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## Non- Executive Directors Review

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**CHARTERED ACCOUNTANTS™**  
AUSTRALIA + NEW ZEALAND

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June 2019

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## Introduction

Wendy Zammit, the Manager Governance for Chartered Accountants Australia & New Zealand (CA ANZ), on instructions from the Nominations and Governance Committee requested Egan Associates to provide guidance in relation to Directors' fees.

We understand that current fees were established in 2014, marginally modified in relation to the President and Vice Presidents remuneration in 2015, reflecting the reduced workload of office bearers following the establishment of CA ANZ.

We understand that the organisation's By-Law 136A states that the remuneration of the Directors, the President and Vice Presidents shall be based on market rates determined by the Council based on a recommendation from the Nominations & Governance Committee of the organisation.

Egan Associates received a request on behalf of the Council and Nominations & Governance Committee of Chartered Accountants ANZ (CA ANZ) through the Manager, Governance, Wendy Zammit, to undertake a market-based review of the fees paid to Board members including the Chair of the Board and Directors, Chair of the Audit & Risk Committee and appropriate honoraria for the President and two Vice-Presidents of the Council who in addition to their obligations as members of Council also fulfil the obligations of a Director of the Board.

While at the time of conducting our research the two Vice-Presidents were attendees and did not have a vote at Board level, we understand that following approval of new governance protocols the President, who is currently a voting member, and the two Vice-Presidents will each be voting members on the Board of CA ANZ. We note that in practice this change will not impact on the workload or responsibilities of the Vice Presidents.

To assist in our understanding of the role of Council and the role of the Board and its committees the Manager Governance provided Egan Associates with comprehensive background information including the Council Charter, statements of the role and accountabilities of the President and Vice-Presidents of the Council, the Board Charter, the statement of the role and accountabilities of the Chairman of the Board, the statement of the role and accountabilities of a Board Director, together with the Audit & Risk Committee Charter, the Executive Remuneration Committee Charter and the Nominations & Governance Committee Charter.

This material set out clearly the nature of the accountabilities of both the Council and the Board which substantially reflected the Charters adopted by listed public companies in both Australia and New Zealand.

We were advised in discussions with the Chairman, the President and the Chairman of the Nomination & Governance Committee of changes that were foreshadowed in aspects of these Charters.

We formed the view that these matters were not likely to have any detriment in relation to the approach which we have adopted in the review of current fees.

## Background

We understand that CA ANZ's strategic intent is to proactively shape the profession of the future by developing opportunities for its members that build value for themselves, their clients and the communities in which they live and work.

The strategy yielded four lenses on the future that reflect member feedback which highlight:

- The accounting professional of the future
- Practice of the future
- Services of the future
- Communities of the future

We note five initiatives underpin this strategic direction which are set out on the organisation's website.

We understand that the day-to-day development of the strategy and the provision of support for the organisation's members represent the prime accountability of the Chief Executive (CEO).

We further understand that the Council is accountable for appointing and evaluating the Board on behalf of the organisation's membership.

We also observe in this context, when CA ANZ was formed the organisation committed to conducting a Governance Review to ensure its structures continued to serve its members effectively.

We understand that a number of issues including amendment to the Royal Charter and By-Laws of the organisation will be subject to a member vote.

We note that the proposed recommendations focus on 3 core areas:

- Increasing representation of members on Council to reflect the organisation's broad membership
- Providing a clearer approach to succession for both the Council and the Board
- Simplifying how the governance entities improve consistency and clarity

We understand that the Governance Review is led by the Nominations & Governance Committee on behalf of the Board and the Council.

We note on the organisation's website an illustration of the governance structure and the distribution of accountabilities between the Board and its Council.

We note that the organisation has established Regional Councils and local leadership teams which are local and regional advocates for the organisation and the voice and face to local members, providing support in a variety of areas relevant to the profession.

We also understand that Council has established overseas committees to ensure that members, wherever they are located globally, are provided with opportunities to be involved. We understand that these committees have been established in the United Kingdom, Hong Kong, Singapore and Malaysia.

We understand that following endorsement of the governance changes that the overseas committees will become Overseas Regional Councils which provide advice to the Board and management on member issues relating to their region and to assist the Board in raising and maintaining the public profile of CA ANZ internationally including its profile with the relevant regional or national governments and to develop and facilitate networking and professional development events.

We note that in addition to Regional Councils, the organisation's governance incorporates Segment Advisory Committees which provide advice to CA ANZ on current and emerging issues facing members within their segment and make recommendations on initiatives, products and services being developed and delivered and monitor new initiatives for relevance and value and offer feedback on the execution of those initiatives.

These committees cover public practice, the corporate sector, charities and the not-for-profit sector.

There are other committees including Regional and Rural Advisory Committees which engage with management and ensure that the members are well-informed on issues which will impact on their conduct and engagement with clients and the community.

The Board, which is the primary focus of our research, is accountable for the development of long term strategy and performance including key policy and operational issues and is supported by management. Board members are engaged with all the entities which provide support to members, both regionally and located elsewhere in the world.

The Board accountabilities are set out in a Charter (attached). The Charter sets out the objectives of the Board which are primarily to:

- Ensure that strategic objectives are set and achieved
- Establish a policy framework within which the organisation must operate and strengthen the performance of CA ANZ
- Ensure the Board committees discharge their functions appropriately in relation to meeting strategic plans and budgets
- Appoint and evaluate the performance of the CEO
- Ensure that CA ANZ maintain a robust process for identifying, prioritising, managing, monitoring and reporting critical risks through the Audit & Risk Committee
- Ensure that CA ANZ adhere to high standards of ethics and corporate behaviour

We note that the Board, comprise:

- 8 Directors who are members of CA ANZ, including the President
- 2 additional Directors who are not members of CA ANZ
- 2 Vice Presidents (as observers and to become formal members following endorsement of the Governance Review)

The President and Vice Presidents are members of Council.

The appointment of Directors is for a term of 3 years though Directors are eligible for reappointment for an additional 2 terms (post the governance changes). The re-appointment of directors for additional term(s) is not automatic. The President serves on the Board for his or her one year term with the opportunity for a further term as agreed by Council.

Members of the Board are accountable to appoint the Chairman from the CAANZ Board members. The term of the Chair is 3 years with the opportunity for a further term as agreed by the Board. We note that the Board may change the Chair during the Chair's term by a vote of the Board.

The Board Chair is accountable for:

- Leadership of the Board
- Overseeing the Board in the effective discharge of its supervisory role
- Facilitating the effective contribution of all Directors
- Promoting constructive and respectful relations between Board members and between the Board and management
- Committing the time necessary to discharge effectively his/her role as Chair
- Approving the agenda for Board meetings
- Scheduling regular and effective evaluation of the Board's performance through the Nominations & Governance Committee
- Ensuring effective communications and reporting between the Board and Council
- Speaking on behalf of CA ANZ and/or the Board as required
- Conducting an annual evaluation of the CEO through the Executive Remuneration Committee

The Charter sets out the role of the Board and its accountability under specific headings including:

- Strategy
- Policy
- Organisational performance monitoring
- Oversight of other bodies and roles
- Risk management
- Compliance
- Networking
- Delegation of authority
- Meetings
- Work plan

We note in relation to the Board's work plan that it is developed annually by the Governance Manager in conjunction with the Chair and the CEO and approved by the Board.

We further note that the Board have two formal committees – an Audit & Risk Committee and an Executive Remuneration Committee. We understand that the Nominations & Governance Committee is appointed by Council to monitor and oversee the organisation's governance processes including planning and reporting, nomination and succession planning processes for both the Council and the Board.

We understand that the Board has oversight of Regional Councils, the Education Board, the NZICA Regulatory Board, Professional Standards Oversight Committee, Segment Advisory Committees and local leadership teams. We note that these bodies report to and are accountable to the Board.

We further understand that the Board appoints members of its sub-committees, Education Board, Professional Standards Oversight Committee, the NZICA Regulatory Board and that members elect Regional Councils.

We note that the Board Charter also establishes the role of the CEO, a Code of Conduct, a policy in relation to Board independence, reporting obligations of the Board, its evaluation of performance and the remuneration, reimbursement and allowances of members of committees.

We note that the Board has a membership of 8, excluding the Chairman, the President and the two Vice Presidents.

We have been provided with a copy of the Charter of the **Audit & Risk Committee** which sets out its primary objectives which cover the following activities:

- Financial reporting
- Risk management systems
- Internal control systems
- Compliance
- Internal and external audit arrangements

The Charter of this committee (attached) which sets out a more comprehensive statement of the committee's accountability.

We note that the **Executive & Remuneration Committee's** prime objective is oversight from the Board perspective of matters relating to the remuneration costs, CEO performance and remuneration policy and strategy of the organisation.

We understand that members of the committee are appointed by the Board and that the committee will comprise the Chair of the Board and 2 additional nominees who are Directors of CA ANZ. We further note that the committee may engage external experts from time to time and that the Chair of the Board is not eligible to chair the committee.

Its specific accountabilities are set out in its Charter

We have also been provided with guidance in relation to the **Nominations & Governance Committee** which has core objectives including:

- Ensure there is sufficient talent available for governance roles within CA ANZ to implement effective governance of the organisation
- Oversee the performance evaluation of the Board and the Board members
- Monitor and evaluate governance processes between the Council, the Board, management and the Committee

A detailed Charter of the Committee was provided for our review.

We note that the committee currently consists of the President, the Chair of the Board, both Vice Presidents, the immediate Past President and 2 independent members. We further note that following endorsement of the governance changes that the committee will consist of the President, the Chair of the Board and three independent members. We further note that it may co-opt external experts and that the Chair of the Committee is chosen from one of the independent members.

We further note that the CEO is required to attend meetings of the committee as directed by the Chair.

## Engagement

We understand that the Board typically meets on 8 occasions each year and holds joint meetings with Council 2-3 times each year.

We further understand that the Nominations & Governance Committee meets on at least 4 occasions each year, that the Audit & Risk Committee meets on at least 6 occasions each year and the Executive Remuneration Committee, indicatively meets at least 3 times each year.

During our discussion with the President, Board Chair and Chair of the Nominations & Governance Committee, we were advised that at least one Council meeting would be held in New Zealand each year.

We understand that the Board and Council would meet at the same time twice annually and that there would be a joint meeting. We were further advised that Council, in addition to their formal meetings, would hold teleconferences on 7-8 occasions each year, normally of a duration of one to two hours, in receiving updates following Board meetings, assessing Board performance, reviewing issues relevant to the membership and organisation's strategy implementation and governance.

We were advised by both the President and the Chair that the CEO had full delegation to lead and manage the organisation including its engagement in education, advocacy, professional discipline and the provision of member support and services, both within Australia, New Zealand and in support of overseas members.

We understand that the organisation has a staff complement of more than 400 across its offices in Australia, New Zealand and overseas.

We observe that the duration and preparation time for engagement as a member of the Board, a member of Council and a member of each of the formal committees is variable.

Notwithstanding, we note that Directors would engage in regional activities or subject matter discussions relevant to their background and the Board's engagement in issues facing the accounting profession which vary from time to time.

We understand that the Board Chair has an active representation role with stakeholders of the organisation including members but more particularly including organisations which are engaged in the oversight or regulation of the work of Chartered Accountants, strategic partners of CA ANZ, regulators, standard setters, and at times politicians.

We further understand that the President also has an engagement with the overseas Councils of CA ANZ. Typically the President would devote between 8 and 12 days per month, including travel time, in fulfilling the obligations of the role.

We note that the President and Vice Presidents of the Council attend all Board meetings, that the President and the Chair are members of the Nominations and Governance Committee. The Chair is a member of the Executive Remuneration Committee and an ex officio member of the Audit & Risk Committee.

We note from material provided the primary accountabilities of the position of Board Chair and a Director as well as the President and the Vice Presidents of the Council.

## Current Board Emoluments

We understand at the time of preparing our report that the President of the Council and the Chairman of the Board receive a single fee for their entire engagement. We further observe that the majority of Directors receive a single fee for their entire engagement including participation, where appropriate, on Committees. We note that the Board member who chairs the Audit & Risk Committee receives an additional fee of \$20,000 per annum and the Chair of the Nomination & Governance Committee receives a fee of \$10,000 per annum.

We understand that the Board meets formally on 8 occasions each year and additionally as required and that Directors participate on a regular basis in video or teleconferences in addressing matters which arise between Board meetings.

We note that the Audit & Risk Committee meets on 6 occasions per year, the Nomination & Governance Committee has 4 meetings per year, the Executive Remuneration Committee on average has 3 meetings per year, Council meet on 2-3 occasions per year and via teleconference on an as required basis.

We understand that Directors and members of Council attend meetings in both Australia and New Zealand and in addition to preparing for their engagement devote time to travel to the venues where meetings are held.

The table below sets out our understanding of the base fees for the President of the Council, for Vice-Presidents who attend Board meetings and will become formal members of the Board, for the Chair of the Board, for Directors of the Board, for the Chair of the Audit & Risk Committee and the Chair of the Nomination & Governance Committee.

Position	Annual Base Fee - A\$
President	*120,000
Chairman	100,000
Vice Presidents	60,000
Directors	50,000
Chair Audit & Risk	**20,000
Chair Nomination & Governance	10,000

\* Previously \$150,000

\*\* November 2018

We understand that the Chair of the Audit & Risk Committee currently receives an annual fee of \$10,000 which has been agreed to be increased in November 2018 to \$20,000 per annum.

We were advised the Institute of Chartered Accountants of Australia, prior to the merging of the Australian and New Zealand membership organisations that the role of President was combined with the role of Chair of the Board. At that stage, the position's fees stood at \$168,000. A Vice President was paid \$84,000 and a Director \$40,000.

In the period between May and December 2014, Directors of the interim Board of CA ANZ received a fee of \$25,000 for 6 months and an additional \$7,500 for their commitment to Due Diligence and related activities.

On the formation of the formal Board of CA ANZ, fees that were established for the 2015 Financial Year were as follows:

Board Chair	A\$100,000
Director	A\$50,000
Chair of ARC	A\$10,000
President	A\$150,000
Vice President	A\$75,000

The additional fees paid to the President essentially reflected the increased engagement of the incumbent in meetings during the implementation of the integration program of the two professional bodies.

At the time of conducting this report, we understand that the fees payable to members, other than the President and Vice Presidents, remain unchanged with the President's current fee set at \$120,000 and a Vice President at \$60,000.

## Determining Board & Council Fees

We understand that the fees which presently are payable to the officers subject to our review have not been varied since July 2014 though in respect of the President and Vice Presidents have been reduced from prior levels which were established at the time of the merging of both Chartered Accountants Australia and Chartered Accountants New Zealand.

We understand that the current annual revenues of CA ANZ are around \$135 million. We note from the Charters and the stated accountabilities of the Chair of the Board and Board Directors that the manner in which the Board embrace their stewardship of the organisation very closely reflects that of a listed public company and is significantly more extensive than that of many not-for-profits.

While acknowledging that the organisation has a different stakeholder community to support, we perceive that the membership represented through Regional Councils and the Council of the organisation create an environment where the obligations in meeting the requirements and supporting their stakeholders is in some respects more critical given international government and regulator intervention than listed entities of comparable scale.

We understand through our discussions with members of the Board and Council that the time commitment of Board members engaged in attending meetings of the Board, teleconferences between Board meetings, preparation for Board meetings in reading comprehensive reports prepared by the organisation and engaging in relevant events conducted by the organisation would exceed 2 days each month.

We also note the engagement of the President of the Council and the Board Chair in each of the Committees of the organisation and other bodies under the general direction and support of the Council and the Board in which they are ex officio members and are required to provide face-to-face support when called upon in support of the interests of members.

We understand that the Board Chairman's engagement across those matters and in addressing the specific accountabilities of that role would be an additional day per week as a minimum. While the President of the organisation has a core obligation to meet his accountability as a Director, and has the additional stakeholder facing accountabilities which, on the basis of our observations as noted above, would demand between 8 and 12 days per month, including travel time .

Among New Zealand's NZX 50 leading corporate entities, our research reveals that at the median Directors' fees have increased by around 20% over the period from mid-2014 to the end of the 2018 calendar year. This reflects a significant movement in the 2015 Financial Year over the prior year's fee levels. For Non-Executive Directors the adjustment was 17.5%, again reflecting the principal uplift in the 2015 Financial Year over the prior year.

Average fee movements over the same period were 12% for both Chairman and Non-Executive Directors. This differential between movement at the median and the average was substantially reflected by an uplift of those listed entities outside the leading 10 listed corporations in New Zealand in the 2015 Financial Year.

On the basis of our current Australian research, the median fee increase for a Chairman is around 14% and for Directors 11.5%.

A further foundation for the adjustment in Non-Executive Directors' fees has been the increasing influence of fees paid to members of Board committees initially being Audit & Risk Committees and in more recent years the Remuneration Committee which has, in many smaller organisations, been integrated with the nominations function, governance normally being an accountability of the entire Board and not the subject of overview by a separate committee.

Having read the obligations of the Board and the engagement of the Board and the role of the Council, Boards of unlisted companies and public companies while they have shareholders do not have the stakeholder environment that CA ANZ have, although they do have, in many instances a Board subject to increasing scrutiny from regulators in respect of compliance and are under regulatory review today in relation to how they manage remuneration.

Independently of the above and drawing specifically upon our research among organisations with revenues between half and 50% greater than that of CA ANZ, across all sectors (115 entities), our research revealed a median fee level for a Board Chair at A\$144,641, at the 25<sup>th</sup> percentile A\$120,000 and on average A\$151,239. For Directors, the median fee stood at A\$87,600, at the 25<sup>th</sup> percentile A\$70,632 and on average A\$89,488.

The above emoluments incorporate contributions required in compliance with the Superannuation Guarantee legislation and, as a consequence, represent 109.5% of the prevailing base fee. Using this information, we have discounted the data from our research by 15% and presented it in the tables below.

We have provided information, in this context, which is Australian centric because of the paucity of NZ data, across all sectors and in the commercial and professional services sector of both listed and unlisted entities which are 50% smaller and 50% larger and half and twice the scale of CA ANZ in order to offer an alternate reference point. The information in the tables below is expressed in A\$.

## ALL SECTORS

### Comparators with comparable revenue – 50% smaller and 50% larger than CA ANZ

	75 <sup>th</sup> Percentile	Median	25 <sup>th</sup> Percentile	Average
Non-executive Chairman	153,503	122,945	102,000	128,554
Non-executive Director	89,250	74,460	60,037	76,065

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### Comparators with comparable revenue – half and twice the scale of CA ANZ

	75 <sup>th</sup> Percentile	Median	25 <sup>th</sup> Percentile	Average
Non-executive Chairman	167,875	127,500	102,383	137,779
Non-executive Director	97,038	80,018	64,929	82,323

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Taking a more restricted sample of commercial and professional services organisations with revenues between half and 50% greater than CA ANZ, the table below sets out the fees for the Chair and Non-Executive Directors.

## COMMERCIAL & PROFESSIONAL SERVICES SECTOR

### Comparators with comparable revenue – 50% smaller and 50% larger than CA ANZ

	75 <sup>th</sup> Percentile	Median	25 <sup>th</sup> Percentile	Average
Non-executive Chairman	153,000	122,365	107,928	132,716
Non-executive Director	96,900	82,434	65,882	84,498

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### Comparators with comparable revenue – half and twice the scale of CA ANZ

	75 <sup>th</sup> Percentile	Median	25 <sup>th</sup> Percentile	Average
Non-executive Chairman	187,000	161,500	117,229	157,437
Non-executive Director	106,052	96,900	78,625	92,818

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As an additional point of reference, drawing upon the bodies that may have a relevance with oversight of the Commonwealth Remuneration Tribunal, the following sets out fees payable to Chairmen and members of Boards and Advisory Bodies within the Commonwealth which may have a relevance and a useful reference point.

The Commonwealth Government essentially sets fees at the market 25<sup>th</sup> percentile and in a number of bodies pay daily fees because of the variable engagement of Board members rather than an annual fee.

The Commonwealth Remuneration Tribunal sets fees for a number of government bodies, a number of which have oversight of research or professional organisations.

Reflective of these bodies would be:

- Commonwealth Superannuation Corporation – where the Chair’s fee is set at \$138,050 and a member at \$66,030.
- The Board of Taxation – the respective fees are \$116,840 and \$58,420

- The Australian Curriculum Assessment & Reporting Authority – the figures are \$108,680, a Deputy at \$81,510 and members receive a daily fee
- Tax Practitioners Board – respective fees are \$108,680, members a daily fee
- Australian Institute for Teaching & School Leadership - \$100,540 and \$75,410 for a Deputy, daily fee for members
- Financial Reporting Council - \$100,540 and a daily fee for members of \$1,045

In addition to that circumstance, additional fees are paid to Chairs of Audit Committees. Those fees, where significant engagement is required, are \$21,990 and \$16,000 and a members fee \$11,000 and \$8,000.

Daily fees payable to members of various Boards are variable.

- Company Auditors Disciplinary Board – members daily fees are \$1,176.
- Professional Services Review Committees \$1,323 for a member.
- Administrative Review Council – member daily fee of \$915.
- Financial Advisers Standards & Ethics Authority – Chair: annual fee of \$24,000 and an additional daily fee of \$1,143

## Recommendation

On the basis of our research and, in this context, we also reviewed third party information which had limited exposure to listed companies and a considerable exposure to the not-for-profit sector, we formed the view that the above data was more meaningful than the not-for-profit sector given our observation that the not-for-profit sector is not a member funded entity, does not have a requirement to operate profitably and is often supported by grants from States or the Federal government.

In the context of current fees and our observations of Directors' prevailing emoluments, it would be our general assessment that over the period since fees were last determined and having regard to the substantial involvement and engagement of Directors, the Chair, the President and Vice President members of Council, that indicative fees which we understand will take effect from 1 January 2020, should be elevated by 20%.

This would place the Chairman's base fee at \$120,000, a Director's base fee at \$60,000 with up to a further \$5,000 in recognition of their engagement in Committees of the Board.

We note and endorse the proposed fee for the Chair of the Audit & Risk Committee at \$20,000 though on the basis of discussions believe there should be an additional fee of \$5,000 payable to the Chair of the Nominations & Governance Committee, that the fee paid to the President of the organisation should retain the current 20% premium to that of the Board Chairman and be set at \$144,000, that the fee payable to Vice Presidents should also retain the current 20% premium and be set at \$72,000.