



## Submission to Executive Remuneration Inquiry

Inquiry into Executive Remuneration  
Productivity Commission  
Locked Bag 2, Collins St East  
Melbourne Vic 8003

By email: [exec\\_remuneration@pc.gov.au](mailto:exec_remuneration@pc.gov.au)

Dear Sirs,

We make the following short submission in response to the Inquiry's Terms of Reference and its Issues Paper of April 2009.

Capitalism's so called immune system of laissez-faire market discipline has failed the test and the underlying causes of this systematic breakdown - greed and narrow self interest driven by dysfunctional, misaligned and short-sighted executive remuneration systems - must be addressed.

Compensation of senior executives, traders and fund managers was, and still is in most cases, built around short-term rewards that typically rise with increased risk taking that is often decoupled from long-term shareholder wealth creation. Added to this, executive rewards have been provided in ways that have largely shielded senior corporate officers and fund managers from liability for their decisions.

In the lead up to the April G20 Summit in April 2009, the Caux Round Table (CRT) released a seven point reform plan<sup>1</sup> to restore trust in business and in the global financial system, and to ensure financial system stability. Included in the CRT reform plan are proposed reforms to executive remuneration structures to ensure they are consistent with prudent risk management, align with long-term shareholder wealth creation, and do not reward poor performance.

The proposed reforms to executive remuneration would:

- o Require corporate boards to make annual disclosures (and at the time of the appointment of any CEO) detailing:
  - conflicts of interest and other risks embedded in both short-term and long-term executive performance incentives, including how the Board proposes to manage such risks; and

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<sup>1</sup> <http://www.cauxroundtable.org/newsmaster.cfm?&menuid=99&action=view&retrieveid=11>

- the degree to which the remuneration structure aligns executive interests with those of shareholders, including during times of company stress and underperformance.
- Require all equity linked remuneration to be in the form of common equity escrowed for a minimum period of five years, regardless of continued employment.
- Prohibit Board members and key executives from borrowing or hedging against the common equity they hold in the company, unless there is full and timely disclosure of all such borrowing or hedging.
- Require termination payments to be capped at one year's remuneration, unless there is prior shareholder approval of a higher amount.

These reforms to executive remuneration, along with the other elements of the CRT's seven point reform plan, would take responsible capitalism from the fringes of business behaviour and firmly entrenches it at the heart as to how good business is done. Importantly, the proposed reforms would address the key underlying causes of the global financial crisis and the critical need to restore trust and confidence in our free market economy.

The CRT would be happy to elaborate on the above reforms and on its initiatives to restore responsible capitalism.

**END**

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### **About the Caux Round Table**

The Caux Round Table (CRT) is an international network of business and professional leaders working to promote a moral capitalism since 1986. The CRT advocates implementation of the *CRT Principles for Responsible Business* through which capitalism can flourish and sustainable and socially responsible prosperity can become the foundation for a fair, free and transparent global society.

Uniquely, the Caux Round Table (CRT) *Principles for Responsible Business* provide strategic ethical guidance which, had it been followed, would have kept those institutions that have triggered the Global Financial Crisis more faithful to their obligations of stewardship, good governance and stakeholder risk management.

The CRT *Principles for Responsible Business* go to the heart of constructive and ethical behaviours that enhance risk assessment and stakeholder management, boosting bottom-line valuations of business success and sustaining responsible long-term wealth creation for society.

The CRT Principles for Responsible Business can be accessed at <http://www.cauxroundtable.org>