MEDIA RELEASE

10 July 2009

Corporate Governance Reporting Continues to Improve

The latest review by the Australian Securities Exchange (ASX) of reporting against the ASX Corporate Governance Council's Principles and Recommendations shows that listed entities, both companies and trusts, continue to improve their corporate governance reporting.

ASX's supervision subsidiary, ASX Markets Supervision (ASXMS), reviewed the FY08 annual reports of 1,510 listed entities that reported with a 30 June balance date. This represented approximately 72% of all listed entities at the time and was not limited to a specific entity size or market sector.

Overall reporting levels – the aggregate of adoption of recommended practices and of 'if not, why not' reporting – rose to 96.3% in 2008, up from 90.5% last year. This is the highest level since ASX began the annual review in 2004. The overall reporting level for the top-500 listed entities also increased, rising to 97.6% in 2008, up from 94% in 2007.

The number of Recommendations with overall reporting levels greater than 90% (ie over 90% of listed entities adopted the recommended practice or provided an 'if not, why not' explanation) increased to 25 out of 28 Recommendations (17 out of 28 in 2007). Among top-500 listed entities, 27 out of 28 Recommendations achieved reporting levels of at least 90% (24 out of 28 in 2007).

Eric Mayne, Chair of the ASX Corporate Council and Chief Supervision Officer of ASX, said: "Overall corporate governance reporting levels have risen over five successive years, highlighting the desirability of Australia's flexible, principles-based approach to corporate governance. Investors are more informed than ever before about the corporate governance practices of listed entities, and entities themselves know the importance of being transparent about their governance arrangements.

"The Principles and Recommendations laid down by the ASX Corporate Governance Council are the market-wide standards by which the corporate governance of listed entities in Australia is reviewed and measured. Any commentary on the governance levels of listed entities should be framed according to these standards.

"Good corporate governance is not restricted to a mandatory adoption of the Recommendations. It can also exist where entities use 'if not why not' reporting; that is, where entities identify the Recommendations they have not followed, disclose why they have not followed them, and explain how their practices accord with the spirit of the relevant Principle. This is encompassed in the ASX Listing Rule.

"The 'if not why not' mechanism enables entities to explain to the market the governance practices they consider appropriate to their circumstances. This flexibility has contributed to the continued improvement in overall reporting levels, as have the increased awareness of good corporate governance generated by ASXMS's annual reviews and the public consultation by the ASX Corporate Governance Council prior to the publication of the revised *Corporate Governance Principles and Recommendations* in August 2007. The revised Principles, which took effect from 1 January 2008, will be the subject of ASXMS's future reviews."

The key findings from the FY08 review follow:

Overall reporting levels all entities reviewed	2004	2005	2006	2007	2008
All entities	84%	88%	90%	90.5%	96.3%
> 90% reporting level	9 out of 28	14 out of 28	17 out of 28	17 out of 28	25 out of 28
> 80% reporting level	17 out of 28	23 out of 28	23 out of 28	26 out of 28	28 out of 28

Overall reporting levels top-500 listed entities including listed trusts	2004[1]	2005	2006	2007	2008
Top-500 listed entities including listed trusts	N/A	92%	94%	94%	97.6%
> 90% reporting level	N/A	14 out of 28	21 out of 28	24 out of 28	27 out of 28
> 80% reporting level	N/A	22 out of 28	26 out of 28	28 out of 28	28 out of 28

Overall reporting levels listed companies	2004[2]	2005	2006	2007	2008
Listed companies	N/A	88%	90%	90.5%	96.4%
> 90% reporting level	N/A	14 out of 28	17 out of 28	17 out of 28	25 out of 28
> 80% reporting level	N/A	23 out of 28	23 out of 28	26 out of 28	28 out of 28

Overall reporting levels listed trusts	2004[3]	2005	2006	2007	2008
Listed trusts	N/A	86%	85%	93%	95.6%
> 90% reporting level	N/A	10 out of 28	13 out of 28	24 out of 28	26 out of 28
> 80% reporting level	N/A	24 out of 28	21 out of 28	27 out of 28	28 out of 28

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

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[1] These statistics are not available for the top-500 listed entities for 2004.
[2] These statistics are not available for listed companies for 2004.
[3] These statistics are not available for listed trusts for 2004.

ASX
AUSTRALIAN SECURITIES EXCHANGE

Analysis of Corporate Governance Disclosures in Annual Reports for the year ended 30 June 2008

10 July 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 ("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 This report presents an analysis of corporate governance disclosure and compliance by all listed entities - listed companies and listed trusts - with ASX Listing Rules for the reporting period ending 30 June 2008. It also provides commentary on trends in disclosure and in the adoption of various Recommendations, where relevant, since reviews commenced in 2004.

3 It should be noted that for the purpose of satisfying the governance standards of the Council and complying 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.

Entities reviewed

4 The results contained in this report are based on a review of 1,510 annual reports of entities listed on the ASX on 30 June 2007. The review is comprehensive and does not limit itself to a particular section of the market.

5 This is the final review of disclosure and compliance with the original Recommendations. The Revised Recommendations were effective from 1 January 2008 and would be reflected in annual reports published after 31 December 2008.

6 Listed companies or listed trusts having a balance date of 31 December, exempt or foreign companies, and entities that had been suspended or delisted post 30 June 2007 were excluded from the review. Entities with a 31 December balance date are the subject of a separate review.

7 Of the 1,510 entities reviewed - 99 were identified as being in the trust sector; 244 were identified as being in the top-300; and 411 were identified as being in the top-500.

Key findings

8 The ASX Markets Supervision (ASXMS) review of compliance with the Listing Rules and the Recommendations demonstrates that both listed companies and listed trusts have continued to improve their corporate governance reporting in the 30 June 2008 annual reports.

9 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 Recommendations, increased from 90.5% in 2007 to 96.3% in the 2008 reporting year, a rise of 6 points.

10 Across all entities reviewed, the number of Recommendations with overall reporting levels over 90% increased for 30 June 2008 entities to 25 out of 28 Recommendations compared to 17 out of 28 Recommendations in 2007.

11 The overall reporting level for all Recommendations for the top-500[1] listed entities in 2008, both listed companies and listed trusts, increased from 94% in 2007 to 97.6% in 2008.

[1] The top-500 are those entities included in the S&P All Ordinaries Index as at 30 June 2007.

12 Across all entities reviewed and in each category of review - listed companies, listed trusts and top-500 listed entities - all 28 Recommendations have overall reporting levels over 80%. In 2004, the first year after the introduction of the Principles, only 17 out of 28 Recommendations had a reporting level over 80%.

13 In an analysis of trends in reporting against specific Recommendations, 31% of entities were identified as early adopters of the Revised Recommendations, 52% of entities reviewed were identified as reporting only against the 2003 Recommendations and approximately 17% reported using a mixture of original and Revised Recommendations.

14 "If not, why not" reporting in the company sector continues to be higher than adoption reporting in relation to Recommendation 2.1 which recommends that the majority of directors be independent.

15 While reporting levels on independence of directors has increased by almost 7 points overall, 7% of entities continue to make no mention of independence.

16 "If not, why not" reporting about the establishment of committees - audit, nomination and remuneration - continues to increase.

17 Significant improvements in the reporting and disclosure of codes of conduct were evident for 30 June 2008 entities. Since 2004 when guidelines were first introduced, reporting on the disclosure of codes of conduct has improved from 64% to 96% for 30 June 2008 entities.

18 While a relatively high percentage of entities actually reported the establishment of a trading policy (86%), a lot less actually disclose the terms of the trading policy (66%).

19 There was a dramatic increase in the number of entities reporting on a wider range of risk management policies - 63% of entities reported on a wider range of policies as against 14% in 2007.

20 73% of entities reviewed reported on equity-based remuneration being paid to executives. Of this 73%, approximately 47% indicated that the equity based remuneration had been approved by shareholders. The remaining entities were not clear on the issue of approval by shareholders.

21 ASXMS considers that the continued improvement in corporate governance reporting is the result of a number of factors. These include the increased awareness of corporate governance reporting brought about by the review of the Recommendations and the release of the findings of the review; the release of the Revised Recommendations by the Council; the ongoing monitoring by ASXMS 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.

Overall reporting levels for all entities reviewed and top-500 listed entities

Overall reporting levels all entities reviewed	2004	2005	2006	2007	2008
All entities	84%	88%	90%	90.5%	96.3%
> 90% reporting level	9 out of 28	14 out of 28	17 out of 28	17 out of 28	25 out of 28
> 80% reporting level	17 out of 28	23 out of 28	23 out of 28	26 out of 28	28 out of 28

Overall reporting levels top-500 listed entities including listed trusts	2004[2]	2005	2006	2007	2008
Top-500 listed entities including listed trusts	N/A	92%	94%	94%	97.6%
> 90% reporting level	N/A	14 out of 28	21 out of 28	24 out of 28	27 out of 28
> 80% reporting level	N/A	22 out of 28	26 out of 28	28 out of 28	28 out of 28

Listed companies

22 The review of listed companies showed that:

- The overall reporting level across all Recommendations increased from 90.5% in 2007 to 96.4% in 2008.
- Reporting levels against specific Recommendations also increased with 25 out of 28 Recommendations indicating reporting levels over 90% and all 28 Recommendations having reporting levels over 80%.

Overall reporting levels listed companies	2004[3]	2005	2006	2007	2008
Listed companies	N/A	88%	90%	90.5%	96.4%
> 90% reporting level	N/A	14 out of 28	17 out of 28	17 out of 28	25 out of 28
> 80% reporting level	N/A	23 out of 28	23 out of 28	26 out of 28	28 out of 28

Listed trusts

23 The review of listed trusts showed that:

- The overall reporting levels across all Recommendations for listed trusts increased from 93% in 2007 to 95.6% in 2008.
- In 2008, 26 out of 28 Recommendations had overall reporting levels over 90% - a significant improvement since the 2005 review where only 10 out of 28 Recommendations had overall reporting levels over 90%.

Overall reporting levels listed trusts	2004[4]	2005	2006	2007	2008
Listed trusts	N/A	86%	85%	93%	95.6%
> 90% reporting level	N/A	10 out of 28	13 out of 28	24 out of 28	26 out of 28
> 80% reporting level	N/A	24 out of 28	21 out of 28	27 out of 28	28 out of 28

[2] These statistics are not available for the top-500 listed entities for 2004.
[3] These statistics are not available for listed companies for 2004.
[4] These statistics are not available for listed trusts for 2004.

Overall adoption reporting levels for all entities reviewed

24 The review found that:

- The average adoption levels for all entities increased from 74% in 2007 to 79% in 2008.
- Since the introduction of the Principles in 2003 and the first review of 2004 annual reports, the average adoption levels across all Recommendations has improved from 68% in 2004 to 79% in 2008.
- The average adoption rate for all Recommendations for the top-500 listed entities has increased from 87% in 2007 to 90% in 2008.

Overall adoption reporting levels	2004	2005	2006	2007	2008
All entities reviewed	68%	74%	75%	74%	79%
Listed companies	68%[5]	74%	75%	74%	79%
Listed trusts	N/A[6]	70%	72%	79%	81%
Top-500 listed entities	N/A[7]	86%	88%	87%	90%

Improvements in specific reporting levels

25 There has been an improvement in the level of overall reporting by listed entities in relation to a number of specific Recommendations in a number of areas since 2006. Some of the more notable improvements are set out in the table below.

Improvements in specific overall reporting levels	2006	2007	2008
Recommendation 2.1: The majority of the board should be independent directors – all entities	83%	86%	93%
Recommendation 3.3: Disclosure of code of conduct - listed companies	73%	80%	96%
Recommendation 3.3: Disclosure of code of conduct - listed trusts	57%	96%	97%
Recommendation 3.2: Disclose trading policy - all entities	92%	92%	98%
Recommendation 7.2: CEO and CFO Statement regarding risk management - all entities	78%	77%	87%
Recommendation 7.3: Disclosure of policies on risk management - all entities	72%	73%	87%
Recommendation 9.3: Distinguish the structure of non-executive directors' remuneration from that of executives - listed companies	90%	89%	96%

[5] These statistics are not available for listed companies for 2004.
[6] These statistics are not available for listed trusts for 2004.
[7] These statistics are not available for the Top-500 listed entities for 2004.

If not, why not" reporting levels

26 "If not, why not" reporting involves an entity identifying the Recommendations it has not followed, explaining why it has not followed the relevant Recommendation, explaining how its practices accord with the "spirit" of the relevant Principle, and explaining that it understands the relevant issues and has considered the impact of its alternative approach. Council has also provided some additional commentary on "if not, why not" reporting in the Introduction to the Revised Principles and encourages entities to consider this additional commentary when using "if not, why not" reporting.

27 The results of the 2008 review indicate that there continue to be relatively high levels of "if not, why not" in relation to a number of Recommendations. These are outlined in the table below. In most of these examples the reason given for not adopting the Recommendation is the size of the board or the company. These high levels of "if not, why not" reporting demonstrate the inherent flexibility of this type of reporting which allows entities to adopt and explain the governance practices they consider appropriate to their circumstances.

Improvements in specific "if not, why not" reporting levels – all entities	2006	2007	2008
Recommendation 2.1: The majority of the board should be independent directors	44%	44%	51%
Recommendation 2.2: The chairperson should be an independent director	35%	38%	47%
Recommendation 2.4: The board should establish a nomination committee	52%	58%	66%
Recommendation 4.2: The board should establish an audit committee	21%	25%	27%
Recommendation 4.4: The audit committee should have a formal charter	21%	23%	30%
Recommendation 9.2: The board should establish a remuneration committee	35%	39%	45%

Adoption reporting levels

28 Adoption reporting involves an entity reporting in some positive way on the entity's commitment or policy in relation to a specific Recommendation. The table below identifies the specific Recommendations that consistently attract high levels of adoption reporting (over 90%) and Recommendations that have shown significant increases in adoptions levels since 2006.

Adoption reporting levels	2006	2007	2008
Recommendation 1.1: Formalise and disclose the functions reserved for the board	94%	94%	95%
Recommendation 2.5: Provide information regarding directors	99%	98%	99%
Recommendation 3.1: Establish a code of conduct	81%	98%	99%
Recommendation 3.2: Disclose trading policy	89%	88%	95%
Recommendation 3.3: Disclose code of conduct	63%	70%	87%

Adoption reporting levels	2006	2007	2008
Recommendation 4.1: CEO and CFO statement regarding financial reports	98%	97%	99%
Recommendation 5.1: Establish continuous disclosure policies	87%	87%	93%
Recommendation 9.1: Disclose remuneration policies	96%	96%	96%
Recommendation 9.5: Provide information regarding remuneration	98%	98%	98%

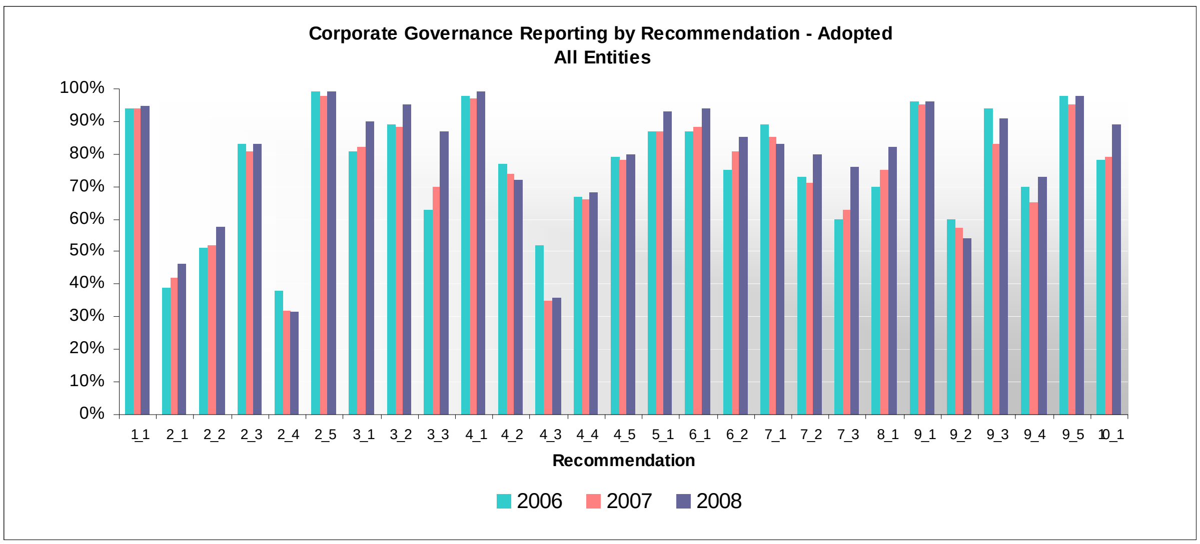
Overview and general observations

All listed entities

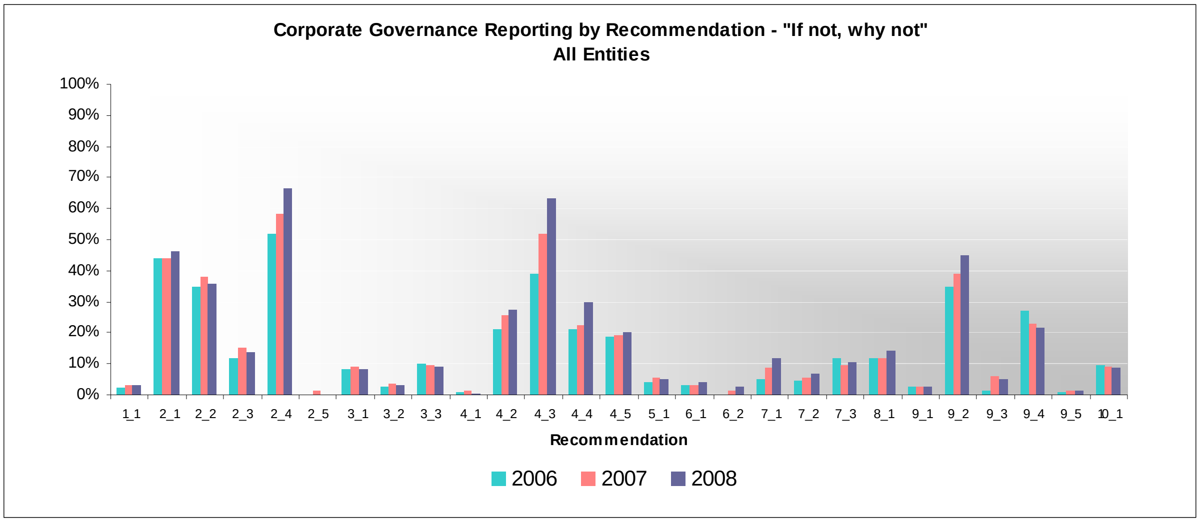
29 Figures 1a to 1c below provide an overview of the corporate governance disclosures in 2008 by all entities reviewed and a comparison of these disclosures to the results of the 2007 and 2006 reviews. Figure 1a shows adoption of the Recommendations, Figure 1b shows "If not, why not" reporting, and Figure 1c shows where all entities neither adopted the particular Recommendation nor provided an "if not, why not" explanation.

Figure 1: Corporate governance reporting statistics for all entities – 2006, 2007 and 2008 results compared

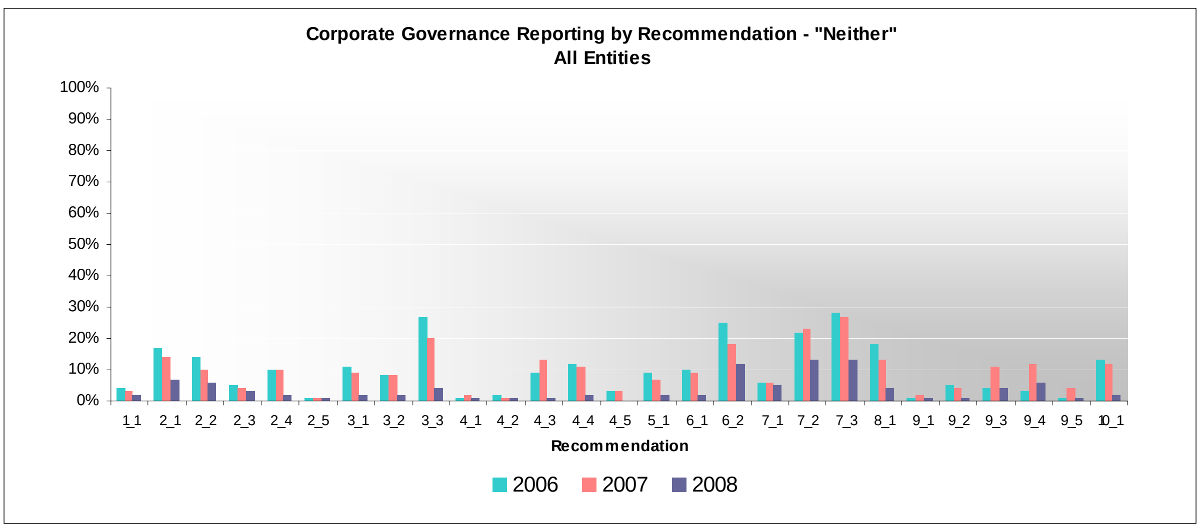
1(a): Adopted



1(b): "If not, why not"



1(c): Neither



30 The 2008 ASXMS review reveals that an average of 96.3% of listed entities have fulfilled their disclosure obligations under Listing Rule 4.10.3, either by confirming adoption of the various Recommendations or by providing "if not, why not" reporting.[8]

31 Where entities have not fulfilled their obligations under Listing Rule 4.10.3 either by confirming adoption of the various Recommendations or by providing "if not, why not" reporting, ASXMS will make contact with the entities to follow up this non-compliance.

32 Entities contacted following the 2007 review for not fulfilling their obligations under Listing Rule 4.10.3 have been closely monitored in the 2008 review, and those entities that show a repeated lack of compliance with the Listing Rules will be required to make a clarifying statement to the market in compliance with this Listing Rule.

[8] Listing Rule 4.10.3 requires an entity to include in its annual report a statement of the extent to which it has followed the Council's Principles and Recommendations during the reporting period. If the entity has not followed all of the Recommendations, the company must identify which Recommendations were not followed and give reasons. If a Recommendation is only followed for part of the period, the entity must state the period during which it had been followed.

Listed companies

33 Figures 2a to 2c provide an overview of the disclosures in 2008 by all listed companies reviewed and compares these disclosures with the results of the 2006 and 2007 reviews. Figure 2a shows adoption of the Recommendations, Figure 2b shows “if not, why not” reporting, and Figure 2c shows where listed companies neither adopted the particular Recommendation nor provided an “if not, why not” explanation.

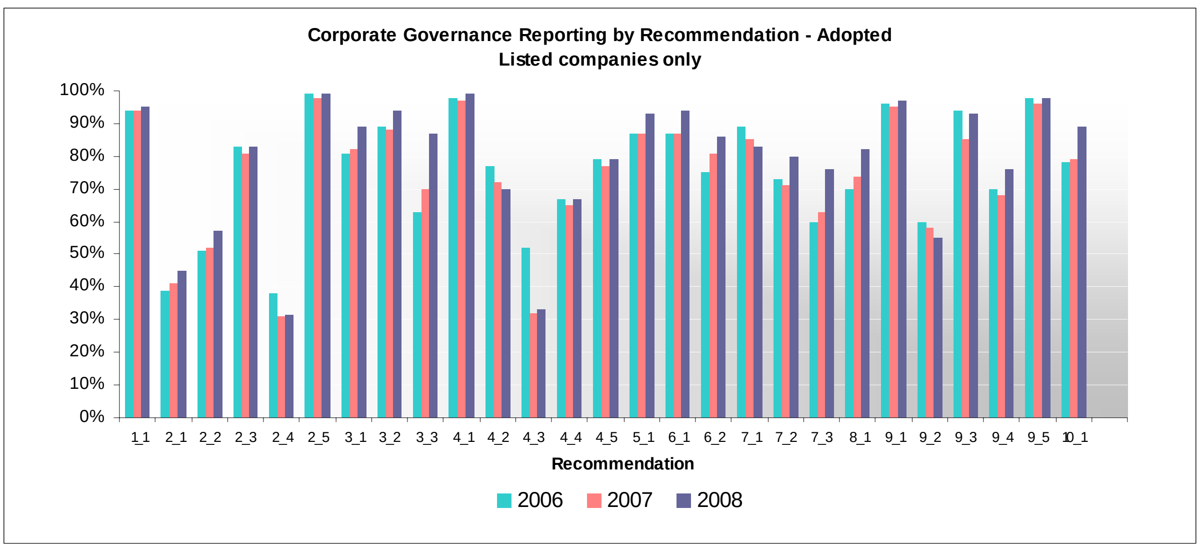
34 An average of 96.4% of listed companies fulfilled their disclosure obligations under Listing Rule 4.10.3, either by confirming adoption of the various Recommendations or by providing “if not, why not” reporting. This is an increase from 90.5% on the reporting level for 2007. The average adoption rate for all Recommendations for listed companies increased from 74% in 2007 to 79% in 2008.

35 Listed companies not fulfilling their obligations under Listing Rule 4.10.3 either by failing to confirm adoption of the various Recommendations or by not providing “if not, why not” reporting are being followed up by ASXMS to explain this non-compliance.

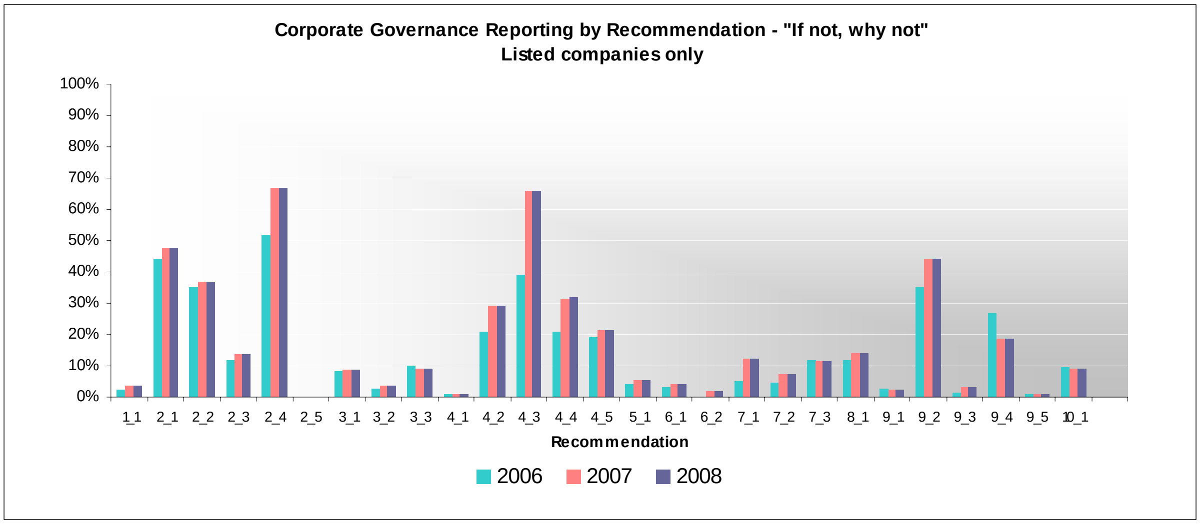
36 ASXMS considers that the improvement in reporting by the listed company sector is the result of the increased focus by ASXMS on corporate governance reporting across all entities and, in particular, the increased awareness of corporate governance reporting brought about by the review of the Recommendations and the release of the Revised Recommendations in August 2007.

Figure 2: Corporate governance reporting statistics for listed companies – 2006, 2007 and 2008 results compared

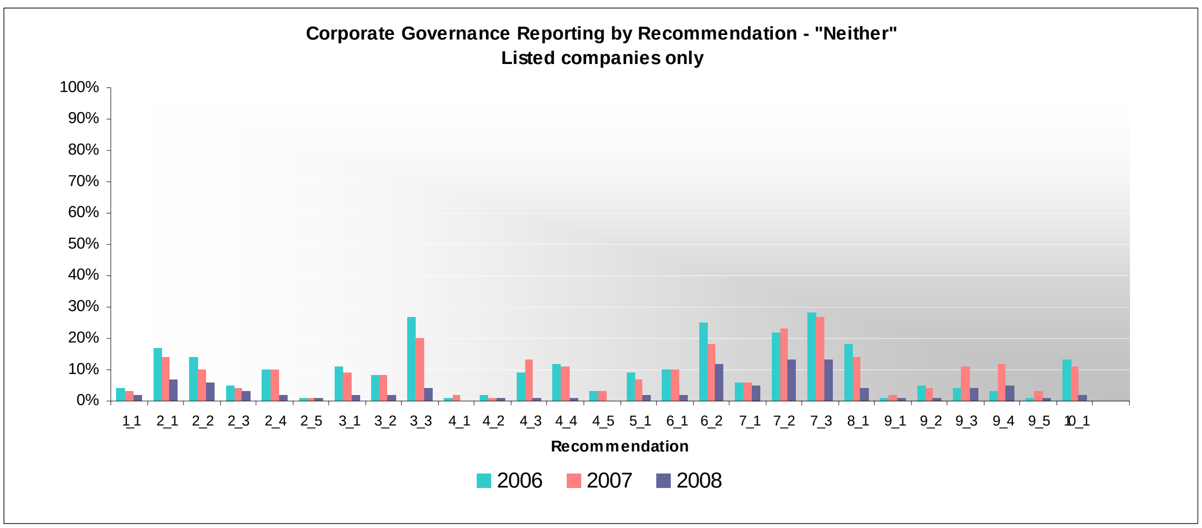
2(a): Adopted



2(b): "If not, why not"



2(c): Neither

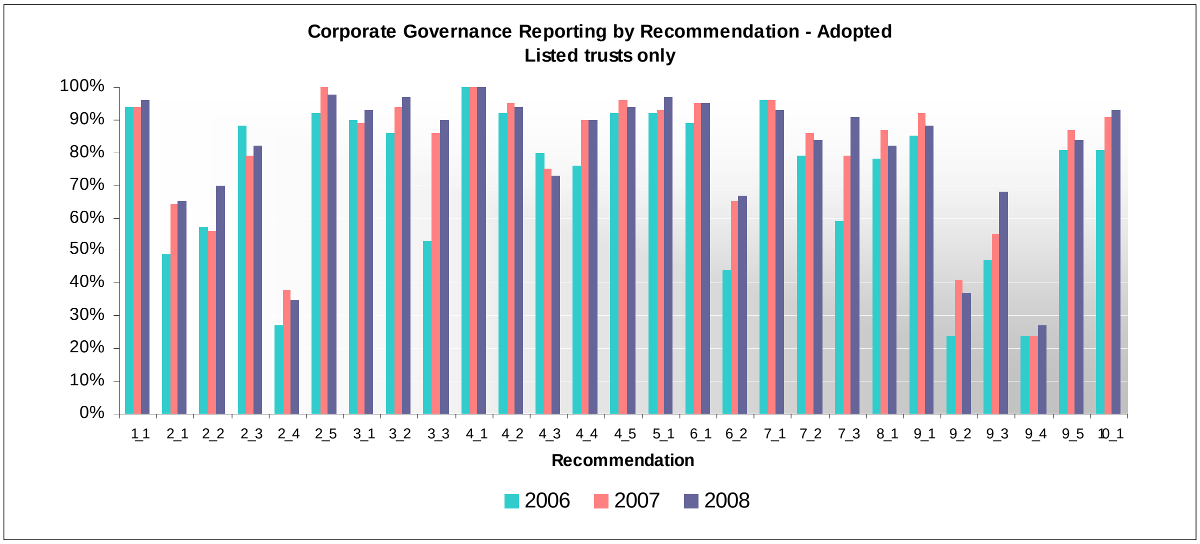


Listed trusts

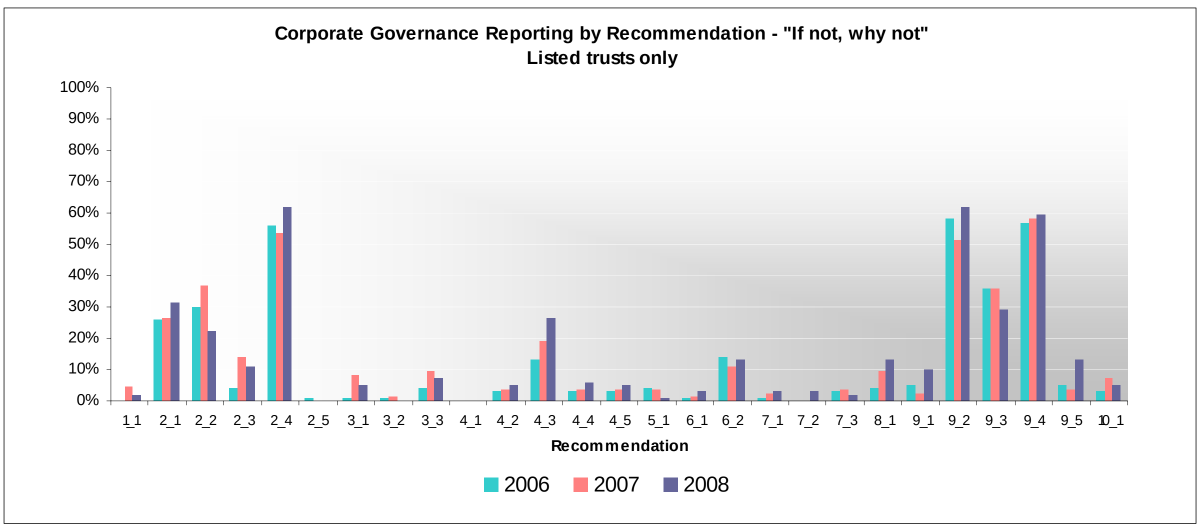
37 Figures 3a to 3c provide an overview of the disclosures in 2008 by all listed trusts reviewed and compares these disclosures with the results of the 2006 and 2007 reviews. Figure 3a shows adoption of the Recommendations, Figure 3b shows "if not, why not" reporting, and Figure 3c shows where listed trusts neither adopted the particular Recommendation nor provided an "if not, why not" explanation.

Figure 3: Corporate governance reporting statistics for listed trusts – 2006, 2007 and 2008 results compared

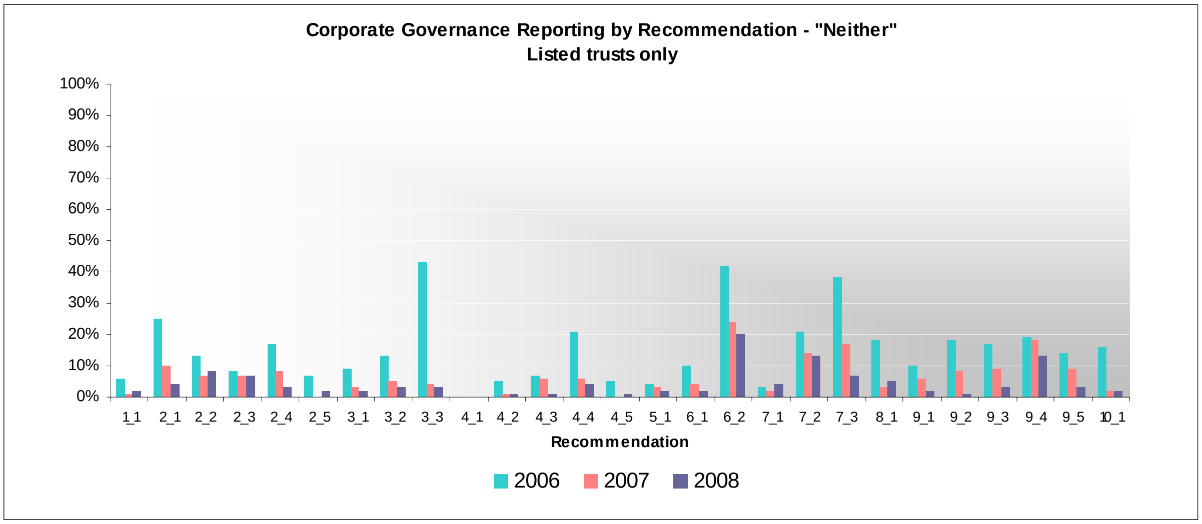
3(a): Adopted



3(b): "If not, why not"



3(c): Neither



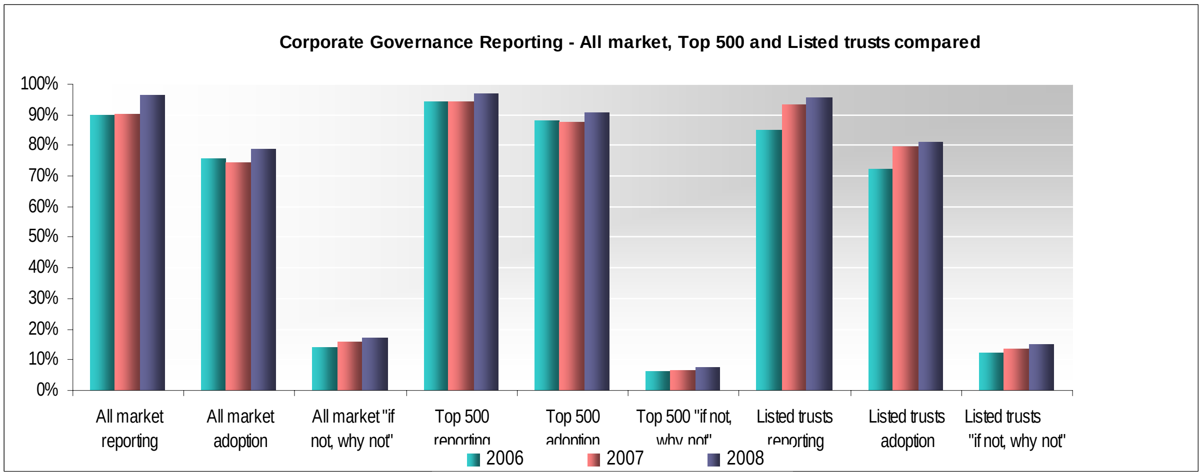
38 The 2008 ASXMS review reveals that an average of 95.6% of listed trusts complied with Listing Rule 4.10.3, either by confirming adoption of the various Recommendations or by providing "if not, why not" reporting. The results of the 2008 ASXMS review show an increase in the overall reporting level for listed trusts up from 93% in 2007. This reporting level is consistent with reporting levels for the whole market and listed companies. The average adoption rate for all Recommendations for listed trusts rose slightly in 2008 to 81% from 79% in 2007.

39 As with the listed companies, all listed trusts identified as not fulfilling their obligations under Listing Rule 4.10.3 over a range of Recommendations either by failing to confirm adoption of the various Recommendations or by not providing "if not, why not" reporting are being followed up by ASXMS.

Comparison of top-500 listed entities, all entities and listed trusts

40 The reporting levels for all Recommendations for the top-500 entities, both listed companies and listed trusts, indicate a slight increase in both overall reporting levels and adoption levels in 2008. The overall reporting levels went from 94% in 2007 to 97.6% in 2008, and the adoption levels from 87% in 2007 to 90% in 2008. The adoption and overall reporting rates are higher for the top-500 entities compared to the rates for the whole market. The most likely reasons for this include that these companies have a higher profile with investors, are subject to greater scrutiny, and are more likely to have resources available to recruit independent directors and to devote to corporate governance reporting. The very high reporting levels in this sector are also an indication that in the six years since the introduction of the Principles corporate governance reporting has become an integral part of the reporting framework of most top-500 entities. Figure 4 below provides an overview of reporting statistics across various sectors for the last three years.

Figure 4: Corporate governance reporting statistics for all entities, top-500 listed entities and listed trusts results compared



ASXMS approach to corporate governance reporting

41 Since ASXMS commenced reviewing corporate governance disclosures it has consistently reinforced the Listing Rules requirements for these disclosures. It has also encouraged new and existing entities to upgrade their practices and improve the disclosure of their corporate governance practices. In managing governance disclosure issues, ASXMS has a number of options available to it. These include:

- Contacting the entity to discuss the issue, preferring education and guidance to achieve an informed market.
- Encouraging the entity to make additional disclosure voluntarily, where ASXMS has identified the need for further disclosure.
- Writing to the entity and releasing this correspondence and the entity's response to the market.
- Writing to the board of the entity asking for an explanation.
- Exercising its power to suspend or de-list companies where there is a breach of the Listing Rules.

42 ASX has also set in train amendments to its Listing Rules which it considers will improve the disclosure and availability of corporate governance information about listed entities:

- A requirement for entities to provide a corporate governance statement prior to listing – this will mean that investors in newly listed entities will have access to corporate governance information, in a format consistent with the disclosure requirements for annual reports, at the time the entity lists rather than having to wait until the entity's first annual report is published.

- A change to Listing Rule 12.7 to refer to the S&P/ASX 300 – the proposed change will make it easier for entities to ascertain whether they are subject to the audit committee composition requirement which applies to the top-300 entities.[9]

43 ASXMS also notes by way of observation, the following suggestions to enhance reporting:

- Simplifying corporate governance statements by dealing with the Recommendations consecutively on a Recommendation by Recommendation basis. Some of the better reports provide information on a Recommendation by Recommendation basis in either narrative or tabular form.

- Including clear cross-references to the location of information elsewhere in the annual report which is relevant to the Recommendations but not included in the corporate governance statement. Cross referencing to relevant sections of the website is also valuable in ensuring that supporting documents referred to in the corporate governance statement are easily accessed.

Commentary on reporting trends

Reasons for improvement

44 The 2008 review of corporate governance reporting has shown considerable improvement in overall reporting levels, adoption levels and in reporting against individual Recommendations. ASXMS considers the following factors have contributed to the continuing improvement in the overall levels of reporting:

- Listed entities are now 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* June 2008.

- The release by ASXMS of a number of Companies Updates since 2003 addressing issues relevant to corporate governance reporting.

- The flexibility of the Principles and Recommendations to allow entities to adopt and explain corporate governance practices appropriate to their circumstances.

45 In August 2007, the Council released the Revised Recommendations. The Revised Recommendations are to apply to a listed entities' first financial year commencing on or after 1 January 2008.

46 The Revised Recommendations do not apply to the annual reports reviewed for the entities reporting for the period 1 July 2007 to 30 June 2008. However, in anticipation of the introduction of the Revised Recommendations some analysis was done of corporate governance reporting generally in relation to the annual reports for this period to determine which or what Recommendations were followed by the entities reviewed.

[9] Listing Rule 12.7 requires an entity in the S&P All Ordinaries Index at the beginning of its financial year to have an audit committee during that year. If the entity was in the top-300 of that index at the beginning of its financial year it must also comply with Recommendation 4.3 in relation to the composition of the audit committee. 'Top-300 entities' is a reference made in Listing Rule 12.7 to the top-300 entities listed in that index at the beginning of the entity's financial year. To assist entities in understanding whether they fall within this category at the commencement of the financial year ASX provides a list of entities in this top-300 category in the corporate governance section of the ASX web site www.asx.com.au. This list is updated for the beginning of each financial reporting period.

47 The findings of this review are set out in the following table. In summary, approximately 31% reported against the Revised Recommendations, 52% reported against the existing or 2003 Recommendations and approximately 17% reported using a mixture of the Recommendations.

	Entities reporting against 2003 Recommendations	Entities reporting against 2007 Recommendations	Entities reporting against a mixture of Recommendations	Entities reporting against no particular Recommendations
All entities	52%	31%	9%	8%
Top-300	24% (of top-300)	44%	9%	4%
Top-500	32% (of top-500)	37%	9%	6%
Trusts	35% (of trusts in top-500)	47%	3%	12%

Areas of specific focus in 2008 review

48 Each year as part of the annual review of corporate governance reporting, ASXMS focuses on specific issues where it considers that reporting could be improved or where it wishes to examine entities' reporting on particular issues more closely. For example, the review of 2005 annual reports looked at entities' sustainability reporting and the 2006 review highlighted issues relating to the listed trust sector. In 2007 consideration was given to the deeming of independence in independent director reporting, the disclosure of codes of conduct and trading policies, and reporting under Principle 7 (Recognise and manage risk).

49 In the review of 2008 annual reports, particular focus has been given to the areas considered in the 2007 review with particular emphasis on the improvement in reporting. The areas focussed on again this year were the reasons for deeming directors "independent", notwithstanding the existence of one of the "relationships affecting independent status" in Box 2.1, the disclosure of trading policies and codes of conduct, and reporting under Principle 7 and, in particular, Revised Recommendations 7.1 and 7.2.

Commentary – key recommendations

50 A more detailed analysis of reporting on particular Recommendations is set out below.

Board issues

Recommendation 2.1 - A majority of the board should be independent directors

2007	2008
Companies	**Companies**
86% overall reporting level 42% adoption 44% “if not, why not” reporting 14% not reporting at all	93% overall reporting level 45% adoption 48% “if not, why not” “ reporting 7% not reporting at all
Trusts	**Trusts**
90% overall reporting level 64% adoption 26% “if not, why not” reporting 10% not reporting at all	96% overall reporting level 65% adoption 31% “if not, why not” reporting 4% not reporting at all
All entities	**All entities**
86% overall reporting level 42% adoption 44% “if not, why not” reporting 14% not reporting at all	93% overall reporting level 46% adoption 47% “if not, why not” reporting 7% not reporting at all

51 Principle 2 is about structuring boards to add value. Recommendation 2.1 is about boards having a majority of independent directors.

52 There has been an increase from 86% to 93% in reporting across all entities since last year. The level of “if not, why not” reporting continues to exceed adoption reporting in the company sector. Adoption rates in relation to trusts are significantly higher than companies. This can be attributed to the number of independent directors on the boards of the Responsible Entities associated with trusts.

The reasons given for “if not, why not” reporting in the company sector was consistent with previous years. For example:

- Company or board too small;
- Cost of independent directors is too high;
- Limited resources of company to engage independent directors; and
- Experience and skills of non-independent are appropriate for the company.

53 As noted in previous reports the high rate 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 increase in “if not, why not” reporting is also evidence of the continuing acceptance and adoption of the corporate governance reporting framework outlined in the ASX Listing Rules and the Principles and Recommendations.

54 Whilst reporting levels on independence of directors has increased overall, 7% of entities continue to make no mention of independence. As mentioned above, these entities are being followed up by ASXMS.

“Independence” of directors

55 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 an area which Council noted during its review of the Principles and Recommendations that entities and their advisers did not seem to clearly understand. The Revised Principles and Recommendations now 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 Recommendation 2.1 in the Revised Principles and Recommendations 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 nevertheless.

56 The 2008 review found that 8% of all listed entities reviewed deemed directors “independent” which is a slight increase on the 5% found in 2007. Twenty-seven 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, were consistent with reasons given in previous years and 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 longstanding member of the board and the length of their term was not regarded as impacting on independent judgement.
- The director was a former executive but was not impeded in their ability to act in the best interests of the company.
- An adequate mix of skills and experience on the board would enable the director to act in an independent manner.
- 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.

ASXMS considers that the reasons by which a board determines a director to be independent should be more precise as to why the directors are considered to be independent, rather 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 is of particular relevance to Listing Rule 12.7 concerning the composition of a complying audit committee.

Committees

Recommendation 2.4 – The board should establish a nomination committee

Recommendation 9.2 – The board should establish a remuneration committee

57 The Principles and Recommendations recommend that listed entities establish three governance committees: audit, remuneration and nomination.[10] Recommendation 2.4 is about nomination committees which are responsible for matters relating to the composition of the board, the evaluation of the board and the appointment and removal of directors. Recommendation 9.2 is about establishing a remuneration committee to oversee the development and implementation of remuneration policies.

[10] See the separate discussion below on Recommendations 4.2 and 4.3 on audit committees.

58 The overall reporting level for Recommendation 2.4 for listed companies saw an increase in 2008 to 98% from 90% in 2007. This result was almost entirely due to an increase in "if not, why not" reporting which rose from 58% in 2007 to 67% in 2008. This result confirms anecdotal evidence that smaller listed entities are more likely to "if not, why not" report in relation to the Recommendations on committee composition and are comfortable with this reporting approach.

59 The overall reporting level for Recommendation 2.4 for listed trusts increased to 97% in 2008 from 92% in 2007 and 83% in 2006. "If not, why not" reporting in the listed trust sector was again the reason for this increased reporting with 62% reporting in this way in 2008 against 54% in 2007.

60 The overall reporting level for Recommendation 9.2 for listed companies increased in 2008 to 99% with 55% of listed companies adopting the Recommendation and 44% reporting on an "if not, why not" basis. This result reflected previous years' reporting, which also indicated a slight decrease in the number of listed companies adopting the Recommendation and an increase in the number of listed companies "if not, why not" reporting. This adjustment is more likely an indication of more accurate reporting than a change in company policy.

61 The overall reporting level for Recommendation 9.2 for listed trusts increased to 99% in 2008 compared with a reporting level of 92% in 2007 and 82% in 2006. In 2008, 37% of listed trusts adopted the Recommendation and 62% reported on a "if not, why not" basis. This result was mainly attributable to a decline in no reporting at all which went from 8% for listed trusts in 2007 to 1% in 2008.

62 In summary, Recommendations 2.4 and 9.2 show high overall reporting levels in 2008 and, in particular, high levels of "if not, why not" reporting. The reasons given by entities for not adopting this Recommendation include: the size of the entity; the whole board performs the role of the committee; and limitations on the entity's resources.

Audit committees

Recommendation 4.2 – The board should establish an audit committee

Recommendation 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, and at least three members

63 Recommendation 4.2 recommends that listed entities establish an audit committee and Recommendation 4.3 that the audit committee consists of: only non-executive directors, a majority of independent directors, a chairperson who is not chairperson of the board, and at least three members. Listing Rule 12.7 requires top-300 listed entities to comply with Recommendations 4.2 and 4.3, and listed entities in the top-500 to comply with Recommendation 4.2. Listed entities outside the top-500 are not required to have an audit committee under Listing Rule 12.7 but are required to report on their practices in relation to Recommendation 4.2 under Listing Rule 4.10.3.

64 Both listed companies and listed trusts have high reporting levels for Recommendation 4.2, although, as noted above, there have traditionally been high levels of "if not, why not" reporting in relation to the Recommendation for the reasons noted in relation to the other board governance committees.

65 ASXMS closely monitors compliance with Listing Rule 12.7. The overall reporting level for listed companies for Recommendation 4.2 remained constant in 2008 with a 99% overall reporting level. The adoption level for listed companies in 2008 was 70% compared to 74% in 2007 and 77% in 2006. As indicated above, this change in reporting is more likely a reflection of more accurate reporting than a change in corporate governance practices.

66 The overall reporting level for listed trusts also remained constant in 2008 at 99% with 94% adoption and 5% "if not, why not" reporting. The high levels of adoption for listed trusts are the result of the requirement for these entities to have compliance committees which also frequently serve as audit committees.

67 The reasons provided for not having an audit committee included the size of the board, the lack of independent directors, and that the size and complexity of the entity does not warrant an audit committee. In other cases, the

entity adopted the Recommendation but stated that the whole board performed the functions of an audit committee.

68 During the 2008 review of compliance with Listing Rule 12.7 ASXMS identified 14 "possible breaches" of the Listing Rule. All breaches were followed up by ASXMS Issuers Advisers and where applicable enforcement action has been taken. Most of the breaches related to the composition of the audit committee in the Top 300 sector. The main reason for not complying with Listing Rule 12.7 was the presence of an executive or non-independent director on the committee.

69 Where entities have been followed up by ASXMS in relation to listing rule 12.7 and a breach was confirmed, they have taken action such as appointing additional independent directors and re-arranging the committee composition to ensure compliance.

Codes of conduct

Recommendation 3.1 - Establish a code of conduct to guide the directors, the chief executive officer, the chief financial officer and any other key executives as to the practices necessary to maintain confidence in the company's integrity [and] the responsibility and accountability of individuals for reporting and investigating reports of unethical practices

Recommendation 3.3 – Provide the information indicated in Guide to reporting on Principle 3 – disclosure of code of conduct

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

70 Recommendations 3.1 and 10.1 recommend that companies establish codes of conduct. In Principle 3 this Recommendation is in the context of promoting ethical and responsible decision-making, and in Principle 10 it is in the context of recognising legal and other obligations to stakeholders. Recommendation 3.3 and the Guide to Reporting for Principle 10 recommend that relevant codes of conduct or summaries are made publicly available. There have been significant changes to these two Principles in the Revised Principles and for this reason the 2008 review gave particular attention to reporting in relation to these Principles.

71 The rates of overall reporting for listed companies for Recommendations 3.1, 3.3 and 10.1 have increased substantially since the first review in 2004 and continued to improve in 2008. The overall reporting level for Recommendation 3.1 for listed companies increased in 2008 to 98% from 91% in 2007 and 89% in 2006. Since 2004, when the Principles were first introduced, reporting overall against Recommendation 3.1 has improved from 78% to 98%. The overall reporting level for Recommendation 3.3 for listed companies improved to 96% in 2008 from 80% in 2007. Since 2004, when the Principles were first introduced, reporting overall against this Recommendation has improved from 64% to 96%, and adoption reporting has improved from 52% to 87%.

72 The overall reporting level for Recommendation 10.1 for listed companies increased from 88% in 2007 to 98% in 2008. Since 2004, when the Principles were first introduced, overall reporting against this Recommendation has improved from 62% to 98%, and adoption reporting has improved from 54% to 89%.

73 The overall reporting level for listed trusts for Recommendation 3.1 showed little change in 2008 with a reporting level increase from 97% in 2007 to 98% in 2008. A more significant increase was seen in adoption reporting levels with a 93% adoption reporting level in 2008 against an 89% reporting level in 2007. The overall reporting level for Recommendation 3.3 for listed trusts improved to 97% in 2008 from 96% in 2007. Once again, adoption levels were higher with 90% adoption reporting level in 2008 compared to an 86% adoption reporting level in 2007. There was no change in the overall reporting level of 98% for listed trusts in relation to Recommendation 10.1 in 2008.

74 Particular focus was given to the reporting and disclosure of codes of conduct in the 2007 review. The results of this focus were included in the 2007 Analysis of Corporate Governance Disclosures. In addition, a number of entities were followed up by ASXMS following the 2007 review in relation to deficiencies in reporting. This increased focus may explain the increase in the reporting and disclosure of codes of conduct in 2008. The significant improvement in reporting and disclosure of codes of conduct generally since the introduction of the

Principles in 2003 is further evidence of the increase in understanding of corporate governance reporting that has occurred over this time.

75 *ASXMS reminds entities of the changes to Recommendation 3.1 in the Revised Principles which clearly recommend establishing and disclosing a code of conduct or a summary which should be made publicly available, ideally by posting it to the entity's website in a clearly marked corporate governance section. The Revised Principles define "summary" as a description of the main provisions of a code in sufficient detail to understand the purpose of the document.*

Policies

Recommendation 3.2 – Disclose the policy concerning trading in company securities by directors, officers and employees

Recommendation 5.1 – Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance

Recommendation 6.1 – Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings

76 Each of these Recommendations is concerned with the disclosure of various policies - trading policies, continuous disclosure policies and communications strategies. Since the first review of 2004 annual reports, reporting in relation to each of these Recommendations has shown steady improvement.

77 The overall reporting level for continuous disclosure - Recommendation 5.1 increased to 98% with an adoption reporting level of 93% for listed companies. The overall reporting level for listed trusts increased to 98% with a 97% adoption reporting level. The review also noted high levels of disclosure of the policies or summaries of these policies. This could be attributed to Listing Rule obligations which complement this Recommendation.

78 The overall reporting level for communications strategies - Recommendation 6.1 increased in 2008 to 98% for listed companies. This increase was reflected in adoption reporting levels which also increased by 7 points to 94%. The overall reporting level for listed trusts increased to 98% with a 95% adoption reporting level. This result is consistent with the 2007 result. The increases in overall reporting and effective increase in adoption reporting levels can be attributed to increasing awareness of corporate governance responsibilities.

79 The overall reporting level for trading policies - Recommendation 3.2, increased by 6 points in 2008 to 98% with a 94% adoption reporting level for listed companies. There was a 2 point increase in the overall reporting level for listed trusts to 97% in 2008.

80 In addition to the standard review against Recommendation 3.2 a more detailed examination of the nature of reporting in relation to trading policies was undertaken this year. In particular, a distinction was made between those entities adopting their own policies and those simply referring to a policy of trading within the terms of applicable laws, etc. For the purposes of the standard review against the Recommendations either form would be regarded as an 'adoption' of Recommendation 3.2. In the detailed review, references to a trading policy in accordance with law or similar statements were not regarded as sufficient.

The detailed review examined two areas:

(i) Those entities stating that the entity had actually "established a trading policy"; and

(ii) Those entities that set out a summary of the trading policy in the annual report or disclosed in the annual report where a copy of the trading policy was located, eg a website.

The results of this review are set out in the following table. These results indicate that while a relatively high percentage of entities are reporting the establishment of a trading policy (over 85%) a lot less actually disclose the terms of the trading policy (66%). Amongst the entities neither establishing nor disclosing a trading policy there was a number of top-500 entities and trusts.

The focus in the following table on the top-300, top-500 and trust sector is the percentage that each represents in the "No" category.

	Yes	No	Number and % of "No's" in top-300	Number and % of "No's" in top-500	Number and % of "No's" in trusts
Entities stating that they had actually "established a trading policy"	85.6% 1,293 (of 1,510)	14.4% 217 (of 1,510)	3% 6 (of 217)	8% 18 (of 217)	5% 10 (of 217)
Entities setting out a summary of trading policy in annual report or disclosing where a copy could be viewed, eg on a website	66% 1,007 (of 1,510)	33% 503 (of 1,510)	8% 41 (of 503)	16.5% 83 (of 503)	6% 30 (of 503)

ASXMS reminds entities of the changes to Recommendation 3.2 in the Revised Principles which clearly recommend establishing and disclosing the terms of its trading policy or a summary which should be made publicly available, ideally by posting it to the entity's website in a clearly marked corporate governance section.

Risk management

Recommendation 7.1 – The board or appropriate board committee should establish policies on risk oversight and management

Recommendation 7.3 – Provide an explanation of any departures from Recommendations 7.1 and 7.2, and a description of the company's risk management policy and internal control system

81 There has been considerable focus on the implementation and reporting of risk management practices in recent years. Ninety-seven submissions received in response to Consultation Paper and Exposure Draft of Proposed Changes to the Principles and Recommendations released by the Council in November 2006 made specific comments on Principle 7. These submissions indicated strong support for the Council to encourage boards to consider the issue of risk and the effectiveness of companies' systems for risk management and internal control, and to elevate consideration of material business risks.

82 The changes made to the Recommendations in Principle 7 in August 2007 incorporate suggestions made in the submissions and reflect the concerns outlined. The comparative table below shows the existing and Revised Recommendations.

Existing Principle / Recommendation	Revised Principle / Recommendation
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: • 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 adopted by the board • the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	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.
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.

83 Last year's Analysis of Corporate Governance Disclosures in 2007 Annual Reports also focussed on the reporting of risk management and highlighted the need for an increased level of reporting by many companies and a Revised Supplementary Guidance to Principle 7 was released by the ASX Corporate Governance Council on 30 June 2008.

84 On the basis of the increased interest in risk management reporting, this year's corporate governance review considered not only reporting against the existing Recommendations 7.1, 7.2 and 7.3 but also considered reporting against the revised framework of Revised Recommendations 7.1 and 7.2.

85 In the review of reporting against the existing Recommendation 7.1 the approach taken was favourable to the reporting entity: if an entity reported in any way what its approach to risk management was then this was considered sufficient and regarded as adoption of the Recommendation. For instance, reporting that the "board is responsible for risk management" was considered sufficient. A different approach was taken in the review against the Revised Recommendations and this is outlined below. The two different approaches explain the differences in reporting levels.

Existing Recommendations 7.1, 7.2 and 7.3

86 The overall reporting level for existing Recommendation 7.1 in 2008 for all entities was 95%. This is an increase on the 2007 overall reporting level of 94%. Interestingly, adoption reporting was down to 83% in 2008 from 85% in 2007, and "if not, why not" reporting was up 2 points from 9% in 2007. 5% of entities continued to not report at all in relation to risk management.

87 There was an increase in reporting levels in relation to the existing Recommendation 7.2 in 2008, with overall reporting across all entities at 87% in 2008 up from 77% in 2007. This was due to an increase in adoption reporting to 80% from 71% and "if not, why not" reporting to 7% from 6%. Over 13% of entities are still not

reporting. Although this is a reduction and improvement on last year's 23% not reporting, it remains high compared to other Recommendations. This Recommendation appears in the Revised Recommendations as Recommendation 7.3 and has been updated to be specifically referable to s.295A of the Corporations Act. This may improve reporting.

88 Existing Recommendation 7.3 deals with the disclosure of risk management policies. Overall reporting across all entities rose to 87% in 2008 from 73% in 2007. This result is mainly due to an increase in adoption reporting which was up to 76% in 2008 from 63% in 2007. No reporting levels also decreased from 27% in 2007 to 13% in 2008. This improvement is particularly notable as, until this year, there has been little change in reporting against this Recommendation since the introduction of the Principles in 2004. Since that time, reporting levels have been consistently around the 70% to 73% mark. Some of the increase this year could be accounted for as a result of the release of the Revised Recommendations in August 2007 which incorporate and require a much more comprehensive approach to the reporting of risk management policies and processes. In addition, last year's Analysis of Corporate Governance Disclosures in 2007 Annual Reports focussed on the reporting of risk management and highlighted the need for increased levels of reporting by many companies. A Revised Supplementary Guidance to Principle 7 was also released by the ASX Corporate Governance Council on 30 June 2008.

Revised Recommendation 7.1 and 7.2

89 In anticipation of the required reporting against the Revised Recommendations in the 2008/2009 financial year, an analysis was done of all annual reports against the new Principle 7 and in particular Recommendations 7.1 and 7.2. To do this a breakdown of the key elements of the Revised Recommendations 7.1 and 7.2 was done and an analysis was undertaken of reporting against each element. This breakdown of the key elements and the results of the analysis are set out in the table below.

	Reporting against key elements	
Breakdown of key elements of Revised Recommendations 7.1 and 7.2	Yes (out of 1,510)	No (out of 1,510)
Annual reports specifically referring to the establishment of risk management policies	72%	28%
Annual reports reporting on policies in relation to risk oversight	55%	45%
Annual reports reporting on policies in relation to management of material business risks	47%	53%
Annual reports disclosing a summary of policies or information as to where policies are located	53%	47%
Copy of risk management policies found on entity website	45%	55%
Evidence in annual report of risk management system being put in place by management	47%	53%
Disclosure in the annual report of details of the report to the board regarding management of material business risks by management	51%	49%
Annual reports referring to the "effectiveness" of the entity's risk management system	60%	40%
Annual reports that provide helpful information on what is reported to the board	47%	53%

90 In summary, the results of this analysis indicate that an average of approximately 53% of entities reported in a way consistent with the Revised Recommendations. On average, approximately 45% of entities are not currently reporting in the way proposed by the Recommendations, and in all aspects the review indicated that these numbers included entities in the top-300, top-500 and trust sector.

91 ASXMS considers that some entities will need to review their reporting in relation to Principle 7 when making the transition to reporting against the Revised Principles, particularly in view of Council's re-structuring of Principle 7.

Categories of Risk Management Reporting

92 Once again, in 2008 the more detailed review of risk management reporting looked at entities reporting on a wider range of risk management policies and in particular those entities reporting against the categories of risk referred to in the commentary on Revised Recommendation 7.1. The comparative overall findings of this year's and last year's reviews are set out in the table below. Findings in relation to top-300, top-500 and trusts for 2008 are also shown.

93 The comparative table indicates quite a dramatic increase in the reporting of the types and range of risk management policies. There is effectively a 49 point increase in the percentage of entities reporting on a wider range of risk management policies since 2007. The percentage of reporting in relation to each category of risk is only slightly higher in the top-300, top-500 and trust sector than in the overall result. This indicates adoption across the spectrum of entities is fairly consistent and not limited to the top-500 or trust sectors. Once again, this increase can be attributable to the Council's focus on risk management reporting in recent years.

Total number of entities reporting on:	2008 (out of 1,510 reviewed) % of 1,510	2007 (out of 1,291 reviewed) % of 1,291	2008 top-300 (out of 244 Top 300 reviewed) % of 244	2008 top-500 (out of 411Top 500 reviewed) % of 411	2008 trusts (out of 99 trusts reviewed) % of 99
A wider range of risk management policies	63%	14%	71%	71%	67%
Operational risk	45%	9%	54%	54%	50%
Environmental risk	19%	8%	32%	27%	16%
Sustainability	3%	>1%	11%	8%	6%
Climate change	1%	N/A	4%	3%	0%
Compliance	42%	11%	55%	54%	58%
People	16%	4%	22%	21%	14%
Strategic	20%	5%	29%	28%	29%
Ethical conduct	5%	2%	7%	7%	2%
Reputation/brand	9%	3%	18%	16%	16%
Technological	11%	2%	17%	15%	7%
Product service quality	5%	>1%	9%	8%	>1%
Human capital	12%	2%	15%	16%	8%
Financial Reporting	48%	10%	57%	56%	54%
Market-related risks	25%	5%	39%	37%	43%

Other – including OH&S and legal	25%	4%	29%	28%	24%
Policy located on website	43%	N/A	57%	55%	44%

Remuneration

Recommendation 9.1 – Provide disclosure in relation to the company's remuneration policies to enable investors to understand the costs and benefits of those polices and the link between remuneration paid to directors and key executives, and corporate performance

94 The review of listed companies and listed trusts revealed high levels of overall reporting on remuneration. Over 99% of listed companies reported on this Recommendation. ASXMS notes that entities now include much of the information covered by Recommendation 9.1 in the remuneration report within the directors' report rather than the corporate governance statement in the annual report. Cross-references in the corporate governance statement to the remuneration report assist users of this information.

95 The 2008 review of listed trusts indicates an improvement of 4 points in the overall reporting level for Recommendation 9.1 to 98%. As in previous years the review of listed trusts focussed on reporting on management arrangements in place rather than on remuneration paid, which is usually irrelevant for listed trusts because of their management structures. This result, therefore, reflects an increasing level of disclosure by listed trusts of the existence of a management agreement and, in some cases, details of the terms of that agreement.

Recommendation 9.3 – Clearly distinguish the structure of non-executive director remuneration from that of executives

96 There was an increase in the overall reporting level for this Recommendation in 2008 of 7 points across all entities. The overall reporting level across all entities was 96% with an adoption reporting level of 85%. This material is now required to be included in the Remuneration Report and the Accounting Standards disclosures. ASXMS reminds listed entities of the importance of providing summaries of this material or clear cross-references in the Corporate Governance statement to its location. The results for trusts in relation to this Recommendation are not clear as the reporting against this Recommendation is not consistent.

Recommendation 9.4 – Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

97 As noted in previous years a review of reporting on this Recommendation is difficult because of the ambiguity of the drafting of the Recommendation.[11] In order to obtain information about equity-based executive remuneration reporting, the 2008 review examined what entities disclosed about executive equity-based remuneration in the annual report. Where this information was disclosed the review looked at whether it was possible to determine whether shareholders had approved the remuneration.

98 The 2008 review indicated 73% of the entities reviewed reported that they paid equity-based remuneration. 21% indicated that NO equity based remuneration was paid to executives. 6% of reports were unclear as to whether equity based remuneration was paid or not.

99 Of the 73% of entities that reported that they had paid equity based remuneration, approximately 47% indicated that it was in accordance with plans approved by shareholders and the remaining 53% (of the 73%) were identified as being unclear in the annual report as to whether or not the executive remuneration was approved by shareholders.

[11] The difficulties with the drafting and interpretation of this Recommendation were discussed by Council in its public consultation on the Revised Principles and Recommendations and in the Response Document which Council released to accompany the Revised Principles and Recommendations.

100 The situation is less clear for trusts as most of the trusts are dependent on management agreements, so analysis of this issue in relation to trusts is unpredictable as to what it might relate to and, in this respect, is unreliable.

The revised C*orporate Governance Principles and Recommendations*

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

- Remove 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 companies 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 internal feedback, and feedback from users of corporate governance information and from Council's public consultation.
- 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 Principle and Recommendations is included as Appendix 2 to this report.

102 The effective start date for the Revised Principles is the first financial year starting on or after 1 January 2008. Where a company's financial year begins on or after 1 January, disclosure will be required in relation to the financial year 1 January 2008 – 31 December 2008 and will be made in the annual report published in 2009. Where a company's financial year begins on 1 July, disclosure will be required in relation to the financial year 1 July 2008 - 30 June 2009 and will be made in the annual report published in 2009. Council encouraged entities to make an early transition to the Revised Principles and to consider reporting by reference to the Recommendations when reporting for the 2007-2008 year. Details of the early adoption of the Revised Recommendations are outlined at paragraph 47 of this report.

103 ASXMS notes that this is the last year in which all listed entities are to report against the 2003 edition of the Principles and Recommendations. Corporate governance reporting for all listed entities is now required to follow the Revised Principles.

Background information

104 ASXMS 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.[12] In October 2006 ASXMS also produced the first analysis of the corporate governance practices reported in the 2005 annual reports of listed trusts. The analyses were based on information gathered from 2004 and 2005 annual reports as part of ASXMS's review of compliance with its Listing Rules and the Council's Principles and Recommendations. In June 2007 ASXMS released the first combined review of the corporate governance practices reported in 2006 annual reports for both listed trusts and listed companies. This review of 2008 annual reports is the third combined review of the annual reports of both listed companies and listed trusts.

105 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.

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

106 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.

107 Listing Rule 12.7 requires that all companies included in the S&P All Ordinaries Index at the beginning of its 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 companies 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 at least three members.

108 Listing Rule 1.1 Condition 13 reflects Listing Rule 12.7 and requires newly listed companies included in either the top-300 or top-500 to meet similar audit committee requirements on listing.

Methodology

109 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.

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

111 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.

112 Each report was reviewed for disclosure in relation to each of the 28 Recommendations. This equated to 42,280 individual review actions (ie 1,150 listed entities multiplied by 28 Recommendations). ASXMS found that 96.3% of the 42,280 review actions involved adoption of the recommended practices or provision of an 'if not, why not' explanation.

Appendix 1 – ASX Corporate Governance Council Principles and Recommendations

1	Lay solid foundations for board and management
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.
2	Structure the board to add value
2.1	A majority of the board should be independent directors.
2.2	The chairperson should be an independent director.
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.
2.4	The board should establish a nomination committee.
2.5	Provide the information indicated in Guide to reporting on Principle 2.
3	Promote ethical and responsible decision making
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:	
3.1.1	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.
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.
3.3	Provide the information indicated in Guide to reporting on Principle 3.
4	Safeguard integrity in financial reporting
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.
4.2	The board should establish an audit committee.
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.
4.4	The audit committee should have a formal charter.
4.5	Provide the information indicated in Guide to reporting on Principle 4.
5	Make timely and balanced disclosure
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.
5.2	Provide the information indicated in Guide to reporting on Principle 5.
6	Respect the rights of shareholders
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7	**Recognise and manage risk**
7.1	The board or appropriate board committee should establish policies on risk oversight and management.
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 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.
8	**Encourage enhanced performance**
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.
9	**Remunerate fairly and responsibly**
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.
9.2	The board should establish a remuneration committee.
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.
9.4	Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.
9.5	Provide the information indicated in Guide to reporting on Principle 9.
10	**Recognise the legitimate interests of stakeholders**
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

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 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:
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	No change

Existing Principle / Recommendation	Revised Principle / Recommendation
conduct	
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.
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	6.1 Companies should design and disclose a communications policy for promoting effective

Existing Principle / Recommendation	Revised Principle / Recommendation
and encourage effective participation at general meetings.	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 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.	7.2 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.
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	8.2 Companies should clearly distinguish the structure of

Existing Principle / Recommendation	Revised Principle / Recommendation
committee.	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
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