

1.3 The remuneration framework operates effectively

Directors have reviewed the details of the way the remuneration framework operates in practice and consider that it remains appropriate and is consistent with achieving the overarching objectives.

Further details of the way the framework operates are outlined below. The system as it operates for individuals should be considered as an integrated whole rather than individual elements being looked at in isolation.

The Board has discretion to change the remuneration arrangements on an annual basis to meet changing market conditions as well as to comply with regulatory and corporate governance developments. The way any such discretion has been exercised will be described below.

1.3.1 How the features operate together to provide shareholder alignment

The following table provides an overview of the key features of Macquarie's remuneration system, each of which is described in further detail below.

		Applicable to		
Section	Key Feature	Executive Committee ⁽¹⁾ and Designated Executive Directors ⁽²⁾	Other Executive Directors	Staff other than Executive Directors
Fixed remuneration		Fixed remuneration is reviewed annually and reflects technical and functional expertise, role scope, market practice and regulatory requirements		
Performance-based remuneration				
1.3.2	Amount of profit share retained ⁽³⁾	50 to 70 per cent	40 to 70 per cent	25 to 60 per cent dependent on specific thresholds
	Vesting and release of retained profit share ⁽³⁾⁽⁴⁾	Pro-rata annually over three to seven years after the year retained	Pro-rata annually over three to five years after the year retained	Pro-rata annually over two to four years after the year retained
1.3.3	How retained profit share is invested ⁽⁵⁾	Invested in Macquarie equity or Macquarie-managed funds		
1.3.4	Forfeiture of retained profit share whilst employed	BRC discretion to apply Malus	BRC discretion to apply Malus to certain staff	
1.3.5	Forfeiture of retained profit share on leaving	Unvested amounts are forfeited except in certain circumstances, subject to disqualifying events ⁽⁶⁾		Unvested amounts are forfeited except in certain circumstances ⁽⁶⁾
	Promotion awards	Staff who are promoted to Associate Director, Division Director or Executive Director receive an allocation of MEREP awards, set with reference to an \$A value, based on seniority		
1.3.6	PSUs	Executive Committee only: vest over years three and four with exercise subject to achievement of performance hurdles	n.a.	n.a.
	Minimum Shareholding Requirement	Satisfied by the requirements of the profit share retention policy		n.a.
	Hedging	Macquarie prohibits staff from hedging unvested options, shares held to meet the minimum shareholding requirement and unvested equity held in the MEREP		
1.3.7	No special contractual termination payments for staff			

⁽¹⁾ Includes both the CEO and the Deputy CEO.

⁽²⁾ Executive Directors who are members of Operations Review Committee and others who have a significant management or risk responsibility in the organisation.

⁽³⁾ The above table reflects Macquarie's standard arrangements. This year, the Non-Executive Directors have exercised their discretion and increased the retention rate and amended the vesting and release period for FY2014 profit share to reflect the impact of the SYD Distribution on MEREP for Executive KMP and certain senior executives.

⁽⁴⁾ The vesting period for each profit share allocation is established by the BRC, according to the prevailing market conditions and having regard to regulatory, corporate governance and remuneration developments at the time of allocation. For each year's allocation, once the vesting period has been determined, it will remain fixed for that allocation. Vesting schedules may vary for certain groups of staff who have become employees as a result of an acquisition, or for staff in jurisdictions outside Australia to ensure compliance with local regulatory requirements.

⁽⁵⁾ Retained profit share is invested either directly or notionally, and may also include an investment in subsidiaries in the case of acquired businesses. For staff other than Executive Director, retained profit share is generally (but not exclusively) invested in Macquarie equity.

⁽⁶⁾ As approved by shareholders in July 2013.