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ASX Corporate Governance Council

Ten Core Principles of Good Corporate Governance

Monash Governance Forum

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Outline

- The introduction of the Corporate Governance Guidelines
- The 10 Principles
- The recommendations – What to do to achieve best practice in relation to each of the principles
- Audit Committees and Board Composition

What is Corporate Governance?

- Corporate Governance is the system by which companies are directed and managed.
- Corporate Governance influences:
 - how objectives of the company are set
 - how risk is monitored
 - how performance is optimized



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Achieving good Corporate Governance

- There is no single model of good corporate governance
- Council recommendations cannot prevent corporate failures or mistakes in corporate decision making
- Guidelines can provide reference point for structures to minimize problems and optimize performance and accountability



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Corporate Governance's importance to Australia

- Australian companies must be equipped to compete globally
- Australia should continue to position itself at the forefront of best practice

Representatives of the Council

- Investors
- Directors and Company Secretaries
- Business
- Securities Industry
- Accounting
- Legal



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ASX Listing Rules

- Listing Rule 4.10.3 statement in the annual report
- Must disclose the extent to which the company has followed the best practice recommendation during the reporting period
- If the company has not followed the guideline it must give reasons for not following it

ASX Listing Rules

- Listing Rule 4.10.3 requires companies to report against CGC recommendations for FYs commencing after 1 January 2003 i.e year ended 30/6/04 for most
- Early transition to best practice is encouraged as is reporting by reference to the recommendations in this year's report
- Listing rule 12.7 requires a company in the S&P/ASX All Ordinaries Index to have an audit committee during its FY applies for FYs commencing after 1/1/03 i.e from 1 July 2003 for most.

Exception Reporting

- Best practice recommendations are guidelines
- Is not "one size fits all"
- A recommendation may not be appropriate and if it is not followed, explain why

10 Principles

- Lay solid foundations for management and oversight
- Structure the board to add value
- Promote ethical and responsible decision making
- Safeguard integrity in financial reporting
- Make timely and balanced disclosure
- Respect the rights of shareholders
- Recognise and manage risk
- Encourage enhanced performance
- Remunerate fairly and responsibly
- Recognize the legitimate interests of stakeholders

1. Lay solid foundations for management and oversight

- Recommendation 1.1: formalize and disclose the functions reserved to the board and those delegated to management

2. Structure the board to add value

- Recommendation 2.1: A majority of the board should be independent directors
- Recommendation 2.2: The chairperson should be an independent director
- Recommendation 2.3: The role of chairperson and chief executive officer should not be exercised by the same person
- Recommendation 2.4: The board should establish a nomination committee

3. Ethical & responsible decision making

- Recommendation 3.1: Establish a code of conduct to guide directors and senior executives as to:
 - (a) The key practices necessary to maintain confidence in the company's integrity
 - (b) The responsibility and accountability of individuals for reporting and investigating reports of unethical practices
- Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees.

4. Safeguard integrity in financial reporting

- Recommendation 4.1: Require the CEO and the CFO to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.
- Recommendation 4.2: The board should establish an audit committee. Listing rule 12.7 **requires** all companies in the S&P/ASX All Ordinaries index to comply with 4.2 from 1 January 2003.

4. Safeguard integrity in financial reporting

- Recommendation 4.3: Structure the audit committee so that it consists of:
 - Only non-executive directors
 - A majority of independent directors
 - An independent chairperson of the board
 - At least three members

Listing rule 12.7 also **requires** all companies in the S & P/ASX All Ordinaries index to comply with 4.3. Transitional arrangements apply with deadline of 1 July 2005.

- Recommendation 4.4 The audit committee should have a formal charter.

5. Make timely and balanced disclosure

- Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

6. Respect the rights of shareholders

- Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
- Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7. Recognise and manage risk

- Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.
- Recommendation 7.2: CEO and CFO should state to the board in writing:
 - 7.2.1 Statement given in accordance with recommendation 4.1 is founded on a system of risk management
 - 7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively

8. Encourage enhanced performance

- Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

9. Remunerate fairly and responsibly

- Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.
- Recommendation 9.2: The board should establish a remuneration committee

9. Remunerate fairly & responsibly (cont'd)

- Recommendation 9.3: Clearly distinguish the structure of non-executive directors' remuneration from that of executives
- Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders



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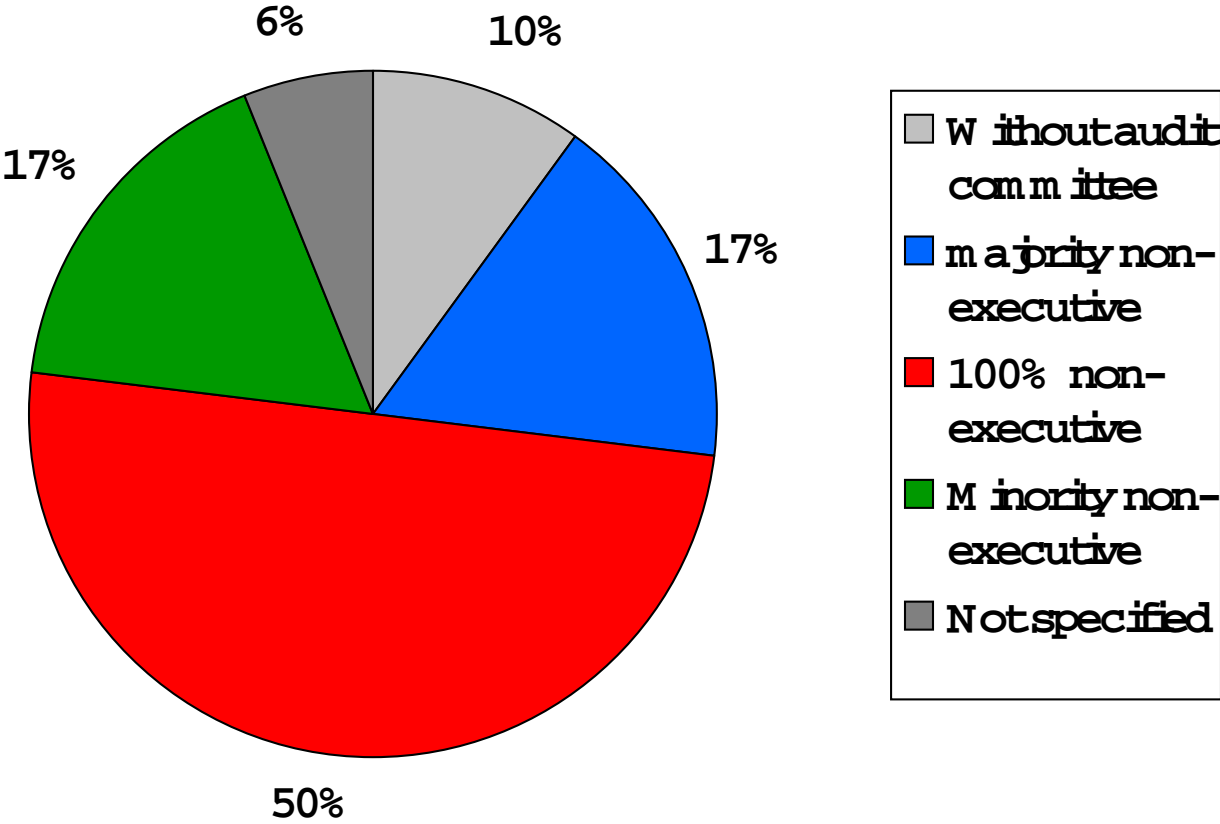
10. Recognise the legitimate interests of stakeholders

- Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders

Audit Committees – Top 500 companies

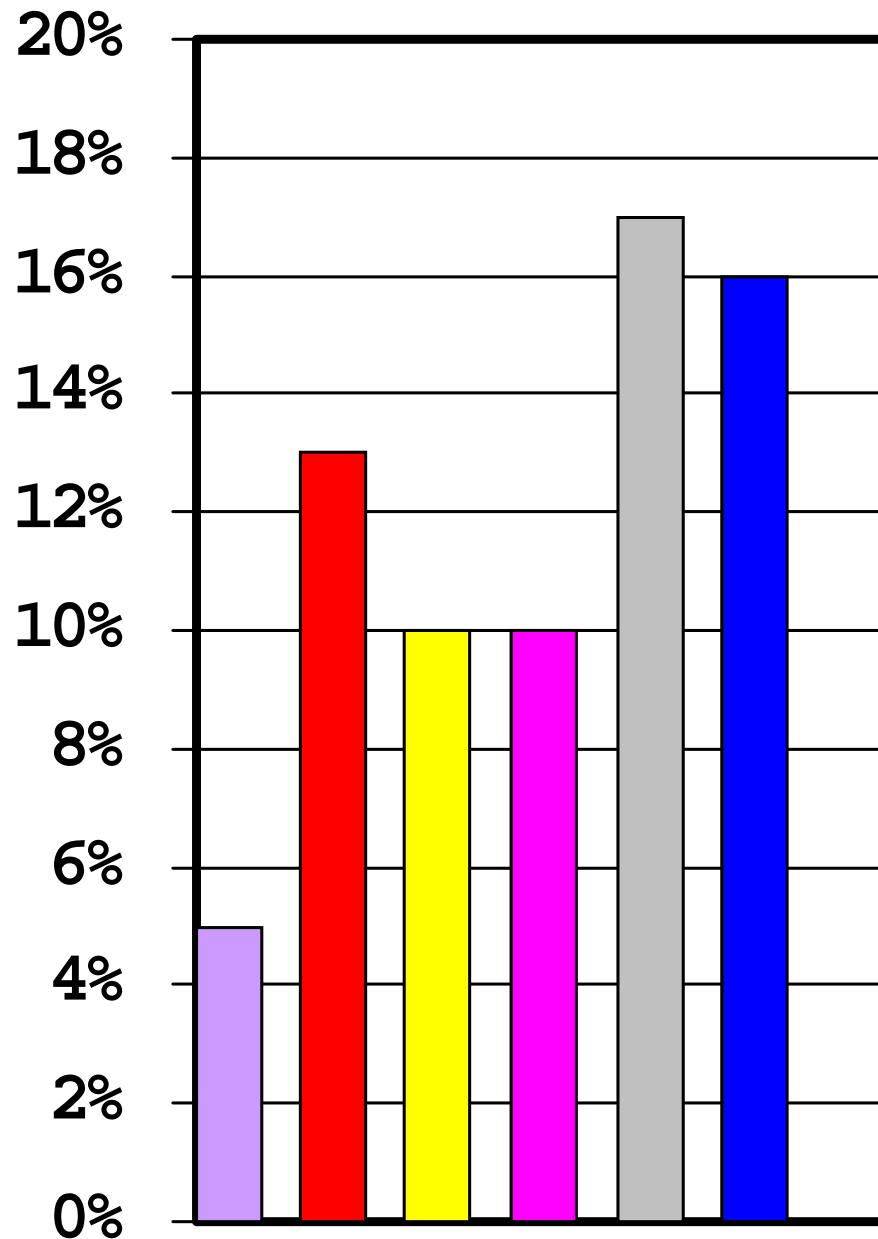
- 90 % of companies reviewed had an audit committee
- “Board too small” or “our business is simple” were common reasons for not having an audit committee
- 7 companies with larger boards (between 6 and 9 directors) said that audit issues were best dealt with by the entire board
- 66 % of audit committees have a chairman who is not chairman of the board, 21% have the same chairman, with 13% providing insufficient information.

Audit Committee Composition

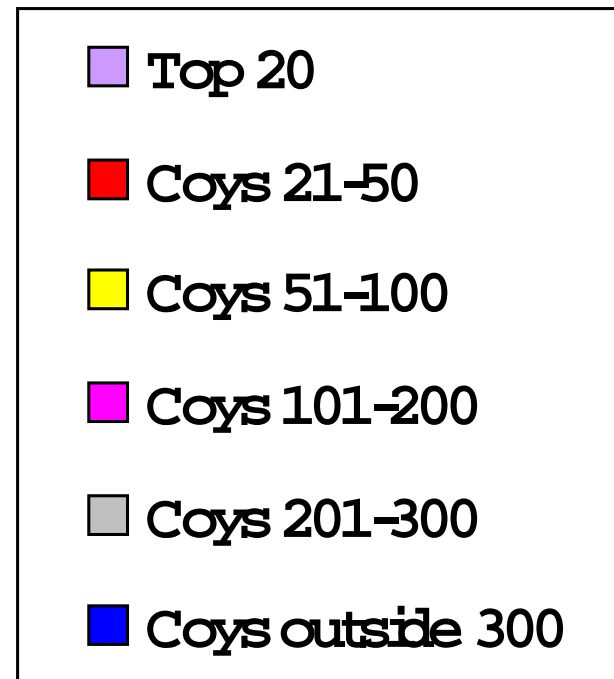


Audit Committees & Independence— 2005 Issues

- In only 64 reports (20 % of the sample) did companies use the description 'independent director'
- Certainly the number of companies with independent directors is much greater
- While the number of audit committees with independent directors must also be understated, 72 % of companies that described directors as independent had a majority of independents



Companies by size with
less than 50 %
non executive directors



Board Composition – Conclusions

- Smaller companies will need to do more work than larger companies (top 200) to reconfigure boards
- Establishing an audit committee is unlikely to entail real difficulty for top 500, however meeting the requirements of the CGC for composition of the committee will challenge a small group of mostly smaller companies (300+)
- Low level of participation by non-executive directors on boards of smaller companies will compound difficulties in meeting audit committee requirements of listing rule 12.7



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