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5 February, 2018

Mr Peter Wilson AM  
President and Chairman  
**CPA Australia Limited**  
28 Freshwater Place  
Southbank, VIC 3006

Dear Peter,

Following CPA Australia's engagement of Godfrey Remuneration Group (GRG) to independently review remuneration practices appropriate to senior executives and directors based on our proprietary remuneration database, we understand the Board of CPA Australia has decided to adopt the following Board fees (inclusive of superannuation) from 1 October 2017:

- President and Chairman fee of \$225,000;
- Deputy President fee of \$112,500;
- Director fee of \$75,000;
- Divisional Presidents seconded to the Board Independent Review Panel Implementation Committee - \$2,300 per diem, capped at 20 days in total and to apply throughout 2018.

GRG understands that the Board has determined that no Committee fees will be paid to any Director in respect of business-as-usual committee workloads.

This letter is intended to provide GRG's high-level opinion regarding CPA Australia's 2017 - 2018 Board fees, considering the work undertaken in late 2017 to benchmark CPA Australia's remuneration practices. In late 2017, GRG reviewed CPA Australia's remuneration practices with reference to two comparator groups:

1. A custom bespoke survey of 12 Australian membership-based organisations; the "Mutual Survey Group", and
2. 20 ASX listed Australian Companies within an estimated market capitalisation range of half to double the scale of CPA Australia (based on estimated size using various financial analyses), and including professional services organisations to the extent possible; the "ASX Group".

Since its receipt of the Final Report from the Implementation Review Panel we understand that the Board of CPA Australia has chosen to benchmark its remuneration solely by reference to the Mutual Survey Group. We note that CPA Australia no longer considers the Auditor General's remuneration when setting remuneration levels, a change which GRG views as appropriate.

At \$75,000, GRG considers CPA Australia's Director fee is reasonable as it is comparable to the P50 of the Mutual Survey Group statistics, sitting just above this mark.

With regards to CPA Australia's President and Chairman fee, it is our understanding that the time commitments expected from this role far exceed comparable roles, noting the requirement to implement governance and constitutional reforms as well as new business and member strategies. We note here that for some membership-based organisations, the advocacy and stakeholder engagement workload outside of Board meeting work is material; and some Membership-based organisations have added a separate President role to work alongside the

Chairman roles – e.g. Chartered Accountants Australia and New Zealand (CA ANZ) has a Chairman and a President while CPA Australia has combined both workloads into a single role at a comparable combined remuneration to CA ANZ (\$220k).

It is generally recommended that Chairman fees be set as a multiple of NED fees as a matter of policy. GRG recommends using a higher than normal multiple of Chair to NED fees to account for the greater workload due to extensive advocacy and engagement with members and stakeholders. As such, we suggest considering a multiple of between 2.5 (P50 of the Mutual Survey Group) and not more than 3 (P62 of the Mutual Survey Group). GRG confirms the CPA Australia President and Chairman fee of \$225k is consistent with this recommended multiple range. Having said that, any multiple to be applied is ultimately a judgement call that should consider market practice, comparable peer practices and stakeholder views, as well as the views of the Board regarding the nature and relative workload of the President and Chairman role.

Although market data for Deputy President fees is available in some cases from the Survey Group, the range of role scales made for a difficult comparison. The proposed fee of \$112,500 is positioned between the P50 and P75 of the Membership-based organisation market practice, reflecting that these two roles are to support the President in delivering new change programmes at CPA Australia and with each to chair the two significant Board Committees of Finance, and Audit & Risk. GRG recommended a 1.5 multiple on the basic Director fee, which has been adopted in determining the Deputy Presidents' remuneration.

Further it is GRG's understanding that the Board has:

- Agreed to seek Constitutional amendments to remove the capping of Director fees based on the remuneration levels for the Commonwealth Auditor-General.
- Adopted the market median as the policy reference point for the annual determination of senior executive remuneration levels, inclusive of the Chief Executive. Bands of +/- 20 percent from the market median now determine the relevant salary ranges for each executive position depending on individual experience and competence. The adoption of a median market benchmark policy replaces CPA Australia's former use of benchmarks between median and third quartile (+/- 20% bands) for setting executive pay levels.
- Determined that Staff Incentive arrangements will be the subject of a comprehensive review during 2018, with a new scheme applying from 1 January 2019
- Removed the higher duties allowance of \$185k associated with CPA Australia Advice where it existed for selected senior executives at CPA Australia (e.g. two COO roles).
- Adopted lower remuneration for the CPA Australia Advice Boards - \$90,000 for the Chair and \$45,000 for a director as from 1 January 2018, with a fee for Board committee work of \$10,000 per Director (excl the Chair).

GRG considers these five remuneration policy changes and decisions as appropriate and consistent with broader market practice. The remuneration levels for the Directors of CPA Australia Advice are supported as being within benchmarked range.

Yours sincerely,



Peter Godfrey  
Senior Consultant