *Do you have any comments in relation to the template for the CEO LTI disclosures? In particular, we have suggested that amounts awarded, earned and paid (including payments relating to differing reporting periods) be disclosed. Is this information useful, or does it over complicate the template (please refer to the CEO remuneration outcomes explanatory notes).*

Shareholders have a duty to assess the fairness of the remuneration paid to the CEO in the year in the context of the performance over that year. Where benefits are earned (vested) over several years the value of the benefits paid should be allocated over the term of the incentive. The reporting should clearly set out for each performance metric, a description of the metric, the weight of the metric and applicable thresholds, the output of the metric, and the value of the remuneration related to the metric.

We believe that the conditions for the awarding of securities to the CEO should be clearly set out and both the thresholds and the outcomes clearly disclosed. The value of any contingent securities (e.g. options) issued in the financial year should be clearly disclosed to enable shareholders to understand CEO remuneration. As we understand the Template, the absence of the disclosure of the value of benefits paid related to the current financial year is a material shortfall in our view.

6. *Do you have any comments in relation to the inclusion of ESG metrics (CEO/worker ratio disclosures and gender pay gap disclosures) which go beyond the Code settings (please refer to section 7 of the template)?*

The absence of any addressing of non-executive remuneration is a major omission in the Working Group's view. The examples set out in Section 7 (CEO/ worker ratio, gender pay gap) are among those we would like to see addressed. More generally, disclosures of the increase in remuneration of average workers, or workers stratified by remuneration level, and executives, and directors would be well received by shareholders and stakeholders alike.

7. *In the Director Remuneration section, do you think it is appropriate to include remuneration that is outside of directors' fees (such as consultancy fees in this section)?*

Yes, all Director remuneration should be included.

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Once again, the Forum appreciates the opportunity to consult on the development of a remuneration reporting template. Please note that this letter may be published on our website (www.nzcgf.org.nz) and LinkedIn page.

Yours sincerely,

Sam Porath
Chair
NZ Corporate Governance Forum