



ASX

AUSTRALIAN SECURITIES EXCHANGE



ASIC

Australian Securities & Investments Commission

**LISTED COMPANY SEMINAR
SYDNEY
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PETER ABRAHAM

Member: ASX Corporate Governance Council

Implementation Review Group

PRINCIPLE 7: THE REPORTING OBLIGATION –

RECENT GUIDANCE

(Handout: Revised Supplementary Guidance to Principle 7)

Presentation outline

- Background
- What must be disclosed
- What's different (including what is a material business risk)
- Conclusion: quality of disclosure

Background

- Implementation Review Group
- Established by ASX Corporate Governance Council to provide advice and input on practical matters
- Significant involvement in drafting new Principle 7 and guidance
- Aim: to make these documents user friendly

What must be disclosed

- 2nd edition of Principles applies to financial years commencing on or after 1 January 2008

What must be disclosed cont'd

- Recommendation 7.1:
- Summary of policies for oversight and management of material business risks
- Policies should
 - Reflect the company's risk profile
 - Clearly describe all elements of the risk management and internal control system and any internal audit function
 - Clearly describe the roles and accountabilities of the board, its audit and other committees, management and internal audit function in managing and overseeing material business risks

What must be disclosed cont'd

- Recommendation 7.1, cont'd:
 - need to disclose, in summary form:
 - The key elements of their risk management and internal control systems
 - The roles that each of their key governance bodies play in managing materials risks and overseeing that risk management

What must be disclosed cont'd

- Recommendation 7.2:
 - Board to require management to design and implement the risk management and internal control system referred to in Recommendation 7.1
 - Board to disclose that it has received a report from management on how effectively material business risks have been managed

What must be disclosed cont'd

- Recommendation 7.2 cont'd:
 - Boards must do more than just receive the report
 - Critically assess the report
 - Require further action if necessary

What must be disclosed cont'd

- Recommendation 7.3:
 - s295A sign off is based upon a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks
 - A more formalised, specific application of what's required under Recommendation 7.2

What must be disclosed cont'd

- Recommendation 7.3 cont'd:
 - Qualified assurances – is it material?
 - If material, does it compromise integrity of financial reporting system?
 - If so, does it trigger a continuous disclosure obligation and does auditor need to be notified?
 - Can the board sign the directors' report and declarations?

What must be disclosed cont'd

- Recommendation 7.3 cont'd:
 - Change of CEO or CFO during period – clearly state period of time covered by assurances and reasons

What's different?

- Clarification: all material business risks are covered – not just financial or financial reporting

What's different? Cont'd

- What is a material business risk?
 - ‘...the most significant areas of uncertainty or exposure, at a whole of company level, that could have an adverse impact on the achievement of company objectives’

What's different? Cont'd

- Examples of MBRs:
 - OH&S
 - Environmental
 - Trade practices
 - Production capacity; and
 - People and skills

What's different? Cont'd

- core business of boards and management to consider those matters that could foreseeably prevent their companies from achieving their objectives and work out strategies in advance
- companies do not need to introduce some elaborate regime if they have already identified their big ticket risk items and have plans for dealing with them
- CSR should be considered when determining MBRs

What's different? Cont'd

- Summary of the differences:
 - Not just financial risk
 - Not required to disclose the risks themselves (but note listing rule 3.1 and s299A Corps Act)
 - Board to require management to provide a report on the effectiveness of coy's management of material business risks
 - CEO/CFO sign-off – substance is as it was under old edition

Conclusion: quality of disclosure

- If the disclosure is based upon reality it will ring true
- Motherhood statements are obvious to the reader
- Read the examples