

ASX and ASIC Listed Companies Conference

Corporate Governance

Eric Mayne
Chief Supervision Officer
ASX Markets Supervision

24 October 2008

Corporate governance disclosure governed by



ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (8 Principles and 27 Recommendations)

- Approach based on UK Combined Code
- First released in March 2003 and revised edition August 2007 – effective date 1 January 2008
- Non-prescriptive, flexible, “if not, why not?” market disclosure
- Council 21 industry associations – ASX is a member of Council and appoints Chair

Promote and monitor disclosure

- ASX Listing Rules requirements
 - LR 4.10.3 – each listed entity to set out in its annual report the extent to which it followed the Recommendations during the reporting period
 - LR 12.7 – listed entities in the S&P All Ordinaries Index to have an audit committee. Top 300 companies to comply with the Recommendation on audit committee composition
- ASXMS annual review and report on outcomes of annual review

Key Principles and Recommendations

- Director independence – Principle 2
- Disclosure of risk – Principle 7
- Disclosure of codes and policies – Principles 3, 5 and 7
- Remuneration – Principle 8

What do investors look for?



ASX

AUSTRALIAN SECURITIES EXCHANGE

- 2005 survey of users of corporate governance information found:
 - 80% of those surveyed used CG information for analysing or reviewing shares
 - Areas of interest – financial reporting, board structure / responsibilities, remuneration, risk management and shareholder / stakeholder management
 - Areas for improvement – clearer, more concise information, summaries of reporting against Principles, clearer information about boards and remuneration

Reporting levels



Overall reporting levels	2004	2005	2006	2007
Listed companies	84%	88%	90%	90.5%
> 90% reporting level	8/28	14/28	17/28	17/28
> 80% reporting level	17/28	23/28	23/28	26/28

Annual reviews of Corporate Governance disclosures



Overall reporting levels	2005	2006	2007
Listed trusts	86%	85%	93%
> 90% reporting level	10/28	13/28	24/28
> 80% reporting level	24/28	21/28	27/28

Ongoing review

- Follow up of non-compliance with LR 4.10.3
June 2008 – 333 letters reminding entities that disclosure required for each Recommendation and must be included in 2008 annual report
- Results of review of 2008 reports to be published May 2009
- Areas of focus – risk, director independence, LR 12.7, remuneration, trading policies, sustainability / climate change

Board structure (Principle 2)

- Majority of board should be independent directors (R2.1)
- Chair should be an independent director (R2.2)
- Chair and CEO should not be the same individual (R2.3)
- Overall reporting levels:
 - R2.1 - 86%
 - R2.2 - 90%
 - R2.3 - 96%

Director independence (Principle 2)



- Independent status determined by board
- Five relationships affecting independent status
- Reporting obligations of board on:
 - Existence of relationships
 - Reasons for forming view on independence

5% of all listed entities deemed directors
“independent”

Disclosure of risk (Principle 7)

- Companies to establish policies on oversight and management of “material business risks” (MBR) and disclosure a summary of those policies (R7.1)
- Board to require management to design and implement a risk management and internal control system to manage the company’s MBR and report on whether risks managed effectively (R7.2)

Disclosure of risk (Principle 7) (cont'd)

- Disclose that CEO / CFO has given assurance that s295 CA sign off founded on a sound system which is operating effectively in all material respects in relation to financial reporting risks (R7.3)
- Supplementary Guidance issued in June 2008
- Overall reporting levels:
 - R7.1 – 94%
 - R7.2 – 77%
 - R7.3 – 73%

Remuneration (Principle 8)

- Principle 8 covers:
 - Remuneration committee (R 8.1)
 - Structure of executive and NED remuneration and commentary on shareholder approval of equity based remuneration paid to executives (R 8.2)
- Overall reporting levels:
 - R8.1 – 98%
 - R8.2 – 89%

Codes and policies (Principles 3 and 7)

- Disclosure of either full code/policy or summary
- Examples:
 - Risk policies (R7.3)
 - Trading policies (R3.2)
 - Codes of conduct (R3.1)
- Overall reporting levels:
 - R7.3 - 73%
 - R3.2 - 92%
 - R3.1 - 91%

Emerging trends

- Climate change / sustainability

15% of entities reported on a wider range of risks in 2007. Most common were: compliance 70%, financial reporting 65%, operational 64% and environmental 54%. Other risks: people, strategic, ethical conduct, reputation / brand, technological, human capital

Results of Directors' Interest Notices review – Q1 2008



Directors' Interest Notices Q1 2008	Appendix 3X	Appendix 3Y	Appendix 3Z	Total Q1
Total lodged	580	3218	339	4137
Total breaches of LR 3.19A	133 (23%)	359 (11%)	46 (14%)	538*
Total breaches of S 205G	78 (13%)	188** (6%)	23 (7%)	289

* 42 serious / 496 less serious

** 70 active trades

Results of review of blackout trading



Number of Appendices 3Y lodged	January	February	March	Total Q1
Number lodged	890	980	1348	3218
Total number of active trades	432	569	862	1863
Total number of active trades during blackout	353	339	103	795
Number of potential contraventions of trading policy	15*	39**	3***	57

* Trades occurred in 7 entities – 1 S&P/ASX 200, 4 AOI

** Trades occurred in 23 entities – 1 S&P/ASX 200, 5 AOI

*** Trades occurred in 3 entities all outside AOI