Developing good corporate governance

The ASX Corporate Governance Council has released its guidelines and recommendations for corporate governance, and publicly listed companies are urged to comply or provide a why not explanation.

The ASX Corporate Governance Council, which is comprised of representatives from key industry bodies, regulators and stakeholders, was formed by the Australian Stock Exchange in response to widespread concern about the corporate governance practices of Australian companies following several high-profile corporate collapses both here and overseas. The Institute was one of only four inaugural members of the Council.

Good corporate governance practices encourage companies to create value through entrepreneurism, innovation, development and exploration, while ensuring accountability and the maintenance of control systems commensurate with the risks involved.

Following a series of meetings late last year and earlier this year to debate corporate governance issues, the Council developed the following ten core principles which underpin good corporate governance:

Principle 1: Establish solid foundations for management and oversight.

A company should recognise and publish the respective roles and responsibilities of its board and management.

Principle 2: Structure the board to add value.

A company should have a board of sufficient composition, size and commitment to adequately discharge its responsibilities and duties.

Principle 3: Promote ethical and responsible decision-making.

A company should clarify the standards of ethical behaviour required of company directors and key executives and encourage the observance of those standards.

Principle 4: Safeguard integrity of financial reporting.

A company should have in place a structure of review and authorisation to ensure the truthful and factual presentation of its financial position.

Principle 5: Make timely and balanced disclosure.

A company should have in place mechanisms to ensure compliance with ASX Listing Rule requirements so that all investors have equal and timely access to material information concerning the company, and to ensure its announcements are factual and presented in a clear and balanced way.

Principle 6: Respect the rights of shareholders.

A company should provide balanced and accessible information about the company, and make it easy for shareholders to participate in general meetings.

Principle 7: Recognise and manage risk.

A company should identify, assess, monitor and manage risk, and inform investors of any material changes to its risk profile.

Principle 8: Encourage enhanced performance.

A company should ensure that its directors and key executives are equipped with the knowledge and information they need to discharge their responsibilities effectively, and review individual and collective performance on a regular basis.

Principle 9: Remunerate fairly and responsibly.

A company should adopt remuneration policies that attract and retain talented and motivated directors and employees, and ensure that there is a clear relationship between performance and remuneration and that the policy underlying executive remuneration is understood by investors.

Principle 10: Recognise the legitimate interests of stakeholders.

A company should create value by better managing natural, human, social and other forms of capital.

The Institute is committed to raising standards in the securities and financial services industry and was specifically represented on the Integrity of Reporting Working Group of the Council which made a number of key recommendations in relation to audit committees and related processes to safeguard the integrity of financial reporting.

One such safeguard is the requirement for the CEO and CFO to state in writing to the board that the company's financial condition and operational results are in accordance with relevant accounting standards. We also strongly endorse the recommendation for companies to include commentary on their financial results to enhance clarity and balance of reporting.

As an industry-based initiative the Council recommendations are not mandatory. However, ASX Listing Rule 4.10 requires listed entities to disclose in their annual report the extent to which they have followed the recommendations in the reporting period. If an entity has not followed all of the recommendations, the entity must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation has been followed for only part of the reporting period, the period in which it has been followed must be stated.

The Council is committed to reviewing the principles on a regular basis to ensure that they continue to be relevant. The Principles of Good Corporate Governance and Best Practice Recommendations are reproduced in full at www.asx.com.au/corporategovernance. J