

# Corporate governance

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Reporting review May 2011



Welcome to Grant Thornton's fourth annual review of corporate governance disclosure. Our past surveys have noted an increasing level of compliance by the ASX300 companies and this trend has continued. This year we have extended our review to cover the ASX500. The overall level of compliance by companies in the ASX301 – 500 bracket with the ASX Corporate Governance (ASXCG) Principles is significantly less than the ASX300. Undoubtedly there are important compliance steps for these companies as they aspire to grow.

Economic conditions have continued to be trying during 2010 despite the continued strength of the resources sector. The OECD recently commented:

*“To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities.”*

The overall results of our 2010 survey indicate that the compliance levels are generally consistent with the 2009 levels. Specifically compliance with four out of eight ASXCG Principles has improved, whilst three decreased and the other remained the same.

Effective 1 January 2011 the Australian Stock Exchange (ASX) introduced further changes to the Corporate Governance reporting requirements for listed companies. Our review considers the level of early adoption of these new principles. Interestingly less than 10% of the ASX500 complied with the new diversity policy recommendations in their 2010 reports. Clearly companies will need to complete significant work in the coming period to comply with these new requirements.

Good corporate governance disclosure provides all listed companies with an opportunity to demonstrate to the market that they treat these issues seriously and, in doing so, provide investors with confidence in their longer term sustainability. Increased global economic volatility has reinforced the need for greater transparency on a broad range of issues.

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# Overview of this survey

This report summarises Grant Thornton’s review of corporate governance and related reporting by the ASX 500 for the year ended 30 June 2010 (or the nearest year-end date where a June year-end is not adopted). Where in previous reports we have focused on the ASX 300, this year, for the first time, we have considered companies from the ASX 500. There is a key differentiation between companies in the ASX300 and others considered in this analysis. For example, the ASX listing rules mandate the establishment of audit committees by those companies in the ASX300.

The eight principles are:

Principle	Topic
<b>Principle 1</b>	<b>Lay solid foundations for management and oversight</b> Companies should establish and disclose the respective roles and responsibilities of board and management.
<b>Principle 2</b>	<b>Structure the Board to add value</b> Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.
<b>Principle 3</b>	<b>Promote ethical and responsible decision-making</b> Companies should actively promote ethical and responsible decision-making.
<b>Principle 4</b>	<b>Safeguard integrity in financial reporting</b> Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.
<b>Principle 5</b>	<b>Make timely and balanced disclosure</b> Companies should promote timely and balanced disclosure of all material matters concerning the company.
<b>Principle 6</b>	<b>Respect the rights of shareholders</b> Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.
<b>Principle 7</b>	<b>Recognise and manage risk</b> Companies should establish a sound system of risk oversight and management and internal control.
<b>Principle 8</b>	<b>Remunerate fairly and responsibly</b> Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

For the purposes of this survey, compliance is deemed when the company has actually adopted the recommendations of the principles. In cases where the recommendations have not been adopted, compliance with the principles is only deemed if there are compelling “if not, why not” explanations. This is consistent with prior research that we have conducted.

## ASX Corporate Governance Principles

The ASX Corporate Governance Council (ASXCGC) has an overriding objective of developing and delivering an industry-wide, flexible framework for corporate governance that could provide a practical guide for listed companies, to enable them to improve their existing corporate governance practices.

Corporate governance is a multi-faceted concept that draws together the many stakeholders in an organisation. These stakeholders require the information generated by the organisation to be presented to them in a format that is both relevant and meaningful to them and in which they have confidence. Hence the developments over the past few years for organisations to volunteer, be requested and be mandated to provide more clarity and more detail in the information provided to stakeholders. Factual and timely corporate governance disclosures provide potential investors and other stakeholders with the message that good

governance is taken seriously.

Compliance with ASXCGC recommendations is not mandatory. However, under ASX listing rule 4.10.3, companies must disclose the extent to which they have followed the recommendations. There is an ‘if not, why not’ requirement whereby failure to follow recommendations must be disclosed. There are some instances where compliance with certain of the recommendations is mandated by the listing rules (for example, the establishment of an audit committee for the ASX300).

The ASX has undertaken three previous reviews of Corporate Governance reporting and the following recommendations for improving disclosures were made after the 2006 review:

- companies should simplify their corporate governance statements... by dealing with the recommendations consecutively on a recommendation by recommendation basis.

- clear cross-references to the location of information not included in the corporate governance statement but located elsewhere in the annual report or websites.

In March 2003, “Principles of Good Corporate Governance and Best Practice Recommendations” were released. Now, eight years on, we are on the third version of the guidelines, “Corporate Governance Principles and Recommendations with 2010 Amendments”. These amendments are in response to reports released by the Corporations and Markets Advisory Committee (CAMAC) and the Productivity Commission. The overriding principle is to increase transparency and disclosure to shareholders and the general public. The timing of application for these amended recommendations is reporting periods commencing on or after 1 January 2011.

The 2010 amendments include the following:

Ref	2008	Ref	2010 amendment
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 of that policy.		Covered by ASX Listing Rules 12.9, 12.10 and 12.11.
n/a	-	3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirement for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.
n/a	-	3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.
n/a	-	3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.
n/a	Existing Recommendation 8.2 becomes 8.3.	8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>- consists of a majority of independent directors</li> <li>- is chaired by an independent chair</li> <li>- has at least three members</li> </ul>

### Latest developments

The ASX Corporate Governance Council has recently commenced a review of the ASX Corporate Governance Principles and Recommendations. The outcomes from this review may have far reaching consequences to Australian-based organisations. The Institute of Internal Auditors suggests that Australia has already fallen behind other jurisdictions in the area of risk management and assurance (ASX Principle 7). For example, all US public companies are required by the New York Stock Exchange to maintain an internal audit function and the UK Corporate Governance Code requires listed companies to review on an annual basis whether an internal audit function is required and, if not, disclose why not.

### Integrated reporting

The uptake of integrated reporting is growing steadily across the globe. Denmark requires large listed companies to include non-financial information in their annual financial reports. In South Africa, in particular, integrated reporting has been in the limelight since the recommendations of the King III code were included in its listing requirements. The recommendations state that all listed companies must present integrated reports (or explain why not) for their financial years starting on or after 1 March 2010. South African listed companies are required to produce a 'holistic and integrated representation of finances and sustainability'. It is also noted that assurance is required on the sustainability information disclosed. Therefore, there are additional costs to companies when producing these integrated reports.

To support these companies, the South African Integrated Reporting Committee (IRC) released a world first in late January: an integrated reporting guidance document, "Framework for Integrated Reporting and the Integrated Report". This guidance paper advises that businesses should use an integrated report as their main source of information for stakeholders, rather than a traditional annual report.

The key driver behind the move towards Integrated Reporting is said to be the need to provide a holistic view of a business enterprise, focusing on the financial, environmental, social and governance frameworks in order for key stakeholders to make economic decisions. Globally, much work has been done to align the accounting standards, which form the basis of reporting of the annual financial statements. However, there is now increased focus on developing a robust global framework to align Environmental, Social and Governance (ESG) frameworks, with the International Integrated Reporting Committee (IIRC) driving forward this body of work. As part of their stated aim, their goal is to create a framework that brings together the varying reporting requirements in a "clear, concise, consistent and comparable format", which will "support transition to a more sustainable global economy".



# Diversity

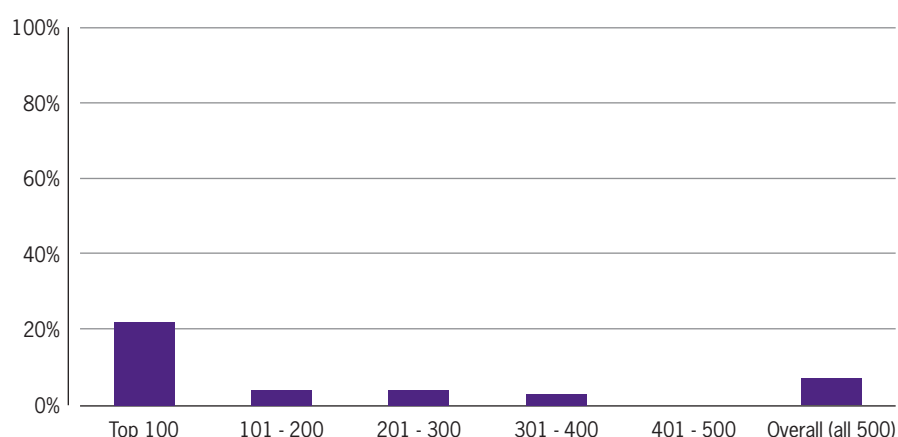
Perhaps the most significant amendment to the 2010 Corporate Governance Principles relates to the requirements around diversity policies and disclosures. These revised Diversity recommendations apply to years commencing on or after 1 January 2011. Diversity is defined by the ASXCGC as including: gender, age, ethnicity and cultural background. However, the focus of the revised recommendations is on gender diversity. The amended guidelines quote published research that has shown that increased gender diversity on boards is associated with better financial performance. In addition to the additional recommendations under Principle 3, Recommendation 8.1 now states that responsibilities of the remuneration committee should include a review of and recommendation to the Board on remuneration by gender.

Our review considered the level of early adoption of these new principles.

## Revised Recommendation 3.2

Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.

### Diversity policy



### 3.2 Suggestions for the content of a diversity policy

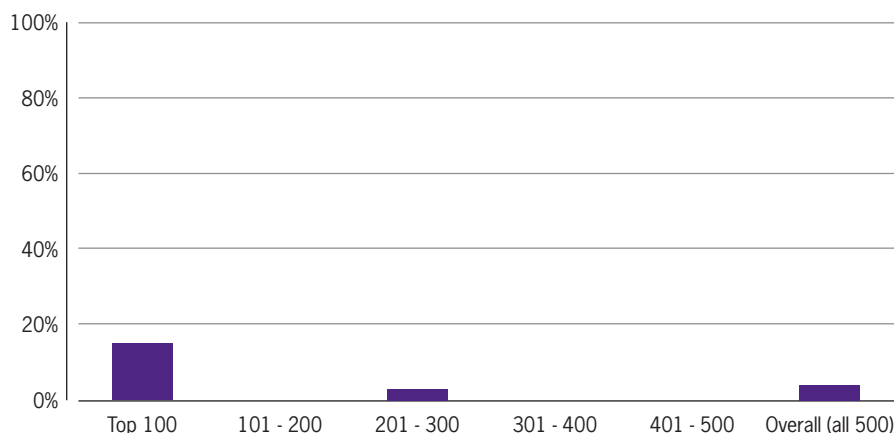
Companies may find it useful to consider the following matters when formulating a diversity policy:

1. Commitment to diversity and articulation of the corporate benefits arising from employee and board diversity and the importance of benefiting from all available talent. This should promote an environment conducive to the appointment of well qualified employees, senior management and board candidates so that there is appropriate diversity to maximise the achievement of corporate goals.
2. Commitment to and identification of ways to promote a corporate culture which embraces diversity when determining the composition of employees, senior management and the Board, including recruitment of employees and directors from a diverse pool of qualified candidates.
3. Identification of factors that should be taken into account in the selection processes and whether professional intermediaries should be used to identify or assess candidates.
4. Identification of programs that assist in the development of a broader pool of skilled and experienced board candidates including initiatives focused on skills development such as executive mentoring programs or more targeted practices relating to career advancement such as those that develop skills and experience that prepare employees for senior management and board positions.
5. Articulation of a corporate culture which not only supports workplace diversity but also recognises that employees at all levels of the company may have domestic responsibilities.
6. Transparency of board processes, review and appointments.
7. The extent to which the achievement of measurable objectives should be tied to Key Performance Indicators for the Board, the CEO and senior executives.

### Revised Recommendation 3.3

Companies should disclose in each annual report the measurable objectives for achieving gender diversity.

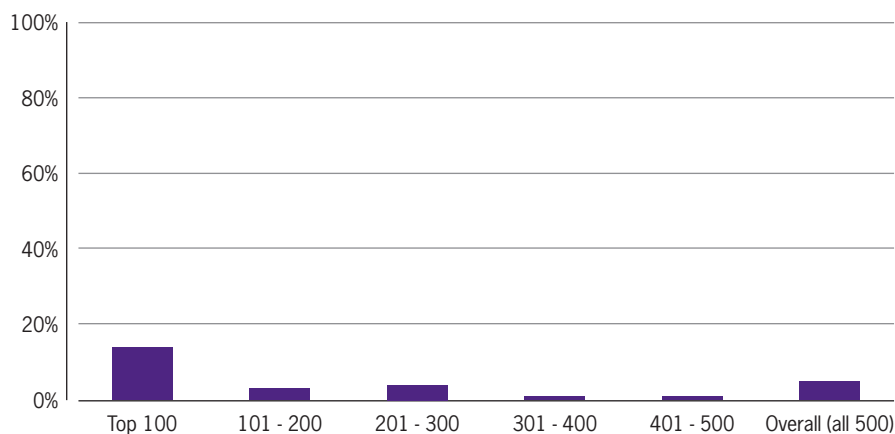
#### Disclosure of measurable objectives



### Revised Recommendation 3.4

Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

#### Disclosure of proportion of women employees



A consistent finding across the entities reviewed was that the inclusion of disclosures of gender diversity policies, measurable objectives and the proportion of women employees will be included in the annual report for the subsequent financial year (in accordance with the amended recommendations). As would be expected, compliance with the three new recommendations was

highest amongst the top 20 ASX listed companies. We noted that diversity disclosures were generally included on the website in a dedicated Corporate Responsibility or Sustainability section.

The Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA) administers the Equal Opportunity for Women in the Workplace Act 1999 and works with

employers to improve equal opportunity outcomes for women in the workplace. The Act requires all non-government and not-for-profit organisations employing a total of 100 or more staff to report to EOWA on their workplace programme for women. As it can be assumed that a large number of the entities in the ASX top 500 will fall under this remit it is somewhat surprising that diversity disclosure levels are not higher.

An alternative to the revised recommendations and disclosure requirements is the introduction of quotas for the number of females on Boards. This is something that has been introduced in a number of countries but that has attracted vast criticism and discussion here in Australia.

Given the low compliance levels with less than a year to go until compliance is mandatory there appears to be significant work to be done amongst the ASX Top 500. The development of a diversity policy will take time and is likely to require input and consultation with a number of different individuals. The Australian Institute of Company Directors has produced a guide, "New Corporate Governance Recommendations on Diversity: Tips for getting started" including a detailed checklist and example disclosures to assist companies to comply with the new recommendations. Gender objectives will need to be established and measured. There will need to be internal reviews of compliance with the established policies.

A recent survey of Directors conducted by law firm Mallesons Stephen Jacques found that the most important criteria for Board appointment is business acumen and experience. The survey highlights the need for a pipeline of women at senior manager levels in order to develop this business acumen and experience and increase appointments at board level.

# Corporate social responsibility and integrated reporting

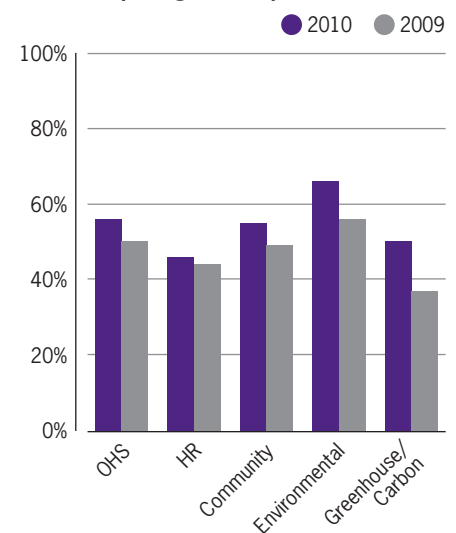
There is still no global standard governing reporting on social and environmental performance. This reporting is done on a voluntary basis and in varying degrees of depth. The International Integrated Reporting Council has been working to oversee the development of a framework that brings together both financial and non-financial information.

We reviewed the level of reporting on the following areas and noted a general increase in the level of this broader reporting:

- OH&S
- Human resources
- Community
- Environment
- Greenhouse/carbon

Of the entities reviewed, we noted references to the Global Reporting Initiative (GRI) amongst some of the organisations. The GRI has produced Sustainability Reporting Guidelines ('G3') which offer a structure for reporting on economic, environmental and social performance. These GRI guidelines are regarded as the 'best practice' model for organisations across industry and size ranges.

Broader Reporting – ASX Top 300



## Further reading

### One Report: How can integrated reporting lead to a sustainable society

One Report refers to an emerging trend in business that is taking place throughout the world — companies are going beyond separate reports for financial and nonfinancial (e.g., corporate social responsibility or sustainability) information and are integrating both into a single report. At the same time, companies are leveraging the internet to provide more detailed results to all of their stakeholders and to improve their level of dialogue and engagement with them.

Co-authored by Harvard Business School faculty member Bob Eccles and Grant Thornton partner, Mike Krzus, One Report is an invaluable guide on how integrated reporting can lead to a sustainable society. Filled with case studies and the most current trends on integrated reporting, contact your local Grant Thornton advisor for information on how to obtain a copy.

# Overall compliance with the ASXCG Principles

In addition to disclosures in the Annual Reports and financial statements, we are generally seeing a wealth of Corporate Governance disclosures and supporting policy documents on company websites. The continuing trend for increased disclosure of corporate governance indicates that organisations are appreciating the attractive message that such governance sends out to investors.

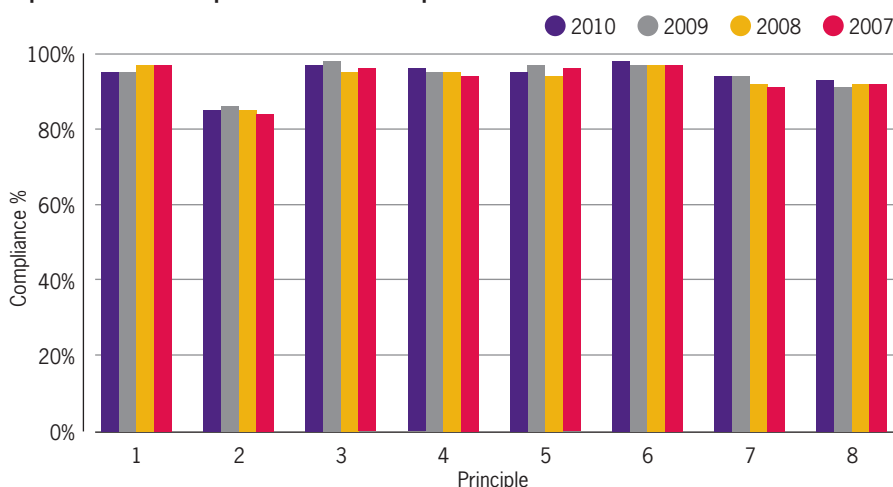
As has been seen in this survey over the past few years, there is a tendency for companies to report somewhat “template” Corporate Governance reports. Overall compliance is generally consistent with 2009 levels, compliance

with recommendations has improved for four of the eight principles, decreased for three principles and remained the same for the recommendations of Principle 7.

Compliance with the recommendations of Principle 2 remains by far the lowest with Principles 1, 3, 4, 5 and 6 achieving over 94% compliance across the ASX 300 over the four years of our survey.

As in previous years, the highest level of compliance is amongst the Top 100 companies. This is arguably where the most resources are available to dedicate to reporting compared to smaller-cap organisations with small boards.

**Top 300 – Overall compliance with ASX Principles**



**Top 100**

Fully compliant **62%**  
Partially compliant **38%**



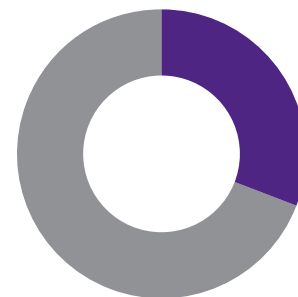
**Top 300**

Fully compliant **42%**  
Partially compliant **58%**



**Top 500**

Fully compliant **31%**  
Partially compliant **69%**



**State based trends**

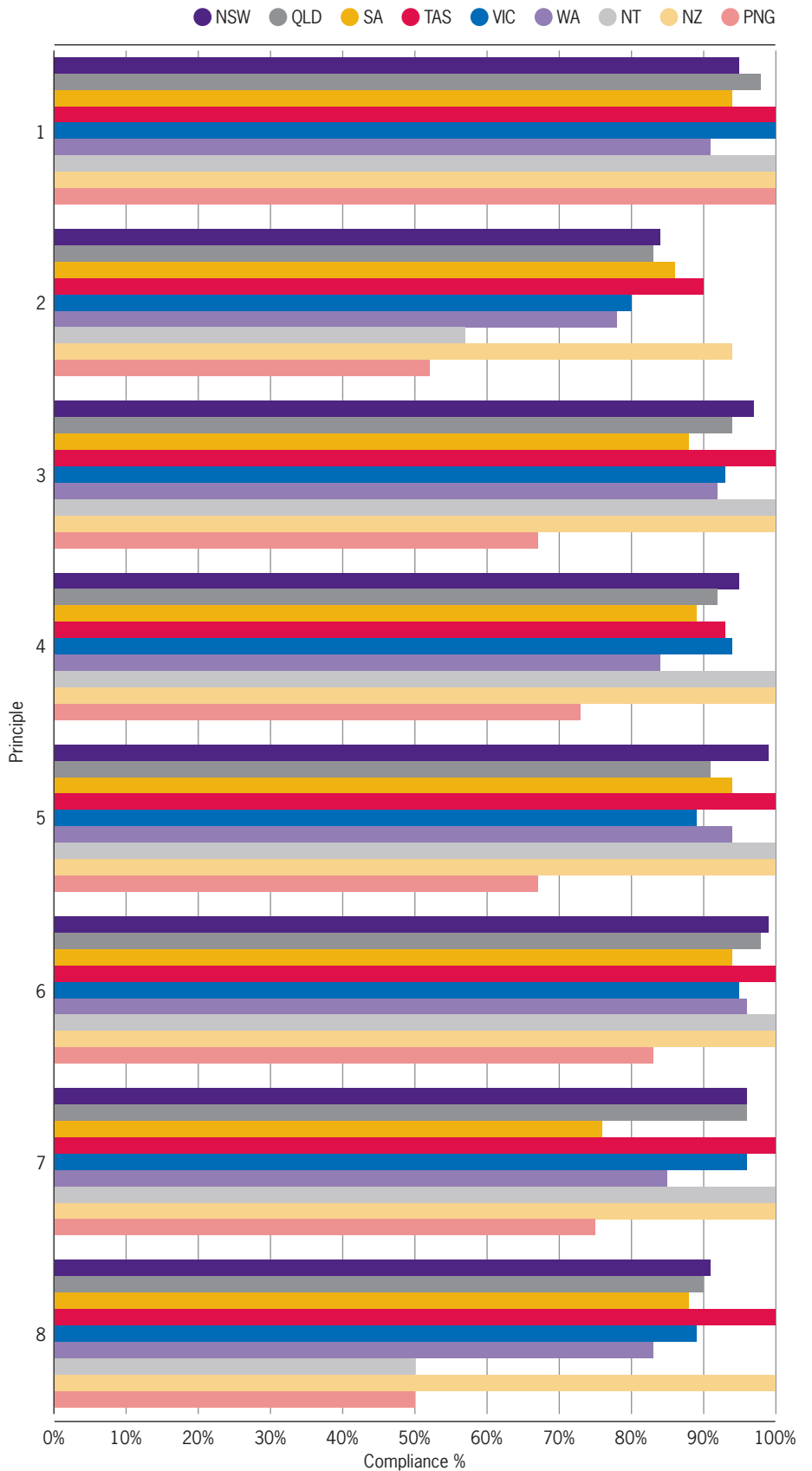
Organisations incorporated in New Zealand and Tasmania are consistently the highest performing across the principles while there is little to separate compliance in NSW, Queensland and Victoria.

**Industry trends**

With the wide range of industry classifications across the ASX 500 it can be difficult to identify any clear trends. However, a number of interesting findings have emerged.

Overall compliance by entities providing services in the mining industry in Australia was only 84% and it was noted that a number of these entities have not established remuneration committees. Compliance by the finance sector was also below the average at only 88%. It was noted that a number of these companies are within the ASX 301-500 range. Some of the sectors where compliance levels are higher include construction, sport and recreation, and electricity and gas supply.

**Compliance by State**



# ASX 300 vs ASX 500

There is a clear distinction between compliance levels across the ASX 300 and those in the ASX 301-500 group of companies.

Compliance levels for four of the eight principles were notably lower across the ASX 301-500 compared to the ASX 300. These principles were:

- Principle 2:** Structure the Board to add value
- Principle 3:** Promote ethical and responsible decision-making
- Principle 4:** Safeguard integrity in financial reporting
- Principle 8:** Remunerate fairly and responsibly

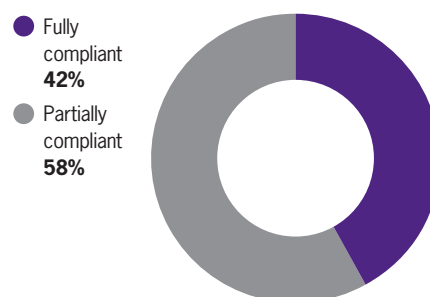


From the findings it is clear that entities at the smaller end of the scale are struggling when it comes to board structure and sub-committees with many companies either failing to establish such sub-committees or not structuring them to include the recommended mix of independent or non-executive directors.

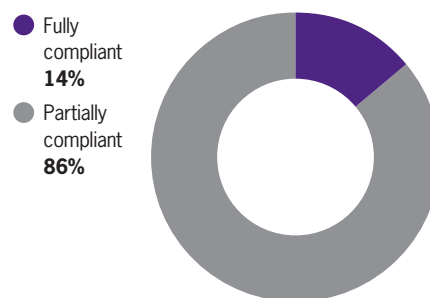
The ASXCG Principles apply to all listed entities and this means that a wide variety of entities fall under their scope across a range of industries and varying in size, depth of experience and resource availability. The benefit of the “if not, why not?” approach is that companies which consider the principles and recommendations too detailed have the ability to not follow them provided they explain why such a decision has been taken. By reading and understanding the detailed guidance that accompanies the principles, companies can appreciate what the recommendations are designed to achieve and can then take informed decisions regarding appropriate governance structures to establish in order to meet the objectives of the principles.

The remainder of this report will look at each of the ASX Corporate Governance Principles in detail and examine the level of compliance with each.

## Compliance by ASX 300



## Compliance by ASX 301-500



# Management and oversight

## Principle 1 – Lay solid foundations for management and oversight

### Recommendation 1.1

Companies should formalise the functions reserved to the Board and those delegated to senior executives and disclose those functions.

Full compliance was recorded amongst the Top 100. The deviations noted for companies in the ASX 201-300 category were largely attributable to failing to make clear disclosures of board functions and distinctions between management and the Board. It is interesting to note that compliance across the ASX 500 was only marginally lower than that of the Top 300.

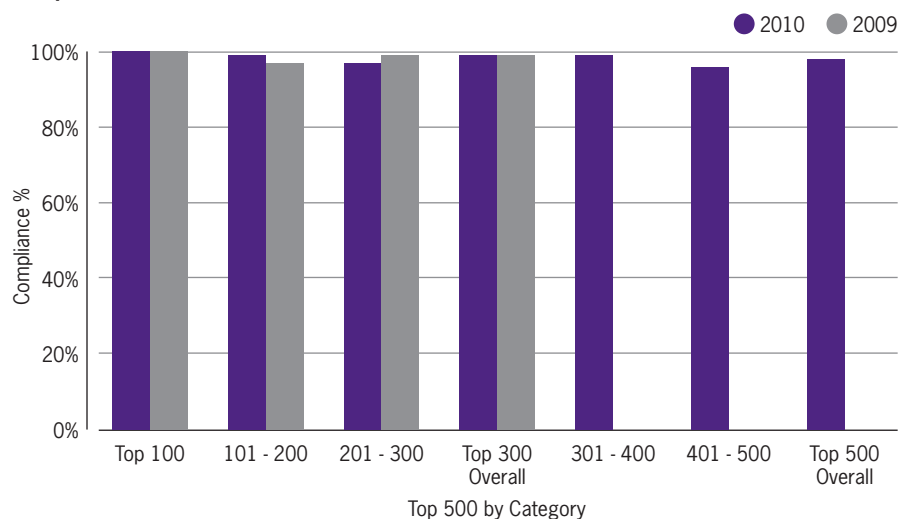
### Recommendation 1.2

Companies should disclose the process for evaluating the performance of senior executives.

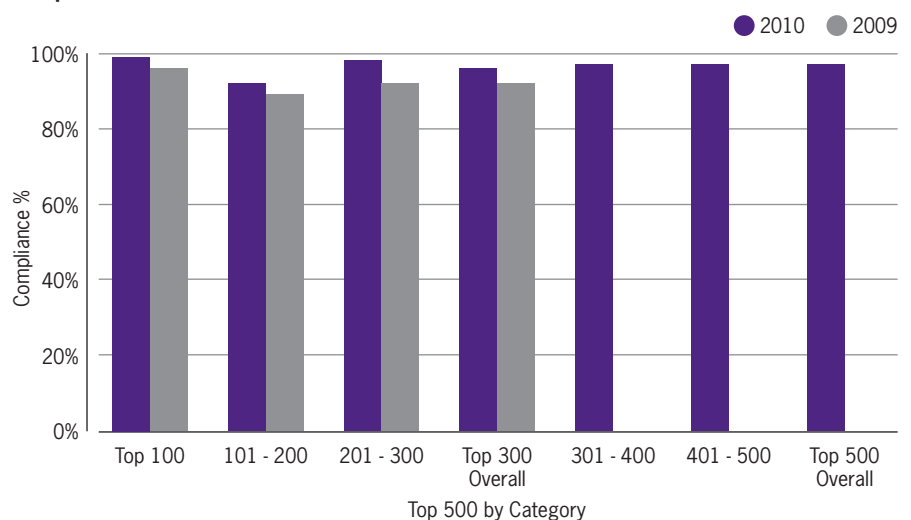
Levels of compliance with this recommendation have improved compared to 2009. Where non-compliance was recorded, this was due to companies failing to provide details of the performance evaluation process (as required under the Revised Principles).

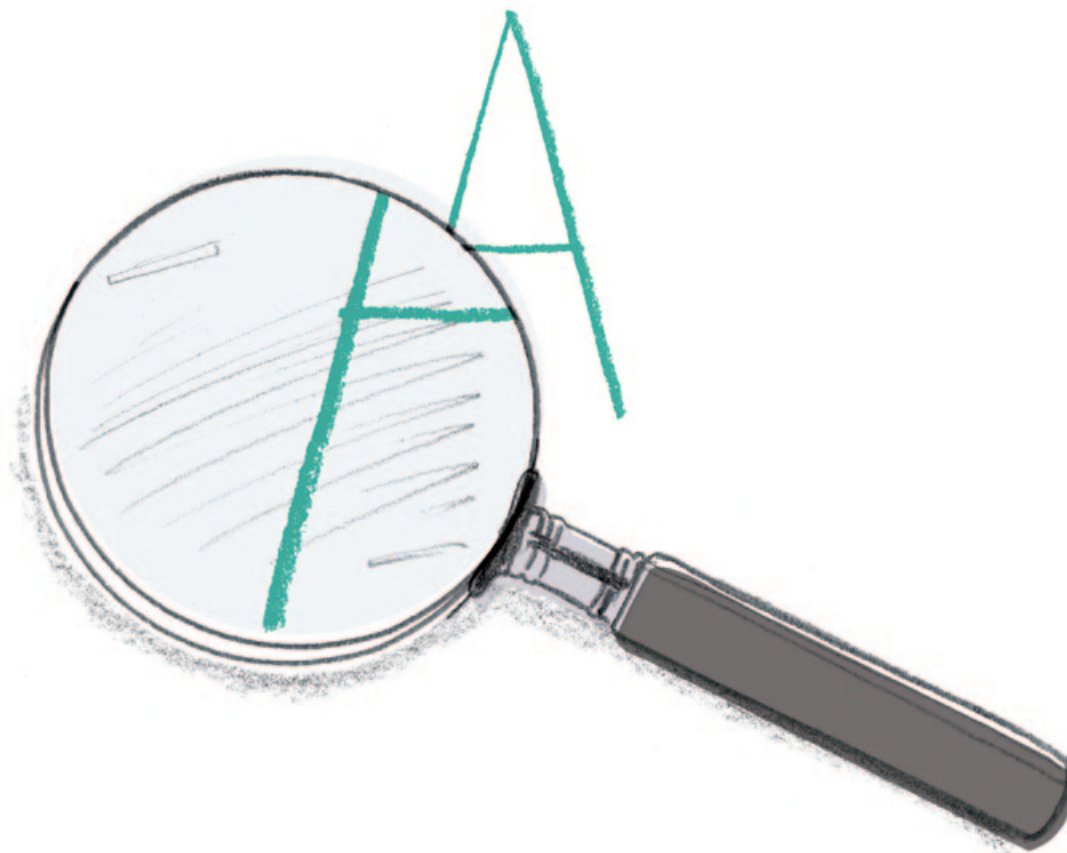
It was noted that organisations in the resources sector had the highest rates for non-compliance for both Recommendation 1.2 and Recommendation 1.3.

Compliance with Recommendation 1.1



Compliance with Recommendation 1.2



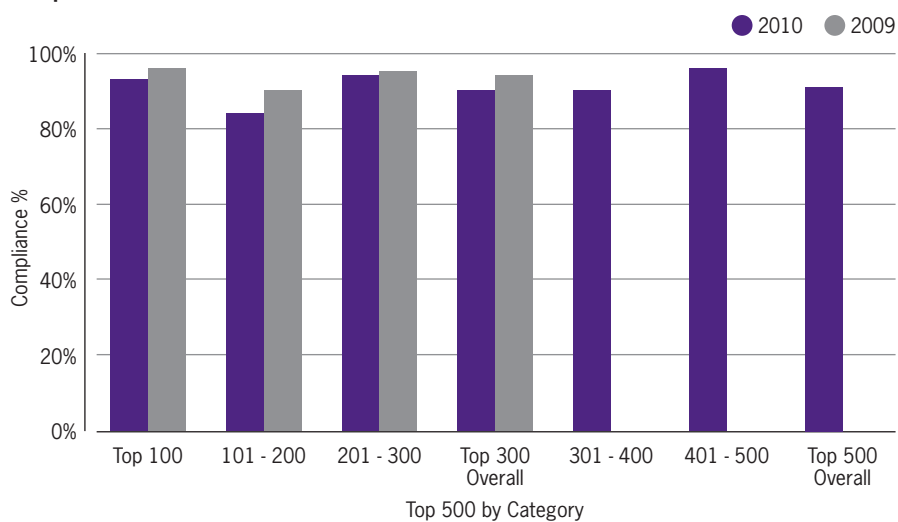


**Recommendation 1.3**

Companies should disclose any departure from 1.1, 1.2 and 1.3 and whether a performance evaluation for senior executives has taken place in the reporting period and whether it was in accordance with the process disclosed.

It was not clear for a number of organisations whether a review had taken place in accordance with the process disclosed under Recommendation 1.2. This failure to make clear disclosures in the annual report has resulted in lower overall compliance than in 2009.

**Compliance with Recommendation 1.3**



# Principle 2 – Structure the Board to add value

## Recommendation 2.1

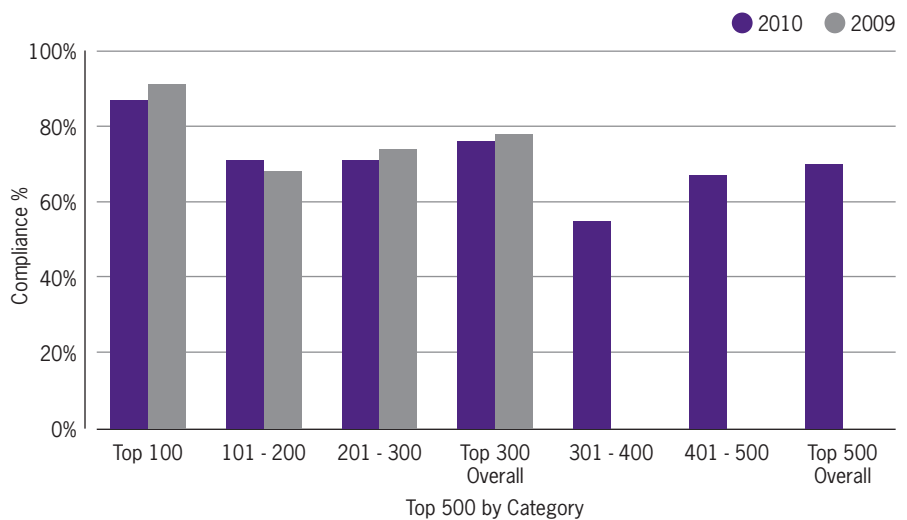
A majority of the Board should be independent directors.

Board composition has continued to be one of the least complied with recommendations. We note a high level of “if not, why not” disclosures around Principle 2 recommendations however the information disclosed was often limited to stating non-compliance rather than providing sufficient convincing evidence to justify the departure from the recommendation.

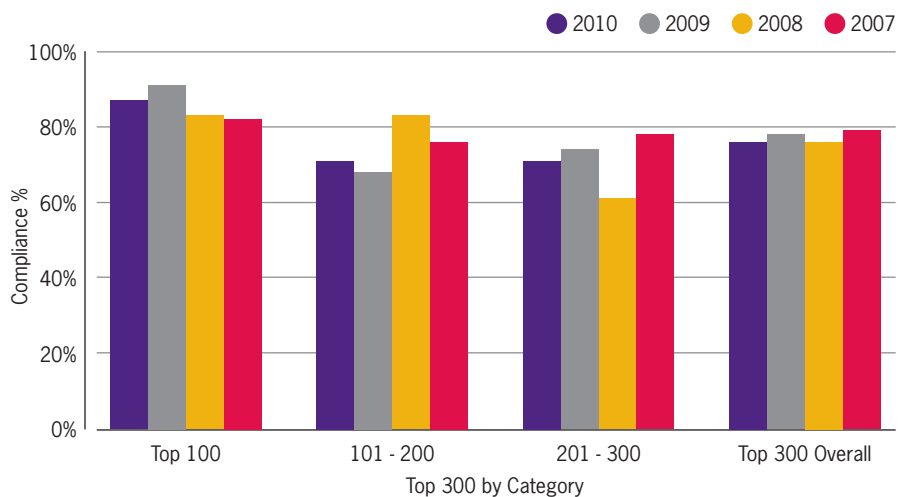
A common trend among the “if not, why not” disclosure relates to the size and level of operations of the entity not being large enough to warrant a large board/independent directors.

In one instance, the company disclosed in the annual report that it is unclear whether or not they have a majority of independent directors, due to a disagreement between different board members as to whether one particular member is independent. Major criticisms of the current ‘independent’ definition relate to both the closeness to major shareholders and the length of time on the Board.

Compliance with Recommendation 2.1



Top 300 – Compliance with Recommendation 2.1

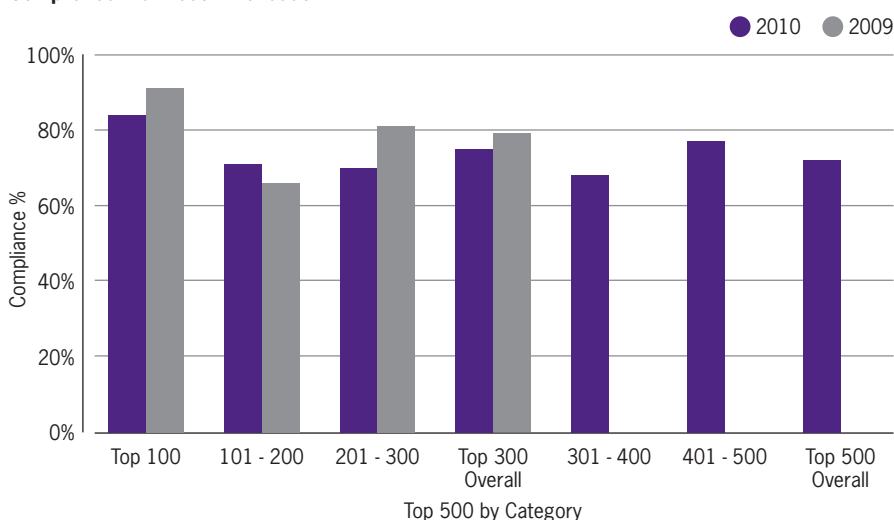


### Recommendation 2.2

The chair should be an independent director.

Lack of an independent chairperson also records a lower level of compliance than many of the other recommendations and compliance levels have fallen this year. Compliance among the ASX 301 - 500 was at comparable levels to the ASX 300, indicating that small cap organisations are recognising the importance of demonstrating good corporate governance practices. The Corporate Governance Principles and Recommendations highlight that there will be situations where there may be a conflict in implementing the recommendations for a majority of independent directors and for the chair to be independent, however the guidance stipulates that such a departure should be discussed and clarified in the corporate governance statement and we found that these disclosures were often lacking in detail.

Compliance with Recommendation 2.2



Top 300 – Compliance with Recommendation 2.2



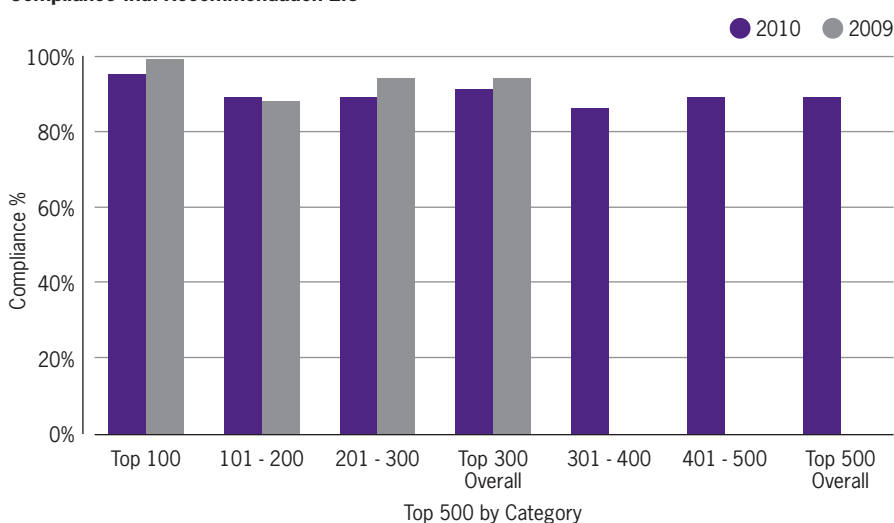
### Recommendation 2.3

The roles of chair and chief executive officer should not be exercised by the same individual.

This year we have seen an increasing number of instances where the roles of Chair and CEO are shared by the same individual.

Compliance across the ASX 300 has fallen 3% to 91% overall with a number of organisations failing to justify their departure from the recommendation.

Compliance with Recommendation 2.3

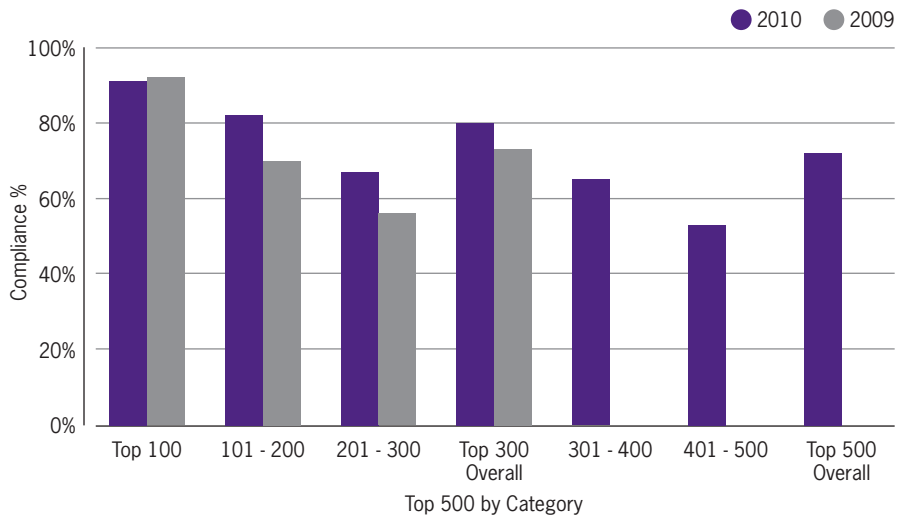


**Recommendation 2.4**

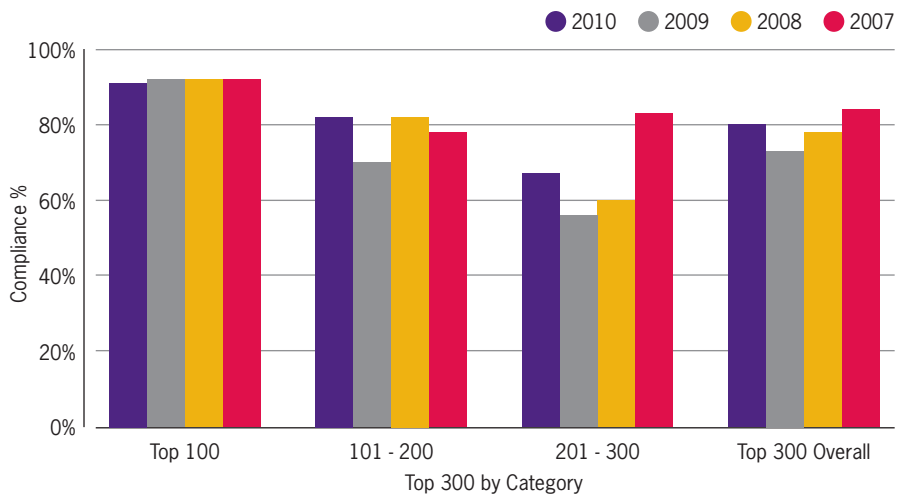
The Board should establish a nomination committee.

2010 has seen an increase in overall compliance with Recommendation 2.4. In some cases a combined Nomination and Remuneration committee has been established. Organisations have generally disclosed where there is no nomination committee, but have often failed to communicate the Board processes in place that would otherwise be considered by a nomination committee. Recommendation 2.4 requires the nomination to be structured so that it consists of a majority of independent directors, be chaired by an independent director and have at least three members. These recommendations were deemed impractical for a number of organisations and this was generally consistent with compliance or non-compliance with Recommendation 2.1.

**Compliance with Recommendation 2.4**



**Top 300 – Compliance with Recommendation 2.4**

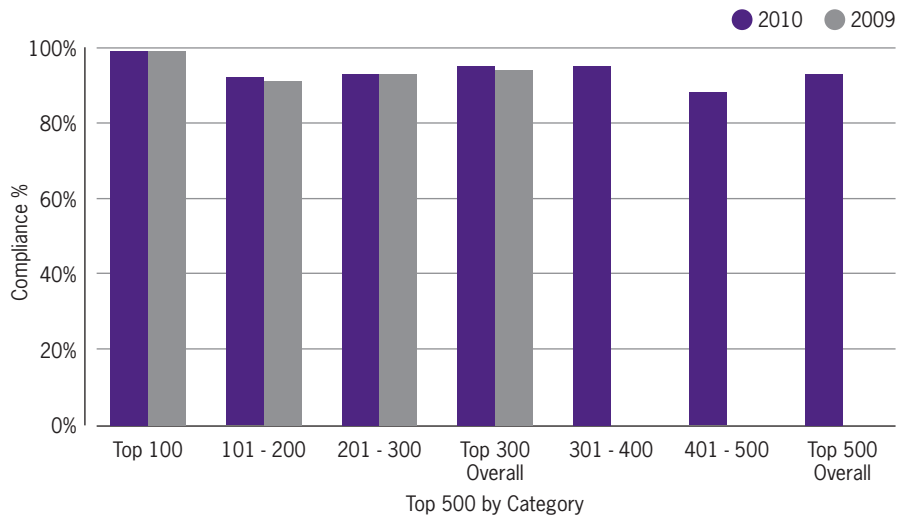


### Recommendation 2.5

Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.

Compliance for this recommendation remains high with the majority of organisations disclosing the process for evaluating Board, committee and individual directors' performance. Specific references were made to director inductions and on-going access to information deemed necessary for directors to perform their duties.

Compliance with Recommendation 2.5

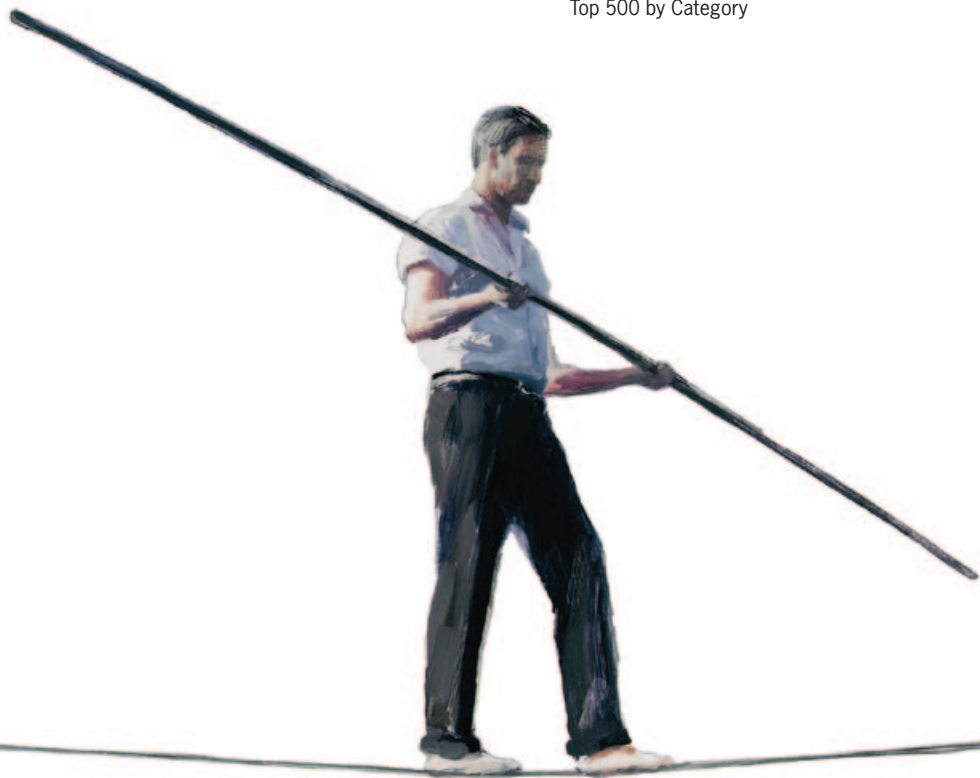
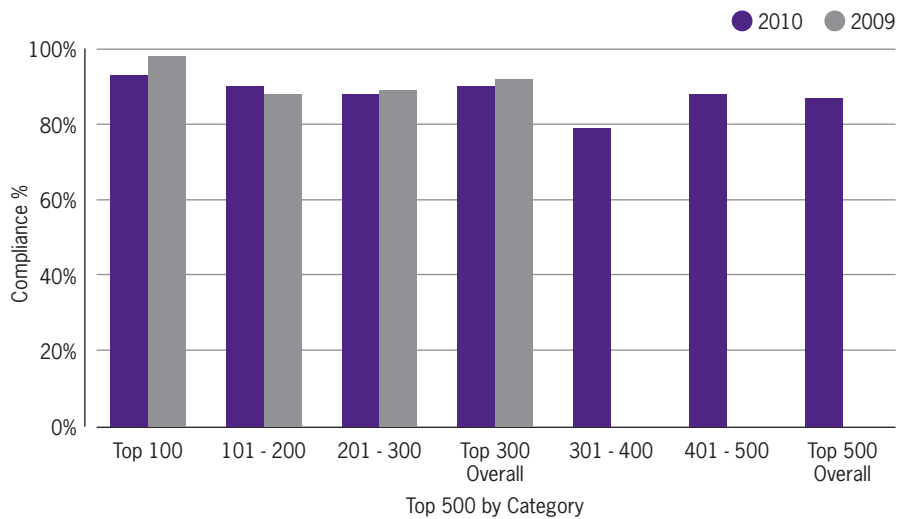


### Recommendation 2.6

Companies should disclose the skills, experience and expertise relevant to the position of director held by each director and description for the selection and appointment of directors.

Compliance with this recommendation has fallen slightly this year with less information disclosed around the skills, experience and expertise of the director positions and criteria for selection and appointment of directors.

Compliance with Recommendation 2.6



# Principle 3 – Promote ethical and responsible decision-making

## Recommendation 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.

99% compliance with Recommendation 3.1 in 2010 is due to one organisation currently only having a draft code in place. However, this organisation has disclosed that a full version will be available in 2011 hence compliance in the Top 100 is expected to return to 100% next year.

## Recommendation 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.

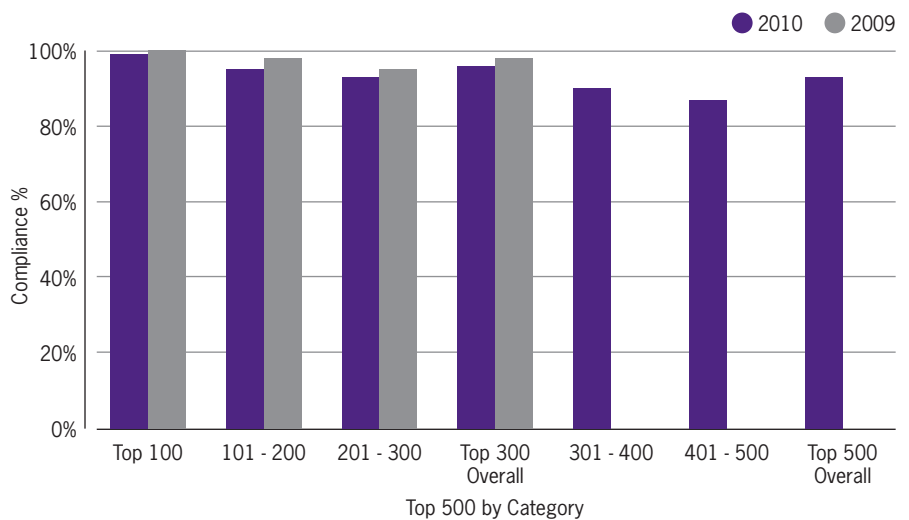
Share trading policies are widely in place according to the annual reports reviewed. It is noted that Recommendation 3.2 will be removed under the new Corporate Governance Principles and Recommendations and the requirement for companies to have security trading policies is covered by ASX Listing Rules 12.9, 12.10 and 12.11.

## Recommendation 3.3

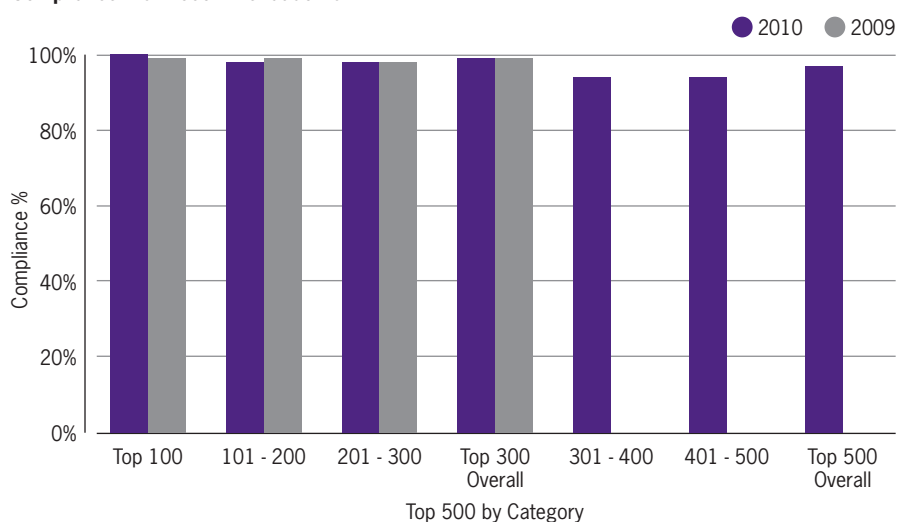
Companies should make available, ideally via their website, any applicable code of conduct and trading policy or respective summaries.

In some cases it was noted that share trading policies were referenced to the organisations website but could not be accessed. However, on the whole, compliance levels with recommendation 3.3 remained high.

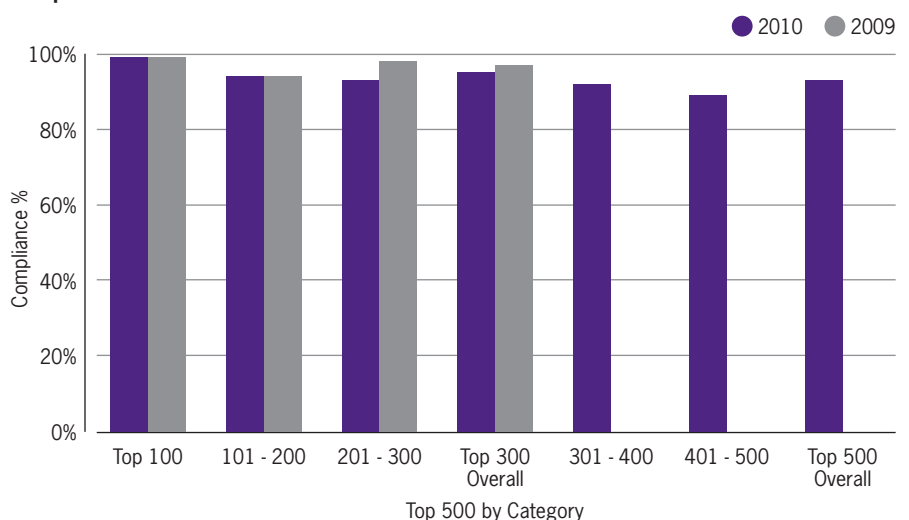
Compliance with Recommendation 3.1



Compliance with Recommendation 3.2



Compliance with Recommendation 3.3



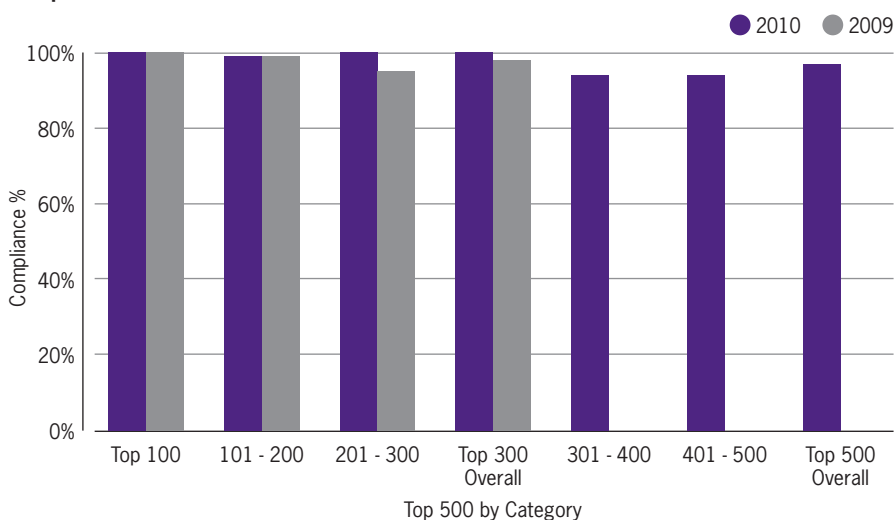
# Principle 4 – Safeguard integrity in financial reporting

## Recommendation 4.1

The Board should establish an audit committee.

There are a number of companies in the ASX 301 - 500 who have not established an audit committee despite this being a requirement of the ASX Listing Rules. This departure from the recommendations tended to be justified by size and resource constraints. Many of the entities that had failed to comply with the recommendation to establish an audit committee disclosed that the role of such a committee was fulfilled by the Board.

Compliance with Recommendation 4.1



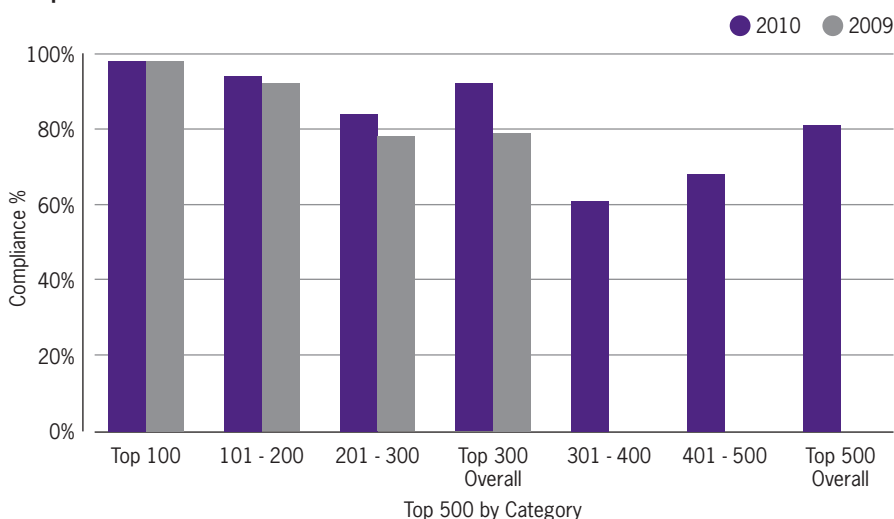
## Recommendation 4.2

The audit committee should be structured so that it:

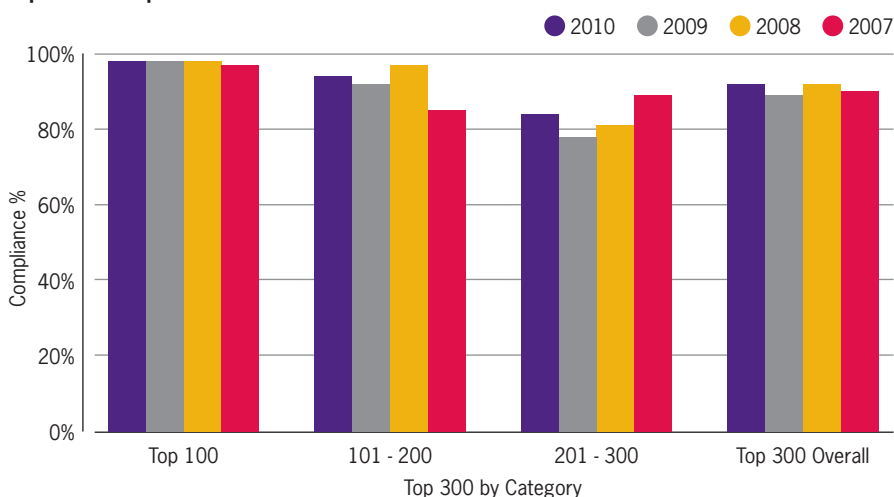
- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the Board
- has at least three members.

Non-compliance with this recommendation can be linked to both failure to comply with the recommendations of Principle 2 (Board composition) and failure to comply with Recommendation 4.1. It is noted that the ASX Listing Rule 12.7 requires the Top 300 ASX listed entities to comply with the compositional recommendations of the principles. This could partly explain the departures from Recommendation 4.2 amongst companies in the 301-500 bracket.

Compliance with Recommendation 4.2



Top 300 – Compliance with Recommendation 4.2

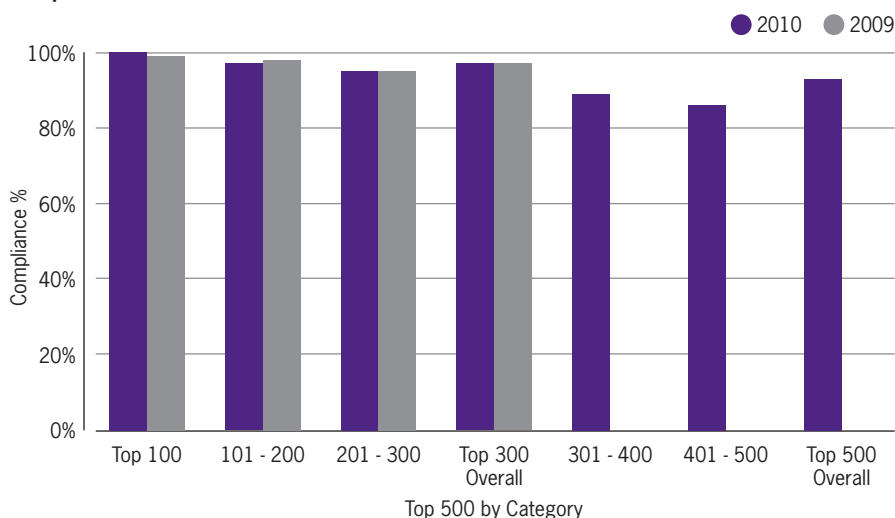


### Recommendation 4.3

The audit committee should have a formal charter.

Levels of disclosure of the existence of a formal charter for the audit committee are high and are consistent with 2009. Corporate Governance statements often contained commentary around the rights of members of the audit committee to access internal and external auditors (without management present) and access to management.

Compliance with Recommendation 4.3

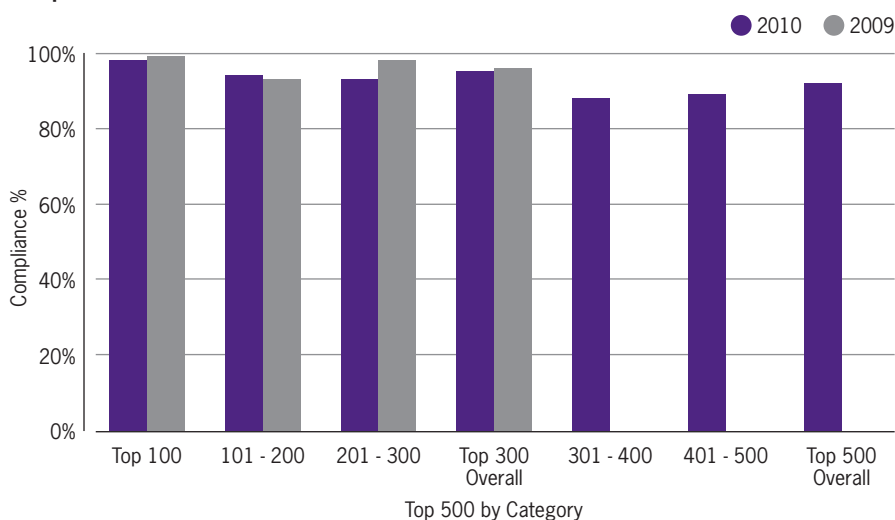


### Recommendation 4.4

Companies should publish details of the membership of the audit committee and number of meetings held and should also make available a copy of their audit committee charter and procedures for selection of external auditors.

There has been a slight decrease in the overall level of disclosures relating to Principle 4 compared to 2010. It appears that the majority of the ASX 500 are posting audit committee charters on their websites, generally within a dedicated Corporate Governance section. Within the ASX 401-500 we identified companies that have not established an audit committee but have published the information recommended in Recommendation 4.4 to the best of their ability in the absence of an audit committee, hence the difference in compliance levels compared to Recommendation 4.1. Aside from this, there is a direct link between compliance with Recommendation 4.1, Recommendation 4.3 and Recommendation 4.4.

Compliance with Recommendation 4.4



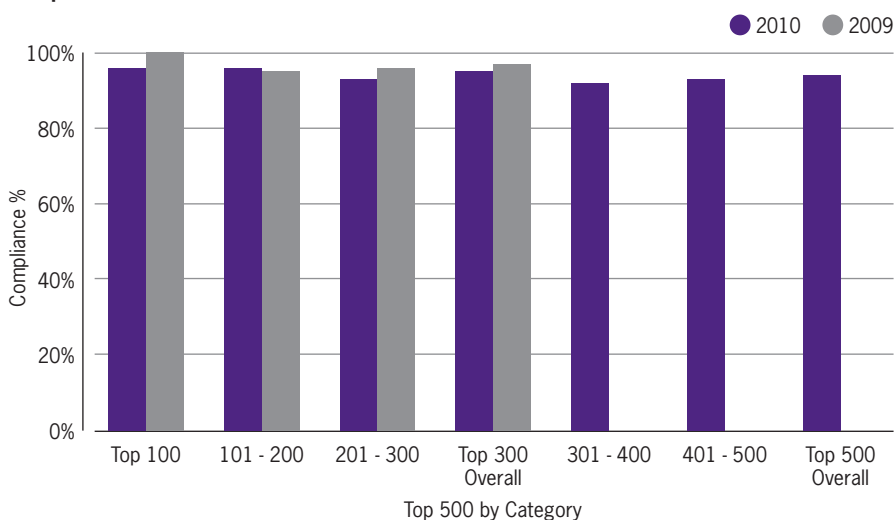
# Principle 5 – Make timely and balanced disclosure

## Recommendation 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.

There has been a reduction in the level of compliance with this recommendation and it is attributed to the failure of organisations to make their written policies regarding compliance with ASX Listing Rule disclosure requirements available. Continuous disclosure has been a focus area of the Australian Securities and Investments Commission (ASIC). Although entities that failed to comply did make reference to continuous disclosure requirements, they failed to make disclosure of their policies or to provide a summary. There was also a failure to provide further details on the website.

Compliance with Recommendation 5.1

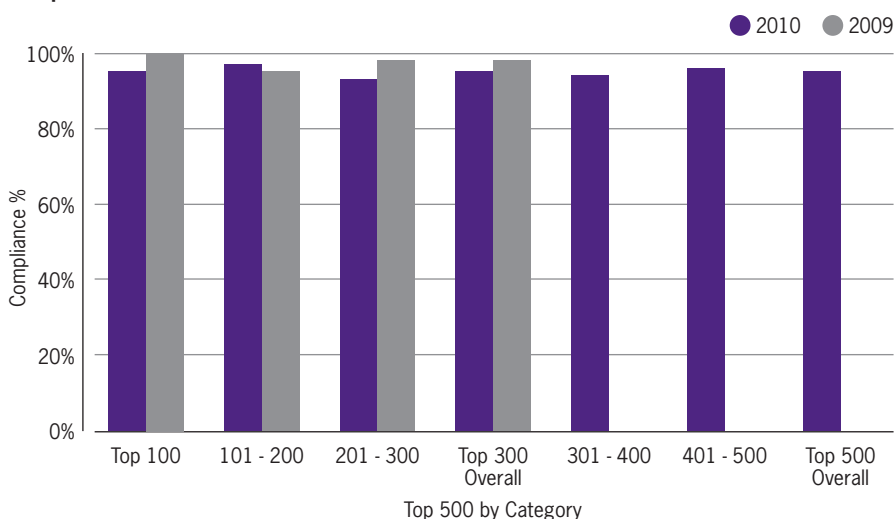


## Recommendation 5.2

Companies should make available, ideally via their website, policies or related summaries designed to guide compliance with Listing Rule disclosure.

Findings are as for Recommendation 5.1, with an overall reduction in compliance for 2010.

Compliance with Recommendation 5.2



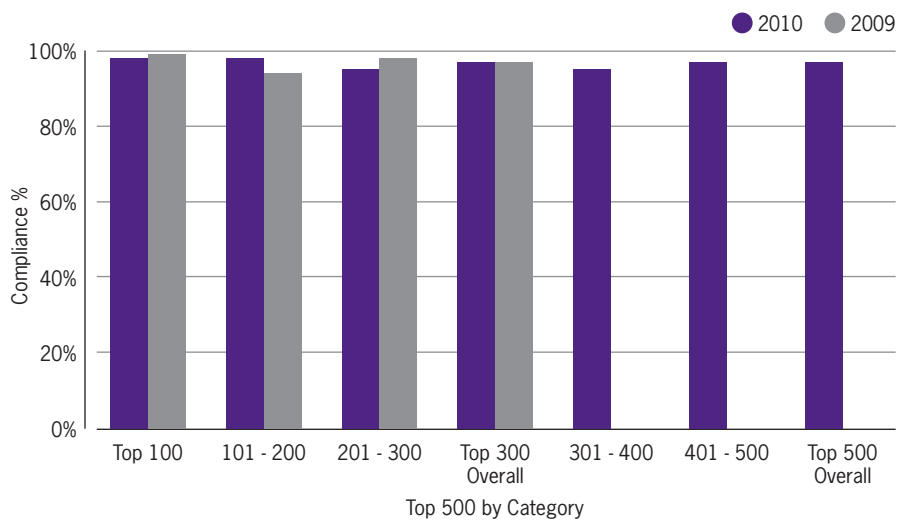
# Principle 6 – Respect the rights of shareholders

## Recommendation 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.

Compliance across the ASX 300 has remained at 97% and is even higher for the ASX 500. Organisations are making reference to their established communications policy and in particular, how they seek to encourage shareholder participation at general meetings.

Compliance with Recommendation 6.1

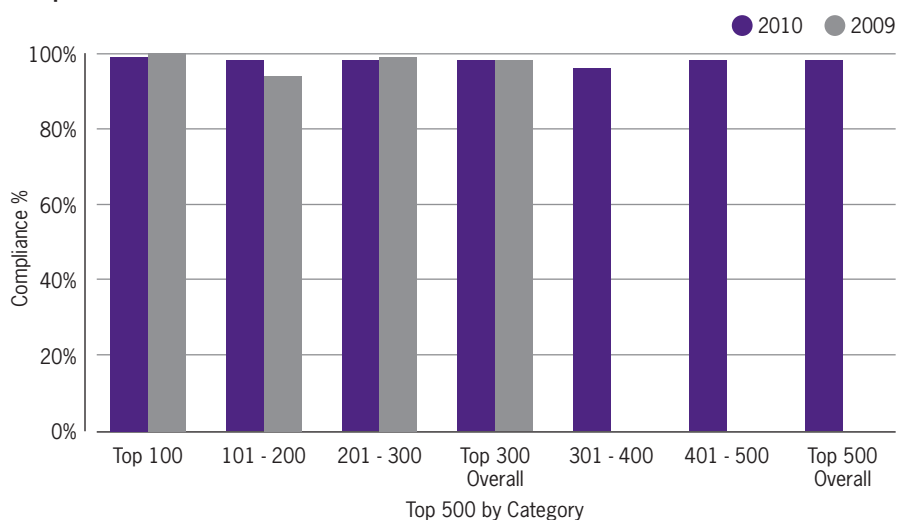


## Recommendation 6.2

Companies should describe how they will communicate with their shareholders publicly, ideally by posting this information on the company's website.

On our review of companies' websites we noted that the vast majority of websites contained copies of ASX announcements and a number had also posted analyst reports on their websites together with press releases and annual reports.

Compliance with Recommendation 6.2



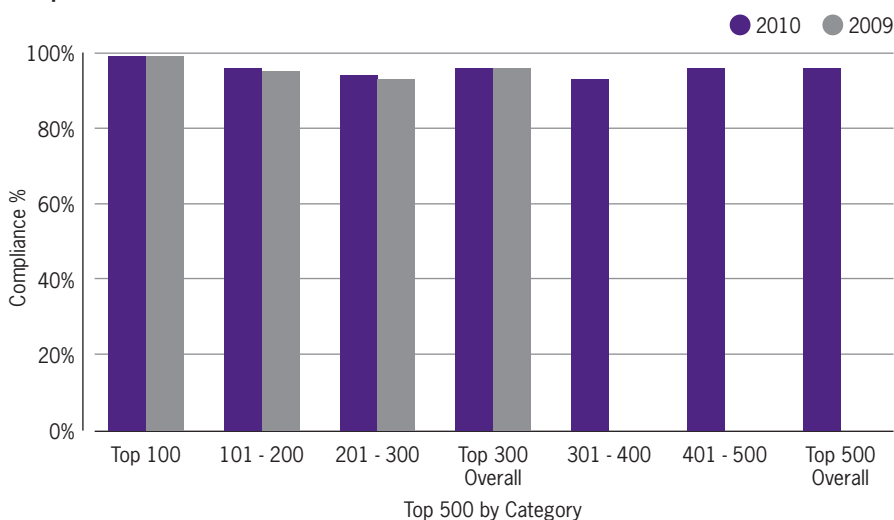
# Principle 7 – Recognise and manage risk

## Recommendation 7.1

Companies should establish policies on risk oversight and management and disclose a summary of those policies.

There has been very little change in the level of compliance with Recommendation 7.1 regarding the establishment of risk policies. Compliance levels are high and we noted that companies tend to clearly describe the roles and accountabilities of the relevant board committee, management and the main Board in accordance with guidance in the recommendation. This information was often contained on companies' websites and was cross referenced to the corporate governance statement.

Compliance with Recommendation 7.1

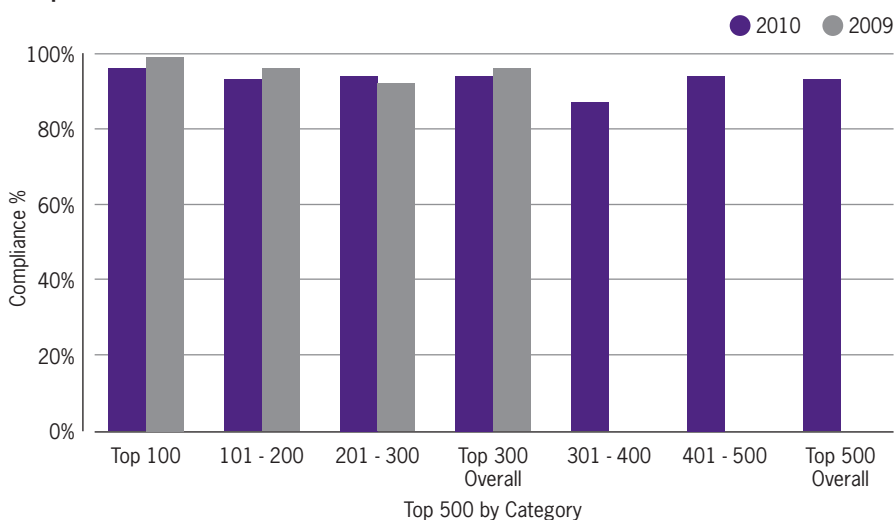


## Recommendation 7.2

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.

In some instances, compliance was claimed however we felt that insufficient evidence was supplied in the annual report or website to corroborate this. In some cases it was not clear whether there had been any review or reporting on the assessment of effectiveness of the management of material business risks.

Compliance with Recommendation 7.2

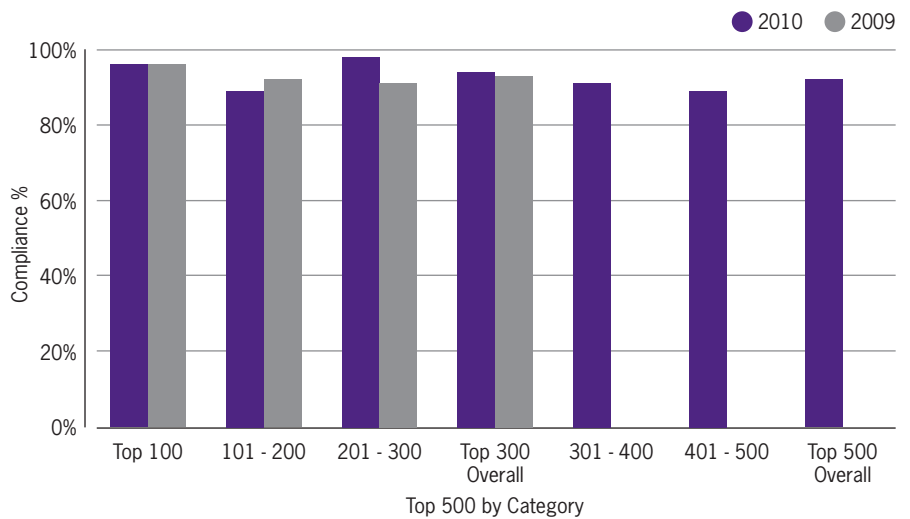


**Recommendation 7.3**

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.

Under the Corporations Act s295A, the directors’ declaration can only be signed once a declaration from the CFO and CEO (or their equivalents) has been received. Instances of non-compliance were noted where there was no specific disclosure that such a declaration had been obtained even though the annual report contained a signed directors’ declaration.

**Compliance with Recommendation 7.3**

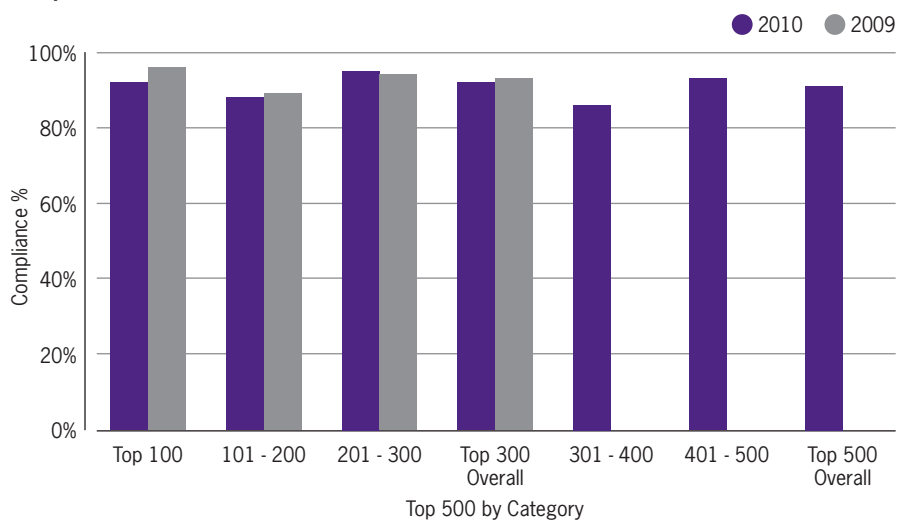


**Recommendation 7.4**

Companies should provide detail that the information requirements under this principle have been provided to the Board and should make available, ideally via their website, a summary of company policies on risk oversight and management of material business risks.

Compliance with this recommendation closely follows that for Recommendation 7.3.

**Compliance with Recommendation 7.4**



# Principle 8 – Remunerate fairly and responsibly

## Recommendation 8.1

The Board should establish a remuneration committee.

The ASX issued an exposure draft in April 2010 which was subsequently accepted in August 2010 relating to Listing Rule amendments – new requirements for a remuneration committee. Under the proposed amendments, ASX Top 300 entities would be required to have a remuneration committee comprised solely of non-executive directors.

This amendment aims to increase the perception of independence of the remuneration committee. There has been discussion as to whether the ASX Top 500 should also be required to conform. The amended listing rule will come into effect on 1 July 2011.

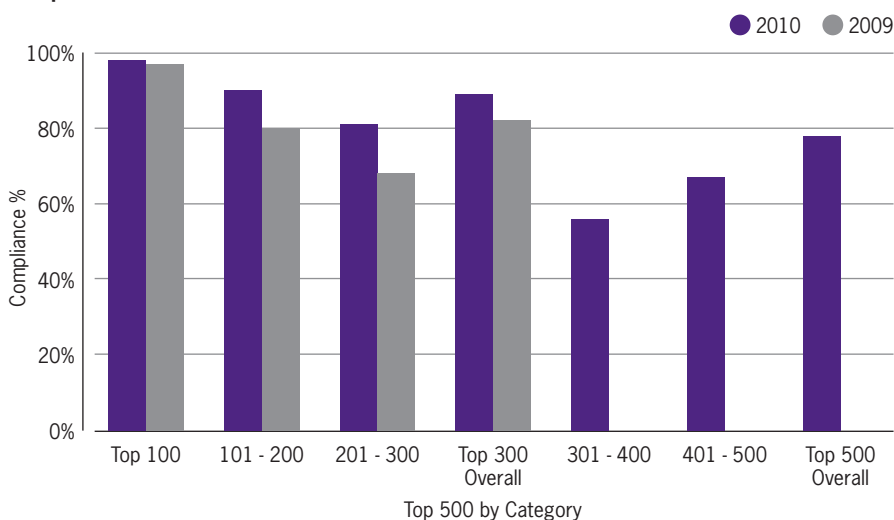
From the above results it is clear that, in the absence of any change, there will be a number of entities in violation of the listing rules given that they have not established a remuneration committee. However, it is encouraging to note the increased existence of remuneration committees amongst the ASX Top 300. As with compliance with Recommendation 4.1 and the establishment of an audit committee, a number of entities have stated that the role of the remuneration committee is undertaken by the Board and that the directors consider this to be appropriate for that entity's circumstances.

## Recommendation 8.2

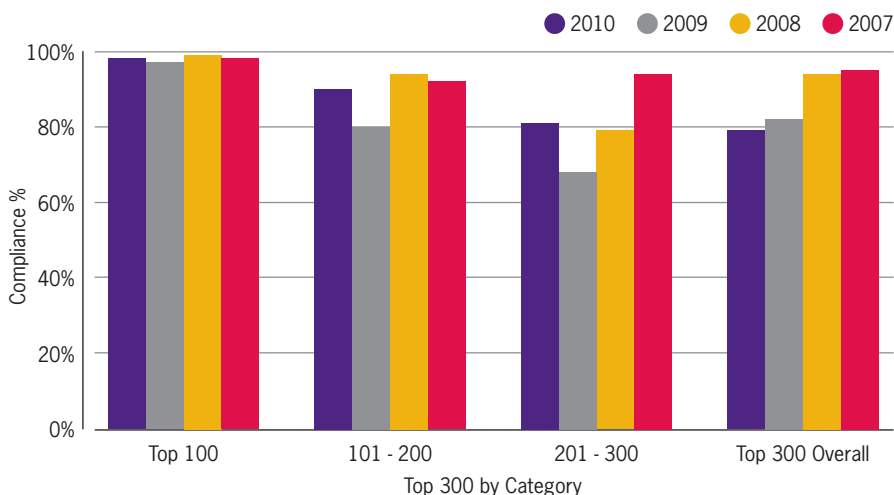
Companies should clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.

The majority of entities differentiated between executive and non-executive directors' remuneration in their annual reports. Recommendation 8.2 contains guidelines for both executive and non-executive remuneration packages. We have not assessed levels of conformity with these guidelines as the recommendation merely recommends entities to draw a distinction between the two forms of remuneration.

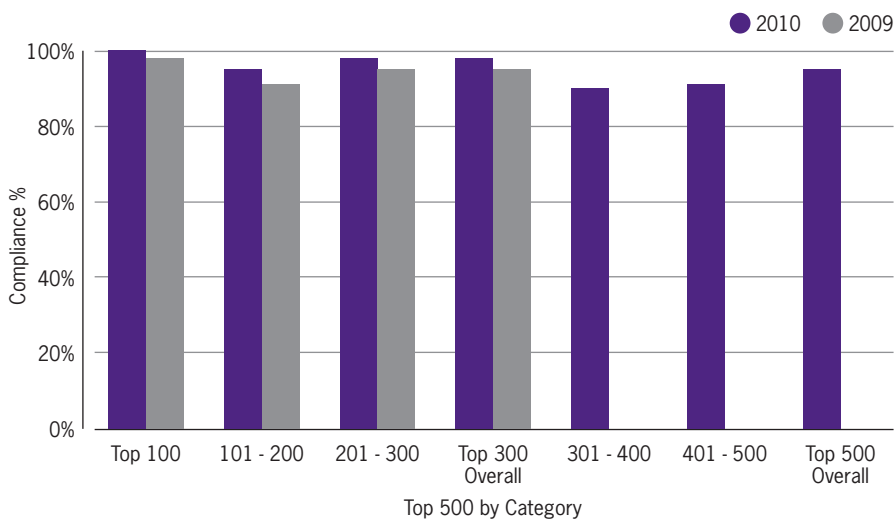
Compliance with Recommendation 8.1



Top 300 – Compliance with Recommendation 8.1



Compliance with Recommendation 8.2



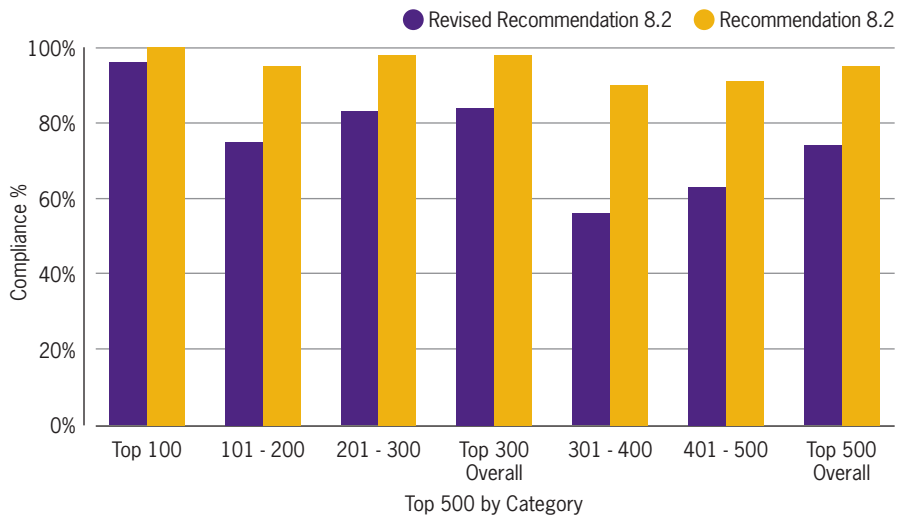
**Revised Recommendation 8.2**  
**(applicable from 1 January 2011)**

The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least 3 members.

As can be seen from the above graph, compliance with the January 2011 effective criteria for Recommendation 8.2 is at lower levels than for the existing recommendation. This is understandable given the failure to comply with Recommendation 2.1 for a number of organisations.

**Compliance with revised Recommendation 8.2**



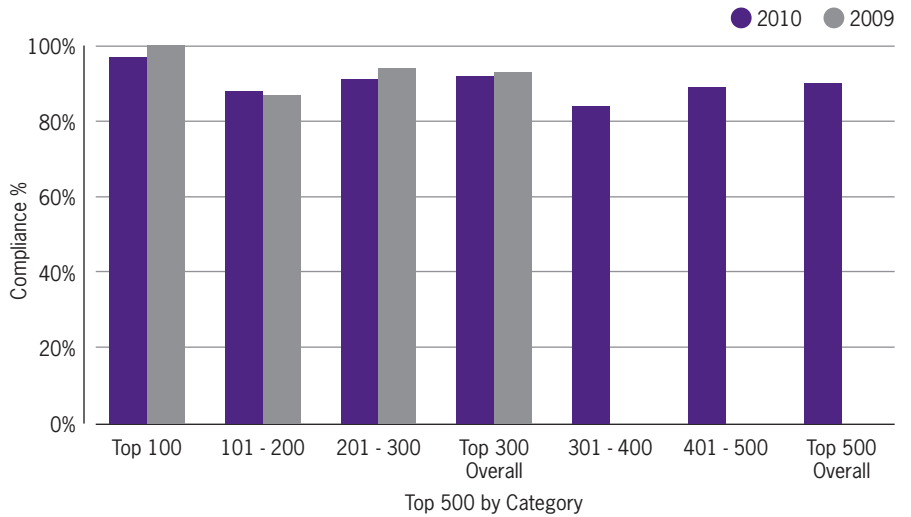
**Recommendation 8.3**

The following material should be made publicly available, ideally by posting it to the company’s website:

- The charter of the remuneration committee or a summary of the role, rights, responsibilities and membership requirements for that committee
- A summary of the company’s policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity based remuneration schemes.

Non-compliance with Recommendation 8.3 tended to be around the requirement to disclose the company’s policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes. In a number of cases this policy (or a summary thereof) was not expressly disclosed.

**Compliance with Recommendation 8.3**



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