



NZX Corporate Governance Code Review

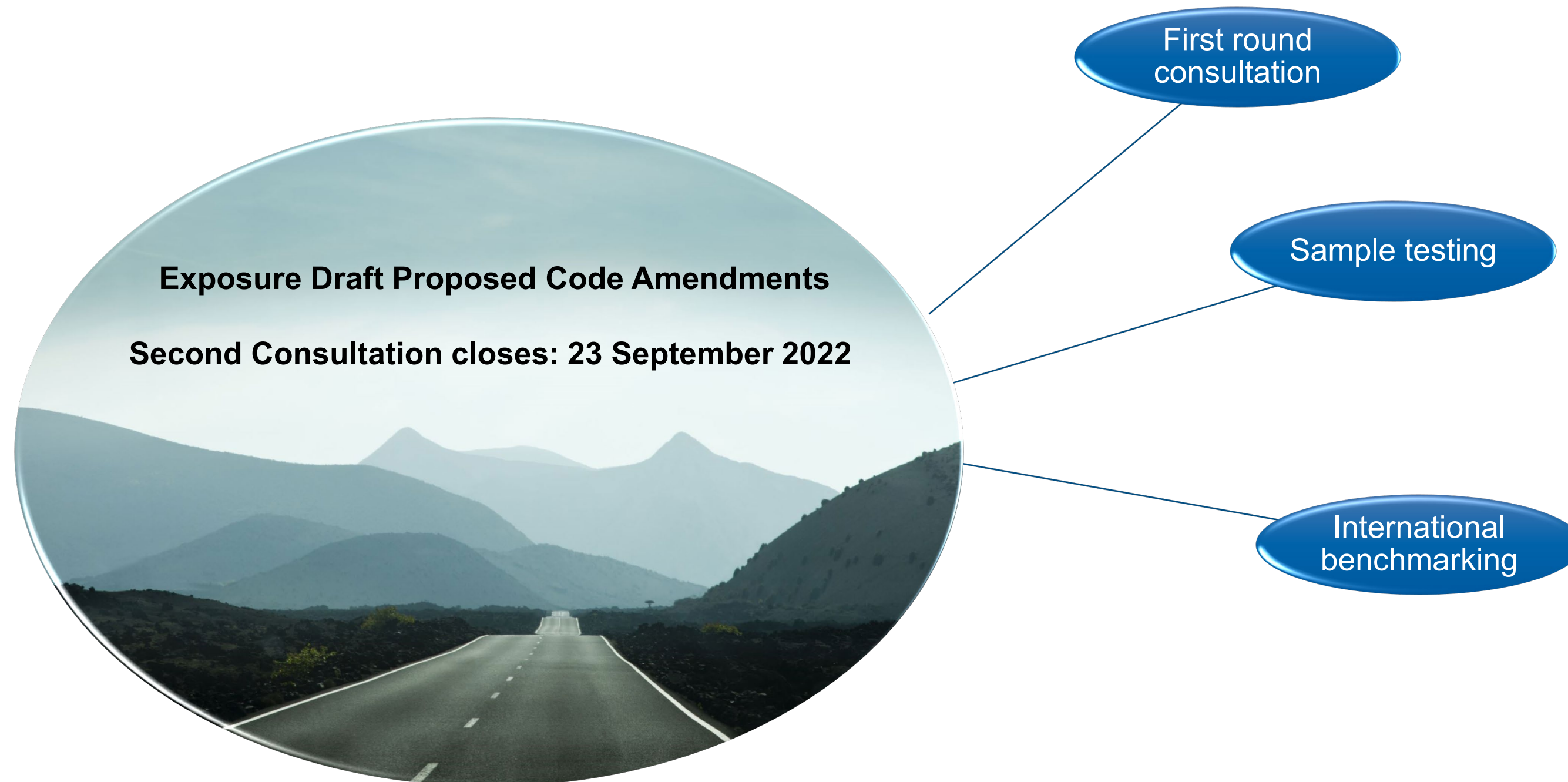
Workshop 2: Director Independence and Remuneration

6 September 2022

We welcome your submissions at policy@nzx.com

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Review Process



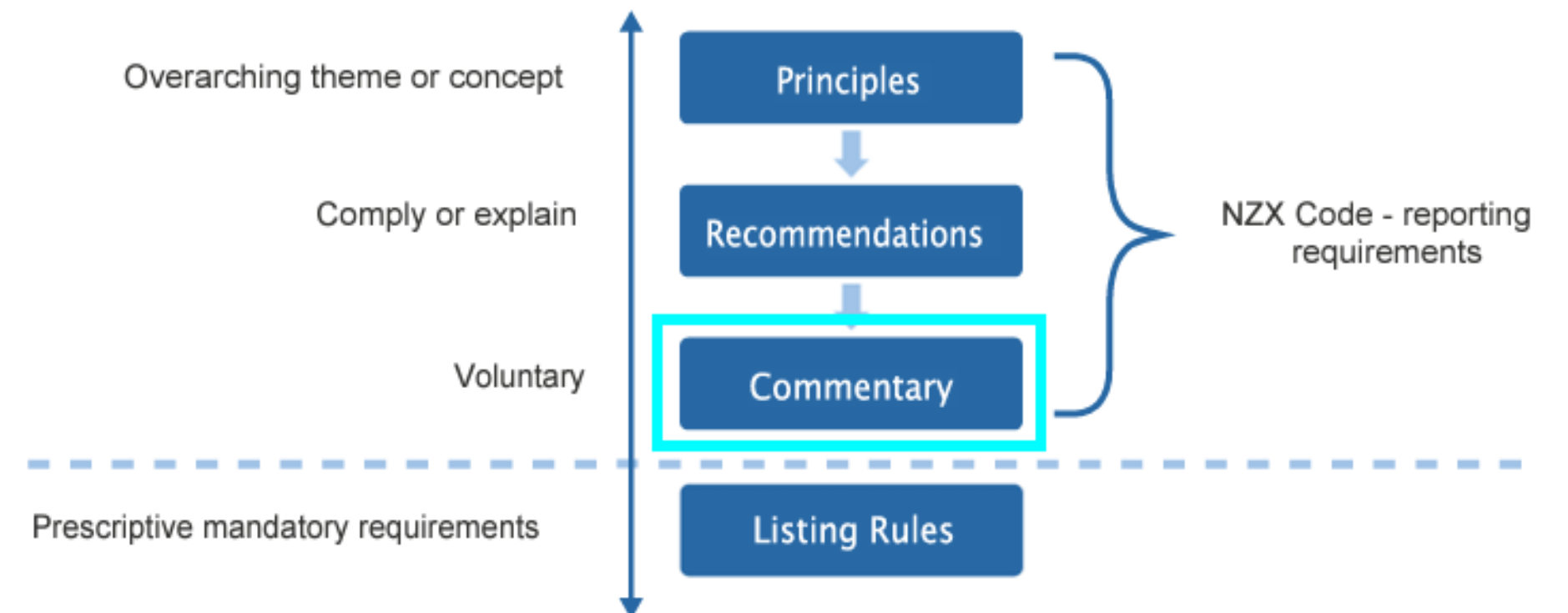
Comply or Explain

How the NZX Corporate Governance Code Operates

The Code provides recommendations and commentary, which intend to give effect to the general principles outlined within the Code.

The Code's recommendations apply to Issuers on a 'comply or explain' basis, enabling Issuers to adopt alternative governance practices to those set out in the Code's recommendations, as long as they are explained to the market.

Issuers are not required to report against the matters contained in the commentary.





Director Independence

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Principle 2 – Board composition

- **Principle 2** of the Code which applies the following overarching principle:

“To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.”

- **Recommendation 2.4** currently provides that every issuer should:

*“Disclose information about each director in its annual report or on its website, including a profile of experience, length of service, **independence** and ownership interests and director attendance at board meetings.”*

- **Commentary** sets out factors that may impact a director’s independence status

Consultation Proposals – Director Independence

‘Disqualifying Relationship’

Current Definition

- Definition narrowly interpreted
- Concern with a ‘tick-box’ approach

Proposed Amendments

- Consider Code factors on an inclusive basis
- Factors are examples
- Consider all the interests and relationships of a director

Consultation Proposals – Director Independence

Disclosures relating to determination of independence

Current Disclosures

- Lack of explanation of independence
- Greater disclosure of non-independence

Proposed Amendments

- Amend Recommendation 2.4 – disclose why independent if a Code factor is present
- Aligns with ASX settings

Consultation Proposals – Director Independence

Changes to independence assessment factors

- Significant annual revenue from the issuer within past year
- Personal Relationships: social or business connections
- External Audit Relationships: within last 3 years to align with recommendation
- Tenure: clarify that tenure of 12 years or more may indicate non-independence – disclose succession planning

Recognition of role of non-independent directors

- Non-independent directors valuable stewards
- Conflict management arrangements
- Rules set the board composition requirements

Consultation Proposals – Director Independence

Independence of the Chair

- Split recommendation 2.9 into separate requirements
- Chair of the board should be independent
- Chair and CEO should be different people
- Aligns with international practice



Consultation Proposals - Committees

Audit Committees

- Amend Code commentary – disclose the skills and experience of audit committee members

Takeover Committees

- Amend Code commentary - disclose composition of takeover committee, once established

Remuneration Committees

- Composition – inclusion of executive directors?

Questions / discussion on the proposals
relating to director independence





Remuneration

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Consultation Proposals - Remuneration

- Split recommendations 5.1 and 5.2
- Non-financial goals: executive performance-based remuneration

Consultation Feedback

- ESG matters relevant consideration when setting remuneration

Proposed Amendments

- Executive performance-based remuneration linked to issuer's non-financial goals and values
- Disclose generic eligibility and vesting hurdles for LTI schemes

Consultation Proposals - Remuneration

Independent Advice

Current commentary settings

- Public statement of reliance on an independent remuneration report for director remuneration, make public:
 - summary of the external consultant's findings
 - consultant's independence declaration
- Submitters supported greater disclosure

Proposed commentary amendments

- Reliance on independent remuneration report (whether or not publicly stated), make public:
 - summary of the external consultant's findings
 - summary of assumptions and methodology
 - consultant's independence declaration

Consultation Proposals - Remuneration

Gender pay gap reporting

- Discuss in more detail in next week's session
- Commentary amendment - encourage issuers in the NZX 50 with more than 50 employees to report

Questions / discussion on the proposals
relating to remuneration?



Thank you

We look forward to seeing some of you at our second workshop on 13 September

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