



## The guard is changing - will shareholders benefit?

<b>Company/ASX Code</b>	ASX Limited/ASX
<b>AGM date</b>	Wednesday, 28 September 2022
<b>Time and location</b>	10am Sydney time. ASX Auditorium, Lower Ground Floor, Exchange Square, 18 Bridge Street Sydney
<b>Registry</b>	Link Market Services
<b>Type of meeting</b>	Hybrid – online at <a href="https://meetings.linkgroup.com/agm/ASX22/register">https://meetings.linkgroup.com/agm/ASX22/register</a>
<b>Poll or show of hands</b>	Poll
<b>Monitor</b>	Peter Gregory assisted by Sue Howes and Gareth Eastwood.
<b>Pre AGM Meeting?</b>	Yes with Chair Damian Roche; REM Chair, Heather Ridout; and Head of IR and Sustainability, Simon Starr.

Monitor Shareholding: The individual(s) (or their associates) involved in the preparation of this voting intention have no shareholding in this company.

### Summary of issues for meeting

- The Remuneration Plan has significant variation from ASA guidelines and is not seen as being in shareholders' best interests
- Communication about director skills to enable shareholders to make informed voting decisions.
- Continuing technical concerns.

### Proposed Voting Summary

No.	Resolution description	
3a	Re-election of Melinda Conrad as a Director	Undecided
3b	Re-election of Peter Nash as a Director	Undecided
3c	Election of David Curran as a Director	Undecided
3d	Election of Heather Smith as a Director	Undecided
4	Adoption of Remuneration Report	Against
5	Grant of performance rights to CEO/Managing Director Helen Lofthouse	Against
6	Increase cap on non-executive directors from \$3 million to \$3.5 million.	For

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

## **Summary of ASA Position**

### **Consideration of accounts and reports - No vote required**

#### **ASX in a nutshell**

ASX Limited (ASX) is a unique business. It operates in a strict regulatory environment and the protection of its operating licences is paramount. ASX has a strong and established position in its core market with almost half of every dollar of revenue going to profit (NPAT). While much of the business is determined by market conditions and is outside of its control, ASX also has opportunities to generate growth by working to attract foreign listings to Australia; by adding value to its existing customer base through providing data; by expanding into adjacent trading markets, especially climate related; by utilising its technical capability to provide bespoke solutions in semi related fields (Synfini); and by using competitive advantage to enter and compete in the very established business of property conveyancing (Sympli).

ASA views these growth opportunities as being very positive for ASX, but is also conscious of the challenges presented by venturing into new and expanded fields. At the AGM we will ask for elaboration on the competencies and strategies required for these to be successful.

#### **Governance and culture**

Items to note:

- In FY22, voluntary turnover was 19%, which is higher than previous years, including a period of record-low turnover during the initial wave of the COVID-19 pandemic
- In FY22, ASX paid \$120,000 each to be a platinum member of the Business Forum/Network of the Liberal Party and Labor Party. This is disclosed and explained on p42 of the Annual report, but, in view of ASA policy we expressed our concern about these memberships (and the need to be at the highest level) at the pre AGM meeting

#### **Financial performance**

ASX reported good results in FY22 with revenue up 6.5% and NPAT up 5.7%. This is an improvement over the prior year when revenue was up 1.4% and NPAT was down 3.6%.

However, as stated by ASX, its results are largely determined by market factors outside of its control.

TSR, affected by share price movements, for FY22 was up 8.17% vs being down 6.51% in FY21.

#### **Key Board or senior management changes**

On 10 February 2022, the CEO, Dominic Stevens announced his intention to retire. This was effective on 29 July 2022 with Helen Lofthouse being appointed as CEO on 1 August 2022. Helen is an internal appointment, having been the ASX's Group Executive - Markets.

CFO Gillian Larkin left ASX on 31 August 2022 with Andrew Tobin starting as CFO on 5 September 2022.

Including the above there have been 8 changes in the senior management team since July 2021. With concerns that this level of change may be disruptive we questioned the chair about this and were assured that the team was experienced and skilled and were demonstrating competence and enthusiasm.

Peter Nash has been appointed as chair of the Audit and Risk Committee

### **New Board Technology Committee**

In May 2022 the Board established a Technology Committee to oversee technology, data and cyber security strategies, projects, and risks. Newly appointed director, David Curran is chair of the committee. It comprises 5 members including Carolyn Colley who is a non ASX director on the CS Boards. Details of her background are included in the Appendix 2.

The Audit and Risk Committee no longer has responsibility for technology and cyber security risks.

ASA is acutely aware of the technical, operational, reputational and regulatory risks that ASX faces from missteps with its own technology platform. We are also aware of the consequences for Australian financial markets that stem from cyber security matters. ASA supports the establishment of this committee to have rigorous oversight of ASX technology matters and expects that it, together with management will have access to the specialist resources required deliver on its charter. And that it will be actively engaged in the oversight of the CHES replacement development and implementation, ensuring effective control over further cost blowouts and delays.

It is noted that CIO also has responsibility for the Technology and Data business unit, and that the Securities and Payments executive is also responsible for the CHES replacement project. This raises overall technology responsibility and accountability questions that need to be resolved.

### **ASA focus issues (not discussed under remuneration report or re-election of directors**

In FY21 ASX committed to using 100% renewable electricity from FY23: the cost of which will be included in their routine financial planning process. This is expected to reduce ASX's carbon emissions by over 85% and contribute to their goal of being net zero for Scope 1 and Scope 2 emissions by the end of FY25.

### **Summary**

(As at FYE)	2022	2021	2020	2019	2018
Revenue (\$m)	1,023	951.5	938.4	863.8	842
NPAT (\$m)	508.5	480.9	498.6	492	445.1
UPAT (\$m)	508.5	480.9	513.8	492	465.3
Share price (\$)	81.71	77.71	85.38	82.37	64.39
Dividend (cents)	236.4	223.6	238.9	357.8*	216.3
Simple TSR (%)	8.17	-6.51	6.55	33.5	24.2
EPS (cents)	262.7	248.4	257.6	254.1	230
CEO total remuneration, actual (AUD\$m)	4.54	4.31	3.63	2.87	2.8

## **Election and re-election of directors**

During the year ASA was pleased that the board had introduced tenure guidelines – 3 terms for a non-executive director and 4 terms for the chair. The two directors who currently exceed this guideline have stated they will not seek re-election. Peter Marriott has now served 13 years as a director and ASA no longer regard him as independent. This leaves 8 independent directors.

In considering the composition of the board it is noted that some directors have or have had an association with specific companies. In the case of 3 directors this is with Westpac; 2 with ANZ and 2 with Challenger.

ASX has a FY25 gender diversity target of 40% female directors. At the end of FY22 36% of directors were female. If all standing directors are elected, ASX will exceed the target with 44% female directors.

ASX directors, given their other commitments, all appear to have sufficient time to fulfil their ASX responsibilities.

Election of directors:

- Shareholders are being asked to vote on the re-election and election of 4 directors. This is 50% of NEDs excluding the chair, and thus is particularly important that shareholders have information available to effectively make their decision.
- The director's skills matrix presented in the Annual Report (p41) simply provides a list of the required skills and the strength of each skill. This is based on a self-assessment questionnaire in which directors rate their proficiency in each skill area. There is no disclosure of the specific skills and competencies of individual directors and no identification of the skill gaps that are being filled by the two new directors being elected.
- At last year's pre-AGM meeting we suggested that ASX should use a more informative board skills matrix to guide their decision-making and to better inform shareholders on the level of capability of directors. This was again discussed at this year's pre-AGM meeting supported by examples of director skills matrices used by other companies.
- ASA does not consider that sufficient information has been provided to enable shareholders to vote on these resolutions. Before deciding how to vote undirected proxies, ASA will, at the AGM ask standing directors to describe their skills that are most relevant to the future direction of ASX and how they believe they will make a difference as an ASX director.

## **Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO**

ASA voted against the Remuneration Report last year, and as in essence, there has not been any change for FY22 we will again vote undirected proxies against this motion and the grant of performance rights to the CEO.

The Plan deviates from ASA guidelines and this is described in detail in the Appendix 1. The key points are:

- The variable incentive is 60% of the CEO remuneration, however, the LTI is only 20% of the CEO total remuneration. The LTI only applies to the CEO.
- While the STI is made up of a number of metrics there is no weighting of these metrics and in many cases specific targets are not used. The basis for awarding the STI is not clear

## **Increase cap on non-executive directors remuneration.**

The increase in the cap for director fees from \$3.0m to \$3,5m is to enable the establishment of the Technology Committee and to provide for short term periods of additional directors during the board renewal process. We are supportive of both reasons and regard them as being important for the future of ASX.

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## Appendix 1 Remuneration framework detail

Group CEO Remuneration Framework for FY22	Target \$'m	% of Total	Max. Opportunity \$'m	% of Total
Fixed Remuneration	2	40%	2	33%
STI - Cash	0.8	16%	1.2	20%
STI - Equity	1.2	24%	1.8	30%
LTI**	1	20%	1	17%
Total	5	100%	6	100%

\*\* EPS and Relative TSR over 4 years vs mean of ASX100 (excl property trusts)

The FY22 Remuneration Report deviates from ASA guidelines for the CEO in a number of respects:

- While the pay at risk is 60% for the CEO, the maximum LTI is 50% of the fixed pay and only 20% of total package. Therefore, the LTI cannot be seen to meet our guidelines for the variable incentive to be “primarily through a long-term plan”
- The LTI has two performance measures - underlying earnings per share (EPS) and relative TSR targets. The EPS minimum hurdle of 5.1% compound growth has not been met for at least 5 years suggesting that either the target is not appropriate or that the actual performance has fallen below the board’s expectations. Either of these scenarios is not consistent with good remuneration practices.
- Only the CEO receives both the LTI and STI. The other key management personnel (KMP) only have STI and so don’t have a sufficient level of financial alignment with long term shareholders.
- The STI is based on performance measures of
  - FY22 financial results;
  - Vision, strategy and execution
    - Enduring trust, integrity and resilience
    - Innovative solutions and technology;
    - Customer-focused;
    - Diverse ecosystem;
    - Collaborative culture
  - Group scorecard

Many of these STI measures are not based on quantifiable performance metrics, and there is no statement of the weighting applied to each of the performance measures. There is no financial gateway in place. The board uses input from a number of sources in determining the reward pool that appropriately reflects the underlying performance of the Group. However, in the absence of specific details, it appears that this is a largely subjective outcome.

- While 60% of the awarded STI is equity that is deferred over 2 and 4 years, ASA regards this as retention rather than an incentive for performance. It is not in our view an LTI proxy.

## **Appendix 2**

### **Technology Committee Composition**

As noted in the Technology Committee section Carolyn Colley is a member of this committee. She is a director of the ASX CS boards, and therefore her background is not included in the ASX Annual report.

The CS boards refers to the Clearing and Settlement companies which are subsidiaries of ASX.

For shareholders information the following is an extract from the December 2019 ASX announcement of her appointment to the CS boards - “Ms Colley brings over 30 years in financial services, technology and innovation. She is a non-executive director of OnePath Custodians, Oasis Fund Management, and Smartgroup Corporation Limited, and Chief Operating Officer and co-founder of Faethm, a global analytics software-as-a-service platform”