XERO, NOT ZERO:

LESSONS IN CORPORATE GOVERNANCE FROM DOWN UNDER

By Mak Yuen Teen

On 18 December 2024, before the market opened, Xero Investments Limited (XIL) issued an announcement on SGXNET relating to its parent, Xero Limited (Xero), a company founded and incorporated in New Zealand (NZ) and listed on the Australian Securities Exchange (ASX). The announcement was regarding the revision to the pay of Xero's CEO pay. XIL issued the announcement on SGXNET because it has convertible notes traded here.[1]

I was impressed by the transparency regarding the changes in the remuneration policy for Xero's CEO. It is not something we see for companies in this region, including for those listed on SGX.

I decided to look deeper beyond its remuneration policy into its corporate governance. I believe there are many lessons that can be drawn from Xero's corporate governance, particularly relating to its board structure and composition, CEO succession, and remuneration policies for its CEO and non-executive directors (NEDs).

While I believe there are areas where Xero can do better or there are governance risks, its corporate governance practices and disclosures make our corporate governance ratings and awards seem like a contest to choose the tallest Hobbit. Our corporate governance framework feels like a Hobbit's home in the Shire, where everything is lower.

From Zero to Xero

Xero was founded in 2006 by Rod Drury and Hamish Edwards in their one-bedroom apartment in Wellington, NZ. The number of the apartment was 404 - the error code for a "page not found" returned on web browsers and as an interview with Drury said: "A terrible omen for a software-as-a service company, if you were the superstitious type". Xero was originally called Accounting 2.0.[2]

According to Drury: "I first got into accounting and bookkeeping at Napier Boys High School...We had a fantastic teacher there – Fred. There were three or four of us, the naughty people. I don't know what was the decision that allowed us to pick bookkeeping as a subject for 5th, 6th and 7th forms. But I really loved it. I loved that we could get a trial balance, we would do journals, and we had to come up with a P&L and a balance sheet."[3]

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[1] Unless otherwise stated, information about the company is taken from its annual reports, website and announcements.

[2] https://www.businessinsider.com/the-untold-story-how-xero-took-a-band-name-and-changed-accounting-for-a-million-companies-2017-9

[3] Ibid.

Drury went on to complete a computing degree at Victoria University of Wellington, specialising in accounting and information systems and later joined Arthur Young, which then became Ernst & Young.[4] [Disclosure: I completed my PhD in accounting at the same university and was a lecturer and then senior lecturer in accounting there]. The other co-founder, Edwards, was an accountant.

Xero took its name from a US rock band, which later became the famous Linkin Park.[5] It was created after the founders became frustrated with the accounting software available at the time, and wanted to make accounting more accessible and efficient for small businesses.[6]

Xero is incorporated in NZ and its headquarters remains in Wellington. It listed on the New Zealand Exchange (NZX) in 2007 through a NZD15 million IPO, and subsequently listed on ASX in 2012, before moving to a sole ASX listing in 2018.[7] Drury remains a substantial shareholder but currently owns only 5.72% of the ordinary shares. According to an online source, the general public, mostly comprising of individual investors, owns about 59% of Xero's shares, while 33% are owned by institutions.[8] All ordinary shares have only one vote in Xero.

Today, Xero is a cloud-based accounting platform that uses a software-as-a-service (SaaS) model. It has 4.2 million subscribers and is a leader in cloud accounting across NZ, Australia and the United Kingdom (UK). Its market capitalisation was AUD26.07 billion on 18 December 2024.[9]

Board of directors

When Xero first listed, both its co-founders, Drury and Edwards, were directors, with five other independent directors (IDs). Drury was the CEO but right from the start, it had adopted the model of having an independent Chairman. Too many family- and founder-controlled companies in this region have the founder wearing multiple hats of

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[4] Ibid.

[5] Ibid.

[6] Xero (company), Wikipedia. https://en.wikipedia.org/wiki/Xero_(company)#:~:text=In%202006%2C%20Xero%20was%20founded,was%20originally%20called%20Accounting%202.0.

[7] Ibid.

[8] https://simplywall.st/stocks/au/software/asx-xro/xero-shares/news/xero-limiteds-asxxro-top-owners-are-individual-investors-wit

[9] Yahoo Finance.

controlling shareholder, chairman and CEO – and sometimes in more than one listed company not within the same group!

A unitary board leadership model, where the CEO is also the Chairman, lacks segregation of responsibilities and checks and balances. It may still seem to work in many US companies, until they stop working as we have seen in companies such as Boeing and Wells Fargo, which separated the roles after imploding in scandal. Arguably, the fact that the CEO in those companies also held the Chairman role was a contributing factor to the mess they found themselves in.

Xero has always had a lean board of directors (BOD), never having more than eight directors since it was founded, even as it grew from a small NZ company to the multi-billion global company it is today.

Currently, it has a wholly non-executive BOD comprising just seven directors. There is no executive director (ED) on the BOD, not even the CEO. Xero transitioned to this model after Drury, who was the CEO and sole ED, retired as CEO in 2018 and remained on the BOD as a NED. He retired from the BOD in August 2023.

There are pros and cons of having a wholly non-executive BOD. In Singapore, it is relatively rare. One advantage is better board independence. This needs to be balanced against possible dilution of the CEO's legal accountability and less buy-in for board decisions when the CEO is not a director.

Today, all seven directors on the BOD are IDs, with three women, including the Chair of the People and Remuneration Committee (PRC). The current Chairman, David Thodey, was appointed to the BOD in June 2019 and took over as Chairman in February 2020. All the other IDs have also served for less than eight years.

Thodey is from Australia, but the rest of the BOD includes two directors from NZ, one from UK and three from United States (US). The current CEO, Sukhinder Singh Cassidy, a Canadian native, is also based in the US. According to Xero, it aspires to be a world-class global SaaS business, and recruiting and retaining global SaaS leaders, who are concentrated in the US, is essential to delivering high performance to drive long-term shareholder value in a competitive international market.

The three US-based IDs joined the BOD in October 2020, February 2022 and July 2023. However, Xero has had an geographically-diverse BOD for many years, including having directors from the US. Even when it IPO-ed in NZ in 2007, the BOD had 1 ID from the US, plus the two co-founders and three other IDs from NZ.

While there has been considerable focus in recent corporate governance reforms on diversity, particularly gender diversity and to some extent age and ethnic diversity, there is often still a very distinct home country bias in the BOD for companies in this region that are growing their business internationally. Geographical diversity may also be important for a company with an international footprint.

Xero's seven-member board may seem small. However, within its relatively small board, it manages to incorporate a variety of qualifications, skills and experience (albeit with a strong technology bent), and several elements of diversity, including gender and geographical.

Xero's FY24 annual report shows the profile of the board in terms of gender, location, race and ethnicity, and tenure, but not age (none of the jurisdictions the directors are from require age disclosure). While age is not disclosed – and assuming their directors' photos are as up-to-date as the company's technology – there also appears to be age diversity.

For the skills matrix, it shows nine capabilities – global markets; SaaS technology and data; digital product management; sales, marketing and customer experience; strategy; financial acumen; governance and risk management; people and culture; and executive leadership. The skills matrix shows the number of directors having "high capability" or "moderate capability" for each capability. What is good to see is that it did not assess every director as having "high capability" on all or most of the capabilities – something less modest boards may be inclined to do. All seven directors were assessed as having "high capability" for strategy, people and culture, and executive leadership, and six for governance and risk management. For SaaS technology and data, digital product management and financial acumen, only two directors were assessed as having "high capability". Interestingly, one director even "admitted" to having below "moderate capability" in "sales, marketing and customer experience" and another in "financial acumen", as only six out of the seven directors were stated as having at least moderate capability in these areas in the skills matrix.

The disclosure of skills matrix is very rare for SGX-listed issuers. It is difficult to find information on the capabilities that the issuer looks for in the annual report.

The classification of directors' capabilities in terms of "high capability" and "moderate capability" is better than many skills matrices I have seen disclosed by SGX-listed issuers and others in this region, for those that disclose. They tend to be "yes" or "no" and sometimes "yes" for all or most capabilities! The skills matrix disclosure may be a good way to assess board humility.

The ASX consultation on the fifth edition of the Corporate Governance Principles and Recommendations states that better practice on disclosure of the board skills matrix would "include information on the skills of individual directors, and to explain the entity's assessment methodology: what it means when it refers to a particular skill in its board skills matrix, as well as the criteria a director must meet to be considered to have that skill".[10] In Singapore, some companies do disclose the skills of each individual director by name. The problem is that they generally only disclose whether a skill is present or absent, and in some cases, most directors are assessed as being good in everything or nearly everything. There was one company which assessed its Chairman as having industry experience, senior management experience, strategic planning, audit/accounting and finance, IT, research and development, risk management, and human resource management. The only skill not ticked was "legal". Perhaps the director can sue someone and tick that box too.

If Xero wants to align with better practice, the proposal in the ASX consultation is a good way to go. In a report issued on 2 August 2024 by the NZ Shareholders Association (NZSA) assessing Xero in a number of areas and indicating how it will vote its undirected proxies for the company's Annual General Meeting (AGM) on 22 August 2024, it noted that Xero "does not attribute skill sets to individual Directors to demonstrate how they contribute to the governance of the company."[11]

A significant improvement in how SGX-listed issuers assess skills and experience of their directors is needed, and there should be much better disclosures regarding the process of assessing skills and experience and the actual skills and experience for individual directors.

Large boards are not necessarily better and in fact the contrary is often true. It is the right mix of skills and experience and sufficient diversity in perspectives that are important. A relatively small board can be more effective, even for a company like Xero with a global footprint. Part of the key to having diversity in skills, experience, geography and demographics, while keeping the board lean, is having a robust search and nomination process. I recall a conversation with the then Chairman of a large Singapore-listed company, who shared that as a result of having a proper search (using an external search firm in their case), it was able to find an ID who met their requirements for industry experience, gender diversity and geographical diversity, among other desired attributes. One thing that Xero does not disclose is how it sources for IDs.

Although many Singapore companies include general statements about the search and nomination process in their corporate governance report, very few disclose specific details about the search process – even though SGX rules require issuers to disclose the "search and nomination" process in the appointment template for directors.

[10] https://www.asx.com.au/content/dam/asx/about/corporate-governance-council/corporate-governance-principles-and-recommendations-consultation-draft.pdf

[11] https://www.australianshareholders.com.au/wp-content/uploads/2024/08/2024_XRO_ASM.pdf

In Singapore and Asia, there is still a tendency for many companies to rely on personal contacts and recommendations of directors, accountants, lawyers, bankers and sponsors to identify candidates. This often results in the same directors being recycled among boards.

Xero is also able to keep its board relatively small because it is fully non-executive, and there are no major shareholders or their nominees on the board as directors.

The problem with many boards in this part of the world is that there are too many family members, shareholder representatives or executives serving on them. This would not only impair board independence but also enlarge boards in order to meet requirements or recommendations for a minimum proportion of IDs.

In Xero's case, when the founder-CEO Drury stepped aside, he remained on the Board as a NED. There are pros and cons with keeping a retired CEO on the Board as a NED after they retire. In Xero's case, given the fact that it had an independent Chairman, a majority of IDs (five out of seven at that time), and a founder-CEO who then held less than 13% of the voting shares, it is more likely that this was a Board's decision rather than one driven by what the founder-CEO wanted. He stepped off the Board five years later.

Xero's Chairman chairs its Nominations and Governance Committee (NGC). There are different views about this. The UK Code states that the Chairman should not chair the Nomination Committee (NC) when it is dealing with the appointment of their successor. But some countries take a stronger position. In Malaysia, corporate governance regulations for licensed financial institutions issued by Bank Negara state that the Chairman, even if independent, must not chair any of the board committees. This is intended to encourage robust and open deliberations by the board on matters referred by the board committees. The Malaysian Code on Corporate Governance recommends that the Chairman should not even be a member of the Audit Committee (AC), NC or Remuneration Committee (RC).

I think where there are sufficient IDs on the Board, it is better that the Board Chairman not chair any board committees. In Singapore, we often find independent chairmen chairing multiple board committees, which raises questions as to whether the Board will then just rubber stamp recommendations of the board committees.

CEO succession

Let's now look at how the Xero Board managed CEO succession.

In 2018, Xero transitioned from a founder-led company, when its CEO, Drury, who had held this role since he founded the company in 2007, stepped away from his executive role to become a NED. He was succeeded by Steve Vamos. The then Chairman, Graham Smith, said: "One of the Board's primary accountabilities is to appoint the Chief Executive. We have been privileged and fortunate to have Xero's founder Rod Drury in this role since he founded the company 12 years ago…Steve's appointment underpins Xero's evolution from a founder-led company to a business with worldwide scale. Steve has the experience, capability and commitment we need to grow Xero, and the Board is delighted to have secured somebody of his calibre for this critical role."

Drury said: "Xero plans relentlessly for success. This includes planning for succession and ensuring the right people are in the right roles to execute the company's strategy…In March this year, I announced my intention to step down as Xero's Chief Executive at the end of the financial year. This was a carefully considered step made possible by the strength of the leadership team we have developed over the past few years as we transition from a founder-led company to a globally distributed, world class technology business scaling on multiple fronts."

This is literally textbook succession planning. Drury is described as a technology entrepreneur. In 1995, he founded Glazier Systems, a NZ software development and consulting company, which he then sold. He followed that up by co-founding Context Connect, and then founded and served as CEO of AfterMail, which was also acquired. He then founded Xero.[12] Drury's strengths are innovation, entrepreneurship and technology but he may not be the best person to manage what was becoming a global company.

Vamos formally took over as Xero's CEO in April 2018. In the 18 months before he assumed the role, he worked alongside the Xero's leadership team, including helping to hone Xero's operating model. Vamos had held leadership roles in major technology companies, including Apple, IBM and Microsoft. He was described as having a deep understanding of high-growth companies, having worked in start-ups, including one in Australia which he grew into an industry leader. This sounds like a good fit for the phase that Xero was in.

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[12] https://www.businessinsider.com/the-untold-story-how-xero-took-a-band-name-and-changed-accounting-for-a-million-companies-2017-9

Unfortunately, too many founders in listed companies in Singapore and Asia refuse to give up their CEO role – or simply pass it to their family members. Lack of proper succession planning is a key risk in many founder- and family-controlled companies.

On 10 November 2022, Sukhinder Singh Cassidy, a Canadian, joined Xero and in February 2023, she took over as its third CEO, after Vamos decided to retire. The company said that as its global footprint grows, the skill set and experience required of its management team continues to evolve, and its growth ambitions were the key consideration in the global recruitment process for a new CEO.

Cassidy is an experienced global technology executive with more than 25 years' leadership experience, including at Google and StudHub, and as founder or co-founder of Boardlist, Joyus (where she was CEO), and Yodlee.

Based purely on the share price performance and market capitalisation of Xero, one could say that each of the three CEOs of Xero has made a significant difference to the success of the company since its founding. Drury founded the company, took it public first on NZX at an IPO price of NZD1 at a market capitalisation of NZD55 million and then ASX, managed it for nearly 12 years, and by the time he stepped aside as CEO in April 2018, Xero had a share price of about AUD34 and a market capitalisation of about AUD4.6 billion. When it opened its first day of trading on ASX in November 2012, its share price was AUD4.50.[13]

Under Vamos' watch, Xero's share price reached a peak of AUD155.75 and market capitalisation of around AUD22 billion at the end of October 2021. Although the share price and market capitalisation had fallen back to around AUD64.74 and AUD11.4 billion by the time Cassidy joined, it nevertheless became a considerably more valuable company during his tenure.

Since Cassidy joined the company, Xero's share price has risen back to close at AUD170.63 on 18 December 2024, with a market capitalisation of nearly AUD26 billion.

Of course, one should not judge the effectiveness of a CEO or make decisions as to when to replace the CEO purely on its share price performance or even company profitability. However, Xero seems to have managed its CEO succession quite effectively.

[13] https://www.intelligentinvestor.com.au/shares/asx-xro/xero-limited/float

Figure 1: Xero's share price during the tenure of the three CEOs

Source: Yahoo Finance

Non-executive director remuneration

At Xero, NEDs do not receive any performance-related or at-risk remuneration (such as options). It did use such remuneration before 2016 but ceased doing so in order to preserve independence and impartiality. In Singapore, there have been instances of IDs given performance-related remuneration through options or share awards, contrary to recommendations in codes in other countries such as Australia and UK.

At one SGX-listed issuer, we had the absurd situation of the NEDs, including IDs, being paid performance bonuses based on key performance indicators (KPIs) which were effectively set by management (since the NEDs themselves, including those serving on the RC, cannot possibly be setting their own KPIs) – and at a time when the company's performance had deteriorated significantly. At another, we had IDs given share awards whose vesting depends on winning a project. I believe the Singapore Code should take a much stronger position against such practices. We should discourage the use of performance-related or contingent remuneration for IDs.

Like many companies, Xero pays a higher fee for the Board Chairman than for other directors, and also additional fees for directors who chair or serve as a member of the

Audit and Risk Management Committee (ARMC) and People and Remuneration Committee (PRC). Interestingly, it currently does not pay any additional fee for those chairing or serving on the Nominations and Governance Committee (NGC) – perhaps because it is currently chaired by the Board Chairman who already receives a higher fee.

Xero does not pay additional meeting or attendance fees. In many companies, including in Singapore, additional meeting or attendance fees are paid. This can sometimes lead to gaming behaviour by directors. I have had IDs sharing with me about directors attending only a short part of meetings and then asking to be paid the full attendance fees. It may also lead to some boards and committees having more frequent but shorter meetings. Some years ago, in preparing for a talk at a retreat for a Board in a neighbouring country, I noticed that one of the board committees met 52 times during the past year. Yes, 52 meetings a year for a board committee. The company secretary confirmed to me that directors were paid attendance fees for every meeting – this explains it!

There are different views about the payment of additional fees for attending meetings. Obviously, the Xero Board believes that the fees paid for chairing or serving on the Board and board committees already compensate directors for preparing for and attending meetings. Directors who take their responsibilities seriously should not need additional meeting fees to get them to attend meetings. Directors who do not attend meetings (or do not prepare for them) should simply not be on the Board.

One of the unusual practices adopted by the Xero Board is that the basic retainers paid to the Board Chair and directors are differentiated according to their country of residence. Xero said that these fees "are benchmarked to the local market and set accordingly reflecting the global composition of Xero's Board". So, a Chairman who is resident in NZ or Australia would be paid a retainer of NZD450,000 per year, while a Chairman resident in US and UK would get NZD500,000 and NZD650,000 respectively.

The higher Chairman fees for UK compared to US may be because an "independent" Chairman in a UK company is often quite involved in the company and is really more like a quasi-executive Chairman. This is why in the UK, the independence of the Chairman is only tested at appointment and they are then classified as non-executive, not independent. In contrast, an independent Chairman in a typical US company would not have the same level of involvement. If this is the reason, then perhaps Xero has somewhat misapplied the differentiation because the typical roles of the "independent" Chairman in those two countries are somewhat different. It should not benchmark the fee of a UK Chairman of Xero against the fees for other UK chairmen unless their roles are similar. My interpretation is reinforced by the fact that for other directors, those from the US are paid a retainer of NZD360,000, while those from the other three countries – NZ, Australia and UK, are paid an identical NZD190,000. [In Xero's FY24 annual report, it disclosed that effective 1 October 2023, the Chair received an increase of 3.3% to

NZD465,000 and the ARMC and PRC Chairs received fee increases of 5.3% to NZD40,000, while ARMC and PRC member fees increased 10.5% to NZD21,000. There were no changes made to base fees for directors.]

Some directors take the view that such fee differentiation is unnecessary as they argue that all directors have the same duties and expectations. They may even argue that it is undesirable as it suggests that some directors somehow add more value than others.

However, I think Xero's approach is sensible and simply reflects the reality that fee norms are different across markets. Clearly, some of that difference may simply reflect differences in risk – for example, directors in the US almost certainly face higher litigation risk than those in other markets (although some may say that Australia is not far from the US in the regard). If Xero wants to recruit good international directors who are also in demand in their home countries, it may find it difficult to do so sticking to a single fee structure for all directors.

It is to the credit of the Xero Board that the directors are able to accept such fee differentials, when their responsibilities and time commitment may be about the same. Not all boards can accept this. Many years ago, I was conducting a workshop on remuneration for directors and one of the participants shared that his SGX-listed company, which had a dual listing in the US, wanted to recruit a US director. The proposal to pay a higher fee for this director was knocked back by some directors. As a result, they did not follow through to appoint that director. That company subsequently delisted from the US and has disappeared from the corporate scene.

However, there was also a case many years ago where a Singapore company recruited a director from the US. I saw no reason for it to recruit a US director because it had no business in the US and had no plans to expand there. Initially, I thought it may simply be a case of window dressing with an international director – until the company proposed to pay a higher fee because they were recruiting a US director, and then proceeded to propose to increase the fees of the other directors to bring them in line! This is creative benchmarking at its best.

I believe companies should be prepared to pay fee differentials based on local market norms and even skills and experience of individual directors, where such skills and experience are truly in short supply.

Beyond minimum compliance

Before I discuss the CEO remuneration, I wanted to highlight certain commendable actions that Xero took with regards to the Remuneration Report.

First, because it is incorporated in NZ, Xero's annual report is primarily governed by the NZ Companies Act 1993. Nevertheless, it prepared a separate Remuneration Report which it was not required to. While it said that the Report is not intended to fully replicate the statutory disclosure requirements of an Australian company's remuneration report, as these requirements do not apply to Xero, it nevertheless provided information beyond what is required for NZ-incorporated companies "to provide greater transparency and insight into our remuneration practices". I have to say that its disclosures far exceed the disclosures of any SGX-listed issuer. I will go into this in more detail.

Second, like many other companies, Xero uses benchmarking for setting remuneration of its NEDs and executives. However, there is full transparency because it discloses the peer companies used. For US-based executives and NEDs, it discloses the 20 companies in the US peer group. For those based in Australia and NZ, it discloses another 20 companies that form the ASX peer group. For NED fee benchmarking, it discloses another 21 companies that form the UK peer group used as a supplementary comparator. I have not seen any SGX-listed issuer disclosing the specific peer companies used for benchmarking. I have however seen one SGX-listed issuer disclosing peer groups used and then changing those peer groups without explanation, and in another case, questionable disclosure about a peer group that does not seem to exist at all. It is very easy to manipulate remuneration while hiding behind claims of benchmarking. There should be more transparency when companies use benchmarking.

Third, for its 2024 Annual General Meeting (AGM) held in August 2024, it put an advisory resolution to shareholders in respect of its Remuneration Report. Although "say on pay" is a requirement for Australian-incorporated companies, it is not a requirement for Xero. While the advisory resolution does not bind the Board, it again demonstrates that Xero does not only strive for minimal compliance with rules. I look forward to seeing a Singapore-listed issuer voluntarily putting their remuneration report or other matters to an advisory vote but I suspect that I will be waiting in vain – because companies here generally only do what is required or recommended, and sometimes not even in such cases. I have heard of cases where company secretaries in SGX-listed issuers have recommended against voluntary resolutions or going beyond minimum compliance "because it is not required".

In countries like US, there are companies voluntarily putting up advisory resolutions at AGMs to get buy-in from shareholders, such as those relating to their climate action plans. Singapore-listed issuers should use the AGM more effectively for engagement with shareholders and one way to do this is to use voluntary advisory resolutions.

CEO and senior management remuneration

Xero is very transparent in its disclosure of remuneration policies, amounts and breakdown for senior management, particularly for the CEO and CFO. For its leadership team, it discloses that it uses Fixed Remuneration (FR), Short-Term Incentive (STI), and Long-Term Incentive (LTI) and Long-Term Equity (LTE). For the STI, 50% is in cash and 50% is in deferred equity (with one-year deferral) in the form of Restricted Stock Units (RSUs). LTI is contingent on performance measures while LTE is contingent on continuing service. LTI RSUs vest at the end of a three-year performance period following grant, while LTE RSUs vest in three equal tranches annually over three years.

There is excellent disclosure of key features of its STI, LTI and LTE structures; and link between remuneration, strategy and value creation for the STI (including choice of performance measures, weighting and rationale for the choice of measures) as shown in Tables 1 to 3.

Table 1: Short-Term Incentive

6.3 At risk – Short-Term Incentive (STI)

STI is an at-risk component of remuneration structured to reward achievement in the financial period. The selected objectives reward delivery of key strategic and financial objectives in line with the annual business plan, and reward outcomes aligned to Xero's goals for growth and operational discipline.

We review our STI measures and weightings each year to ensure they reflect the voices of shareholders, customers and employees. The STI performance measures have been chosen to focus on growing global revenue and creating customer value and engaged teams, while delivering disciplined operational and financial outcomes. In line with this, in FY24 operating expenses as a percentage of operating revenue (OPEX ratio) was introduced as a measure. Vesting outcomes have regard to whether the leadership team member has acted in accordance with Xero's values.

- The CEO's target STI is 100% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CEO's target STI increased to US$735,000 (NZ$1,204,918) from US$700,000 (NZ$1,147,541)
- The CFO's target STI is 60% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CFO's target STI increased to NZ$518,400 from NZ$480,000

The following table provides an overview of the key features of the STI structure.

Element	Details
Purpose	Focus participants on delivery of business objectives over a one-year period
Target opportunity (% base salary as at 31 March 2024)	CEO 100%, CFO 60%
Maximum opportunity (% base salary as at 31 March 2024)	CEO 180%, CFO 108%
Performance period	Performance is measured from 1 April to 31 March
Performance measures	Performance metrics measure success in relation to our key stakeholders, reflecting the voices of shareholders, customers and employees. Each measure has a threshold, target and maximum
Financial objectives (70%)	Financial objectives reflect the voice of shareholders — net new monthly recurring revenue (MRR) and operating expense ratio (OPEX ratio) targets
Non-financial objectives (30%)	Non-financial objectives are based on: • voice of the customer — partner and small business NPS targets • voice of the employee — employee NPS and engagement targets
Individual modifier (applies to the overall calculated STI outcome)	Individual modifier is based on personal impact tied to the delivery of OKRs and other agreed deliverables crucial to the success of the company, the demonstration and embodiment of Xero values, and the display of leadership attributes
Target setting	Measures, weightings, and targets set at the beginning of each financial year are reviewed by the PR Committee and approved by the Board annually. Performance measures are calibrated to ensure they are aligned to our values, longer-term strategic priorities and risk appetite. They are set thoughtfully and fairly and, depending on the expected performance, may increase, decrease or stay the same from the previous year

Element	Details
Evaluation of performance	Performance against financial and non-financial objectives is determined at the end of the financial year. Financial outcomes are only confirmed after the audited results are finalised. Leadership team performance (individual modifier), including acting in accordance with Xero's values, is reviewed by the CEO in consultation with the PR Committee (and in the case of the CEO, by the Board)
Pay vehicle	50% of STI awarded is paid in cash with the remaining 50% issued in RSUs under the terms of the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant)
Grant date	RSUs are typically granted annually in or around July For FY24, RSUs will be granted in July 2024
Vesting conditions	RSUs vest in May in the year following the grant date, subject to continued service and confirmation from the PR Committee that no award adjustment events have occurred
Cessation of employment	Unless the Board determines otherwise, if the leadership team member ceases employment, all unvested RSUs lapse and all STI awards not yet paid are forfeited CEO: The CEO's cash and equity STI will be forfeited if they are dismissed for cause or resign (other than for good reason or genuine retirement) unless the Board determines otherwise. If the CEO terminates their employment for good reason or their employment is terminated without cause, the cash component will be pro-rated and the equity component will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased). If the CEO ceases for any other reason the cash component will be pro-rated and the equity component will remain on foot and be eligible to vest (as if employment had not ceased), unless the Board determines otherwise
Sale of vested shares	Our people are subject to Xero's Share Trading Policy and dealing restrictions as outlined in section 4.2. Shares cannot be sold during a closed period for share trading other than in exceptional circumstances with prior approval
Change of control	The Board has broad discretion to determine the appropriate treatment of unvested RSUs on change of control. Among other things, the Board may decide to vest/lapse unvested RSUs or settle them in cash instead of shares If the Board does not exercise its discretion, unvested RSUs will vest pro-rata, based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied
Malus and clawback provisions	Adjustment, delay or withholding may occur in, but is not limited to, circumstances: • where an employee has acted fraudulently or dishonestly or is in material breach of their obligations • where Xero becomes aware of a material misstatement or omission in the financial statements of the Xero Group • where an executive has failed to act consistently with Xero's risk appetite and risk management priorities • in any other circumstances where the Board determines in good faith there is an unfair benefit to the employee
Dividends and voting	RSUs do not carry an entitlement to dividends or voting prior to vesting
Amendments and adjustments	Other than as set out above, the Board has discretion to make changes to the terms of RSUs, the Xero Limited Restricted Stock Unit and Option Plan, and the Xero Limited USA Incentive Scheme, subject to the law and ASX Listing Rules applicable, from time to time. The Board also has power to make adjustments to the number of RSUs in certain circumstances

Source: Xero Annual Report 2024, pages 118-119.

Table 2: Performance Measures, Rationale and Weighting for Short-Term Incentive

6.3.1 Link between remuneration, strategy and value creation

The following table outlines the STI measures and weightings that applied to the CEO's and CFO's FY24 STI awards. The measures chosen were selected based on their alignment with our goals.

Performance measure	Weighting	Rationale for choice of measure
Voice of the shareholder (70% of total)		
Group Net New monthly recurring revenue (MRR)	35%	• Key leading indicator of Xero's financial performance that represents Xero's ability to acquire new customers and penetrate the existing customer base, directly driving subscription or other recurring revenue growth • Indicates the effectiveness of Xero's sales and marketing function and the value of Xero's investment into product development • Demonstrates Xero's ability to scale and deliver sustainable sources of revenue
Operating Expense Ratio (OPEX ratio)	35%	• Key financial indicator that captures the efficiency of Xero's operational spending • Demonstrates how effectively resources are being managed across the business and acts as a measure of profitability
Voice of the customer (15% of total)		
Partner and Small Business NPS	15%	• Key indicator of customer and partner satisfaction • Ensures continued focus on customer retention • Drives value creation through greater stakeholder trust and customer advocacy • Drives value creation through delivery of a product experience that exceeds expectations, increased brand awareness, perception and value, including trust in the reliability and security of data
Voice of the employee (15% of total)		
Employee NPS and Engagement	15%	• Key indicators of employee satisfaction • Ensures continued focus on employee engagement • Drives value creation through enhanced attraction, development and retention of top talent. Targeted initiatives and flexible ways of working to promote diversity, pay equity and an inclusive environment. Improved health, safety and wellbeing performance
Individual modifier (applies to the overall calculated STI outcome)		
Goals tied to one or more of the company wide OKRs	Applies to the overall calculated STI outcome	• Key indicator of individual leadership performance • Ensures focus on achievement of goals tied to company-wide OKRs • Drives value creation through all of Xero's key outcomes

Source: Xero Annual Report 2024, page 120.

Table 3: Long-Term Incentive and Long-Term Equity

6.4 Long-Term Incentive (LTI) and Long-Term Equity (LTE)

LTI and LTE are at-risk components of leadership remuneration that are structured to reward the effective execution of Xero's strategy and sustained shareholder value creation.

The LTI and LTE plan was first introduced in FY23 and involved a shift from options to RSUs and the introduction of a performance contingent component (LTI). The Board reviewed the plan in FY24 to ensure it continues to support Xero's long-term strategy and sustained value creation. This review resulted in the introduction of free cash flow (FCF) margin and re-weighting of measures under the LTI component. The combination of revenue growth and FCF measures reflects our focus on balancing growth and profitability. The LTE component now vests in equal thirds, annually over a three-year period. We have determined this vesting approach taking into account both ASX practice and US practice where time-based RSUs with a quarterly vest are the norm.

- The CEO's target LTI and LTE is US$4,000,000 (NZ$6,557,377). This remains unchanged from FY23
- The CFO's target LTI and LTE is 60% of base salary. This percentage remains unchanged from FY23. Due to changes in base salary as part of the remuneration review, the CFO's target LTI and LTE increased to NZ$518,400 from NZ$480,000

The following table provides an overview of the key features of the LTI and LTE structure.

Element	Details
Purpose	Rewards delivery against longer-term strategy and sustained value creation. Provides alignment between shareholder, customer, and leadership team outcomes and time-based retention through multi-year vesting
Target opportunity (% base salary as at 1 July 2023)	CEO 571.4%, CFO 60%
Maximum opportunity (% base salary as at 1 July 2023)	CEO 714.3%, CFO 75%
Pay vehicle	LTI and LTE are provided in the form of RSUs under the Xero Limited Restricted Stock Unit and Option Plan or the Xero Limited USA Incentive Scheme (as relevant). The number of RSUs granted is calculated by reference to the LTI and LTE value (% of base salary) divided by the 30-day volume weighted average price (VWAP) of Xero shares on the grant date
Grant date	RSUs are typically granted annually in or around July For FY24, RSUs were granted in August 2023 for the CEO and CFO
Vesting conditions	LTI and LTE split at maximum is 60% and 40%, respectively LTI — value is contingent on performance targets over a three-year period (commencing 1 April 2023 and ending 31 March 2026). RSUs under the LTI component vest once tested in or around May at the end of the three-year performance period LTE — value is contingent on service (being employed and not having resigned on the vest date). RSUs under the LTE component vest in equal thirds in May each year following the year in which they are granted Performance contingent component measures and weightings: • Operating revenue growth - 37.5% • Free cash flow (FCF) margin - 37.5% • Relative total shareholder return (rTSR) - 25% LTI granted for FY24 will vest, once tested, on or around 31 May 2026 LTE granted for FY24 will vest in three equal tranches on or around 31 May 2024, 2025 and 2026
Cessation of employment	In the event of termination, all unvested RSUs are forfeited unless the Board determines otherwise CEO: The CEO's LTI will be forfeited if they are dismissed for cause or resign (other than for good reason or genuine retirement) unless the Board determines otherwise. If the CEO terminates their employment for good reason or their employment is terminated without cause, a pro-rata amount of LTI will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased). If the CEO ceases for any other reason, a pro-rata amount of LTI will remain on foot and be eligible to vest in the ordinary course (as if employment had not ceased) unless the Board determines otherwise
Sale of vested shares	Employees are subject to Xero's Share Trading Policy and dealing restrictions as outlined in section 4.2. Shares cannot be sold during a closed period for share trading other than in exceptional circumstances with prior approval
Change of control	The Board has broad discretion to determine the appropriate treatment of vested shares and unvested RSUs on a change of control. Amongst other things, the Board may decide to vest/lapse unvested RSUs or settle them in cash instead of shares If the Board does not exercise its discretion, unvested RSUs will vest pro-rata based on the proportion of the vesting period that has passed at the time of the change of control and the extent to which any applicable conditions have been satisfied

Source: Xero Annual Report 2024, page 120.

The percentage breakdown of each remuneration component under target and maximum total remuneration is disclosed separately for the CEO and CFO. As one would expect, the CFO has a significantly higher weighting for FR and to some extent STI, while the CEO has a much higher weighting for LTI and LTE. For STI, the target opportunity and maximum opportunity for the CFO are 60% and 108% (relative to base salary) respectively, while for the CEO they are 100% and 180% respectively. However, it is in the LTI and LTE where the differences are most stark. For the CFO, they are 60% and 75% respectively, while for the CEO they are 571.4% and 714.3% respectively.

It is sensible for those with control- or risk management-related roles to have relatively less pay at risk and less equity-based remuneration. However, Xero should consider whether the pay-at-risk for the CEO is too aggressive and whether the performance measures and their weightings are appropriate. At the maximum pay opportunity, her variable pay would be more than eight times her base salary (for equity-related components, these would be based on accounting values). This would give her strong incentive to exceed the targets set for her performance measures, and with so much equity-based remuneration, would also motivate her to increase the share price.

Although performance measures relating to the customer and employees carry a 30% weighting in the STI for the CEO, it would be mainly the financial measures that will determine her total remuneration. For instance, assuming she makes the target opportunity for both the STI and LTI (and ignoring her individual modifier and the ability of the Board to exercise discretion), the 30% weighting for these measures would only have a 4.5% impact on her total variable remuneration. The risk is that customers and employees who are critical to its success may be compromised in pursuit of short- or medium-term financial goals.

Xero also disclosed the 44 peer companies that are in the Nasdaq Emerging Cloud (EMCLOUD) as at 1 April 2023 used as the FY24 peer group for determining Xero's relative TSR, which is one of the vesting conditions for the LTI.

The outcomes achieved for the STI are also clearly disclosed, as shown in Table 4. Xero also provided a rather balanced summary of overall STI outcomes: "FY24 overall calculated STI outcomes resulted in plan achievement of 87.8%. This reflects a pleasing operating result in FY24, highlighted by strong revenue growth balanced with significantly improved profitability, while also acknowledging mixed outcomes against customer measures and employee targets following the reshaping of our organisational structure as announced in FY23. Following individual performance assessments, this resulted in the CEO being awarded 105.4% and the CFO being awarded 87.8% of their STI target opportunity."

Table 4: Short-Term Incentive Outcomes

9. STI outcomes in detail

The annual outcomes achieved for the CEO and CFO are based on Xero's FY24 performance as set out below. Overall calculated STI outcomes may range from 0%–180%.

Objectives	Weighting	Commentary	Outcome (% of target)	Outcome (% of max)
Voice of the shareholder	70%	Net new MRR was $28.7m. This was below target OPEX ratio was 73.3%. This was better than target	97%	65%
Voice of the customer	15%	Partner NPS was above target for FY24 Small business NPS was below target for FY24	101%	68%
Voice of the employee	15%	Employee NPS was below target for FY24* Employee Engagement was below target for FY24 at 7.5**	31%	21%
Individual modifier	Applies to the overall calculated STI outcome	The individual modifier (0%–120%) is based on delivery of OKRs and other agreed deliverables crucial to the success of the company, agreed between the CEO and the Board for the CEO, and the CEO and the CFO for the latter	100%-120%	83%-100%
Total outcome (CEO)			105.4%	58.6%
Total outcome (CFO)			87.8%	48.8%

**Employee NPS was impacted by our restructuring program to better balance growth and profitability and to strengthen Xero for the future, as announced in March 2023*

***Engagement has been trending upwards since the completion of the reshaping of our organisational structure and the way we work across functions. We are continuing to focus on initiatives that reaffirm our purpose, develop and protect our culture and cultivate our talent*

Source: Xero Annual Report 2024, page 125.

Table 4 also shows how the individual modifier based on delivery of Objectives and Key Results (OKRs) and other agreed deliverables were applied for the CEO and CFO. Basically, this adjusts the achievement of company outcomes to individual outcomes in order to determine the payout under the STIs.

Even though there were "mixed outcomes" for customer and employee measures, with small business net promoter score (NPS), employee NPS and employee engagement below target for FY24, with employee measures being only 31% of target, the CEO was still assessed as achieving a total outcome of 105.4% after the application of the individual modifier. The Board has attributed the below-target performance for those measures to a "reshaping of the organisation structure". What Xero needs to watch out for is a deterioration in the performance measures for customers and employees impacting its long-term performance – bearing in mind my earlier comment that these measures have relatively little weighting in the total CEO remuneration.

We can also see that for FY24, the CEO was assessed as having done better than the CFO. The individual modifier for the CEO is agreed between the CEO and the Board, while that for the CFO is between the CEO and the CFO. Hopefully, it is not just a case of the Board being softer than the CEO in evaluating performance. One can argue whether the individual modifier for the CFO should be purely a matter between the CEO and the CFO, or whether the ARMC and the PRC should also have some input on this.

For FY24, which was Cassidy's first full year as CEO, her total remuneration was NZD7.196 million, while the CFO received NZD1.918 million. The total remuneration comprised the salary, pension and cash STI, and the accounting values of options and RSU grants based on applicable accounting standards. There is more limited disclosures in this regard compared to its international peers which often disclose realised values based on payout value of equity-based grants and gains from exercise of options, and realisable values based on unvested equity-based grants and unexercised options, with values estimated based on the current share price. Those values could be a lot higher than the remuneration that is disclosed based on accounting standards, particularly if the share price does well.

Incidentally, on 19 September 2024, the company announced that the CFO is leaving after nine years, including more than six years as CFO. This may have nothing to do with her performance but may simply reflect the fact that like the CEO, Xero feels that a different CFO is needed for the next part of its journey. The CFO had just won the CFO of the Year at Deloitte Top 200 Awards for ASX-listed companies.

If we look at disclosures by SGX-listed issuers, most companies only disclose general objectives and weighting for these different objectives for executive remuneration, and often not even these. There may be some general disclosure of specific measures but I do not recall seeing any SGX-listed issuer disclosing the extent to which specific performance measures have been met. The current remuneration-related disclosures by SGX-listed issuers leave much to be desired. Mandatory disclosure of exact remuneration for the CEO that will come into effect next year still leaves disclosure standards for remuneration on SGX a long way from practices in other developed markets.

Malus/clawback provisions and board discretion

For the STI, LTI and LTE, the company disclosed that there are malus/clawback provisions, under which there may be adjustment, delay or withholding of remuneration under certain circumstances, including but not limited to fraudulent or dishonest conduct or material breach of their obligations by the employee; material misstatement or omission in the financial statements of the group; failure of an executive to act consistently with Xero's risk appetite and risk management priorities; and any other circumstances where the Board determines in good faith there is an unfair benefit to the employee. [Since there does not appear to be provisions for reclaiming payments or shares that have already vested, the provisions are malus and not clawback provisions. Xero, in its latest announcement of changes in the CEO remuneration no longer uses the term "clawback"].

The Board has broad discretion in implementing the remuneration policy, including but not limited to, making changes to the terms of the RSUs and various equity-based plans, and adjusting the number of RSUs in certain circumstances.

Contentious remuneration components

Not surprisingly, the NZSA praised Xero's remuneration disclosures in its FY24 annual report (for the year ending 31 March 2024), calling it "amongst the best for a New Zealand company."[14] This praise is well deserved. It also said that it would undirected proxies in favour for all four resolutions at the FY24 AGM, including the advisory resolution for the Remuneration Report.

However, NZSA flagged two issues. As shown earlier in Table 3, Xero uses two types of long-term share-based remuneration, Long-Term Incentive (LTI) and Long-Term Equity (LTE), split under the maximum remuneration into 60% and 40% respectively for both the CEO and CFO. Xero clearly disclosed that only the LTI is performance-based and has performance measures for vesting. The performance measures are operating revenue growth (37.5%), free cash flow (FCF) margin (37.5%) and relative total shareholder return (rTSR) (25%), with performance based on a three year period, whereupon it will then vest if performance measures are achieved.

The LTE, on the other hand, is a pure retention tool, with no performance conditions. They vest in three equal tranches over three years.

NZSA said: "We have commented previously on how the level of absolute payment related to LTI vesting has potential to create some political risk, and that we would encourage Xero to consider applying caps on the value (or number of options) associated with its share-based payments. However, we also note that Xero's CEO remuneration framework is likely to be comparable with similar companies in the US market."[15]

What NZSA seemed to be saying is that the LTI may translate into very high absolute total remuneration which may not be well received. Given that Xero is still a NZ company listed on ASX, shareholders, particularly those in NZ and Australia, may view the remuneration as excessive, even though this is the result of the company and the CEO performing well. If Xero is a US company where high remuneration resulting from good performance is more acceptable, this may not be viewed in the same negative light.

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[14] https://www.australianshareholders.com.au/wp-content/uploads/2024/08/2024_XRO_ASM.pdf

[15] Ibid.

The LTE may be even more contentious because it is linked only to tenure. Of course, it can still have an incentive effect because if the share price increases, so will the remuneration under the LTE. However, the concern is that even if the share price falls, the shares will still vest and management may still derive significant remuneration from the LTE.

The second issue flagged by NZSA is that the CEO received an initial equity grant of 463,308 options when she joined in November 2022. These options vest in three tranches at the one year, two year and three-year anniversary of employment. NZSA said it does not support such payments as they reward tenure rather than actual performance. However, it again noted that Xero's CEO is based in the US and that such awards are common there.

On this point, it can be argued these options are indirectly performance-based even if they are at-the-money options (that is, with exercise price based on share price at time of grant), which appears to be the case. As the company pointed out in its annual report, "the exercise price acts as a built-in hurdle to drive longer-term strategy and sustained value creation". These options are only valuable if the share price increases above the exercise price, and there is staggered vesting, which is a good practice.

For the LTI, LTE and initial equity grants, there is also the question of whether the size of the grants is appropriate or excessive. However, as pointed out earlier, Xero is very transparent on the peer companies used for benchmarking remuneration, which helps mitigate concerns about excessive remuneration.

The issues raised by NZSA highlight a dilemma for Xero. By adopting US-style remuneration practices because it is recruiting talent from there, it may alienate shareholders who do not subscribe to such practices. This may explain why, despite NZSA voting its undirected proxies in favour of the advisory resolution relating to the Remuneration Report for the FY24 AGM, 22.46% of the total votes cast was against the Remuneration Report. However, there could be other explanations.

As mentioned, Xero is not required to include this resolution because it is incorporated in NZ, even though it is listed on ASX. The percentage of votes against is very close to the 25% threshold that will result in a strike under the "two strikes" rule for Australia-incorporated companies.

Changes in CEO remuneration

This brings me back to Xero's announcement on 18 December 2024 disclosing that the Board has revised the remuneration of its CEO, Cassidy, "to recognise her strong performance, ensure it is appropriately aligned to market benchmarks for comparable technology companies, and that it continues to focus on long-term value creation."

The Board praised her "exceptional contribution" since joining Xero. It cited "revenue growth above 20%, increased cash flow margin to 21% and a Rule of 40 of 41.0% and 43.9% in FY24 and H1 FY25 respectively", and Total Shareholder Return (TSR) of 161%". [The Rule of 40 is a financial metric used to evaluate a SaaS company's balance between growth and profitability. Under the rule, a company's revenue growth rate plus its profit margin should be at least 40%. It is arbitrary but apparently commonly used.]

The changes will lift Cassidy's remuneration to a potentially much higher level. The Board said that in reviewing Cassidy's package, it "applied Xero's remuneration principles of performance, scope and criticality of role, and location. It also took into account the strong performance delivered by [Cassidy] during her first two years, the commitment given to her that her remuneration would be reviewed in line with her performance, extensive global benchmarking data, and feedback from consultation with a range of stakeholders on the construction of the package including institutional investors and proxy firms".

As a result, Cassidy's remuneration will be brought "in line with a benchmark group by moving future Total Target Remuneration (TTR) (base salary, STI, LTE and LTI) from the 10th percentile to the median, and granting a top-up allocation of options to bring her total equity exposure to the median of the group (excluding founder CEOs). The benchmark group comprises US-based CEOs of globally comparable companies in the technology sector". Xero provided detailed disclosures of the material terms of the CEO's updated employment agreement, the peer companies that are used, and a comparison of the amount and positioning for each remuneration component under her previous agreement and the updated agreement. Again, one can certainly not fault Xero for disclosure.

As a result of moving her target remuneration from the 10th percentile to the median, her total target annual remuneration will increase from USD8.8 million to USD15.2 million – an increase of 73%. Her annual base salary will be reduced from USD735,000 to USD540,000 and her target total cash remuneration (including target bonus) will decrease from USD1.47 million to USD1.08 million. However, her target LTI will nearly double, from USD7.333 million to USD14.12 million. Her maximum opportunity for the STI will remain at 180%.

Based on Xero's disclosures, there does not appear to be any changes in the performance measures used for the STI and LTI, or their weightings. With STI declining in importance, this will mean that the customer and employee performance measures in the STI will have even less impact on her total remuneration.

Xero also made another one-off grant of 575,000 "at-the-money" options, with a fair value of USD26.49 million. As mentioned earlier, NZSA had flagged concerns about the previous one-off grant to the CEO when she joined the company but accepted that this is a common US practice. Like the earlier grant, this grant will vest in three equal tranches annually following the grant date. However, for this new grant, each vested tranche "will be subject to a further holding restriction post vest such that 33% of the grant will be restricted until December 2027 and 67% until December 2028". The new grant is to bring "the CEO's total equity exposure to the median of the benchmark group". The company pointed out that holding restriction pos- vest is not typical in the US. This suggests some sensitivity to balance the expectations of Xero's non-US stakeholders, and perhaps a subtle signal by the CEO on her long-term commitment to the company

Share trading policy

Like many ASX-listed companies, Xero has a share trading policy that is much more robust than those generally used by SGX-listed companies. This is even more important when a company relies extensively on share-based remuneration, as Xero does. This policy was updated on 1 August 2024 although most of the elements were already in place.

The policy sets out a list of examples of inside information. What I particularly like is its "Front Page Test" which states that before a person covered by the policy deals in the company's securities, they should ask themselves this questions: "If the market were aware of all the current circumstances, could I be perceived to be taking advantage of my position in an inappropriate way? How would it look if the dealing were reported on the front page of the newspaper or online?

It states that where clearance is required to deal under the policy, approval will not be granted where the dealing would not meet the Front Page Test. If unsure, the person should consult the Company Secretary or their delegate.

Granted, questionable trading is more likely to appear on the front pages of an Australian newspaper like the Australian Financial Review than the local Singapore mainstream media so the Front Page Test may not work quite as well in Singapore. Nevertheless, I think this is a very good test to ask not only for share trading but for other situations, such as conflicts of interest situations.

The closed periods are until 10 am Sydney time on the next trading day after the full-year or half-year results are released, or any other period that the Board sets from time to time. It would appear that it would not be permissible to release results just before the market opens and then trade as soon as the market opens, as happened recently in a SGX-listed company.

“Designated Persons” must request clearance to deal in Xero securities at all times. Designated Persons comprise a director or CEO of Xero; a direct report of the CEO or someone who reports to a person who reports directly to the CEO; a person on the list of Designated Persons maintained by the Company Secretary team; or anyone notified that they are subject to trading restrictions under the policy.

Table 5 shows who will give clearance for each category of Designated Person.

SGX-listed companies should be expected to adopt stricter share trading policies, particularly if they are using share-based remuneration for directors and senior management.

Table 5: Clearance for Share Trading by Designated Persons

The person who will consider your request for clearance will depend on your role:

Person seeking clearance:	**Clearance required from:**
Chair	Chair of the Audit and Risk Management Committee and Company Secretary or their respective delegates
Director, CEO or CFO	Chair and Company Secretary or their respective delegates
Company Secretary	Chair and CEO or their respective delegates
All other Designated Persons	Company Secretary or delegate

The person who considers your clearance request may (and non-executive directors typically should) consult with members of management, as appropriate.

Source: Xero Limited: Share Trading Policy, 1 August 2024.

A culture change?

Xero has been quite exemplary in its corporate governance and disclosures, including regarding the remuneration of its CEO and changes to the remuneration policy. While the revised remuneration policy potentially increases the CEO pay very significantly, the Board has provided very clear justifications as to why it believes the company needs to adopt US-style remuneration policy for its CEO and align her remuneration level to those of her US peers. It has also tried to make certain adjustments to take into account the expectations of non-US stakeholders.

However, remuneration policy can fundamentally change the culture of a company. US corporate governance is based on shareholder primacy and remuneration policies of US companies are generally designed to incentivise executives to increase shareholder value. This can be observed from the extensive use of equity-based remuneration and the relative importance placed on financial and share price performance measures in the remuneration policy for Xero's CEO. Customer and employee-related performance measures carry little weight. With the revised remuneration policy, Xero could be in for a significant transformation of its culture – for better or worse.

About the author:

The author is Professor (Practice) of Accounting at the NUS Business School, National University of Singapore (NUS), where he is the founding director of the Centre for Investor Protection (CIP). He does not own, and has never owned, any securities in Xero.

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