

NZSA Policy No 18 – Independent Directors Share Ownership

Application: This policy applies to all NZX listed companies.

Purpose: NZSA maintains a range of policies to positively influence the behaviour of all participants in the NZX listed company sector. These policies should be read in the context of the NZSA Policy Framework Statement.

Statement No 18:

This policy document replaces the previous NZSA policy document dated July 2018. Key changes in this update include some mitigating factors to be considered by NZSA in assessing appropriate director share ownership.

1.0 Policy: Independent Directors Share Ownership

- 1.1 The NZSA strongly encourages Independent Directors to hold some shares in the company they are governing.
- 1.2 Notwithstanding 1.1, NZSA does **not** believe that director share ownership should be mandatory. Individual Directors should be free to decide whether they hold shares and if so, how many according to their personal financial position.
 - a) When a director decides that he or she will hold no shares in the company, NZSA supports disclosure as to why no shares are held and when/if that position might change.
- 1.3 Where companies mandate share ownership, NZSA will look for mitigating factors that allow scope for Board diversity in relation to personal wealth. These factors may include, but are not limited to:
 - b) A low percentage of directors' fees each year;
 - c) The timeframe within which a minimum shareholding must be achieved;
 - d) Policies or clauses that allow for discretion by the Chair.
- 1.4 Where such schemes exist, NZSA believes this should be operated in a manner that avoids potential conflict with insider trading regulations, supported by clear statements/evidence

that purchases are made outside restricted windows.

- 1.5 NZSA recognises the unique energy and innovation a founder-shareholder can bring to a Board. A large founder shareholding will allow NZSA discretion in assessing both Board Composition and Director Tenure.

2.0 Commentary

- 2.1 There is a wide range of opinion around Independent Directors owning shares from their holding no shares in order to preserve their independence and not be influenced by their financial stake in the company, to Directors owning shares based on their Fees.
- 2.2 Some companies require Independent Directors to utilise part of their fees to purchase shares each year on the basis that this gives them “skin in the game” and aligns their interests with shareholders.
- 2.3 For many investors, directors’ shareholdings send a positive signal to shareholders and show that the interests of the directors and shareholders are aligned.
 - a) Shareholders closely follow changes to Directors’ shareholdings and use that information as a guide as to the Directors’ belief in the company’s future and its potential share price performance.
- 2.4 We expect that any shares purchased by Directors would be disclosed under both continuous disclosure requirements and within the annual report
- 2.5 In addition, some Directors personal financial situation does not allow them to purchase a volume of shares commensurate with Directors Fees. NZSA does not believe that, in and of itself, an individual’s personal financial situation bears a relationship to director quality.
- 2.6 A 2020 Harvard university study acknowledged that there are “no generally accepted stock ownership principles” for Directors.
- 2.7 Both share price volatility and the potential for insider trading are recognised as issues for directors in purchasing shares. NZSA supports mitigation measures by organisations in relation to these issues.

3.0 Key Regulatory Requirements

- 3.1 Financial Markets Conduct Act 2013

References

[Stock Ownership Guideline Administration \(harvard.edu\)](http://harvard.edu)

Definitions

none

Related Policies

14 – Director Tenure

17 - Board Composition

Document Control

This document was approved by the NZSA Board:	Mar 2022
This document is effective from:	Jan 2022
The next planned review date is:	Mar 2025