

## ORGANISATION

# Remuneration committee charter

The remuneration committee assists the board in the oversight of the remuneration, bonuses and incentives paid to the CEO and employees. Remuneration committees are expected to undertake the detailed work in this area and make recommendations to the board.

Recommendation 8.1 of The ASX Corporate Governance Council's *Corporate Governance Principles and Recommendation* (ASX Principles) states:<sup>1</sup>

*The board of a listed entity should:*

*(a) have a remuneration committee which:*

- (1) has at least three members, a majority of whom are independent directors; and*
- (2) is chaired by an independent director,*

*and disclose:*

- (3) the charter of the committee;*
- (4) the members of the committee; and*
- (5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings;*  
*or*

*(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.*

1. ASX Corporate Governance Council, 2019, *Corporate Governance Principles and Recommendations*, 4th edition, February, p 29, <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-fourth-edn.pdf>, (accessed 16 May 2019).

The commentary to Recommendation 8.1 discusses the usual role of the remuneration committee stating that it is to review and make recommendations to the board in relation to:<sup>2</sup>

- *the entity's remuneration framework for directors, including the process by which any pool of directors' fees approved by security holders is allocated to directors;*
- *the remuneration packages to be awarded to senior executives;*
- *equity-based remuneration plans for senior executives and other employees;*
- *superannuation arrangements for directors, senior executives and other employees; and*
- *whether there is any gender or other inappropriate bias in remuneration for directors, senior executives or other employees.*

Further, the remuneration committee "should have a charter that clearly sets out its role and confers on it all necessary powers to perform that role".<sup>3</sup>

While this recommendation relates to listed companies, current governance thinking is that remuneration committees are important for any board which has a professional management team.

The charter of the committee should support these roles as approved by the board. The charter should clearly articulate the committee's scope and responsibilities, confer on the committee all the necessary powers to perform its role and provide access to information, resources and the authority required to discharge these duties. It should include details of the committee's composition, structure, membership requirements, processes and procedures as approved by the board. It should also be customised to the needs of the company and reflect its industry, objectives and culture.

While the ASX Principles suggest that CEO and senior executive succession are an important role of a nomination committee, some boards include this function under the role of the remuneration committee. The argument is that remuneration is only one aspect of the board's roles in respect of the CEO and it is beneficial to place all these CEO related functions under one committee.

The charter below takes this broader approach to the functions of a remuneration committee.<sup>4</sup>

### Points to consider when preparing a remuneration committee charter

- Listed companies are required to disclose their remuneration committee charter publicly. Ensure the charter is accessible to all directors, executives and employees: for example, it could be displayed on the company's website.
- The charter should not be too detailed or prescriptive.
- There should be a process in place for regularly monitoring and reviewing the charter.
- The charter can only be amended by the board.
- For listed companies which are included in the S & P/ASX 300 Index at the beginning of its' financial year, their remuneration committee must be comprised solely of non-executive directors.

The charter should clearly articulate the committee's scope and responsibilities, confer on the committee all the necessary powers to perform its role and provide access to information, resources and the authority required to discharge these duties.



2. Ibid.

3. Ibid.

4. Additional CEO management elements are enclosed in brackets [].

## SAMPLE REMUNERATION COMMITTEE CHARTER

### Roles and responsibilities

The role of the board remuneration committee is to assist and advise the board of directors on matters relating to the compensation, bonuses, incentives and remuneration issues of the directors, CEO and staff. [The committee also has responsibility for assisting the board in relation to CEO and senior management succession, CEO assessment and, when required, the recruiting of the CEO and senior staff] The board remuneration committee is not a policy-making body but assists the board by implementing board policy.

The role of the committee is to assist the board of in fulfilling its responsibilities by reviewing, advising and making recommendations to the board on:

#### Remuneration issues:

- the remuneration of the chair;
- the remuneration of non-executive directors;
- the remuneration of the CEO, within the terms of the employment contract, on an annual basis;
- the CEO's recommendations regarding senior executive remuneration, on an annual basis;
- where the company has discretion over large categories of employees or when new awards are being negotiated, the remuneration of other employees;
- the CEO's performance and key performance indicators in order to determine the annual bonus components;
- any incentive plans (including equity-based plans) or ex-gratia payments to the CEO, senior executives and other employees;
- the company's remuneration and incentive policies, practices and performance indicators and ensuring that they are aligned to the board's vision, values and overall business objectives and are appropriately designed to:
  - promote ethical behaviours in relation to all stakeholders;
  - drive the implementation of agreed organisational cultural values;
  - motivate staff and the CEO to drive the long-term growth and success of the company;

- demonstrate a clear relationship between remuneration and the achievement of the company's objectives, CEO and staff performance;
- align staff remuneration with market trends and shareholder expectations; and
- address any gender or other inappropriate bias in the remuneration of senior executives and other employees.

#### [Other CEO and senior management issues:

- ensuring that CEO and senior executive succession plans are in place;
- evaluating the performance of the CEO and senior executives; and
- when required, oversight of searches for the CEO and senior executives and recommending preferred candidates to the board.]

### Composition and term

- The remuneration committee is a committee of the board.
- The committee will include at least three members appointed by the board.
- The committee should include a majority of independent directors.
- The committee will elect its chair, who should be an independent director OR the board will appoint the chair who should be an independent director.

### Meetings

- The committee will hold meetings at least twice a year and as frequently as required to fulfil its role.
- A quorum will be at least two members.
- Meetings of the committee may be held face to face or using any technology which enables members to participate in a discussion.
- The notice of each meeting confirming the date, time, venue and agenda (including relevant supporting papers) will be forwarded to each member a reasonable time before the date of the meeting.

**SAMPLE REMUNERATION COMMITTEE CHARTER** *continued*

- The committee may invite other people to attend as it sees fit, and consult with other people or seek any information which will help it to fulfil its responsibilities.
- The committee chair or delegate will report to the board following each meeting.

**Secretariat duties**

- The company secretary is the secretary of the committee. The secretary will keep minutes proceedings and resolutions of all meetings.
- The minutes will be distributed to all committee members after the meeting and ratified by members in attendance/discussion and signed by the committee chair.
- The minutes will be included under 'Matters for Noting' in the following board pack.
- The committee chair will table the outcome of deliberations at the next board meeting.

**Voting**

Matters will generally be decided by consensus or, if a consensus can't be reached, by a majority of votes from the members present.

**Review**

The committee should review this charter at least every two years to provide assurance that it remains consistent with the board's objectives and responsibilities and continues to reflect current processes and appropriate remuneration principles.

The board must approve any amendments made to the charter as a result of any review.

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