



Technical Accounting Alert

Changes to ASX Listing Rules and Corporate Governance Principles and Recommendations

Introduction

The purpose of this alert is to provide an overview of the recent changes to come into effect for listed companies in relation to listing rules (trading policies and remuneration committees) and corporate governance principles and recommendations (diversity, briefings, trading policies and remuneration committees).

Overview

A suite of changes have been made to the ASX Listing Rules and to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition). 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 changes to the Principles and Recommendations will take effect in the first financial year of listed entities beginning on or after 1 January 2011, though the Council encourages an early transition to the proposed changes particularly in relation to diversity. The proposed changes to the ASX Listing Rules with respect to the requirements for a trading policy will take effect on 1 January 2011. The proposed changes to the ASX Listing Rules with respect to the composition of remuneration committees will take effect from 1 July 2011.

The changes made are summarised as follows:-

Principles and Recommendations

- Diversity
- Remuneration
- Briefings
- Trading Policies

Listing Rules

- Remuneration Committees
- Trading Policies

All TA alerts can be found on the National Extranet (www.gtassist.com.au/extranet) under Professional Services/Assurance/Forms and Precedents/Technical Assistance for Grant Thornton staff only and the Grant Thornton website (www.grantthornton.com.au) under Publications/IFRS and technical resources. This alert is not a comprehensive analysis of the subject matter covered and is not intended to provide accounting or auditing advice. All relevant facts and circumstances, including the pertinent authoritative literature, need to be considered to arrive at accounting and audit decisions that comply with matters addressed in this alert. Grant Thornton is a trademark owned by Grant Thornton International Ltd (UK) and used under licence by independent firms and entities throughout the world. Grant Thornton Australia Limited is a member firm within Grant Thornton International Ltd. Grant Thornton International Ltd and the member firms are not a worldwide partnership. Grant Thornton Australia Limited, together with its subsidiaries and related entities, delivers its services independently in Australia.

Liability limited by a scheme approved under Professional Standards Legislation.

These are explored further below.

Principles and Recommendations

Diversity

You may have observed that there has been increased attention on this particular change, which in effect, is requiring companies to increase transparency through implementing and disclosing their diversity policy and to report on gender initiatives in their annual reports.

In drafting their diversity policy, companies will need to ensure that this contains measurable objectives for achieving gender diversity, eg. proportion of women employees and consultants in senior executive positions and on the board. These measurable objectives will need to be disclosed and assessed against actuals within the annual report under the following areas:

- proportion of women employees in the whole organisation;
- proportion of women employees in senior executive positions; and
- proportion of women employees on the board.

The annual report will also need to make a statement as to the mix of skills and diversity for which the board of directors is looking to achieve in membership of the board.

Other areas that companies are encouraged to increase transparency are in relation to the board selection process, and to report the process to shareholders. Suggested reporting to shareholders includes steps taken to ensure that a diverse range of candidates is considered. In addition, it is suggested that the nomination committee should regularly review and report to the board about the proportion of women at all levels of the company, and consider whether succession plans are in place to maintain an appropriate mix of skills, experience, expertise and diversity on the board.

Remuneration

Due to the recent public and media attention on the level of executive remuneration, this new recommendation (ie. 8.2) has been introduced so as to reduce the likelihood and perception of conflicts of interest in determining remuneration levels. The new recommendation suggests that remuneration committees:

- consists of a majority of independent directors;
- is chaired by an independent director; and
- has at least three members.

Trading policies

With the new listing rule being introduced to cover this section, this recommendation has now been removed.

Briefings

The new recommendation suggests that listed entities should:

- provide advance notification of group briefings and make them widely accessible, including through the use of web casting through the internet and/or conference calls; and
- keep a summary record of the topics discussed at briefings as well as a record of those present, and the time and place of the briefing.

Please note that as with all Principles and Recommendations, any departure from the proposed recommendation requires a ‘please explain’, ie. ‘if not, why not?’.

Listing Rules

Remuneration Committees

Should a company be included in the S&P/ASX 300 index at the start of the financial year, it will be required to have or form a remuneration committee which is comprised solely of non-executive directors.

Securities Trading Policies

With the removal of the trading policies from the Principles and Recommendations, this has been incorporated into the Listing Rules, so as non-compliance will carry a stronger penalty (eg. involuntarily delisted).

The Listing Rule will require that the policy details:

- ‘closed periods’ — periods of time when key management personnel are prohibited from trading in the entity’s securities
- trading restrictions applicable to key management personnel
- trading which is not subject to the policy (that is, passive trades and trades resulting from preapproved non-discretionary trading plans)
- exceptional circumstances where trading is permitted during a prohibited period (‘closed periods’ and periods where prohibitions would otherwise apply because the entity is considering a matter covered by a continuous disclosure carve-out, for example, incomplete price sensitive matter) with prior written clearance; and
- the procedures for obtaining prior written clearance.

Directors will also have to disclose whether or not they have traded during a ‘closed period’, and whether prior written clearance was obtained.

Company secretaries, CFOs and financial controllers will need to ensure that they are aware of the impact and timing of the above changes in relation to their current policies, systems and

reports so as to ensure that they revised and updated (where required) so as to be in compliance with these amendments.

Further details of these amendments are available from the ASX website (www.asx.com.au) under 'About ASX' in the Corporate Governance section.

Further information

For further information on any of the information included in this TA Alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au