

ALERT

24 JUNE 2011

Reform to board remuneration

The senate has passed a Bill granting shareholders of a listed public company more power in determining remuneration packages for board members. Under the Bill, shareholders will be able to vote on whether to spill the board if remuneration reports are rejected in two consecutive AGMs.

A listed company's board is required to put its remuneration report, which sets out the remuneration packages for executives, to a non-binding shareholder vote at the AGM. Previously there were no negative consequences for ignoring a negative shareholder vote that disapproved the report.

Under the new Bill, however, a 'two strikes' policy is adopted. If a remuneration report receives a negative vote of 25 per cent or more at two consecutive AGMs, then a 'spill resolution' must be put to the shareholders at the second AGM. Directors and closely related parties who hold shares will be prohibited from voting.

If 50 per cent or more of the votes cast are in favour of a spill resolution, then a 'spill meeting' must be held within 90 days, at which the board members must stand for re-election.

The Bill also addresses other issues including the use of remuneration consultants and preventing directors from 'hedging' their remuneration.

The Bill, which is yet to receive royal assent, legislatively is due to commence on 1 July 2011.

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