



**Company: Commonwealth Bank of Australia (CBA), Australia**

**Meeting Date: November 16, 2017**

**Proposals:**

**Item 2: Election and re-election of Directors**

**Item 3: Approval of Remuneration Report**

**Board Recommendations: FOR**

**BlackRock's Votes:**

**FOR Election and re-election of 4 out 4 directors**

**FOR Approval of Remuneration Report**

Commonwealth Bank of Australia (CBA) is Australia's largest bank and listed company. BlackRock has engaged with CBA over many years on a number of corporate governance issues, including executive remuneration and succession planning.

Last year BlackRock had concerns with the remuneration reporting relating predominantly to the award of short term incentives. Our concerns were around a lack of clarity regarding the performance hurdles achieved and how the impact of certain events was taken into account when determining the awards. We engaged with the chairman, who committed the board to reviewing the remuneration report, particularly the explanation of how short term incentives are awarded. BlackRock supported the proposal to approve the remuneration report on the basis of our constructive engagement whereby the chairman acknowledged our concerns and gave an undertaking to address them before the 2017 annual general meeting.

CBA has also been the subject of statement of claim by the Australian Transaction Reports and Analysis Centre (AUSTRAC) relating to CBA's obligations under the Anti-Money Laundering and Counter-Terrorism Financing Act.

We have had several engagements with the new chairman, Catherine Livingstone, regarding the AUSTRAC claim. We are supportive of the actions the board has taken, which include the establishment of a dedicated sub-committee of four recently appointed independent directors. That committee will oversee the response to AUSTRAC's statement of claim and the on-going execution of the program of action.

### **BlackRock's director vote rationale**

The board is currently undergoing a process of renewal with the retirements of Launa Inman and Harrison Young, the search for a new CEO and the appointment of Robert Whitfield. We believe Mr.



Whitfield brings valuable banking experience to the board and BlackRock has supported his re-election. In our view, the incumbent directors play an important role in providing continuity and stability during this transition.

Mr. Andrew Mohl was up for re-election at the 2017 meeting. CBA has stated that if re-elected Mr. Mohl will remain on the board for one year. In our view, given Mr. Mohl's role on the risk committee from 2013, if he remains on the board for a further 12 months, he will be able to assist the independent committee set up to investigate the AUSTRAC claims. BlackRock therefore supported the re-election of Mr. Mohl for another year.

Sir David Higgins, chair of the remuneration committee, was also seeking re-election. BlackRock supported his re-election considering the steps the committee has taken in response to the first strike received on the 2016 remuneration report. Such steps included the appropriate use of the committee's discretion to reduce short term incentives payments to key management personnel to zero and the reduction in non-executive director fees by 20% in light of the allegations made by AUSTRAC.

Ms. Wendy Stops, who was appointed to the board in 2015, is also seeking re-election. Ms. Stops has a strong background in technology. BlackRock supported her re-election.

### **BlackRock's approval of remuneration report rationale**

With respect to the remuneration report, as mentioned above we believe the remuneration committee has responded well to shareholder concerns and the board has demonstrated that it will use its discretion where necessary. Accordingly, BlackRock voted to approve the remuneration report.

BlackRock will continue to engage CBA's board on its remuneration practices, the new committee's efforts relating to the AUSTRAC claim, and other governance matters. We will use our vote as we deem necessary to protect long-term shareholder value.