MEDIA RELEASE

4 August 2009

First Review of Corporate Governance Reporting under Revised Principles and Recommendations

ASX Markets Supervision (ASXMS) has conducted the first review of corporate governance reporting under the Revised Principles and Recommendations for listed entities with a 31 December balance date.

The Revised Principles and Recommendations were released in August 2007. The effective date for the Revised Recommendations to apply to an entity's reporting is the first financial year starting on or after 1 January 2008. For entities having a 31 December financial year end the effective date for reporting in accordance with the Revised Recommendations is the reporting period ending 31 December 2008.

There were 168 listed entities (9% of total listed entities) subject to the 31 December 2008 corporate governance review.

A key change introduced in the Revised Recommendations is an emphasis on the disclosure of an entity's *actual* practice when corporate governance reporting. No longer is it sufficient for a company to report that it has certain practices in place. The Revised Recommendations require that the entity disclose or provide a summary in the annual report of the practices or specific policies that govern the practices.

To take account of the emphasis on disclosure of information in the Revised Recommendations, the corporate governance review process undertaken by ASXMS divided the Recommendations into practice-based Recommendations (x19) and information-based Recommendations (x8), and gave greater scrutiny to each element of the practice-based Recommendations and the information required by the information-based Recommendations.

As this is the first group of entities required to report against the Revised Recommendations, ASXMS has taken the opportunity to provide feedback to assist companies in preparing their corporate governance statements for the 30 June 2009 financial year end.

The 168 entities reviewed comprised 62 top-500 entities and 11 entities in the trust sector, of which 10 were identified to also be in the top-500. As the trusts were largely part of the top-500 group and an otherwise very small sample, analysis of the trusts has not been done separately but forms part of the top-500 analysis.

Overall reporting levels, being the aggregate of the levels of adoption of the Recommendations and of "if not, why not" reporting against the practice-based Recommendations for 31 December entities was 93.4% for all entities and 98.3% for top-500 entities including trusts.

As part of the 31 December review, a subjective assessment of corporate governance reporting for each of the 168 entities was also made by ASXMS staff reviewing the governance reporting. ASXMS assessed each entity on whether its overall corporate governance reporting could be regarded as "Very Good", "Good", "Satisfactory" or "Poor". The results are set out in the following table.

	Very Good	Good	Satisfactory	Poor
All entities (out of 168)	50 30%	76 45%	34 20%	8 5%
Top-500 (out of 62)	33 53%	23 37%	5 8%	1 2%
Trusts (out of 11)	6 55%	5 45%	0	0

Overall reporting levels for the 19 practice-based Recommendations for all 31 December entities are set out in the below table.

	All Entities 31 December 2008	Top-500 31 December 2008
Overall reporting levels across 19 practice–based Recommendations	93.4%	98.3%
> 90% reporting level	15 out of 19	19 out of 19
> 80% reporting level	18 out of 19	19 out of 19

Overall adoption, "if not, why not" and no reporting levels are set out in the below table.

	All Entities 31 December 2008	Top-500 31 December 2008
Overall adoption reporting levels	75%	89%
Overall "if not, why not" reporting levels	19%	9%
Overall no reporting levels	6%	2%

This latest review of corporate governance accompanies this media release and is available on www.asx.com.au

For further information:

Media

Roula Rodopoulos Corporate Relations Adviser (BH) +61 2 9227 0410 roula.rodopoulos@asx.com.au www.asx.com.au/media	Eric Mayne Chair, ASX Corporate Governance Council (BH) +61 2 9227 0405 eric.mayne@asx.com.au www.asx.com.au/supervision/governance

Analysis of Corporate Governance Disclosures in Annual Reports for year ended 31 December 2008

3 August 2009

Executive Summary

What this Report is About

1 In March 2003 the ASX Corporate Governance Council ("Council") released its 10 principles of good corporate governance ("Principles") and 28 best practice recommendations (" 2003 Recommendations") that support the Principles. Following a 12-month review of the Principles and Recommendations, and extensive public consultation, the Council released the *Revised Corporate Governance Principles and Recommendations* ('Revised Principles"), including 27 best practice recommendations ("Revised Recommendations") in August 2007.

2 The effective date for the Revised Principles and Revised Recommendations to apply to an entity's reporting is the first financial year starting on or after 1 January 2008. For entities having a 31 December financial year end the effective date for reporting in accordance with the Revised Recommendations is the reporting period ending 31 December 2008.

3 As this is the first group of entities required to report against the Revised Recommendations, ASX Markets Supervision (ASXMS) has undertaken this extra review (in addition to the annual review for entities with a 30 June year end) so as to identify any issues in the reporting against the Revised Recommendations. This review also allows ASXMS to provide feedback to assist entities preparing corporate governance statements for the 30 June 2009 financial year end.

4 The introduction of the Revised Recommendations enables ASXMS to consider and improve the corporate governance review process, and provide guidance on these improvements.

5 This report presents an analysis of corporate governance reporting in accordance with the Revised Recommendations and compliance with ASX Listing Rules for the entities identified with a reporting period ending 31 December 2008.

6 To satisfy the governance standards of the Council and to comply with ASX's Listing Rule, a listed entity must report on its approach to the Recommendations in some form and disclose whether or not it followed or adopted a Recommendation and, if not, provide some explanation for why not (the "if not, why not" explanation). Good corporate governance practice is not restricted to a mandatory adoption of the Recommendations.

7 To assist entities in their corporate governance reporting, ASXMS has prepared a summary of the key messages to be followed by listed entities in the preparation of annual reports for the financial year end 30 June 2009. ASXMS will be reviewing 30 June 2009 annual reports consistently with these key messages to ensure that each element of each Recommendation is reported against in some way (ie either adopted or "if not, why not" reporting). These key messages are provided to assist entities understanding the increased level of reporting that is required under the Revised Recommendations. Key messages in relation to each Recommendation are included as Appendix 1 to this report.

Entities Reviewed

8 Of the 1,889 entities listed on ASX on 30 June 2007 identified for corporate governance review, 184 were identified as having a financial year end of 31 December. Since 30 June 2007, 16 of the 184 entities identified have been delisted or suspended. The remaining 168 (9% of the total number of listed entities) were the subject of the 31 December 2008 corporate governance review.

9 The results contained in this 31 December 2008 report are based on a review of the annual reports of those 168 entities.

10 The 168 entities reviewed comprised 62 top-500[1] entities and 11 entities in the trust sector. Of the 11 entities identified in the trust sector 10 were identified to also be in the top-500. As the trusts were largely part of the top-500 group and an otherwise very small sample, analysis of the trusts has not been done separately but forms part of the top-500 analysis.

Key Findings

11 The review of corporate governance reporting of the annual reports of entities having a 31 December 2008 financial year end demonstrates that compliance with the ASX Listing Rules and the Revised Recommendations is at a relatively high level.

12 74% of entities reviewed were identified as having reported specifically against the Revised Recommendations. In addition, approximately 14% of entities were identified as being substantially in compliance with the Revised Recommendations and the Listing Rules but did not specifically make reference to the Revised Recommendations. The remaining 12% of entities reviewed were also found to be substantially in compliance with the Listing Rules but reported specifically against the 2003 Recommendations. ASXMS will be following up each of these entities to remind them of their obligations under the Listing Rules to report against the relevant Revised Recommendations.

13 On a subjective assessment of corporate governance reporting for each of the 168 entities reviewed, 50 or 29% were described as "very good", 76 or 45% were described as "good", 34 or 20% were described as "satisfactory" and 8 or 5% of entities were described as "poor".

14 A key change introduced in the Revised Recommendations is an emphasis on the disclosure of an entity's *actual* practice when corporate governance reporting. No longer is it sufficient for a company to report that it has certain practices in place. The Revised Recommendations require that the entity disclose or provide a summary in the annual report of the practices or specific policies that govern the practices.

15 To take account of the emphasis on disclosure of information in the Revised Recommendations, the corporate governance review process divided the Recommendations into practice- based Recommendations and information-based Recommendations, and gave greater scrutiny of each element of the practice-based Recommendations and the information required by the information-based Recommendations.

16 Most of the Recommendations are suggested corporate governance practices or structures which the entity is required by the ASX Listing Rules to report against in its annual report (for the purposes of this review referred to as "practice-based Recommendations"). There are 19 practice-based Recommendations[2]

17 Overall reporting levels, being the aggregate of the levels of adoption of the Recommendations and the levels of "if not, why not" reporting against the practice-based Recommendations for 31 December entities was 93.4% for all entities and 98.3% for top-500 entities including trusts.

18 15 out of 19 of the practice-based Recommendations indicated an overall reporting level of over 90% for all entities and 19 out of 19 practice-based Recommendations indicated an overall reporting level of over 90% in the top-500 including trusts.

19 In addition to the practice-based Recommendations, each of the 8 Revised Principles contains one Recommendation which recommends the provision of the information specified in that Recommendation (for the purposes of this review referred to as "information-based Recommendations")[3]. There are 8 information-based Recommendations and they are always the last recommendation in each Principle. As there are often a number of items listed in the information-based Recommendations, adoption or "if not why not" reporting is meaningless for these Recommendations. The information is either provided or it is not.

[1]Top-500 entities are those entities included in the S&P All Ordinaries Index current at 1 July 2007.
[2] The practice-based Recommendations are 1.1 1.2, 2.1, 2.2, 2.3, 2.4, 2.5, 3.1, 3.2, 4.1, 4.2, 4.3, 5.1, 6.1, 7.1, 7.2, 7.3, 8.1 and 8.2.
[3] The Information-based Recommendations are 1.3, 2.6, 3.3, 4.4, 5.2, 6.2, 7.4 and 8.3.

20 There is considerable room for improvement in reporting against, and providing the information requested in, the information-based Recommendations. Reporting against these Recommendations was varied and ASXMS will be monitoring the provision of all the information required by these Recommendations in the future.

21 Reporting against the Revised Recommendations dealing with the process for evaluating the performance of senior executives and directors was mixed. Overall reporting against Revised Recommendation 1.2 dealing with the process for evaluating the performance of senior executives was 79% (68% adopting and 11% "if not why not" reporting). 21% did not report at all on this issue. Significantly less entities reviewed reported on, or provided information in relation to, whether the performance evaluation had taken place as proposed by Recommendation 1.3. ASXMS will be looking closely at the provision of this information in 30 June 2009 annual reports.

22 Overall reporting against Revised Recommendation 2.5 dealing with the process for evaluating the performance of directors was 88% (76% adopting and 12% "if not why not" reporting). 12% did not report at all on this issue and, again, significantly less entities reviewed reported on, or provided information in relation to, whether the performance evaluation had taken place as proposed by Recommendation 2.6.

23 Consistent with previous reviews, "if not, why not" reporting in relation to Recommendation 2.1 (recommending that the majority of directors be independent) is higher than adoption reporting. 50% of entities reviewed reported on an "if not, why not" basis and 45% adopted the Recommendation. 5% of entities reviewed did not report at all on the issue of independence.

24 The significant improvements in the reporting and disclosure of codes of conduct in the most recent 30 June review was also evident in the reporting of codes of conduct in this 31 December review, with 95% of entities reviewed reporting in some way in relation to Recommendation 3.1. In contrast, significantly less disclosed the actual code of conduct as proposed by Recommendation 3.3.

25 Similarly, 155 or 92% of 31 December entities reviewed were identified as having established a trading policy in accordance with Recommendation 3.2 but only 8% actually disclosed the trading policy as proposed by Recommendation 3.3.

26 The most significant changes in the Revised Recommendations were in relation to Principle 7- Recognise and Manage Risk. 97% of entities reviewed reported on the establishment of risk policies. 148 or 88% adopted the Recommendation and 15 or 9% reported on an "if not, why not" basis.

27 Revised Recommendation 7.2 (which proposes that the board require management to establish a risk management framework and to report to the board as to the effectiveness of the system) saw an average of 62% of entities reporting against some aspects of Recommendation 7.2. Specifically, 67% of entities reviewed reported that the board has required management to implement the risk management system; 57% of entities reviewed reported disclosure of a report by management to the board regarding risk management; and 59% of entities reviewed reported on the "effectiveness" of the entity's risk management system. 25 or 15% of entities reported on an "if not, why not" basis in relation to Recommendation 7.2 and 22 or 13 % of entities did not report at all in relation to Recommendation 7.2.

28 96 or 57% of entities reviewed reported on a wide range of risk management policies. Only 67 or 52% of entities reviewed actually disclosed the policy or summary of the risk management policy on their website.

29 ASXMS considers that the relatively high level of corporate governance reporting for 31 December entities is the result of a number of factors, including the increased awareness of corporate governance reporting brought about by the review of the Recommendations and the release of the Revised Recommendations by the Council; the ongoing commitment of ASXMS to educate listed entities and their advisers on the Revised Recommendations; the ongoing monitoring of corporate governance disclosures; and the flexibility of the Principles and Recommendations to allow entities to adopt and explain corporate governance practices appropriate to their circumstances.

Revised Recommendations and Change in Review

30 Following a 12-month review of the Principles and Recommendations and extensive public consultation in 2006 and 2007 the Council released the Revised Principles and Recommendations in August 2007 which:

- Eliminate areas of regulatory overlap between the existing Principles and Recommendations and equivalent provisions in the Corporations Act or the Accounting Standards, by removing Recommendations 4.1, 6.2 and 9.1.
- Provide further assistance for entities and investors to better understand the application of certain Principles by merging principles which cover common areas of governance. For example, by merging Principle 8 into Principles 1 and 2, and Principle 10 into Principles 3 and 7.
- Refine the Principles to take into account feedback from users of corporate governance information, Council's public consultation and from internal ASX sources.
- Provide additional explanation and commentary about the information required to be included in the corporate governance statement in an entity's annual report or to be made publicly available by posting on an entity's website.
- Ensure consistent terminology throughout the Principles.
- Provide greater clarity and remove possible ambiguities in certain Principles.
- Provide additional explanation and commentary about "if not, why not" reporting.

A comparative table of changes to the Principles and Recommendations is included as Appendix 2 to this report.

31 The effective date for the Revised Principles and Revised Recommendations to apply to an entity's reporting is the first financial year starting on or after 1 January 2008. For entities having a 31 December financial year end the effective date for reporting in accordance with the Revised Recommendations is the reporting period ending 31 December 2008.

32 The introduction of the Revised Recommendations and their increased emphasis on the provision of information either in the annual report or on an entity's website provided an opportunity to reassess the way in which a number of the recommendations had been reviewed. In the past, recommendations that referred to the disclosure of a range of information were reviewed to establish reporting of at least one of the items specified. The difficulty with this type of review is that it indicated adoption or compliance with **all** the reporting requirements of the recommendation when in fact only some of the reporting requirements had been met.

33 To overcome this difficulty the Revised Recommendations were examined and the review of reporting them altered to reflect the "type" of Recommendation they were determined to be. Two types were identified by ASXMS, namely practice-based Recommendations and information-based Recommendations.

34 The practice-based Recommendations recommend the establishment of certain corporate governance practices or structures which the entity is required to report against in its annual report. There are 19 practice-based Recommendations[4].

35 The information-based Recommendations recommend the specific reporting on or disclosure of the information specified in that Recommendation. There are 8 information-based Recommendations and they are always the last recommendation in each Principle[5].

36 This distinction in the Recommendations has been made by ASXMS for the purposes of this and future corporate governance reviews and to distinguish the different manner in which reporting against the recommendations is reviewed.

[4] The Practice-based Recommendations are 1.1,1.2, 2.1, 2.2, 2.3, 2.4, 2.5, 3.1, 3.2, 4.1, 4.2, 4.3, 5.1, 6.1, 7.1, 7.2, 7.3, 8.1 and 8.2.

[5] The Information-based Recommendations are 1.3, 2.6, 3.3, 4.4, 5.2, 6.2, 7.4 and 8.3.

37 Practice-based Recommendations were reviewed in the usual way. In this respect, an annual report was reviewed to determine if the entity reported in one of the following ways in relation to each Recommendation:

- That it had adopted the Recommendation or the practice recommended in some way; or
- If it had not adopted the Recommendation that it had explained why not as required by the Listing Rules ("if not, why not" reporting); or
- If it had not reported on the entity's activities in relation to that Recommendation at all and had not given any reasons.

Reporting in either of the first two ways is regarded as reporting in accordance with the Listing Rules. No reporting at all is regarded as a breach of Listing Rule 4.10.3.

38 A more rigorous approach to the review of information-based Recommendations was taken. Each of the documents or the information listed in each of the information-based Recommendations (Recommendations 1.3, 2.6, 3.3, 4.4, 5.2, 6.2, 7.4 and 8.3) was identified and listed. Where relevant, the location of where the information was recommended to be located was also noted (ie on an entity's website). Both the annual report and the website were reviewed to ascertain what, if any, of the recommended information was provided by the entity. As one of the primary purposes of this review was to identify trends in reporting against the Revised Recommendations so to assist companies preparing annual reports for the 30 June 2009 year end, the outcomes of this closer analysis is outlined in summary form in this report.

39 The introduction of the Revised Recommendations and the changes in the review methodology for some of the Recommendations means that comparisons with previous years' results are problematic.

Reporting Trends

40 Council encouraged entities to make an early transition to the Revised Principles and Recommendations and to consider reporting by reference to the Revised Recommendations when reporting for the 2007-2008 year. In response to this, the review of 30 June financial year end entities indicated that 31% of entities were identified as early adopters of the Revised Recommendations.

41 In the review of 31 December reports, 74% of entities reviewed were identified as having reported against the Revised Recommendations in their corporate governance reporting. In addition, approximately 14% of entities were identified as being substantially in compliance with the Revised Recommendations and the Listing Rules but did not specifically make reference to the Revised Recommendations. The remaining 12% of entities reviewed were also found to be substantially in compliance with the Listing Rules but reported specifically against the 2003 Recommendations. ASXMS will be following up each of these entities to remind them of their obligations under the Listing Rules to report against the relevant Revised Recommendations.

42 Of these results, 86% of top-500 entities reported in accordance with the Revised Recommendations. 11% were found to have substantially complied with the Revised Recommendations and the Listing Rules but did not refer specifically to the Recommendations, and 3% referred to the 2003 Recommendations.

43 82% of Trusts reported in accordance with the Revised Recommendations. 18% were found to have substantially complied with the Revised Recommendations and the Listing Rules but did not refer specifically to the Recommendations.

44 ASXMS considers this result commendable for the first reporting period that the Revised Recommendations apply and particularly notes the high level of understanding of the Revised Recommendations shown by the top-500 entities.

45 As part of the 31 December review a subjective assessment of corporate governance reporting for each of the 168 entities was also made. This was possible because of the small number of entities reviewed. Such an assessment is more difficult with a wider group of entities. ASXMS reviewers assessed each entity on whether

its overall corporate governance reporting could be regarded as 'Very Good" "Good", "Satisfactory" or "Poor". No further criteria were given and the assessment is based on the benchmarking of other entities reviewed. The results are set out in the following table.

	Very Good	Good	Satisfactory	Poor
All entities (out of 168)	50 30%	76 45%	34 20%	8 5%
Top-500 (out of 62)	33 53%	23 37%	5 8%	1 2%
Trusts (out of 11)	6 55%	5 45%	0	0

46 Although these results are from a relatively small sample of listed entities the fact that only 5% of the sample were regarded as poor indicates that corporate governance reporting has improved considerably since the introduction of the Recommendations in 2003. ASXMS considers the following factors have contributed to the continuing improvement in the overall levels of reporting:

- Listed entities are more familiar with and better understand the Principles and Recommendations in their fifth year of operation.
- ASXMS has had a continuing program of monitoring corporate governance disclosures since the reviews commenced in 2005 and the release of the results of its reviews of corporate governance disclosures over the last five years has assisted in improving reporting levels.
- The continuing high profile of corporate governance issues as a result of the Council's public consultation on the revisions to the Principles and Recommendations.
- The release of the Revised Recommendations in August 2007 and the *Revised Supplementary Guidance to Principle 7* in June 2008.
- The release by the ASXMS of over 30 Companies Updates since 2003 addressing issues relevant to corporate governance reporting and the ongoing commitment of ASXMS to educate listed entities and their advisers on the Revised Principles and the Revised Recommendations
- The flexibility of the Principles and Recommendations to allow entities to adopt and explain corporate governance practices appropriate to their circumstances.

47 Entities are reminded that in reporting for the 30 June financial year end the Revised Recommendations apply to all entities. While not essential, companies are encouraged to report against the Revised Recommendations consecutively.

48 In relation to the practice-based Recommendations the corporate governance statement should detail the entity's practices in relation to each of the elements of the practice-based Recommendations, and if the practice in the Recommendation is not adopted reasons why not should be given. If the practice-based Recommendation refers to disclosure, details should be disclosed in the annual report or details should be given in the annual report as to where the relevant information required is disclosed.

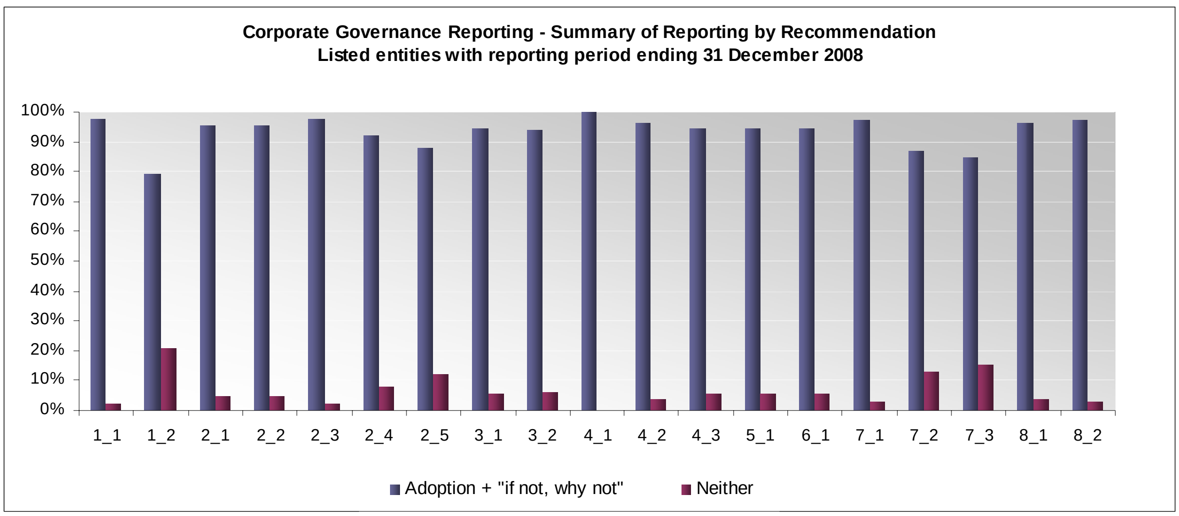
49 In relation to the information-based Recommendations entities should clearly state in the annual report where the relevant documentation or information is publicly available. It is intended that this be the company website but if that is not possible then some other location should be specified.

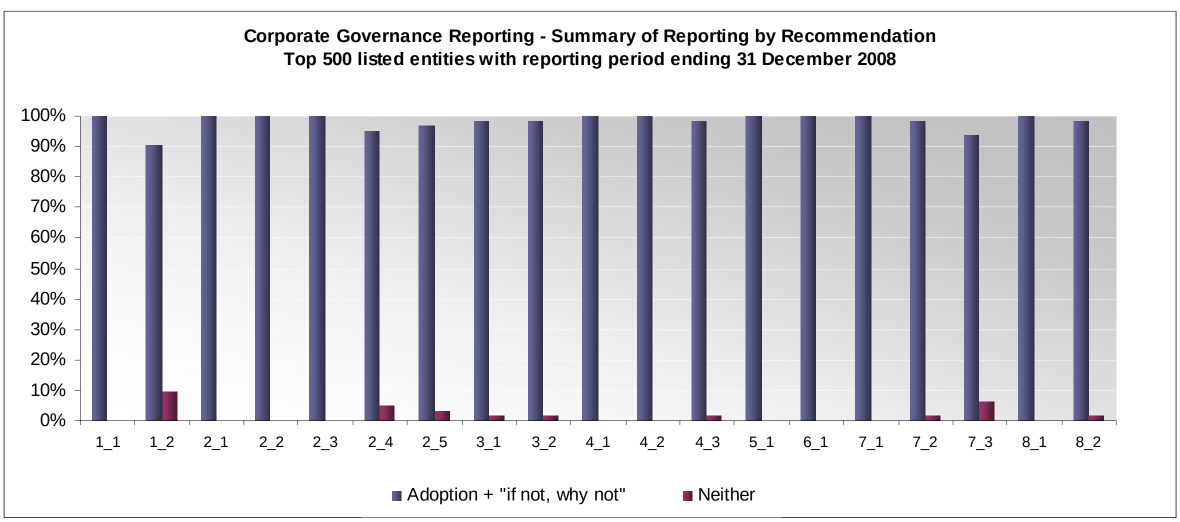
50 Key messages for corporate governance reporting are contained in Appendix 1 to this report are intended as a guide to the minimum that is required to ensure compliance with the Listing Rules.

OVERALL REPORTING LEVELS

51 Overall reporting levels, being the aggregate of the levels of adoption of the Recommendations and the levels of “if not, why not” reporting have been measured since 2004 against the 28 Recommendations of 2003. In the 31 December Review the overall reporting levels are the aggregate levels of adoption and “if not, why not” reporting for the 19 practice-based Recommendations. The overall reporting levels for the 19 practice-based Recommendations for all 31 December entities including trusts was 93.4% and for top-500 entities was 98.3%.

	All Entities (Incl Trusts) 31 December 2008	Top-500 (Incl Trusts) 31 December 2008
Overall reporting levels across 19 practice-based Recommendations	93.4%	98.3%
> 90% reporting level	15 out of 19	19 out of 19
> 80% reporting level	18 out of 19	19 out of 19



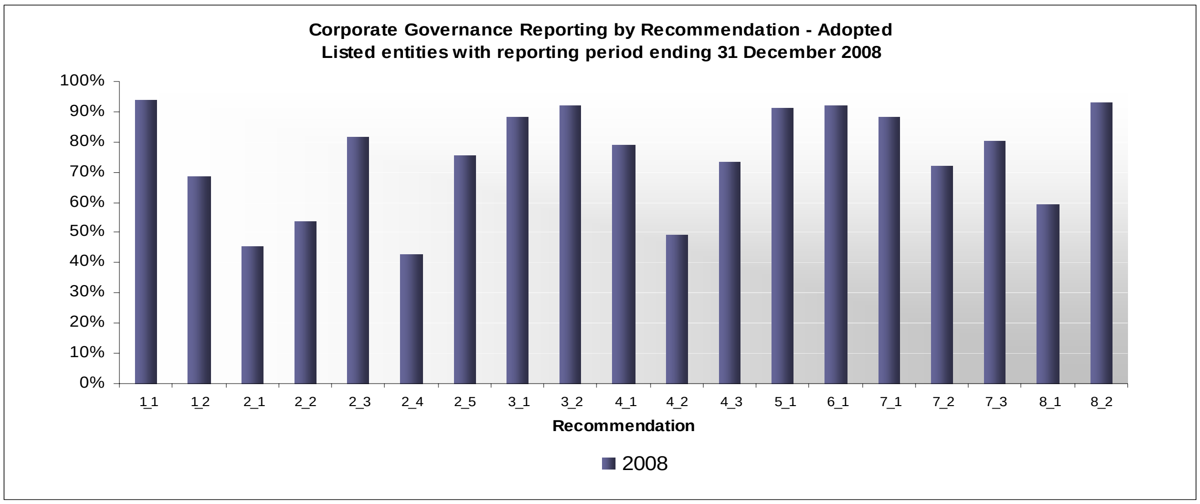


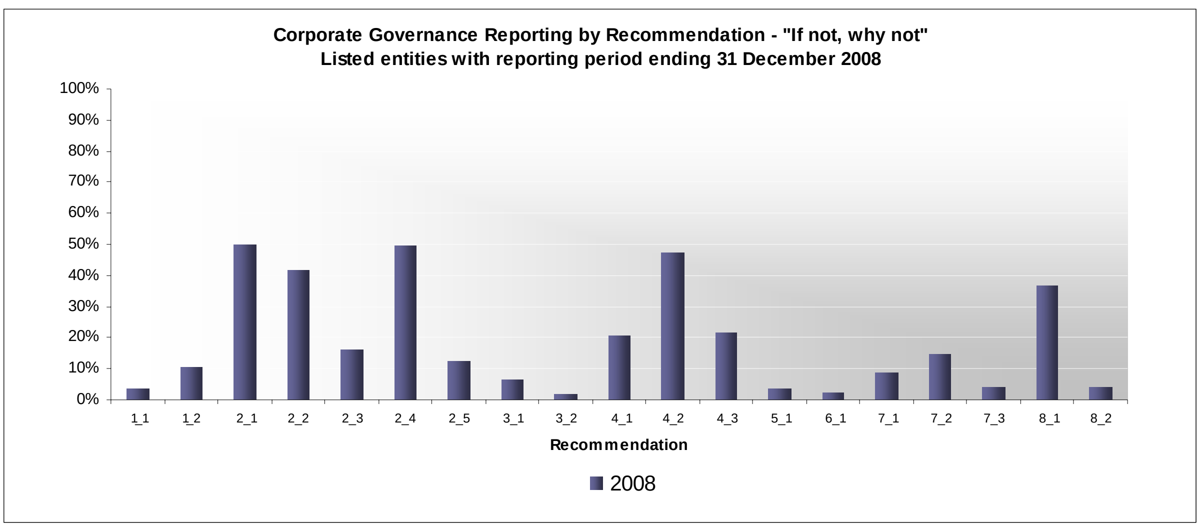
Overall Adoption, “If Not, Why Not” and No Reporting Levels

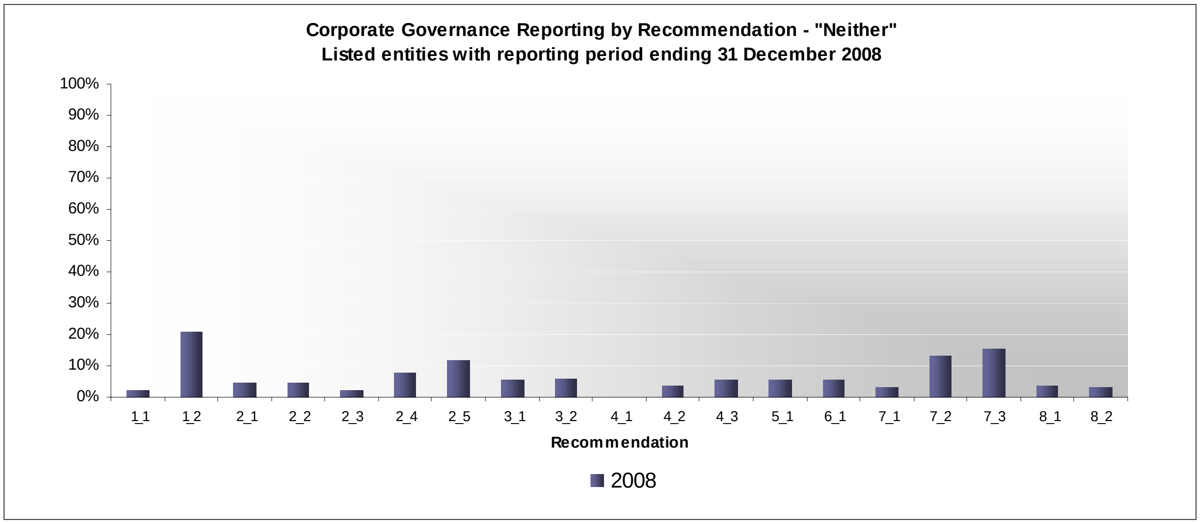
52 Overall adoption, “if not, why not” and no reporting levels are set out in the following tables. Recommendation by Recommendation results are set out in the graphs.

	All Entities (Incl Trusts) 31 December 2008	Top-500 (Incl Trusts) 31 December 2008
Overall adoption reporting levels	75%	89%
Overall “if not, why not” reporting levels	19%	9%
Overall no reporting levels	6%	2%

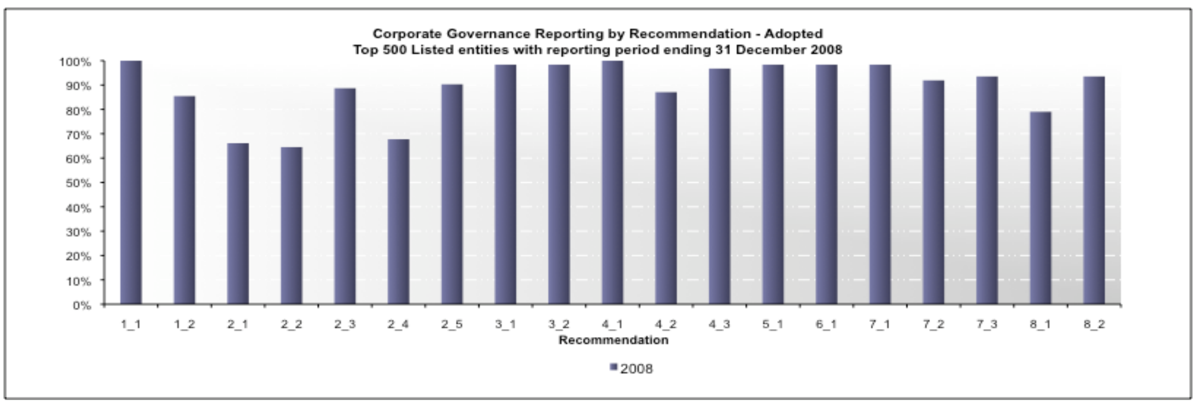
All Entities

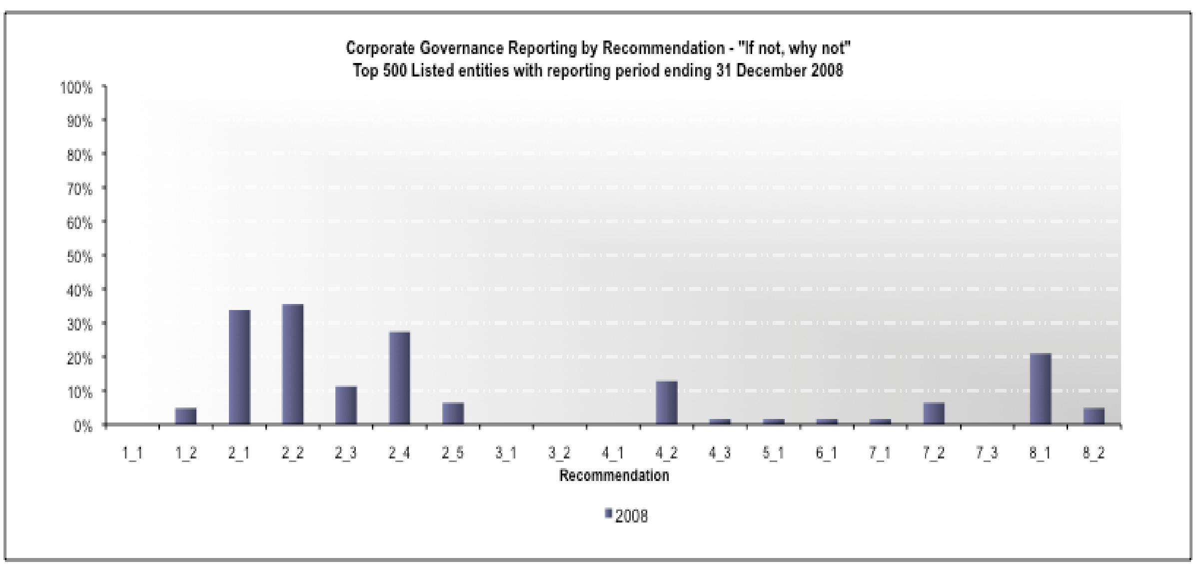


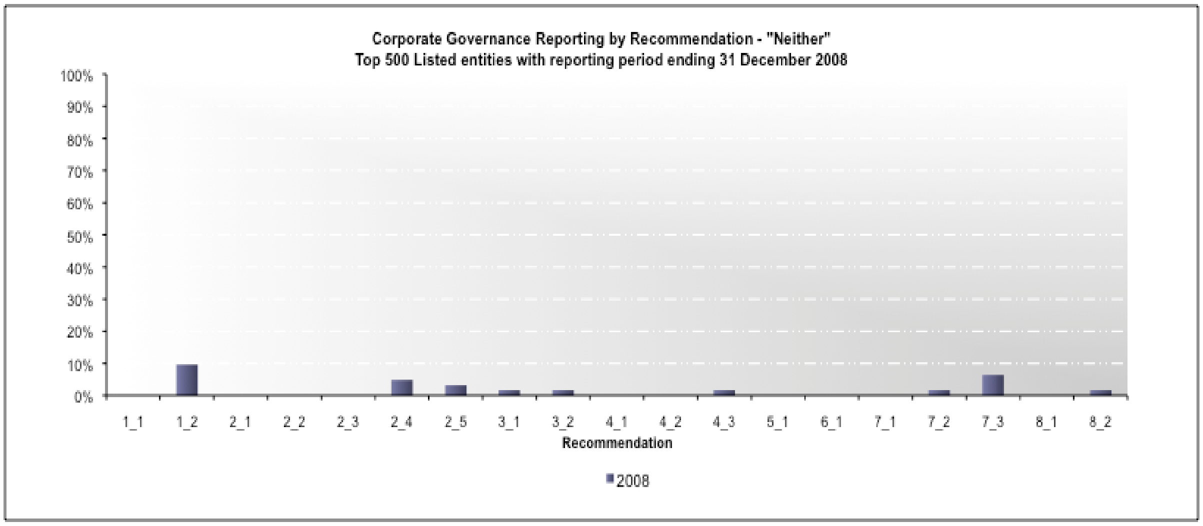




Top-500 Listed Entities







Specific Recommendation Reporting

53 The application of the Revised Recommendations to the review of 31 December entities' annual reports means that comparison with previous years' reporting results for entities with a 30 June balance date is problematic. There has been a renumbering of Recommendations with deletions and additions, and in other cases subtle changes to the wording which makes comparison questionable. As mentioned previously, there have also been some changes to the methodology of the review. In addition, this is the first time there has been a review of governance disclosures by 31 December entities. Accordingly, ASX has decided not to draw comparisons with reporting levels in prior years by entities with a 30 June balance date.

Principle 1 – Lay Solid Foundations for Management and Oversight

Principle 1 – Lay solid foundations for management and oversight		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
1.1 Companies should formalise the functions reserved to the board and those delegated to senior executives and disclose those functions.	All Entities	158 94%	6 4%	164 98%	4 2%
	Top-500	62 100%	0	62 100%	0
1.2 Companies should disclose the process for evaluating the performance of senior executives.	All Entities	115 68%	18 11%	133 79%	35 21%
	Top-500	53 85%	3 5%	56 90%	6 10%

54 Revised Recommendation 1.1 has been slightly amended to more specifically state that entities should formalise functions reserved to the board and those delegated to senior executives, and should disclose those functions.

55 The overall reporting level for Recommendation 1.1 is 98%. ASXMS notes that this level of reporting relates to the number of entities reporting on the formalising of functions reserved to the board and those delegated to senior management in a general way. This result does not necessarily have regard to the other element of this Recommendation, that of disclosure. In the past, the review of corporate governance reporting looked for reporting on the substantive element of the Recommendation. In this instance this would have been an acceptable level of reporting on the functions reserved to the board.

56 Revised Recommendation 1.2 is new and deals with disclosure of the process for evaluating the performance of senior executives.[6] Recommendation 1.3 recommends reporting on whether the evaluation took place. Overall reporting against Recommendation 1.2 was 79% (68% adopting and 11% "if not why not" reporting). 21% did not report at all on this issue. In reviewing this Recommendation ASXMS is looking for a clear description of the actual process used by an entity to evaluate the performance of senior executives. Details of whether the performance evaluation took place in the relevant year are also required as well as some commentary on whether the evaluation was in accordance with the process disclosed.

57 There was 100% reporting in relation to Recommendation 1.1 by top-500 entities and trusts. In relation to Recommendation 1.2, 90% of top-500 entities reported on the process and 10% did not report at all. These high levels of reporting indicate a sound understanding by top-500 entities of the level and nature of reporting required by the Recommendations.

58 Revised Recommendation 1.3 requires companies to provide the information indicated in the *Guide to Reporting on Principle 1*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 1* is as follows:

- An explanation of any departures from Recommendations 1.1,1.2 or 1.3;
- Whether a performance evaluation for senior executives had taken place in the reporting period and whether it was in accordance with the process disclosed; and

[6] Recommendation 8.1 in the 2003 Recommendations dealt with the disclosure of the process for performance evaluation of the board, its committees and individual directors and key executives. This Recommendation has now been split between Revised Recommendations 1.2 and 2.5.

- Whether a statement of matters reserved for the board or board charter, or statement of areas of delegated authority to senior executives have been made publicly available.

59 Preliminary indications are that significantly fewer entities are providing this information than are reporting in accordance with Recommendations 1.1 and 1.2. The relatively low level of entities providing the information specified in Recommendation 1.3 indicates there is room for improvement in this area and this will be monitored closely by ASXMS in future corporate governance reporting.

Principle 2 – Structure the Board to Add Value

Principle 1 – Lay solid foundations for management and oversight		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
2.1 A majority of the board should be independent directors.	All Entities	76 45%	84 50%	160 95%	8 5%
	Top-500	41 66%	21 34%	62 100%	0
2.2 The chair should be an independent director.	All Entities	90 53%	70 42%	160 95%	8 5%
	Top-500	40 65%	22 35%	62 100%	0
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	All Entities	137 81%	27 16%	164 97%	4 3%
	Top-500	55 89%	7 11%	62 100%	0
2.4 The board should establish a nomination committee.	All Entities	72 43%	83 49%	155 92%	13 8%
	Top-500	42 68%	17 27%	59 95%	3 5%
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	All Entities	127 76%	21 12%	148 88%	20 12%
	Top-500	56 90%	4 7%	60 97%	2 3%

60 Principle 2 is about structuring boards to add value. Revised Recommendations 2.1 to 2.4 are similar to the 2003 Recommendations.

61 Recommendation 2.1 is about boards having a majority of independent directors. Consistent with previous reviews "if not, why not" reporting in relation to Recommendation 2.1 is higher than adoption reporting. 50% of

entities reviewed "if not, why not" reported and 45% adopted the Recommendation. 5% of entities reviewed did not report at all on the issue of independence. These results were slightly different for the top-500 entities with 66% indicating they had a majority of independent directors and 34% indicating they did not have a majority of independent directors.

62 The high level of "if not, why not" reporting confirms anecdotal evidence that smaller listed entities are more likely to adopt alternative board and committee structures and report on an "if not, why not" basis. The continued high rate of "if not, why not" reporting is also evidence of the ongoing acceptance and adoption of the corporate governance reporting framework outlined in the ASX Listing Rules and the Revised Principles.

63 There was a consistently high level of reporting in relation to Recommendations 2.1 to 2.5 by top-500 entities. Once again, these high levels of reporting indicate a sound understanding by top-500 entities of the level and nature of reporting required by the Revised Recommendations.

"Independence" of Directors

64 To ensure compliance with the Listing Rules ASXMS expects entities to specifically state in the annual report which of its directors it considers to be independent and which it does not.

65 The need for clear disclosure of the existence of the relationships in Box 2.1 and the board's reasoning for deeming a director "independent", despite the existence of one of these relationships, is also an area for which ASXMS has particular regard. The Revised Principles clearly require entities to identify "independent" directors, the existence of any "relationships affecting independent status" and the reasons why a board considers a director independent, notwithstanding the existence of any of these relationships. The changes to the commentary in Revised Recommendation 2.1 were designed to encourage entities to communicate their reasoning clearly in situations where one of these relationships exists but the board determines a director is independent.

66 The 31 December review found that approximately 8% of entities reviewed deemed directors "independent" notwithstanding the existence of relationships in Box 2.1. 9 or 5% of these entities were in the top-500. Reasons provided by entities for deeming a director independent despite the existence of one of the relationships in Box 2.1 included:

- The relevant director was a substantial shareholder or a director of a substantial shareholder which did not impact on their independence.
- The director was a former adviser/consultant/lawyer but could still be independent.
- The director was a former executive but was not impeded in their ability to act in the best interests of the company.
- Existing business dealings were at arm's length and were less favourable than business dealings with non-related parties.
- The board had additional safeguards in place to manage conflicts of interest.

67 ASXMS considers that the reasons a board determines a director to be independent should be more precise than simply making assertions that the director is or could still be independent despite the existence of one or more of the relationships in Box 2.1. In particular, a statement that "a director's industry experience was considered more important by the board than their independence" does not address the reporting requirement of explaining why a director is independent. This of particular relevance where Listing Rule 12.7 is involved, concerning the requirement for a complying audit committee..

68 Revised Recommendation 2.5 is new[7] and deals with disclosure of the process for evaluating the performance of the board, its committees and individual directors. Revised Recommendation 2.6 recommends reporting on whether the evaluation took place. Overall reporting against Revised Recommendation 2.5 was 88% (76%

[7] Recommendation 8.1 in the 2003 Recommendations dealt with the disclosure of the process for performance evaluation of the board, its committees and individual directors and key executives. This recommendation has now been split between Revised Recommendations 1.2 and 2.5.

adopting and 12% “if not why not” reporting). 12% did not report at all on this issue. Significantly, fewer entities reviewed reported on or provided information in relation to whether the performance evaluation had taken place as proposed by Revised Recommendation 2.6. In reviewing this Recommendation, ASXMS looks for a clear description of the actual process used by an entity to evaluate the performance of the board. Details of whether the performance evaluation took place in the relevant year are also required, as well as some commentary on whether the evaluation was in accordance with the process disclosed.

69 Revised Recommendation 2.6 requires companies to provide the information indicated in the *Guide to Reporting on Principle 2*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in *the Guide to Reporting on Principle 2* is as follows:

- Description of skills and experience of directors.
- Names of independent directors.
- Existence of relationships in Box 2.1 and explanation.
- Statement whether there is a procedure for directors to take independent advice at the entity’s expense.
- Period of office held by each director.
- Names and details of nomination committee and meetings.
- Where an entity does not have a nomination committee, how the functions of a nomination committee are carried out.
- Whether performance evaluation of board, etc, has taken place in the reporting period and whether it was in accordance with the process disclosed.
- Whether a description of the procedure for the selection and appointment of new directors and the re-election of incumbent directors is publicly available.
- Whether the nomination committee charter (or summary) is publicly available.
- Whether the board’s policy for nomination committee is publicly available.
- An explanation of any departure from Recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6.

70 This is the first time that a breakdown of the review of this type of Recommendation has been done. The review indicates that in the areas of reporting with which entities are familiar disclosure levels are high. In areas where the Recommendation has nominated information not previously specified disclosure is relatively low and could be improved. ASXMS will be monitoring the provision of this information in future corporate governance reporting.

Principle 3 – Provide Ethical and Responsible Decision-Making

Principle 3 – Promote ethical and responsible decision making		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
3.1 Companies should establish a code of conduct and disclose the code or a summary as to: - the practices necessary to maintain confidence in the company's integrity - the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	All Entities	148 88%	11 7%	159 95%	9 5%
	Top-500	61 98%	0	61 98%	1 2%
3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary.	All Entities	155 92%	3 2%	158 94%	10 6%
	Top-500	61 98%	0	61 98%	1 2%

Codes of Conduct

71 Revised Recommendation 3.1 replaces the former Recommendations 3.1 and 10.1. In its redrafted format it is similar to the former Recommendation 3.1 but incorporates the substance of the 2003 Recommendation 10.1 that dealt with codes of conduct taking into account legal obligations and the expectations of stakeholders.

72 Particular focus has been given to the reporting and disclosure of codes of conduct in recent years. As a result, significant improvements in the reporting and disclosure of codes of conduct were evident in the 30 June review. This understanding about the reporting of codes of conduct was also evident in the 31 December review, despite the changes that had occurred in the relevant Recommendations. 95% of entities reviewed reported in some way in relation to Recommendation 3.1 and in the top-500 98% of entities reported in some way.

73 A key change to Revised Recommendation 3.1 is the requirement to "disclose the code or summary as to the:

- Practices necessary to maintain confidence in the company's integrity;
- Practices necessary to take into account their legal obligations and the expectations of their stakeholders; and
- Responsibility and accountability of individuals for reporting and investigating reports of unethical practices."

74 ASXMS notes that the high level of reporting in relation to Revised Recommendation 3.1 relates to the number of entities reporting on the establishment of a code of conduct in a general way. This result does not necessarily have regard to other elements of this Recommendation, that of disclosure of particular practices. In the past, the review of corporate governance reporting looked for reporting on the substantive element of the Recommendation. In this instance, there would have been an acceptable level of reporting on the establishment

of a code of conduct. The 31 December review indicated that fewer entities actually reported against each element of Recommendation 3.1 and/or necessarily disclosed the code of conduct in the detail recommended.

Trading Policies

75 Revised Recommendation 3.2 has been amended to require the establishment of a policy concerning trading in an entity's securities and disclosure of that policy. Previously, this Recommendation only dealt with disclosure of the entity's policy. No longer is it sufficient to say that company policy in relation to trading in securities by directors is "in accordance with the law". Entities must now report that they have established a trading policy and disclose the policy or a summary of it in their annual report.

76 The high levels of reporting in the 31 December review in relation to Recommendation 3.2 - 155 or 92% of all entities and 98% of top-500 entities - are indicative of the review process where general reporting on the trading policy was regarded as sufficient. A preliminary review of disclosure of the trading policy or a summary in the 31 December annual reports reviewed indicated that there was considerable room for improvement in reporting on this area.

77 Revised Recommendation 3.3 requires entities to provide the information indicated in the *Guide to Reporting on Principle 3.* For the purposes of this and future reviews, this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 3* is as follows:

- Explanation of departure from Recommendations 3.1, 3.2 or 3.3.
- Applicable code of conduct made publicly available.
- Whether the trading policy or a summary is made publicly available.

78 As indicated above the preliminary indications are that significantly fewer entities are providing the information required under Recommendation 3.3 than are reporting in accordance with Recommendations 3.1 and 3.2. Entities not providing the information specified in Recommendation 3.3 will be monitored closely by ASXMS in future corporate governance reporting.

Principle 4 – Safeguard Integrity in Financial Reporting

Principle 4 – Safeguard integrity in financial reporting		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
4.1 The board should establish an audit committee.	All Entities	133 79%	35 21%	168 100%	0 0%
	Top-500	62 100%	0	0	0
4.2 The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors	All Entities	83 49%	79 47%	162 96%	6 4%

• is chaired by an independent chair, who is not chair of the board • has at least three members.	Top-500	54 87%	8 13%	62 100%	0
4.3 The audit committee should have a formal charter.	All Entities	123 73%	36 22%	159 95%	9 5%
	Top-500	60 98%	1 2%	61 98%	1 2%

79 The major change to the Recommendations in Principle 4 was the deletion of the Recommendation requiring the statement by the CEO and CFO regarding the entity's financial reports. This Recommendation was deleted as it is now encompassed in the law at s295A of the Corporations Act.

80 The 100% compliance with reporting in relation to Recommendation 4.1 is an indication that there is sound understanding by all entities of this Recommendation. The 100% adoption of an audit committee by the top-500 entities is consistent with Listing Rule 12.7 which requires all top-500 entities to have an audit committee.

81 For the purposes of the corporate governance reporting review, only entities that report the establishment of a separately constituted audit committee from the board are regarded as "establishing an audit committee". Entities reporting that the "board performs the duty of the audit committee" or words to that effect are regarded as "if not, why not" reporting. Entities "if not, why not" reporting for Recommendation 4.1 are required by Recommendation 4.4 to explain how the functions of an audit committee are carried out if no audit committee exists.

82 All entities outside the top-500 that "if not, why not" report against Recommendation 4.1 are, in the absence of further reporting, regarded as "if not, why not" reporting for the remaining Recommendations 4.2 and 4.3. This is because if the entity is outside the top-500 it is not required to have an audit committee and if it reports effectively why it does not have one and how the functions of an audit committee are carried out, then those reasons are regarded as applying to all Principle 4 Recommendations.

83 Revised Recommendation 4.4 requires entities to provide the information indicated in the *Guide to Reporting on Principle 4*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 4* is as follows:

- Names and qualifications of audit committee members and their attendance at meetings of the committee.
- If no audit committee then an explanation of how the functions of an audit committee are carried out.
- Number of meetings of the audit committee.
- Explanation of any departure from Recommendations 4.1, 4.2, 4.3 or 4.4.
- Audit committee charter made publicly available.
- Information on the procedures for the appointment and rotation of external auditor made publicly available.

84 There is room for improvement in the provision of information required by Recommendation 4.4 and AXSMS will be monitoring the provision of this information in annual reports.

Principle 5 – Make Timely and Balanced Disclosure

Principle 5 – Make timely and balanced disclosure		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary.	All Entities	153 91%	6 4%	159 95%	9 5%
	Top-500	61 98%	1 2%	62 100%	0

85 The key change to Revised Recommendation 5.1 is the inclusion of words dealing with the disclosure of policies or a summary of the policies relating to continuous disclosure in the corporate governance statement.

86 Reporting levels for Recommendation 5.1 are relatively high at 95% for all entities and 100% for the top-500. ASXMS notes that this level of reporting relates to the number of entities reporting on continuous disclosure requirements in some way and does not necessarily have regard to the other element of this recommendation, that of disclosure of the policies relating to continuous disclosure or a summary of those policies. A preliminary review of disclosure of policies indicates that there is considerable room for improvement in this area.

87 Revised Recommendation 5.2 requires entities to provide the information indicated in the *Guide to Reporting on Principle 5*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 5* is as follows:

- Explanation of any departure from Recommendations 5.1and 5.2.
- Whether the policy or a summary of the continuous disclosure policy is made publicly available.

88 ASXMS will be monitoring the establishment and disclosure of these policies closely in future corporate governance reviews.

Principle 6 – Respect the Rights of Shareholders

Principle 6 – Respect the rights of shareholders		Adopted	If not, why not Reported	Overall Reporting	No Reporting
6.1 Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose a summary of the policy.	All Entities	155 92%	4 2%	159 94%	9 6%
	Top-500	61 98%	1 2%	62 100%	0

89 The key change to Revised Recommendation 6.1 is the reference to the design and disclosure of a "communications policy" rather than a "communications strategy".

90 Reporting against this Recommendation is 100% for the top-500 entities and slightly lower at 94% for all entities indicating a sound understanding in the top-500 but room for improvement in reporting outside the top-500.

91 In the future, effective reporting in relation to Recommendation 6.1 will require the disclosure of the communications policy or a summary of that policy in the corporate governance statement. Such a policy should include reference to how the entity encourages participation of shareholders at general meetings.

92 The commentary in relation to Recommendation 6.1 proposes that all entities should have a website and are encouraged to communicate with shareholders via electronic methods. In the 31 December review 82% of all entities reviewed and 95% of top-500 entities reviewed were shown to have a website. ASXMS will continue to monitor this for information purposes.

93 Revised Recommendation 6.2 is new and replaces the Recommendation dealing with the attendance by the external auditor at the annual general meeting. Recommendation 6.2 requires entities to provide the information indicated in the *Guide to Reporting on Principle 6.* For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 6* is as follows:

- Explanation of any departure from Recommendations 6.1or 6.2.
- Policy or summary of shareholder communication policy made publicly available.
- Company has a website to communicate information to shareholders.

94 Preliminary indications are that significantly fewer entities are providing information required by Recommendation 6.2 than are reporting in accordance with Recommendation 6.1. Entities not providing the information specified in Recommendations 6.1 and 6.2 will be monitored closely by ASXMS in future corporate governance reporting.

Principle 7 – Recognise and Manage Risk

Principle 7 – Recognise and manage risk		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
Recommendation 7.1					
7.1 Companies should establish policies on risk oversight and management and disclose a summary of those policies.	All Entities	148 88%	15 9%	163 97%	5 3%

(See Table below for categories of risk reported on)	Top-500	61 98%	1 2%	62 100%	0
In the rows below are number of entities actually referring to the specific types of polices.					
Policy on risk oversight.	All Entities	124 74%			
	Top-500	56 91%			
Policy on management of material business risks.	All Entities	109 65%			
	Top-500	54 87%			

Recommendation 7.2

7.2 The board should require management to design, assess, monitor and review the risk management and internal control framework in place to manage the company's material business risks. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks and whether the board is satisfied that those risks are being managed in accordance with the company's risk appetite.

Analysis of reporting against this recommendation was broken down into several components. The results are below.

Is it reported in the AR that the board has required management to implement the risk management system.	All Entities	114 68%
	Top-500	56 90%
Is there disclosure in the AR of a report by management to the board re risk management.	All Entities	97 58%
	Top-500	53 86%
Is there mention in the AR on the "effectiveness" of the company's risk management system.	All Entities	100 60%
	Top-500	54 87%
Adoption	All Entities	121 72%

	Top-500	57 92%
"If not, why not" Reported	All Entities	25 15%
	Top-500	4 6%
No reasons given	All Entities	22 13%
	Top-500	1 2%

Recommendation 7.3					
7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound framework of risk management and internal control and that the framework is operating effectively in all material respects.	All Entities	135 80%	7 4%	142 84%	26 16%
	Top-500	58 94%	4 6%	62 100%	0

Categories of Risk Reported On		
Total Number of Entities Reporting on:	31 December 2008 All Entities 168	31 December 2008 Top-500 62
A wider range of risk management policies	96 57%	54 87%
Operational risk	58 34%	33 53%
Environmental risk	48 29%	32 51%
Sustainability	18 11%	16 26%
Climate change	9 5%	8 13%

Categories of Risk Reported On		
Compliance	79 47%	41 66%
People	26 15%	20 32%
Strategic	24 14%	15 24%
Ethical conduct	14 8%	9 14%
Reputation/Brand	22 13%	17 27%
Technological	12 7%	10 16%
Product service quality	11 6%	8 13%
Human capital	17 10%	12 19%
Financial reporting	88 52%	44 71%
Market-related risks	24 14%	17 27%
Policy located on website	67 40%	45 72%

95 A significant amount of attention has been given to the area of risk management reporting and processes in recent years. Last year's *Analysis of Corporate Governance Disclosures in 2007 Annual Reports* focussed on the reporting of risk management and highlighted the need for an increased level of reporting by many entities. A *Revised Supplementary Guidance to Principle 7* was also released by the Council in June 2008. As a result, there was a dramatic increase in the level of reporting on risk evident in the June 2008 corporate governance review even though the Revised Principles did not apply.

96 Revised Principle 7 does now apply and the Revised Recommendations require a more comprehensive approach to risk management policies and processes than previously.

97 Revised Recommendation 7.1 has been amended to require that entities establish policies for the oversight and management of material business risks and disclose a summary of those policies.

98 The results of the 31 December review show that entities have for the most part acknowledged the need for increased reporting in this area and responded accordingly. 97% of all entities reviewed and 100% of top-500 entities reviewed reported in some way on the establishment of risk policies. Slightly less than this number referred specifically to the establishment of policies for oversight of risk and/or policies for management of material business risks as required by Recommendation 7.1. Once again, ASXMS notes that this level of reporting relates to the number of entities reporting on the establishment of risk policies in a general way. The results do not have regard to the other element of this recommendation, that of disclosure.

99 Revised Recommendation 7.2 is new and has a number of elements, namely:

- The board should require management to design and implement the risk management and internal control system to manage an entity's material business risks.
- The board should require management to report to it on whether those risks are being managed effectively.
- The board should disclose that management has reported to it as to the effectiveness of the entity's management of its material business risks.

100 Reporting against the new Recommendation 7.2 saw approximately 87% of all entities and 98% of top-500 entities reviewed reported in some way against some aspects of Recommendation 7.2. The results for a breakdown of the elements of this Recommendation were less than this, however, with 67% of entities reviewed reporting that the board has required management to implement the risk management system; 57% of entities reviewed reporting disclosure in the annual report of a report by management to the board regarding risk management; and 59% of entities reviewed reporting on the "effectiveness" of the entity's risk management system. ASXMS will be reviewing 30 June 2009 annual reports to ensure that each element of Recommendation 7.2 is reported against in some way (ie either adopted or "if not why not" reported) to satisfy compliance with the Listing Rules. This may result in slightly different results to previous years but it should assist companies in understanding the level of reporting that is being sought.

101 The Revised Recommendations encourage entities to determine and report on a wider range of business risks in the commentary to Recommendation 7.1. ASXMS has been monitoring the reporting against the categories of risk referred to in the commentary to Recommendation in the previous two 30 June corporate governance reviews, as well as in this 31 December review. The results of the 31 December review are set out in the above table. 96 or 57% of all entities reviewed and 54 or 87% of top-500 entities reviewed reported on a wider range of risk management policies. Only 40% of entities reviewed disclosed the policy or a summary of the risk management policy on a website. ASXMS will continue to remind entities of the increased disclosure requirements.

102 Revised Recommendation 7.3 is an amended version of the previous Recommendation 7.2 and requires the board to disclose whether it has received from the CEO and CFO an assurance that the s.295A declaration is founded on a sound framework of risk management and internal control, and is operating effectively. 100% of top-500 entities reviewed reported in some way on this recommendation but only 84% of all entities reported on this recommendation. This indicates that there is a need for entities outside the top-500 to gain an understanding of the requirements of Principle 7 and report accordingly.

103 Revised Recommendation 7.4 requires entities to provide the information indicated in the *Guide to Reporting on Principle 7*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this information was provided or not. The information indicated in the *Guide to Reporting on Principle 7* is as follows:

- Explanation of any departure from Recommendations 7.1, 7.2, 7.3 or 7.4.
- Whether the board has received the report from management under Recommendation 7.2.
- Whether the board has received assurrance from the CEO and CFO re the s.295A declaration.
- Whether a summary of the entity's policies on risk oversight and management of material business risks is publicly available.

Principle 8 – Remunerate Fairly and Responsibly

Principle 8 – Remunerate fairly and responsibly		Adopted	"If not, why not" Reported	Overall Reporting	No Reporting
8.1 The board should establish a remuneration committee.	All Entities	100 59%	62 37%	162 96%	6 4%
	Top-500	49 79%	13 21%	62 100%	0
8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	All Entities	156 93%	7 4%	163 97%	5 3%
	Top-500	58 93%	3 5%`	61 98%	1 2%

104 Revised Principle 8 dealing with remuneration is based on the previous Principle 9 but the Recommendations have been significantly redrafted as much of the previous Principle 9 dealt with remuneration reporting which has now been incorporated into the Corporations law or financial reporting regulations. Revised Principle 9 is mainly concerned with the establishment of a remuneration committee and the structuring of executive and non-executive remuneration. Reporting in relation to both Recommendations in Principle 8 is over 95%. Actual adoption of the Recommendation regarding the establishment of a remuneration committee is not as high as "if not, why not" reporting which is consistent with the reporting levels of entities with a 30 June year end.

105 Revised Recommendation 8.3 requires entities to provide the information indicated in the *Guide to Reporting on Principle 8*. For the purposes of this and future reviews this Recommendation has been identified as an information-based Recommendation and as such the review has considered whether this was provided or not. The information indicated in the *Guide to Reporting on Principle 8* is as follows:

- Explanation of any departure from Recommendations 8.1, 8.2, or 8.3.
- Names of members of the remuneration committee and meeting information or if no committee, how the functions of the remuneration committee are carried out.
- The existence and terms of any schemes for retirement benefits, other than superannuation, for non-executive directors.
- Whether the remuneration committee charter or a summary is made publicly available.
- A summary of an entity's policy on prohibiting transactions in associated products which limit risk of participating in unvested entitlements under any equity-based remuneration schemes.

106 This is the first time that a breakdown of the review of this type of Recommendation has been done. ASXMS will be monitoring the provision of this information in future corporate governance reporting.

Background Information

107 ASX has produced annual reviews of corporate governance reporting in annual reports since May 2005. These reviews cover reporting of corporate governance practices reported in annual reports between 2004 and 2008.[8] This review of annual reports of entities with a 31 December 2008 financial year end is the first review of 31 December financial year end entities and the first review of corporate governance reporting against the Revised Recommendations.

108 The ASX Listing Rules contain three rules which specifically support the Principles and the Recommendations - Listing Rule 4.10.3, Listing Rule 12.7 and Listing Rule 1.1 Condition 13.

109 Listing Rule 4.10.3 requires entities to disclose in the corporate governance statement of the annual report the extent to which the company has followed the Recommendations for the period covered by the report and, if a Recommendation is not followed, the reasons for not following the Recommendation. Disclosure is to be on an "if not, why not" basis.

110 Listing Rule 12.7 requires that all entities included in the S&P/ASX All Ordinaries Index at the beginning of their financial year comply with Recommendation 4.2 and have an audit committee in place from the commencement of the financial year. In addition, Listing Rule 12.7 requires that the composition of the audit committee for all entities in the top-300 of that Index must comply with Recommendation 4.3 and comprise only non-executive directors, a majority of independent directors, an independent chairperson who is not the chair of the board, and comprises at least three members. Listing Rule 1.1 Condition 13 reflects Listing Rule 12.7 and requires newly listed entities included in either the top-300 or top-500 to meet similar audit committee requirements on listing.

Methodology

111 In the first instance, the review considered compliance with the Listing Rules, in particular Listing Rule 4.10.3. An entity was found to have complied with this Listing Rule in relation to a Recommendation where the entity reported on its approach to the Recommendation in some form and whether it followed or adopted the Recommendation or not and, if not, provided some explanation for why not. The explanation could be in the form of reasons for non-adoption of the Recommendation - for example, the entity was too small to justify appointment of independent directors; or in the form of a description of an alternate practice - for example, that the whole board performs the duty of a particular committee.

112 The review considered compliance with Listing Rule 12.7 in relation to audit committees for those entities required to comply with this Rule.

113 The review also looked at the rate of actual adoption of each of the Recommendations in addition to the rate of compliance with the Listing Rules.

114 The review did not consider:

- Reporting against each element of a Recommendation where there was more than one element; or
- The specific disclosure or provision of information where this requirement was one of a number in any one Recommendation.

115 In future corporate governance reviews, ASXMS will be monitoring reporting against all elements of each Recommendation and, where disclosure or provision of information is required, the disclosure or provision of the required information.

116 Reviews will continue to monitor adoption and "if not, why not" reporting as well as no reporting in relation to each element of the review.

[8] These reports are at http://www.asx.com.au/supervision/governance/monitoring_compliance.htm.

Appendix 1 – ASX Key Messages Corporate Governance Reporting

<table>
<tr><td colspan="2">KEY MESSAGES - CORPORATE GOVERNANCE REPORTING
In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.</td></tr>
<tr><td>Principle 1</td><td>Recommendation 1.1
• A statement that the entity has established the functions reserved to the board;
• A statement that the entity has established the functions delegated to senior executives;
• A clear description or disclosure of the functions reserved to the board; and
• A clear description or disclosure of the functions delegated to senior executives.

Recommendation 1.2
• A clear description of the process for evaluating the performance of senior executives.

Recommendation 1.3
• An explanation of whether an evaluation of senior executives took place in the financial year;
• If a performance evaluation of senior executives took place a statement as to whether it was in accordance with the process disclosed;
• A statement as to where a copy of matters reserved for the board is publicly available;
• A statement as to where a copy of matters delegated to senior executives is publicly available; and
• A statement as to where a copy of the board charter is publicly available.</td></tr>
</table>

KEY MESSAGES - CORPORATE GOVERNANCE REPORTING

In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.

Principle 2

Recommendation 2.1
- A statement as to whether the board has a majority of directors who are independent; and
- A statement as to which directors are independent and which are not.

Recommendation 2.2
- A statement as to who is the chair of the board and if the chair is independent.

Recommendation 2.3
- A statement as to who is the CEO and, if the same person is the chair, a statement as to the reasons why.

Recommendation 2.4
- A statement as to whether the board has established a nomination committee.

Recommendation 2.5
- A clear description of the process for evaluating the performance of the board, its committees and individual directors.

Recommendation 2.6
- A description of the skills and experience of each director and their period of office;
- Details of the names of the directors considered to be independent and the reasons why they are independent;
- If any of the relationships set out in Box 2.1 apply and the director is still regarded as independent a statement explaining why a director is still considered to be independent;
- A statement whether or not there is a procedure in place for directors to take independent professional advice at the expense of the entity;
- Details of the names of members of the nomination committee and attendance at meetings;
- If the board has not established a nomination committee a statement as to how the functions of the nomination committee are performed;
- An explanation of whether an evaluation of the board, its committees and directors took place in the reporting period;
- If a performance evaluation of the board, its committees and the directors took place a statement as to whether it was in accordance with the process disclosed;
- A description of the procedure for the selection and appointment of new directors and re election of incumbents;
- A statement as to where a copy of the nomination committee charter or a summary is publicly available; and
- A description of the board's policy for the nomination and appointment of directors and details of where this information is publicly available.

KEY MESSAGES - CORPORATE GOVERNANCE REPORTING In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.	
Principle 3	Recommendation 3.1 • A statement that the entity has established a code of conduct as to the: o Practices necessary to maintain confidence in the company's integrity; o Practices necessary to take into account their legal obligations and the expectations of their stakeholders; and o Responsibility and accountability of individuals for reporting and investigating reports of unethical practices; and • Disclosure of the terms of the code of conduct or a summary of the code of conduct in the annual report or a clear statement as to where the code of conduct is disclosed. Recommendation 3.2 • A statement that the entity has established a policy concerning trading in the entity's securities by directors, senior executives and employees; and • Disclosure of the terms of the trading policy or a summary of the trading policy in the annual report or a clear statement as to where the trading policy is located. Recommendation 3.3 • A statement as to where the code of conduct or a summary is publicly available; and • A statement as to where the trading policy or a summary is publicly available.
Principle 4	Recommendation 4.1 • A statement that the entity has established an audit committee. Recommendation 4.2 • A detailed description of the composition of the audit committee including the names of the directors and whether they are independent or not. Recommendation 4.2 • A statement that the entity has adopted an audit committee charter. Recommendation 4.4 • Details of the names and qualifications of those appointed to the audit committee; • If the board has not established a audit committee a statement as to how the functions of the audit committee are performed; • Details of the number of meetings of the audit committee; • A statement as to where a copy of the audit committee charter is publicly available; and • A statement as to the procedures for the selection, appointment and rotation of external audit engagement partners.

KEY MESSAGES - CORPORATE GOVERNANCE REPORTING In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.	
Principle 5	Recommendation 5.1 • A statement that the entity has established written policies designed to ensure: o Compliance with ASX Listing Rule disclosure; and o Accountability at a senior executive level for that compliance; and • Disclosure of the terms of the continuous disclosure policy or a summary of the policy in the annual report or a clear statement as to where the policy is disclosed. Recommendation 5.2 • A statement as to where the continuous disclosure policy or a summary is publicly available.
Principle 6	Recommendation 6.1 • A statement that the entity has designed a communications policy: o For promoting effective communication with shareholders; and o Encouraging shareholder participation at AGMs; and • Disclosure of the terms of the communications policy or a summary of the policy in the annual report or a clear statement as to where the policy is disclosed. Recommendation 6.2 • A statement as to where the continuous disclosure policy or a summary is publicly available.

KEY MESSAGES - CORPORATE GOVERNANCE REPORTING

In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.

Principle 7

Recommendation 7.1

- A statement that the entity has established policies for the oversight of material business risks;
- A statement that the entity has established policies for the management of material business risks; and
- Disclosure of the terms of the risk management policies or a summary of the policies in the annual report or a clear statement as to where the policies are disclosed.
- The categories of risk reported on or referred to in the annual report.

Recommendation 7.2

- A statement that the board has required management to design and implement a risk management and internal control system to manage the entity's material business risks;
- A statement that the board has required management to report to it on whether those risks are being managed effectively; and
- A statement that management has reported to the board as to effectiveness of the entity's management of its material business risks.

Recommendation 7.3

- A statement that the board has received assurance form the CEO and CFO that the s. 295A declaration is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

Recommendation 7.4

- A statement that the board has received the report from management under Recommendation 7.2;
- A statement that the board has received assurance from the CEO and CFO under Recommendation 7.3; and
- A statement as to where the entity's policies on risk oversight and management of material business risks are publicly available.

KEY MESSAGES - CORPORATE GOVERNANCE REPORTING

In the review of 30 June 2009 annual reports ASXMS will be looking for the following in the corporate governance statement/ annual report. If any of these are not provided, reasons should be given for why they are not provided and how the entity otherwise addresses these matters.

Principle 8

Recommendation 8.1

- A statement that the entity has established a remuneration committee.

Recommendation 8.2

- A description of the structure of non-executive directors' remuneration and executive directors' and senior executives' remuneration in sufficient detail that the distinction is clear.

Recommendation 8.3

- Details of the names of the members of the remuneration committee and their attendance at meetings;
- If the board has not established a remuneration committee a statement as to how the functions of the remuneration committee are carried out;
- Details of the existence and terms of any schemes for retirement benefits other than superannuation, for non executive directors;
- A statement as to where a copy of the remuneration committee charter is publicly available;
- A statement as to where a summary of the entity's policy on prohibiting transactions in associated products which limit risk of participating in unvested entitlements under any equity based remuneration schemes is publicly available.

Appendix 2 – ASX Comparative Table of Changes to the Principles and Recommendations

Existing Principle/Recommendation	Revised Principle/Recommendation
Principle 1 – Lay solid foundations for management and oversight	No change
1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	1.1 Companies should formalise the functions reserved to the board and those delegated to senior executives and disclose those functions.
Box 1.1 Content of a director's letter of appointment	Box 1.1 Content of a director's letter upon appointment.
	1.2 Companies should disclose the process for evaluating the performance of senior executives.
	1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.
Principle 2 – Structure the board to add value	No change
2.1 A majority of the board should be independent directors.	No change
Box 2.1 Assessing the independence of directors	Box 2.1 Relationships affecting independent status.
2.2 The chairperson should be an independent director.	2.2 The chair should be an independent director.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	2.3 The roles of chair and chief executive officer should not be exercised by the same individual.
2.4 The board should establish a nomination committee.	No change
2.5 Provide the information indicated in Guide to reporting on Principle 2.	2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.
	2.6 Companies should provide the information indicated in the Guide to reporting on Principle 2.
Principle 3 – Promote ethical and responsible decision making.	No change
3.1 Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:	3.1 Companies should establish a code of conduct and disclose the code or a summary as to:

Existing Principle/Recommendation	Revised Principle/Recommendation
3.1.1 the practices necessary to maintain confidence in the company's integrity.	3.1.1 the practices necessary to maintain confidence in the company's integrity.
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	3.1.2 the practices necessary to take into account their legal obligations and the expectations of their stakeholders.
	3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
Box 3.1 Suggestions for the content of a code of conduct	No change
3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary.
Box 3.2 Suggestions for the content of a trading policy.	No change
3.3 Provide the information indicated in Guide to reporting on Principle 3.	3.3 Companies should provide the information indicated in the Guide to reporting on Principle 3.
Principle 4 – Safeguard integrity in financial reporting.	No change
4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) 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.	4.1 The board should establish an audit committee.
4.2 The board should establish an audit committee.	4.2 The audit committee should be structured so that it: • consists only of non-executive directors • consists of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members.
4.3 Structure the audit committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members.	4.3 The audit committee should have a formal charter.

Existing Principle/Recommendation	Revised Principle/Recommendation
4.4 The audit committee should have a formal charter.	4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.
4.5 Provide the information indicated in Guide to reporting on Principle 4.	See 4.4 above
Principle 5 – Make timely and balanced disclosure.	No change
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.	5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary.
Box 5.1 Continuous disclosure policies and procedures.	Box 5.1 Continuous disclosure policies.
5.2 Provide the information indicated in Guide to reporting on Principle 5.	5.2 Companies should provide the information indicated in the Guide to reporting on Principle 5.
Principle 6 – Respect the rights of shareholders.	No change
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	6.1 Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose a summary of the policy.
Box 6.1 Using electronic communications effectively.	No change
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.	6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.
Principle 7 – Recognise and manage risk.	No change
7.1 The board or appropriate board committee should establish policies on risk oversight and management.	7.1 Companies should establish policies on risk oversight and management and disclose a summary of those policies.
7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that: 7.2.1 the statement given in accordance with best practice Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies	7.2 The board should require management to design, assess, monitor and review the risk management and internal control framework in place to manage the company's material business risks. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks and whether the board is satisfied that those risks are being managed in accordance with the company's risk appetite.

Existing Principle/Recommendation	Revised Principle/Recommendation
adopted by the board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	
7.3 Provide the information indicated in Guide to reporting on Principle 7.	7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound framework of risk management and internal control and that the framework is operating effectively in all material respects.
	7.4 Companies should provide the information indicated in the Guide to reporting on Principle 7.
Principle 8 – Encourage enhanced performance.	See Principle 1 Lay solid foundations for management and oversight. See Principle 2 Structure the board to add value.
8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	For senior executives see 1.2 above. For directors see 2.5 above.
Principle 9 – Remunerate fairly and responsibly	Now Principle 8
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.	8.1 The board should establish a remuneration committee.
Box 9.1 Disclosure of remuneration policies and procedures.	See Box 8.1 below.
9.2 The board should establish a remuneration committee.	8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.
Box 9.2 Content of executive remuneration packages.	Box 8.1 Guidelines for executive remuneration packages.
	Box 8.2 Guidelines for non-executive director remuneration.
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	
Box 9.3 Guidelines for non-executive director remuneration.	See Box 8.2 above.

Existing Principle/Recommendation	Revised Principle/Recommendation
9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	8.3 Companies should provide the information indicated in the Guide to reporting on Principle 8.
9.5 Provide the information indicated in Guide to reporting on Principle 9.	
Principle 10 – Recognise the legitimate interests of stakeholders.	See Principle 3 – Promote ethical and responsible decision making. See Principle 7 – Recognise and manage risk.
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	3.1 Companies should establish and disclose a code of conduct as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity. 3.1.2 the practices necessary to take into account their legal obligations and the expectations of their stakeholders.