INVESTMENT AND FINANCIAL
SERVICES ASSOCIATION LIMITED

CORPORATE GOVERNANCE
A GUIDE FOR FUND MANAGERS
AND CORPORATIONS

BLUE BOOK

CORPORATE GOVERNANCE:
A GUIDE FOR FUND MANAGERS
AND CORPORATIONS

Main features of this Guidance Note are:

- The first four Guidelines in the Guidance Note provide a series of guidelines for IFSA Members in determining their approach to Corporate Governance, voting and other issues proposed by public companies in which they invest;
- The next fourteen Guidelines in the Guidance Note provide a series of guidelines for public companies in relation to a range of Corporate Governance issues including disclosure, board and board committee composition, non-executive directors, board and executive remuneration policy and disclosure;
- Appendix A to this Guidance Note includes a suggested format for remuneration disclosure and Appendix B a model proxy form.

December 2002

TABLE OF CONTENTS

			Page
Title			2
Guidance Note and Commentary			2
Date of Issue			2
Effective Date			2
Application			2
Definitions			2
Introduction			3
Summary of Guidelines			4
Guidelines for Fund Managers			4
Guidelines for Corporations			5
Part 1		Rationale	8
Part 2		Guidelines for Fund Managers	10
Guideline	1	Communication	10
Guideline	2	Voting Scope and Mandate	13
Guideline	3	Proxy Voting Policy and Procedures	14
Guideline	4	Reporting to Clients	14
Part 3		Guidelines for Corporations	15
Guideline	1	Annual Disclosure	16
Guideline	2	Composition of the Board of Directors: Competency	16
Guideline	3	Composition of Board of Directors: Independence	17
Guideline	4	Number of Permissible Directorships an Individual May Hold	17
Guideline	5	Chairperson to be an Independent Director	17
Guideline	6	Board Committees Generally	19
Guideline	7	Key Board Committees	19
Guideline	8	Election of Directors	19
Guideline	9	Appointment of Non-Executive Directors	19
Guideline	10	Performance Evaluation	20
Guideline	11	Equity Participation by Non-Executive Directors	22
Guideline	12	Respective Roles of the Board and Management	22
Guideline	13	Board and Executive Remuneration Policy and Disclosure	23
Guideline	14	Company Meetings	24
Guideline	15	Disclosure of Beneficial Shareholder Information	25
Guideline	16	Major Corporate Changes	25
Guideline	17	Company Codes of Ethics	27
Appendix	A	(A) Non-Executive Directors	33
Appendix	A	(B) Executives	35
Appendix	B	Model Proxy Form	37

1 TITLE

1.1 This Guidance Note may be cited as IFSA Guidance Note No. 2.00 'Corporate Governance: A Guide for Fund Managers and Corporations'. It is commonly known as the IFSA Blue Book.

2 GUIDANCE NOTE AND COMMENTARY

2.2 The Guidelines set out in this Guidance Note are shown in bold print. Commentary is shown in normal print immediately after the Guideline to which it relates, as an aid to interpretation of the Guidelines.

3 DATE OF ISSUE

3.1 December 2002

4 EFFECTIVE DATE

4.1 The parts of this Guidance Note which relate to an IFSA Member may be applied in relation to the Member's operations on or after 1 February 2002. Earlier application of this Guidance Note is permitted and encouraged.

5 APPLICATION

5.1 The first four Guidelines: 'Guidelines for Fund Managers' should be applied by IFSA Members in relation to their own operations. The next fourteen Guidelines: 'Guidelines for Corporations' establish the framework for a sound approach to Corporate Governance from the point of view of the investment community. However, IFSA acknowledges that some companies may have circumstances which warrant departure from these Guidelines. Corporations should therefore disclose in their annual report whether, and the way in which, they comply with the Guidelines. Where a company does not comply with a particular Guideline, the company should explain clearly to shareholders the circumstances and reasons for departing from the Guideline.

6 DEFINITIONS

"Investor" has the same meaning as defined in IFSA Guidance Note No. 5.00 'Industry Terms and Definitions'.

"Member" refers to both 'Full Member' and 'Supporting Member' as defined in IFSA's Articles of Association.

"Superannuation Fund" has the same meaning as defined in IFSA Guidance Note No. 5.00 "Industry Terms and Definitions"

7 INTRODUCTION

7.1 This Guidance Note is published by IFSA to assist its Members to pursue an active role in monitoring the Corporate Governance responsibilities of the companies in which they invest. IFSA's Members manage approximately $650 billion on behalf of superannuation members and retail clients. IFSA members' investment in the domestic market accounts for nearly 25% of the capitalisation of the Australian Stock Exchange. Fund managers are significant shareholders in Australian Listed Companies on behalf of over 9 million Australians.

7.2 As major shareholders, IFSA members are in a position to promote improved company performance which provides positive benefits to all shareholders and the economy as a whole. While shareholders are not involved in the day to day management of companies, the Corporations Act, ASX Listing Rules and industry best practice provide many opportunities for shareholders to monitor and influence company decision making which drives ultimate company performance.

7.3 Fund managers first developed these Guidelines as a result of some of the corporate excesses during the 1980s. The Guidelines have become widely accepted by the investment and corporate community as providing best practice guidelines for Corporate Governance. Recent high profile collapses have firmly placed Corporate Governance in the spotlight of the wider community. It is therefore timely to review the IFSA Guidelines to ensure that IFSA continues to provide best practice guidance to its Members and Australian listed companies.

7.4 IFSA has consulted many stakeholders during the revision of the Guidelines. Stakeholders who have participated in our consultation processes include the Association of Superannuation Funds of Australia (ASFA), the Australian Institute of Superannuation Trustees (AIST) the Australian Shareholders' Association (ASA), the Australian Council of Superannuation Investors (ACSI) and leading corporate governance experts from various organisations.

7.5 These Guidelines are primarily for the use of IFSA Members in determining their approach to Corporate Governance, voting and other issues proposed by public companies in which they invest. However, the Guidelines indicate the principles of Corporate Governance that IFSA members expect Australian listed companies to adopt. In this regard the Guidelines provide a useful reference for companies when designing and reviewing their governance structures.

7.6 IFSA considers the Guidance Note reflects the views of the Australian investment community on the appropriate Corporate Governance

principles for Australian listed companies. The principles may also be applicable to other public companies and government enterprises. International developments have also been considered and taken into account where appropriate for the Australian environment. IFSA will continue to monitor and review the Guidelines in light of domestic and international developments.

7.8 IFSA supports the Australian framework for Corporate Governance which is based on the encapsulation of broad principles within the Corporations Act, supplemented by the ASX Listing Rules and industry best practice. These Guidelines, representing industry best practice principles, provide an important contribution to the Australian Corporate Governance framework.

7.9 The fourth edition of this Guidance Note is issued by IFSA to assist its Members to provide leadership in promoting matters central to the interests of all shareholders. It also takes into account changes to the law and practice since the third edition was issued in 1999.

8 SUMMARY OF GUIDELINES

8.1 Guidelines for Fund Managers

8.1.1 Guideline 1 – Communication

Fund Managers should establish direct contact with companies including constructive communication with both senior management and board members about performance, Corporate Governance and other matters affecting shareholders' interests.

8.1.2 Guideline 2 – Voting Scope and Mandate

Fund Managers should vote on all material issues at all Australian company meetings where they have the voting authority and responsibility to do so.

8.1.3 Guideline 3 – Proxy Voting Policy and Procedures

Fund Managers should have a written Corporate Governance policy, including policies regarding the exercising of proxy votes. The policy should be approved by the board of the fund manager and should include formal internal procedures to ensure that that policy is applied consistently.

8.1.4 Guideline 4 – Reporting to Clients

Wherever a client delegates responsibility for exercising proxy votes, the Fund Manager should report in a manner required by the client. Reporting on voting should be a part of the regular reporting process to each client.

The report should include a positive statement that the fund manager has complied with its obligation to exercise voting rights in the client's interest only. If a fund manager is unable to make the statement without qualification, the report should include an explanation.

8.2 Guidelines for Corporations

8.2.1 Guideline 1 – Annual Disclosure

The board of directors of a listed company should prominently and clearly disclose, in a separate section of its annual report, its approach to Corporate Governance. This should include an analysis of the Corporate Governance issues specific to the company so that shareholders understand how the company deals with those issues. If the particular circumstances of a company warrant departure from these guidelines, the company should clearly explain the reason for an alternative approach.

8.2.2 Guideline 2 – Composition of the Board of Directors: Competency

The board of directors of a listed company should be comprised of competent individuals who have the requisite skills and experience to fully discharge their duties. It is important to ensure that the board as a whole has the necessary breadth of experience and diversity of skills to ensure that it can discharge its functions. The board should review and disclose in the annual report its required mix of skills, experience and other qualities, including the core competencies which each director brings to the board.

8.2.3 Guideline 3 – Composition of the Board of Directors: Independence

The board of directors of a listed company should be constituted with a majority of individuals who qualify as independent directors as defined.

8.2.4 Guideline 4 – Number of permissible directorships an individual may hold

Individual directors must commit an appropriate amount of time to board matters and, where appointed, to relevant board committees. It will be appropriate to limit the number of board positions held in order to ensure that the individual fulfils their duties to each particular company.

8.2.5 Guideline 5 – Chairperson to be an Independent Director

The chairperson should be an independent director.

8.2.6 Guideline 6 – Board Committees Generally

Committees of the board of directors should:

- generally be constituted with a majority who are independent directors, although all members of the Audit Committee should be independent directors;
- be entitled to obtain independent professional or other advice of their choice at the reasonable cost of the company; and
- be entitled to obtain such resources and information from the company, including direct access to employees and advisers to the company, as they may require.

8.2.7 Guideline 7 – Key Board Committees

The board should appoint an audit committee, a remuneration committee and a nomination committee constituted as defined in these Guidelines.

8.2.8 Guideline 8 – Election of Directors

The method for electing directors must be fair and transparent.

8.2.9 Guideline 9 – Election of Directors

Before accepting appointment, non-executive directors should be formally advised of the reasons they have been asked to join the board and given an outline of what the board expects of them. They should also be advised of their rights as a director, including their access to company employees and access to information and resources. They should also be advised of their entitlement to obtain independent professional or other advice of their choice at the reasonable cost of the company.

8.2.10 Guideline 10 – Performance Evaluation

The board should develop a formal performance evaluation process. The board should review its performance and the performance of individual directors, the company and management regularly. As a key part of that process, the independent directors should meet on their own at least once annually to review performance.

8.2.11 Guideline 11 – Equity Participation by Non-Executive Directors

The board should establish and disclose in the annual report a policy to encourage non-executive directors to invest their own capital in the company or to acquire shares from an allocation of a portion of their fees.

8.2.12 Guideline 12 – Respective Roles of the Board and Management

The board should at least annually review the respective roles and the allocation of responsibilities between the board and management.

8.2.13 Guideline 13 – Board and Executive Remuneration Policy and Disclosure

The board should disclose in the company's annual report its policies on, and the quantum and components of, remuneration for all directors and each of the 5 highest paid executives. The disclosure should be made in one section of the annual report in tabular form with appropriate explanatory notes.

8.2.14 Guideline 14 – Company Meetings

- **Format of Resolutions**
  Notices of meeting and company resolutions should be in plain English and in a manner which permits shareholders to make informed decisions. Notices of meeting should be posted on the company website. Separate issues should not be combined and presented as a single motion for shareholder vote.

- **Form of Proxies**
  Companies should adopt the Model Form of Proxy in Appendix B (with appropriate modifications).

- **Notification Period for Shareholder Meetings**
  The annual report, notice of meeting and other documents for all shareholder meetings should be sent to shareholders at least 28 days prior to the meeting.

- **Method of Voting**
  Voting should generally be conducted by poll only on the conclusion of discussion of each item of business. Appropriate forms of technology should be utilised to facilitate the proxy voting process.

- **Disclosure of Voting Results**
  In announcing to the ASX the decisions made by shareholders at a general meeting, a listed company should report the aggregate proxy votes validly received for each item of business in the notice of meeting. The report should disclose, in the case of a resolution passed on a show of hands, the aggregate number of proxy votes received in each voting category ("For", "Against", "Left to Proxy's Discretion" and "Abstain") and the aggregate number of votes not

exercised by shareholders who submitted proxies (“No Intention”). In the case of a resolution submitted to a poll, the report should disclose both the information specified in the preceding sentence and the aggregate number of votes cast “For” and “Against” on the poll.

– **Access to Minutes**
  Shareholders should be able to authorise an agent to inspect or obtain copies of minutes of shareholders’ meetings.

8.2.15 Guideline 15 – Disclosure of Beneficial Shareholder Information

Information about beneficial shareholdings obtained by companies in response to their inquiries should be immediately disclosed to the market.

8.2.16 Guideline 16 – Major Corporate Changes

Major corporate changes, which in substance or effect may impact shareholder equity or erode share ownership rights, should be submitted to a vote of shareholders. Enough time and sufficient information (including a balanced assessment of relevant issues) should be given to shareholders to enable them to make informed judgements on these resolutions.

8.2.17 Guideline 17 – Company Codes of Ethics

Listed companies should have a company Code of Ethics that is adopted by the board and is available to shareholders on request.

9 PART 1: RATIONALE

9.1 Introduction

9.1.2 All shareholders benefit from the activities of fund managers in the corporate governance arena. By engaging with the companies in which they invest, fund managers are monitoring the integrity of their investments and promoting long term economic growth. This is increasingly important given the important role that IFSA members have in investing Australians’ superannuation savings.

9.1.3 Fund managers have an overriding fiduciary responsibility to their unitholders and clients to manage their investments in accordance with their stated investment objectives. The significant increase in funds under management, in particular the growth of superannuation funds, has highlighted the importance of ensuring that shareholder interests are promoted appropriately on behalf of investors and superannuation beneficiaries.

9.2 What is Corporate Governance?

9.2.1 Corporate Governance concerns the conduct of the board of directors and the relationships between the board, management and shareholders. The transparency of major corporate decisions and accountability to shareholders is at the core of governance issues. Shareholders should be treated equitably and there should be the appropriate distribution of risks and rewards between shareholders and company management.

9.2.2 Corporate Governance is concerned with ensuring that a company’s management practices are aligned with the interests of shareholders. Sound Corporate Governance principles increase investor confidence in the integrity and efficiency of the Australian capital market, which in turn enhances the competitiveness of the Australian economy.

9.2.3 While Australian companies have generally demonstrated a good corporate governance record, IFSA members continue to expect Australian boards to exercise strong leadership to continually improve disclosure and accountability practices.

9.2.4 The primary mechanisms fund managers use to influence Corporate Governance issues is through discussions with companies and voting on company resolutions.

9.3 The IFSA Corporate Governance Guidelines

9.3.1 The Corporate Governance Guidelines contained in this Guidance Note are issued by IFSA for the benefit of its Members and all Investors and for the information of the companies in which they invest. The Guidelines provide fund managers with a benchmark to assess the corporate governance of a particular company, and where necessary, engage with the company in order to promote change. It also provides principles to assist fund managers in their decisions on voting on company resolutions. In addition, these guidelines provide a useful reference point for fund managers and their clients when entering into investment management agreements. The IFSA Standard Investment Management Agreement provides a standardised process for these matters to be considered.

9.3.2 IFSA also supports the OECD Global Principles of Corporate Governance which represent the general consensus of Corporate Governance principles among the OECD countries.

9.4 Disclosure Standard

9.4.1 The Guidelines are considered to set an appropriate standard of disclosure by Australian listed companies to their shareholders. In particular, this

disclosure standard builds on the requirements of the Corporations Act and the ASX listing rules.

9.4.2 Sound corporate governance requires the board of each listed company to examine and develop governance structures that are appropriate for the particular circumstances of the company. These Guidelines provide the investment community with a benchmark against which shareholders can assess a company's governance practices. The particular circumstances of some companies may result in the adoption of practices which do not follow these Guidelines. Therefore, companies should disclose in their annual reports whether they comply with the Guidelines. Where a company does not comply with the Guidelines, it should clearly explain the reasons for adopting a different approach. This will permit shareholders to assess the structure and to form a view to either support the approach or advocate change.

9.5 Further review

9.5.1 These Guidelines will be reviewed by IFSA to take account of Australian developments, including regulatory and market developments and the status of international best practice principles. Where appropriate, existing Guidelines will be revised and new Guidelines may be introduced.

10 PART 2: GUIDELINES FOR FUND MANAGERS

Introduction

Effective Corporate Governance depends heavily on the willingness of the owners of a company to exercise their rights of ownership, to express their views to boards of directors and to exercise their voting rights if they do not receive a satisfactory response.

The relative size of their shareholdings provides fund managers with a particular responsibility and capacity to exercise that shareholder influence and franchise.

IFSA's Corporate Governance Guidance Note should be made available to companies. The Guidelines are consistent with responsible investment management and should be applied consistently across all companies on all issues. The loss of credibility from selective application would not be acceptable to companies or external observers. Clients of fund managers should be informed of IFSA's Guidelines and of their consistent application.

10.1 Guideline 1 – Communication

Fund managers should establish direct contact with companies including constructive communication with both senior management and board members about performance, Corporate Governance and other matters affecting shareholders' interests.

Shareholders receive reports and accounts and other explanatory material from companies which are required by the Corporations Act or the ASX listing rules. In addition to company meetings, companies conduct roadshows and provide analyst briefings. However, given fund managers' responsibilities to their clients, and the significant amount of capital at stake, fund managers should establish direct contact with companies about performance and corporate governance issues.

A direct dialogue gives fund managers a better appreciation of a company's objectives, its potential problems and the quality of its management. It also provides the company with an opportunity to understand the expectations and concerns of professional investors. Two-way communications between companies and funds managers is an important aspect of Corporate Governance because corporate managers benefit from information about the assessments of the professional investment community. Communication between fund managers and companies also benefits other shareholders who may hold similar views.

IFSA research reveals a very high level of direct contact between fund managers and companies. On average, 84% of companies within a manager's portfolio are contacted nearly 3 times a year. Fund managers almost unanimously agree that direct contact is the most effective means of influencing corporate governance outcomes.

10.1.1 Use by companies of information

Information from fund managers on the company's overall market standing, such as valuation, stock performance, performance relative to peers and analysts' reports, can be a useful part of the information regularly provided to directors and to senior management. Such data can create a critical performance benchmark, revealing the overall judgement of capital markets about a company's past and present policies. This information can also be helpful to companies formulating and debating future plans and projects.

10.1.2 Communication should be at senior level

Fund managers should establish contact with the chief executive officer, the board of directors and senior management.

Direct communication is effective when the fund managers and corporate representatives understand the company's strategy and have clear decision making responsibility in their organisations. Communications should signal a serious commitment to high level feedback that can directly affect policy.

10.1.3 Companies' expectations

Companies agreeing to enhance communications with their major investors can expect positive undertakings from funds managers regarding a commitment to continuing informed discourse, agreements or understandings about the process governing the dialogue and a commitment to play a constructive role. Once companies have made the commitment to open up their process and seek new kinds of input, the onus is on the fund managers to respond responsibly and positively.

10.1.4 Fund Managers' expectations

At the same time, fund managers should feel entitled to have their questions or concerns on Corporate Governance issues, including performance, answered or addressed in a business like manner.

10.1.5 Compliance with the law

This Guideline should not be taken to advocate any conduct inconsistent with the insider trading, continuous disclosure and other corporate laws. If information is in a proper form to disclose to a fund manager, the company should consider whether it has a duty to disclose the information to the market under ASX listing rules and continuous disclosure requirements.

Companies should refer to the ASIC guidance principles "Better Disclosure For Investors" which were released in August 2000. The principles set out best practice for companies on a number of issues including communication with shareholders and analyst briefings. In particular, it requires companies to develop a disclosure policy and appropriately monitor its disclosure to the market.

Communications should be managed by companies and fund managers so that no Investor or potential Investor obtains material or price sensitive information which has not been disclosed to the market in accordance with the Corporations Act and the ASX listing rules.

If a fund manager considers that material information has been provided during discussions with a company, it must warn the company that it may have breached the continuous disclosure provisions of the Corporations Act. The fund manager must implement appropriate mechanisms to ensure that the information is strictly safeguarded and insulated from any other activity. This may include imposing a temporary ban on trading in the company's shares or implementing "Chinese Walls" until the appropriate disclosures have been made to the full market.

10.2 Guideline 2 – Voting Scope and Mandate

Fund Managers should vote on all material issues at all Australian company meetings where they have the voting authority and responsibility to do so.

IFSA strongly supports the principle of "one share, one vote". IFSA does not support differential voting shares that have the effect of undermining this principle. Voting rights are a valuable shareholder right that should be managed with the same care and diligence as any other asset. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Fund managers should support boards by positive use of their voting power unless they have good reasons for doing otherwise. Where a board has received steady support over a period of time, it should become a matter of concern for the board if that support is withdrawn.

If a fund manager intends to vote against a proposal, it may be appropriate for the fund manager to contact the company in time for the problem to be considered with a view to achieving a satisfactory solution. The company also has a responsibility to provide enough time for this to occur. Where a satisfactory outcome cannot be achieved on an important issue, it may be desirable for a spokesperson to attend the relevant meeting of the company and to explain why the proposal is being opposed. In such cases a poll should be demanded to ensure that the vote is duly recorded.

In Australia there is no formal obligation for fund managers or superannuation trustees to attend company meetings or vote on resolutions. However, general trust law duties and provisions of the Superannuation Industry (Supervision) Act and the Managed Investments Act may impose a duty to consider whether or not to vote. IFSA research indicates that fund managers who either vote on all resolutions, or material resolutions account for 96% of Australian equities under management by IFSA members. For further information on the levels of voting and contact with companies, please refer to the IFSA Corporate Governance Fact Sheet.

IFSA's Standard Investment Management Agreement reinforces IFSA's guideline that fund managers should vote on all material resolutions, where they have the authority to do so. It includes several clauses which aim to clarify the rights of the fund manager to exercise the votes attached to shares held on behalf of a superannuation trustee or other client.

IFSA has recommended that a number of improvements should be made to the voting process in order to reduce cost and increase efficiency. These recommendations have been considered by the Government in its Corporate Law Economic Reform Process Discussion Paper 9 "Corporate

Disclosure – Strengthening the financial reporting framework".
The recommendations include permitting companies to send company notices and receive proxy instructions directly from fund managers without the need to pass through custodians, and developing electronic voting processes.

10.3 Guideline 3 – Corporate Governance Policy and Procedures

Fund Managers should have a written Corporate Governance policy, including policies regarding the exercising of proxy votes. The policy should be approved by the board of the fund manager and should include formal internal procedures to ensure that that policy is applied consistently.

Monitoring the Corporate Governance activities of Australian listed companies is an important aspect of the professional services provided by fund managers. It is therefore vital that a Corporate Governance Policy is developed and approved by the board of each fund manager. This policy should document processes regarding engagement with companies on Corporate Governance activities and ensuring that voting rights are managed with due care and diligence. The policy should include the process for consulting superannuation trustees and other institutional clients if required by the investment mandate. Procedures must be implemented to ensure that the Corporate Governance Policy is consistently applied.

The Corporate Governance Policy should be provided to superannuation trustees and other institutional clients in accordance with IFSA's Standard Investment Management Agreement and also made available on the fund managers' website. Fund managers' should also consider disclosing in retail prospectuses or product disclosure statements that the Corporate Governance Policy is available on request.

10.4 Guideline 4 – Reporting to Clients

Wherever a client delegates responsibility for exercising proxy votes, the Fund Manager should report in a manner required by the client. Reporting on voting should be a part of the regular reporting process to each client. The report should include a positive statement that the fund manager has complied with its obligation to exercise voting rights in the client's interest only. If a fund manager is unable to make the statement without qualification, the report should include an explanation.

Where a client delegates the voting responsibility to a fund manager, reporting to the client on the exercise of proxy votes will enhance the transparency of the fund manager's compliance with its fiduciary duties.

The fund manager should report whether or not votes are cast, including information about abstentions which play an important role in the relationship between fund managers and companies. Reporting periods should be agreed with the client and should occur on at least an annual basis. The report should disclose:

- material Corporate Governance issues discussed with a company before an AGM with a view to amending or withdrawing a proposed resolution;
- resolutions where the fund manager abstained or voted against the board's recommendation; and
- issues voted in favour of a board's recommendation where the fund manager was aware that there was significant opposition from board members or other investors.

11 PART 3: GUIDELINES FOR CORPORATIONS

Introduction

Companies should disclose in their Annual Report to shareholders whether they comply with the following Guidelines. If the circumstances of a particular company warrant departure from these Guidelines, the company must explain the reasons for its alternative approach.

The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation including the following matters:

- adoption of a corporate strategy;
- succession planning, including board succession planning, as well as appointing, training and monitoring senior management;
- an investor relations program for the corporation;
- the integrity of the corporation's internal control and management information system;
- setting of remuneration policy which incorporates appropriate performance hurdles;
- the company Corporate Governance Policy;
- the company Continuous Disclosure Policy;
- reviewing the respective roles of the Board and Management;
- ensuring that the various Board Committees are appropriately constituted and performing their functions;
- ensuring, on advice of the audit committee, that the company auditor is properly appointed and is performing its duties adequately and independently.

11.1 Guideline 1 – Annual Disclosure

The board of directors of a listed company should prominently and clearly disclose, in a separate section of its annual report, its approach to Corporate Governance. This should include an analysis of the Corporate Governance issues specific to the company so that shareholders understand how the company deals with those issues. If the particular circumstances of a company warrant departure from these guidelines, the company should clearly explain the reason for an alternative approach.

From 1 July 1996, the ASX has required listed companies to disclose in their annual reports: "A statement of the main Corporate Governance practices that the entity had in place during the reporting period" (Listing Rule 4.10.3). An "indicative", non-binding "list of Corporate Governance matters" is provided in Appendix 4A of the listing rules.

In February 1998, the ASX published a "Guidance Note: Disclosure of Corporate Governance Practices" designed "to assist listed entities in the preparation of the statement of Corporate Governance practices an entity must give [the ASX] under listing rule 4.10.3." The ASX Guidance Note supports compliance with this Guideline by requiring the annual report to disclose Corporate Governance issues specific to the company.

These Guidelines provide a benchmark which companies should refer to in preparing the Corporate Governance Policy and when reporting on corporate governance issues in the annual report. Where the company departs from a particular Guideline, the company should specify the reasons or circumstances which warrant such departure.

Various studies have indicated that compliance with the IFSA Blue Book Guidelines has improved since the 1990s. The improvement identified reflects the benefit of the continuing efforts by IFSA to promote debate and discussion of Corporate Governance matters. Nevertheless, there remains scope for significant improvement or explanation as to why a particular company considers that its circumstances warrant departure from these Guidelines.

11.2 Guideline 2 – Composition of the board of directors: Competency

The board of directors of a listed company should be comprised of competent individuals who have the requisite skills and experience to fully discharge their duties. It is important to ensure that the board as a whole has the necessary breadth of experience and diversity of skills to ensure that it can discharge its functions. The board should review and disclose in the annual report its required mix of skills, experience and other qualities, including the core competencies which each director brings to the board.

The board of directors is a key element of ensuring that there are appropriate governance procedures implemented by the company. Among other things, the board is responsible for strategic planning, supervision of management, succession planning and remuneration policy. One of its core functions is to ensure accountability to shareholders by supervising, monitoring and reporting to shareholders on overall company performance.

It is therefore vital that the board is appropriately comprised of competent, committed individuals who have the relevant skills and experience in order to ensure the board exercises its proper functions. All individuals must be capable of meeting the high standards of behaviour imposed on directors through the Corporations Act. It is also necessary for the board to be composed of individuals with diverse and complementary skills to ensure that there is enough breadth of experience for the particular circumstances of the company.

The board should also, at least annually, identify the mix of skills, experience and other qualities it requires for it to function competently and efficiently.

It is, of course, possible for a board to access particular skills and experience either within the company or from external advisers. However, depending on the company's business it is likely that there will be certain skills and experience which are so strategic and fundamental to success that they should exist at board level itself and, in particular, amongst the independent directors.

11.3 Guideline 3 – Composition of the Board of Directors: Independence

The board of directors of a listed company should be constituted with a majority of individuals who qualify as independent directors as defined in this Guideline.

The composition of the board of directors of a listed company is one of the most crucial issues of Corporate Governance. International best practice requires that the majority of the individuals on the board should be genuinely independent and, in particular, free from the interests and influences outlined below. These interests and influences can create a conflict of interest and, especially, affect Investor perceptions of the ability of the director concerned to act solely in the best interests of the company as a whole.

The board of directors is the chief mechanism shareholders rely on to ensure that management is acting in the best interests of the company as a whole. Shareholders should be confident that board decisions are made without bias and in the best interests of all shareholders. It is therefore vital that the board consists of a majority of directors who is

independent from company management. If the majority of the board is genuinely independent, it is more likely that board decisions will be implemented even if they are contrary to the wishes of management or a major shareholder. This power creates a more effective board culture and imposes a responsibility on the independent majority to be competent and diligent in carrying out their role in the decision making process.

An independent board majority is a key mechanism to assure shareholders that their company will be run competently and in the best interests of all shareholders. It is important to ensure that the board operates independently from any material business or other relationship which may, or may be perceived to, influence the decision making process for purposes other than for the benefit of the company as a whole.

The application of the definition of "independent director" to the circumstances of each director should be the responsibility of the board, which should disclose in the annual report which directors qualify as independent directors and the principles supporting their independence.

An independent director is a director who is not a member of management (a non-executive director) and who:

- is not a substantial shareholder of the company or an officer of or otherwise associated directly or indirectly with a substantial shareholder of the company;
- has not within the last three years been employed in an executive capacity by the company or another group member or been a director after ceasing to hold any such employment;
- has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- is not a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another group member other than as a director of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

This Guideline uses the word "material" in a number of places. The word "material" has not been defined as it will depend on the circumstances of each person as to whether their interests result in a material relationship with the company. It is important that the board addresses these issues appropriately to ensure that there is no perception that a particular relationship provides a possible conflict which will interfere with the director's responsibility to act in the best interests of the company.

11.4 Guideline 4 – Number of permissible directorships an individual may hold

Individual directors must commit an appropriate amount of time to board matters and, where appointed, to relevant board committees. It will be appropriate to limit the number of board positions held in order to ensure that the individual fulfils their duties to each particular company.

Individual directors must be able to commit an appropriate amount of time to the company to ensure that they discharge their duties to the company and its shareholders. These Guidelines are not specific about limiting the precise number of directorships or other commitments a director may have in order to appropriately carry out their required functions. Rather, the board must make an assessment of an individual's ability to properly carry out the functions of a director of the particular company having regard to all other directorships or work commitments of the individual.

11.5 Guideline 5 – Chairperson to be an Independent Director

The chairperson should be an independent director.

The chairperson's role in leading the board, including working with the chief executive officer to determine the board agenda and fostering the contribution of other members of the board to its deliberations, is another crucial issue of international best practice. Separation of the roles of Chairperson and CEO is a vital aspect of corporate governance. A strong independent chairperson provides the appropriate counterbalance and check to the power of the CEO.

The Chairperson should satisfy the test of independence as defined in Guideline 3. If there are exceptional circumstances which warrant departure from this Guideline (that the chairperson should be an independent director), the independent directors should appoint one of their number to be lead director. The lead director should monitor and report to them on issues falling within the normal purview of a non-executive chairperson.

11.6 Guideline 6 – Board Committees

Committees of the board of directors should:

- generally be constituted with a majority who are independent directors, although all members of the Audit Committee should be independent directors;
- be entitled to obtain independent professional or other advice of their choice at the reasonable cost of the company; and
- be entitled to obtain such resources and information from the company, including direct access to employees and advisers to the company.

The board should develop a formal policy setting out the role and responsibilities of each board committee. Committees should have a formalised program of meetings and a system for reporting to the board. The formal policy should address the structure of the committee, the criteria for appointment to the committee and the processes the committee should follow in order to exercise its responsibilities.

It is stressed that responsibility for company decisions remains with the full board of directors. The role of board committees is to examine particular issues in greater detail and to provide advice and recommendations to the board for their ultimate consideration. The composition and resourcing of board committees is fundamental to their effectiveness and ensures that they operate on behalf of the full board.

Board committees must be entitled to access independent professional advice to assist with the discharge of their responsibilities. The committee should be permitted to choose the source of this independent advice. Nevertheless, the cost to the company for independent advice to committees must be reasonable within the circumstances of the company and the issues facing the committee.

The board is responsible for ensuring that each board committee is appropriately constituted and is properly performing its responsibilities.

11.7 Guideline 7 – Key Board Committees

The board should appoint an audit committee, a remuneration committee and a nomination committee constituted as defined in this Guideline.

Other board committees may also be appropriate. However, these key committees have become accepted mechanisms of Corporate Governance:

11.7.1 The Audit Committee

The audit committee plays a key role in assisting the board of directors with its responsibilities regarding financial management and reporting and ensuring the independence of the company auditor. This committee:

- should be composed entirely of independent directors. IFSA considers that the responsibilities of the audit committee require shareholders to be assured of complete independence of management. The existence of management on this committee may create the perception that the auditor is not willing to provide frank advice to the committee;
- should be composed of directors with the mix of skills, experience and other qualities appropriate for its role. The audit committee obviously requires skills that facilitate the proper consideration of the complex issues involved in financial reporting and audit;
- should assist the board to discharge its responsibilities in connection with the financial management, financial performance and financial reporting of the company, including corporate risk assessment and the system of internal control, preparing the company's financial statements and the independence of the company's auditors, and the quality of their audit; and
- should have written terms of reference which include core matters to be dealt with by the committee and core rights of the committee.

The audit committee should ensure that the appointment of the company auditor is transparent and will result in the independent conduct of the audit. This should include ensuring that the proposed auditor does not have any employment or financial relationships which may compromise its independence. The committee must also assess and monitor the provision of non-audit services to ensure that the auditor remains capable of exercising objective and impartial judgment. The nature of non-audit services provided by the company auditor and the fees paid for the services should be fully disclosed in the annual report.

An audit committee composed entirely of independent directors should consult company executives, including executive directors, in its business. This may be achieved by inviting the appropriate participation of those executives in committee meetings. However, it will also be appropriate for the audit committee to discuss matters with the external and internal auditors in the absence of management, including executive directors. This will provide assurance that the external and internal auditors are not inhibited by the presence of senior management from raising matters with the committee.

11.7.2 The Remuneration Committee

- should be chaired by an independent director and at least a majority of the committee should be independent directors;
- should be responsible for reviewing the remuneration of directors and senior management and advising the full board on these issues. The committee should advise the board whether the remuneration of non-executive directors realistically reflects the responsibilities and risk involved in being an effective director. It should also advise whether the remuneration of senior management is aligned with the long-term growth of shareholder values and is reasonable in comparison with industry benchmarks;
- should be responsible for preparing, for the board's approval, the disclosure of board and executive remuneration in the company's annual report as specified in the Corporations Act and these Guidelines; and
- should have written terms of reference which include core matters to be dealt with by the committee and core rights of the committee.

11.7.3 The Nomination Committee

- should be chaired by an independent director and at least a majority of the committee should be independent directors;
- should be responsible for proposing new nominees to the board (after taking into account the other directorships held by candidates), for advising the board on the procedures for assessing existing directors' performance and generally for advising the board on the company's policies on the employment of non-executive directors. This would include the appropriate mix of skills, experience and other qualities, especially the core competencies of the independent directors and the maximum period of service and retirement age proposed by the company;
- should be responsible for preparing, for the board's approval, appropriate disclosure in the company's annual report of its performance of that responsibility; and
- should have written terms of reference which include core matters to be dealt with by the committee and core rights of the committee.

11.8 Guideline 8 – Election of Directors

The method for electing directors must be fair and transparent.

Voting on the election of directors is an important shareholder right. Shareholders have the ability to support or not support particular directors based on their experience, skills, dedication, and in the case of re-election, their performance.

A basic concept of corporate law is that the shareholders select the directors. However, the actual practice in most listed companies is that the board, on the advice of the nomination committee, selects the directors who stand for election or are appointed during the year. Shareholders are then requested to endorse these directors at the annual general meeting.

Companies must ensure that appropriate information is provided to investors to permit shareholders to make informed decisions on whether to support the election of nominated directors. The ability of shareholders to elect or remove directors is an important Corporate Governance mechanism.

Companies should be encouraged to adopt procedures which ensure that the method for election of directors is fair and transparent.

11.9 Guideline 9 – Appointment of Non-Executive Directors

Before accepting appointment, non-executive directors should be formally advised of the reasons they have been asked to join the board and given an outline of what the board expects of them. They should also be advised of their rights as a director, including their access to company employees and access to information and resources. They should also be advised of their entitlement to obtain independent professional or other advice of their choice at the reasonable cost of the company.

A letter of appointment should cover, amongst other things, the duties and rights of the director and the orientation system for directors:

- the duties should include special skills or experience which are expected to be contributed by the director and the time which the director should expect to devote to the company. The rights should include the rights to obtain independent professional or other advice of their choice, resources and information at reasonable company expense, according to a formal procedure approved by the board;
- the letter should also record relevant policies of the company, such as board, director and CEO evaluation; and
- the letter should also confirm whether or not the director is required to limit the nature and/or number of other directorships.

Non-executive directors should undergo a formal system approved by the board of orientation and education on the business of the company and the workings of the board and its committees. The system should be both documentary and practical and include meeting appropriate executives.

One or more non-executive directors should be entitled, with the approval of the chairperson to obtain independent professional or other advice of their choice at the reasonable cost of the company.

One or more non-executive directors should be entitled, with the approval of the chairperson to obtain such resources and information from the company, including direct access to the employees and advisers to the company, as they may require.

11.10 Guideline 10 – Performance Evaluation

The board should develop a formal performance evaluation process. The board should review its performance and the performance of individual directors, the company and management regularly. As a key part of that process, the independent directors should meet on their own at least once annually to review performance.

The board should develop a formal performance evaluation process to assess the performance of the board, individual directors and company management. The process should be systematic and regular. The standards of performance used must be robust and made available to shareholders. Performance evaluation should be based upon the competency requirements for the board outlined in Guideline 2.

Regular and independent review of the performance of the board, individual directors, the company and management, including the CEO, is an important element of the board's monitoring role, especially with regard to the long-term growth of the company and of shareholder value. A key element in that process is for the independent directors to meet to discuss these issues without other directors or management being present. Other directors or management may be invited to attend part of the meeting but the independent directors should make their ultimate assessment on their own.

In the case of directors seeking re-election, there should be a formal procedure approved by the board for evaluating the contribution of directors retiring by rotation. This evaluation should be reported to shareholders in the notice of meeting., In the case of a director appointed by the board during the year, the board should disclose the reasons for the appointment.

Criteria used to evaluate company and management performance could include: monitoring of the group's performance against business plans and budgets, long-term return objectives, strategic objectives and the performance of competitors.

Where these performance criteria have not been met, the board should ask itself whether it has taken timely steps to:

- identify the areas of under-performance and understand their causes;
- evaluate remedial courses of action; and
- decide on particular remedies.

In conducting this review the board should consider whether it has reviewed and, where necessary, updated the company's strategic objectives, monitored progress towards them and communicated the results within the organisation and to shareholders.

As part of this review, the board should also determine policies where the interests of shareholders and other stakeholders require them to limit the discretion of management to act in particular areas such as legal compliance and environmental policy.

11.11 Guideline 11 – Equity Participation by Non-Executive Directors

The board should establish and disclose in the annual report a policy to encourage non-executive directors to invest their own capital in the company or to acquire shares from an allocation of a portion of their fees.

The purpose of this Guideline is to equate the financial interests and risks of the board with the interests and risks of the shareholders as the owners of the company.

Non-executive directors should acquire equity participation independently. In particular, non-executive directors should not participate in a share or option scheme designed for the executives whose role is to manage the company on a daily basis. The non-executive director's role is to assess effectively the performance of the company and its executives and a conflict of interest would be created if directors participated in a similar scheme to the executives.

11.12 Guideline 12 – Respective Roles of the Board and Management

The board should at least annually review the respective roles and the allocation of responsibilities between the board and management.

The respective roles of the board and senior management and the resulting allocation of responsibilities is a fundamental aspect of corporate governance. There must be an appropriate balance between the board of directors, senior executives and company staff. If the balance is not appropriate, the fundamental governance structure of the company will be flawed and may lead to poor company performance. The board should develop a policy which clearly allocates the division of responsibilities within the company. This policy should be made available to all company employees.

The purpose of this Guideline is to ensure:

- the functions of board and management are clearly defined and understood.;
- the board retains full control over the company, including identification of specific matters reserved for board decision and of the company's system of internal control and information;
- the board can efficiently organise and conduct its own functions; and
- the board can effectively monitor management in the conduct of its functions.

11.13 Guideline 13 – Board and Executive Remuneration Policy and Disclosure

The board should disclose in the company's annual report its policies on and the quantum and components of remuneration for all directors and each of the 5 highest paid executives. The disclosure should be made in one section of the annual report in tabular form with appropriate explanatory notes.

This Guideline addresses current shareholder concerns on remuneration practices in Australia. Its purpose is to provide shareholders with meaningful information on the application of the board's remuneration policies in the context of the performance of the company.

The disclosures recommended recognise and promote the important principles of accountability, transparency and fairness.

IFSA members consider that Australian listed companies must be able to attract and reward superior executives within a competitive global environment. Nevertheless, remuneration must be reasonable in light of the circumstances of the company and should be adequately disclosed to shareholders. Companies can assist in overcoming the perception that remuneration is overly generous by taking a leading role in disclosing all components of remuneration and the way in which executives are rewarded for performance.

In particular, appropriate disclosure will provide shareholders, in an easily understood format, with the information they need to know on the quantum and components of remuneration in comparison with the performance of the company and the stated policies of the board.

It may be appropriate for boards to, at least indirectly, consider the impact that remuneration packages may have on the cohesiveness of the community in which their company operates.

All components of remuneration should be disclosed including cash salary and bonuses, shares or options granted and any other long term payments or other compensation. Boards should pay particular attention to increasing the transparency of termination or retirement payments to directors and senior management. It is important that termination or retirement payments should be fully disclosed to shareholders and that they are reasonable in the circumstances of the departure.

A suggested format for this disclosure is illustrated in Appendix A. Where shares or share options are issued, the company may find it useful to illustrate in graphical form the relevant performance criteria required to be achieved before they can be exercised.

11.13.1 Share and Option Schemes

IFSA supports the implementation of properly designed incentive schemes which have robust performance hurdles. The schemes must be fully disclosed and approved by shareholders.

Share and share option schemes can be an important element of well designed remuneration packages. The granting of a right to equity participation, subject to appropriate performance hurdles, assists in aligning the interests of executives and shareholders. While the alignment of interests is important, shareholders need adequate disclosure to ensure that the schemes are appropriately designed.

IFSA has developed two Guidance Notes on this issue: The Executive Share Option Scheme Guidelines and Employee Share Scheme Guidelines. These Guidance Notes were developed in conjunction with the AICD, the ASA and the Australian Employee Shareownership Association. IFSA members expect all Australian listed companies to comply with these Guidance Notes.

Key principles within the executive share and Option Scheme Guidelines are:

- All schemes should be disclosed to shareholders for their approval;
- Executive remuneration should realistically reflect the responsibilities of executives;
- Remuneration should be reasonable and comparable with market standards;
- Incentive schemes must reward superior company performance and be clearly linked to appropriate performance benchmarks;
- The performance hurdles must be based on specific benchmarks which assess actual company performance, eg peer assessment in terms of long-term growth of the company and resulting shareholder value; and
- The cost of the schemes must be disclosed in accordance with relevant accounting standards.

IFSA members do not consider that option schemes should be banned. A poorly designed share scheme is as unacceptable as a poorly designed option scheme. The Guidelines do not establish which type of incentive scheme a company should implement. Rather, it is important that boards develop incentive schemes which are appropriate for the circumstances of the company and which are aimed at driving superior executive performance.

The IFSA Guidelines are not intended to restrict or diminish the flexibility of companies to attract, retain and motivate employees in the interest of improved company performance. However, shareholders have a right to know the costs of such schemes and the success of these elements of remuneration measured against the original reasons for their use.

11.14 Guideline 14 – Company Meetings

11.14.1 Format of Resolutions

Notices of meeting and company resolutions should be in plain English and in a manner which permits shareholders to make informed decisions. Notices of meeting should be posted on the company website. Separate issues should not be combined and presented as a single motion for shareholder vote.

A number of IFSA members have expressed concern regarding the complexity of company resolutions. Generally, resolutions are highly technical and drafted by legal advisors. Managers have complained

that professional investors often need to contact the company to clarify the intention of the proposed resolution. If professional fund managers consider resolutions difficult to understand, the problem must be compounded for retail investors.

Companies should consider ways in which company resolutions can be simplified so that shareholders are able to make more informed decisions. Resolutions should be drafted in plain English in a manner which permits all shareholders to clearly understand the issues they are asked to consider. Notices of meeting should also be posted on the company website to facilitate shareholder access in a timely manner.

IFSA supports the CLERP 9 proposal to introduce "comfort provision" to address concerns expressed by some company officers that they could be liable for false or misleading information if they do not provide vast quantities of information in company notices.

Bundling separate issues into one resolution prevents shareholders from exercising the right to approve or reject each issue. This right is an important principle of best practice in Corporate Governance. An important purpose of this Guideline is to outlaw the 'sugar coated pill', where a company asks shareholders to approve a contentious matter by combining it with an unconnected beneficial matter for shareholders, for example, combining a proposed dividend with a proposed alteration of shareholder rights.

IFSA members encourage companies to make related resolutions dependent on the approval of the other related resolutions rather than bundling the resolutions for shareholder approval. There may be some circumstances which permit companies to bundle uncontroversial related resolutions. However as a general rule the practice is not encouraged by IFSA.

11.14.2 Form of Proxies

Companies should adopt the Model Form of Proxy in Appendix B (with appropriate modifications).

The model form of proxy contained in Appendix B was originally developed in conjunction with a working party comprised of a wide group of industry participants including IFSA Members, the Chartered Institute of Company Secretaries in Australia, the Australian Shareholders' Association, the Australian Institute of Company Directors and legal and accounting firms.

The form contained in this edition of the Blue Book has been improved by the Chartered Secretaries Australia in conjunction with Computershare and ASX Perpetual.

The form is designed to facilitate and expedite the precise registration of shareholders' votes and the electronic processing of those votes using available technologies. The model form can be amended to suit the circumstances of particular companies.

11.14.3 Notification Period for Shareholder Meetings

The annual report, notice of meeting and other documents for all shareholder meetings should be sent to shareholders at least 28 days prior to the meeting.

Evidence from overseas and in Australia suggests that the longer the notification period for meetings the higher the incidence of voting. Given the large equity holdings of fund managers and the well known difficulties that those Investors have in voting on 14 or even 21 days notice, this is not surprising. The Company Law Review Act 1998 amended the existing law to lengthen the period of notification for meetings of Australian listed public companies to 28 days. Accordingly, IFSA supports maintaining the 28 day notice period.

11.14.4 Method of Voting

Voting should generally be conducted by a poll on the conclusion of discussion of each item of business. Appropriate forms of technology should be utilised to facilitate the proxy voting process.

IFSA members expend considerable resources on lodging proxy votes. The proxy voting process involves analysis, consultation with clients where required, and carrying out the administrative processes involved with lodging votes through custodians. Not all shareholders are able to attend company meetings and it is vital that the view of all shareholders who have voted either through the lodgement of proxies or by attending the meeting prevails. It is therefore vital that proxy votes are counted in determining the outcome of a particular resolution.

In practice, proxy voting is the only feasible means of voting for most institutional shareholders in listed companies including fund managers.

Fund managers' holdings are often registered through domestic and international custodians, usually reflecting contractual obligations under client mandates or other legal obligations. In those cases fund managers lodge proxy votes through the custodian.

A custodian often cannot vote on a show of hands because it may have different voting instructions from various fund managers who use their services. These different instructions may in turn reflect different

instructions to the fund managers by their various clients. In those cases the fund managers and their clients are effectively disenfranchised from voting on a show of hands.

Fund managers represent a substantial proportion of voting capital, most often far larger than the proportion represented by other public shareholders who attend and vote at the meeting on a show of hands (or, for that matter, by proxy or representative).

At the same time, because the director who chairs a shareholder meeting is obliged to ensure that the decision on a resolution put to shareholder vote reflects the true will of the meeting, the proxy votes are always counted and made available prior to the meeting to that director (and often to other directors and senior management).

This permits the director chairing the meeting to assess whether to exercise the responsibility given to the chairperson to call for a poll where necessary – ie where it is certain or possible that a decision different from that obtained on a show of hands would be obtained on a poll. Typically, the computer reports produced for this purpose aggregate the number of votes cast by proxy in the various voting categories ("For", "Against", "Left to Proxy's Discretion" and "Abstained") so that the director chairing the meeting is instantly aware of the certainty or possibility of a different decision on a poll.

Proxy votes are instrumental in the decision on a resolution put to shareholder vote and shareholders have a legitimate interest in knowing the proxy voting information made available to the director who chaired their meeting.

Therefore, generally voting should be conducted by poll only on the conclusion of discussion of each item of business.

Nevertheless, IFSA is aware that considering non-contentious resolutions by way of show of hands may be an efficient way of dealing with those issues. It may be an expedient way of dealing with non-contentious company business. However, proxies should be counted on all resolutions prior to the meeting, and a poll must be conducted if it is likely that the outcome of the resolution would be different from the decision made on a show of hands.

The Company Law Review Act 1998 amended the Corporations Law to provide that in a notice of meeting, a company must specify a place and a facsimile number and may specify an electronic address for the lodgement of proxy appointments. IFSA encourages the provision of an electronic address to facilitate the lodgement of proxies. IFSA also supports the development of new electronic voting systems and better communication between companies and shareholders to provide efficiencies in the proxy voting process.

11.14.5 Disclosure of Voting Results

In announcing to the ASX the decisions made by shareholders in general meeting, a listed company should report the aggregate proxy votes validly received for each item of business in the notice of meeting. The report should disclose, in the case of a resolution passed on a show of hands, the aggregate number of proxy votes received in each voting category ("For", "Against", "Left to Proxy's Discretion" and "Abstain") and the aggregate number of votes not exercised by shareholders who submitted proxies ("No Intention"). In the case of a resolution submitted to a poll, the report should disclose both the information specified in the preceding sentence and the aggregate number of votes cast "For" and "Against" on the poll.

Disclosure of this information as part of the report to the ASX of the decisions by shareholders in general meeting will result in:

- shareholders being able to fulfil their role of monitoring the director's responsibility to ensure that those decisions reflect the true will of shareholders;
- transparency of all voting and, in particular, shareholders being able to assess:
- the extent to which and how shareholders have exercised their right to vote by proxy;
- the relative importance of their own vote (whether or not they voted);
- how that vote compares with the voting pattern of others and how proxy votes "Left to Proxy's Discretion" may have been exercised on a poll, including whether that exercise may have influenced the ultimate decision on a resolution;
- the potential relevance of all or any of the above information for their voting on future resolutions submitted to shareholder vote;
- ease and transparency of reporting by IFSA Members and other institutions to their clients; and
- consistency with international best practice in Corporate Governance which requires that this information be publicly disclosed.

The Company Law Review Act 1998 provides for disclosure by Australian listed companies in their report to the ASX on the outcome of shareholders' meetings of the proxy voting statistics for every resolution.

11.14.6 Access to Minutes

Shareholders should be able to authorise an agent to inspect or obtain copies of minutes of shareholders' meetings.

Shareholders should be able to authorise an agent to obtain copies of these important documents which contain information on the outcome of all resolutions.

11.15 Guideline 15 – Disclosure of Beneficial Shareholder Information

Information about beneficial shareholdings obtained by companies in response to their inquiries should be immediately disclosed to the market.

Companies have the right under the Corporations Act to inquire into the beneficial ownership of shares registered in the name of a nominee company.

Where a company has made such an enquiry and obtained information on such ownership, under Australian Stock Exchange Listing Rules there is now no specific obligation to notify the market. (Prior to 1 July 1996 there was a requirement in the ASX Listing Rules).

IFSA believes that under the continuous disclosure regime companies should disclose that information to the Australian Stock Exchange. In particular, IFSA believes such information is important market information for public shareholders. Otherwise, companies would have a material advantage over shareholders, especially in the event of proxy solicitation.

11.16 Guideline 16 – Major Corporate Changes

Major corporate changes, which in substance or effect may impact shareholder equity or erode share ownership rights, should be submitted to a vote of shareholders. Enough time and sufficient information (including a balanced assessment of relevant issues) should be given to shareholders to enable them to make informed judgements on these resolutions.

The purpose of this Guideline is to ensure that shareholder equity is not impacted and share ownership rights are not eroded through board or executive action which is not subject to informed shareholder review.

This Guideline applies irrespective of any existing legal authority for action by the board or management.

11.17 Guideline 17 – Company Codes of Ethics

Listed companies should have a company Code of Ethics that is adopted by the board and is available to shareholders on request.

INDEX TO APPENDICES

Appendix A: (A) Non-Executive Directors 34
Appendix A: (B) Executives 36
Appendix B: Model proxy form 38

APPENDIX A: (A) NON-EXECUTIVE DIRECTORS

(A) Non-Executive Directors

Column	A	B	C	D	E	F	G
	Annual Compensation						
	Total cash paid	Total shares awarded (number/value)	Value of benefits	Total annualised (number/value)	Options granted (number/value)	Options total (number/value)	Professional fees and other
Note	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Name and Position							
[Chairman]	$	$	$	$	$	$	$
[Director A]	$	$	$	$	$	$	$
[Director B]	$	$	$	$	$	$	$
[Director C]	$	$	$	$	$	$	$
[Director D]	$	$	$	$	$	$	$
[Director E]	$	$	$	$	$	$	$
[Director F]	$	$	$	$	$	$	$
Total of Directors	$	$	$	$	$	$	$

Notes:

(1) Includes all retainers, meeting fees, and chair premiums paid in cash or equivalent income. Some companies may wish to list items separately in this table.

(2) Number of shares issued and the fair market value on the date of issue under any company sponsored scheme or entitlement.

(3) Amounts accrued or otherwise provided for future retirement benefits and superannuation plus summary footnote describing these benefits and services along with the methodology used to calculate their value. Indicate whether amount is calculated for each individual director or is based on an average value for all directors.

(4) The sum of columns A through to D.

(5) Number of options in year granted times assumed value plus a summary footnote describing the methodology used to calculate their value.

(6) Total options granted and still outstanding times the assumed value and the methodology used to calculate their value.

(7) Indicate in a footnote amount of fees paid to the director and amount paid to director's firm.

APPENDIX A: (B) EXECUTIVES

(B) Executives

Column	A	B	C	D	E	F	G	H	I	J
	Annual Compensation									
	Cash salary	Cash bonus	Other benefits	Total compensation	Shares awarded (number/value)	Shares awarded (number/value)	Options awarded (number/value)	Options awarded total (number/value)	Other long term payouts	All other compensation
Note	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Name and Position										
[Managing Director]	$	$	$	$	$	$	$	$	$	$
[Executive A]	$	$	$	$	$	$	$	$	$	$
[Executive B]	$	$	$	$	$	$	$	$	$	$
[Executive C]	$	$	$	$	$	$	$	$	$	$
[Executive D]	$	$	$	$	$	$	$	$	$	$

Notes:

(1) Includes all annual salary and any deferred component or equivalent if not received in cash.
(2) Same as for (1).
(3) Any other annual compensation or benefit as part of the executive's remuneration.
(4) The sum of columns A through to D.
(5) Number of shares issued in year and the fair market value on the date of issue under any company sponsored scheme or entitlement.
(6) Total number of shares issued and the fair market value on the date of issue under any company sponsored scheme or entitlement.
(7) Number of options in year granted times assumed value plus a summary footnote describing the methodology used to calculate their value.
(8) Total options granted and still outstanding times the assumed value and a footnote describing the methodology used to calculate value.
(9) Any other payments or benefits due or accruing under long term compensation entitlements.
(10) Residual Category – components identified in a footnote or expanded table. Includes but not limited to (a) termination payments, (b) contributions to superannuation retirement plans etc.

APPENDIX B: MODEL PROXY FORM

PROXY FORM

SAMPLE **SAMPLE THE SAMPLE COMPANY**
ABN 00 000 000 000

All correspondence to:
The Sample Company
GPO Box xxx Melbourne
Victoria 3001 Australia
Enquiries (within Australia) xxxx xxx xxx
(outside Australia)61 x xxxx xxxx
Facsimile 61 x xxxx xxxx
www.sample.com.au

☐ Mark this box with an 'X 'if you have made any changes to your address details (see reverse)

SAMPLE CUSTOMER
ADDRESS
ADDRESS
ADDRESS
SAMPLETOWN TAS 7000

ASX

Reference Number

IND

APPOINTMENT OF PROXY

I/We being a member/s of <The Sample Company> and entitled to attend and vote hereby appoint

☐ the Chairman of the Meeting (mark with an 'X ') **OR** ☐ Write here the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.

or failing the person named,or if no person is named,the Chairman of the Meeting,as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given,as the proxy sees fit)at the Annual General Meeting of <The Sample Company> to be held at <123 Test Street on 22/11/2002 at 11.00am> and at any adjournment of that meeting.

☐ **Important: for item <X> below**
If the Chairman of the Meeting is to be your proxy and you have not directed your proxy how to vote on Item <X> below,please place a mark in this box. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of that Item and that votes cast by him,other than as proxy holder,would be disregarded because of that interest.If you do not mark this box,and you have not directed your proxy how to vote,the Chairman of the Meeting will not cast your votes on Item <X> and your votes will not be counted in computing the required majority if a poll is called on this Item.The Chairman of the Meeting intends to vote undirected proxies in favour of Item <X>.

Voting directions to your proxy – please mark ☒ **to indicate your directions**

	For	Against	Abstain
Ordinary Business			
Item 0. This is a Test Only	☐	☐	☐
Item 0. This is a Test Only	☐	☐	☐
Special Business			
Item 0. This is a Test Only	☐	☐	☐
Item 0. This is a Test Only	☐	☐	☐

*If you mark the Abstain box for a particular item,you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

PLEASE SIGN HERE

This section must be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

		/ /
Contact Name	Contact Daytime Telephone	Date

X A S X X A S X X X X X **5 P R**

Explanatory Memorandum

The Model form is designed to improve the proxy voting process in Australia in three ways:

1. It will improve the efficiency of voting, and reduce the costs incurred by companies in the voting process;
2. It will improve accuracy of registration of votes. Every shareholder's vote is important to a company. In the past, many votes have not been counted because the shareholders' proxy forms have not been filled out properly. The model form attempts to reduce the number of these invalidities;
3. The model form is easy to understand. This means that shareholders are more likely to understand what they are voting about and how they can express their views.

There are several ways in which the Model Proxy Form differs from many existing company proxy forms.

The result is a proxy form which clearly and accurately identifies the information necessary to be obtained from a shareholder to vote by proxy. In summary, the main benefits of the Model Proxy Form are:

1. **Shareholder Reference Number and Bar Code**
   The shareholder reference number and bar code makes it easy and efficient for the company's share registry to identify the shareholder voting. By using a bar code this can be done electronically.

2. **Telephone Number**
   If there is a formal problem with a shareholder's vote, the company can contact the shareholder to clarify the situation.

3. **Name of Proxy**
   The name of the proxy is clearly identified. There is no legal requirement or practical reason to state the proxy's address.

4. **Numbers of Shares**
   The voting boxes are large enough to write the numbers of shares being voted for, against and in abstention on each resolution.
   This is important for custodian shareholders who vote the shares of many clients. While each client may vote differently on each resolution, the custodian's vote is expressed as the aggregate numbers of client shares voted for, against and in abstention on a resolution.

5. **Abstain Box**
   Many shareholders wish to deliberately abstain from voting on a resolution. This may be because they have no view, or because they disagree with the resolution, but not strongly enough to vote against it. A formal abstain vote can be an indication to the company that a shareholder is not entirely satisfied with a course of action. In the past, some companies have counted the absence of a vote on a particular resolution as being a vote in favour of the resolution. This practice is not acceptable, and the Model Proxy Form makes this clear.

6. **Easy to Understand**
   The model form is drafted so that shareholders can easily understand it. To assist them in this, a step-by-step explanation is given on the page adjacent to the proxy form.

Designed and produced
by Nova Design Associates

Investment and Financial Services Association Limited (IFSA)
ABN 82 080 744 163

Head Office
Level 24, 44 Market Street
Sydney NSW 2000
Telephone: 02 9299 3022
Facsimile: 02 9299 3198
Email: ifsa@ifsa.com.au
Website: www.ifsa.com.au

Canberra Office
Suite 9, Level 11
St George Centre
60 Marcus Clark Street
Canberra ACT 2601
Telephone: 02 6243 5166
Facsimile: 02 6243 4866
Email: ifsa@ifsa.com.au
Website: www.ifsa.com.au