



MEDIA RELEASE

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Revised Corporate Governance Principles Released

The ASX Corporate Governance Council (the Council) has today released its revised *Corporate Governance Principles and Recommendations* (the Principles). The Principles will be formally launched by the Hon. Chris Pearce MP, Parliamentary Secretary to the Treasurer, in Sydney this afternoon.

Eric Mayne, Chairman of the Council and Chief Supervision Officer for ASX, said: "This is the first revision of the Council's corporate governance Principles since they were issued in March 2003. This is testimony to the durability of Australia's flexible, principles-based approach to corporate governance.

"There are no drastic or wholesale changes to the Principles. The enduring workability of Australia's governance framework has allowed the Council to finetune its approach rather than undertake a rewrite.

"The Council exhaustively considered each of the more than 100 public submissions received on the proposed changes to the Principles. Overall, the submissions showed strong support for the Principles and the 'if not, why not' approach to corporate governance disclosure.

"The review ensures that the principles-based corporate governance framework developed by the Council will continue to be a practical guide for listed companies, their investors and the wider Australian community. "

In summary, the key changes are:

- 'Best practice' has been removed from the title and the text of the document – to be known as the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* - to eliminate any perception that the Principles are prescriptive and so not to discourage companies from adopting alternative practices and 'if not, why not' reporting where appropriate.
- There are now eight Principles instead of ten with Principle 8 amalgamated into Principles 1 and 2, and Principle 10 amalgamated into Principles 3 and 7. These changes make the document more user-friendly by structuring the guidance more logically.
- Guidance to Principle 2: *Structure the Board to Add Value* sets out a list of "relationships affecting independent status" that a company should take into account when determining the independence of a director rather than providing a definition of independence. Companies are required to disclose their reasons for considering a director 'independent' notwithstanding the existence of one of these relationships.
- Council recommends that companies' trading policies should prohibit hedging unvested options and that any hedging of vested options should be disclosed to the company under Principle 3: *Promote Ethical and Responsible Decision-Making*. Council's position complements the Government proposal to amend the Corporations Act to require companies to disclose their policy on hedging of options.
- Principle 7: *Recognise and Manage Risk* now makes it clear that material business risks involve both financial and non-financial risks. Companies are encouraged to adopt appropriate risk oversight, management policies and

internal control systems rather than disclosing specific material business risks. Submissions overwhelmingly opposed disclosure of specific risks.

- Recommendation 7.2 now deals with “material business risks” in broad terms. Where a company has risks relating to sustainability or corporate social responsibility (CR) that are material to its business they should be considered in the context of the revised Recommendation 7.2.
- Recommendation 7.3 contains a revised version of the existing “assurance” or “sign-off” on financial reporting risks. The Recommendation requires the board to disclose that it has received assurance from the CEO/CFO that the declaration under section 295A of the Corporations Act is founded on a sound system of risk management and internal control which is operating effectively in all material respects in relation to financial reporting risks.
- Recommendation 9.4 has been deleted and instead commentary has been added to Recommendation 8.2 suggesting companies may wish to consult shareholders about equity-based incentive plans involving the issue of new shares to executives, other than directors, prior to implementing them.

Other major findings to emerge from the review:

- Strong support for the ‘if not, why not’ reporting approach and general agreement that there should be no exemption from the Principles for small and medium-sized entities.
- Significant interest in sustainability and CR issues, although submissions indicate that sustainability/CR has a wide variety of meanings. The bulk of submissions focussed on the risk and risk management aspects of sustainability/CR. Many submissions said that any new Recommendation should avoid constraining the ability of companies to adopt approaches that best suit their circumstances and the needs and interests of their investors and stakeholders, and should not restrict their ability to comment on other aspects and objectives of their sustainability/CR activities.
- Council considers that sustainability/CR issues are best reflected in the ‘mainstream’ of corporate governance activities; that is, through strengthened risk management processes and reporting.
- The importance of material business risks, including those related to sustainability/CR, should be clarified and recognised. Companies are encouraged to establish appropriate risk management and oversight policies and structures, and to disclose a description of those policies in the context of Principle 7.

The start date for the revised Principles will be the first financial year commencing on or after 1 January 2008. The changes reflect the contributions of more than 100 submissions received between November 2006 and February 2007 when the proposed changes were released for public comment.

The complete documents can be located here:

http://www.asx.com.au/supervision/governance/revised_corporate_governance_principles_and_recommendations.htm

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