

IFSA Guidance Note No. 2.00



Corporate Governance: A Guide for Investment Managers and Corporations

July 1999

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.**

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1 Title

- 1.1 **This Guidance Note may be cited as IFSA Guidance Note No. 2.00 ‘Corporate Governance: A Guide for Investment Managers and Corporations’.**

2 Guidance Note and Commentary

- 2.1 **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 **19 July 1999**

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 August 2000. Earlier application of this Guidance Note is permitted and encouraged.**

5 Application

- 5.1 The first four Guidelines: ‘Guidelines for Investment Managers’ should be applied by IFSA Members in relation to their own operations. The second fourteen Guidelines: ‘Guidelines for Corporations’ establish the framework for a sound approach to Corporate Governance from the point of view of the investment community. Some companies (including smaller companies) may develop other practices that are also sound.

6 Statement of Purpose

- 6.1 The purpose of this Guidance Note is:

- To provide in the first four Guidelines in the Guidance Note 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;
- To provide in the next fourteen Guidelines in the Guidance Note 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.

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7 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”.

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8 INTRODUCTION

- 8.1 This Guidance Note is published by IFSA on the basis that its Members can and should play an active role in Corporate Governance.
- 8.2 The thrust of these Guidelines is supported by other Investor bodies in Australia acting as trustees or as direct suppliers of capital, namely the Association of Superannuation Funds of Australia (ASFA) (representing Superannuation Funds), the Australian Institute of Superannuation Trustees (AIST) (representing individual trustees of Superannuation Funds) and the Australian Shareholders' Association (ASA) (representing individual Investors).¹
- 8.3 The third edition of this Guidance Note has been prepared by IFSA's Corporate Governance Working Group following consultation with IFSA Members and other interested parties since the second edition was released in July 1997. IFSA acknowledges that many companies already meet or have made substantial progress addressing the issues in this document.
- 8.4 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.**
- 8.5 IFSA considers the Guidance Note reflects the views of both the Australian and the international investment community on the appropriate Corporate Governance for Australian listed companies. The principles may also be applicable to other public companies and government enterprises.
- 8.6 These Guidelines establish the framework for a sound approach to Corporate Governance from the point of view of the investment community. Some companies (including smaller companies) may develop other practices that are also sound.**
- 8.7 What is important is that the board of each listed company consciously address Governance and that the annual report explain the company's approach to Governance for the investment community. Shareholders and institutions can then either support that approach or work to bring about change.**

¹ ASA wishes to record its opposition to the recommendation contained in Guideline 11(d) that voting should be by poll only.

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9 SUMMARY OF GUIDELINES

9.1 Guidelines for Investment Managers

9.1.1 *Guideline 1 - Communication*

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

9.1.2 *Guideline 2 – Voting*

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

9.1.3 *Guideline 3 - Proxy Voting Policy and Procedures*

Investment Managers should have a written policy on the exercising of proxy votes that is approved by their board and formal internal procedures to ensure that that the policy is applied consistently.

9.1.4 *Guideline 4 - Reporting to Clients*

Wherever a client delegates responsibility for exercising proxy votes, the Investment Manager should report back to the client when votes are cast (including abstentions) on investments owned by the client. Reporting on voting should be a part of the regular reporting process to each client. The Manager should report back to clients whether or not the votes are cast.

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

9.2 Guidelines for Corporations

9.2.1 *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 public Investors understand how the company deals with those issues.

9.2.2 *Guideline 2 – Composition of the Board of Directors*

The board of directors of a listed company should be constituted with a majority of individuals who qualify as independent directors as defined in these Guidelines (see

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Page 20). The board should annually review and disclose in the annual report its required mix of skills, experience and other qualities, including the core competencies, which the independent directors should bring to the board.

9.2.3 *Guideline 3 - Chairperson to be an Independent Director*

The chairperson should be an independent director or, if the chairperson is not an independent director, the independent directors should appoint one of their number to be lead director and to monitor and report to them on issues falling within the normal purview of a non-executive chairperson.

9.2.4 *Guideline 4 - Board Committees Generally*

Committees of the board of directors should:

- generally be constituted with a majority who are independent directors;
- be entitled to obtain independent professional or other advice at the 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.

9.2.5 *Guideline 5 - Key Board Committees*

The board should appoint an audit committee, a remuneration committee and a nomination committee constituted as defined in these Guidelines (see Pages 21 and 22).

9.2.6 *Guideline 6 - 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 at the cost of the company.

9.2.7 *Guideline 7 - Performance Evaluation*

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.

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9.2.8 *Guideline 8 - 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.

9.2.9 *Guideline 9 - Respective Roles of the Board and Management*

The board should at least annually review the allocation of the work of the company between the board and management.

9.2.10 *Guideline 10 - Board & 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.

9.2.11 *Guideline 11 - Company Meetings*

■ Format of Resolutions

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 1

Voting should be by poll only on the conclusion of discussion of each item of business and 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,

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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.

9.2.12 Guideline 12 - Disclosure of Beneficial Shareholder Information

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

9.2.13 Guideline 13 - 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.

9.2.14 Guideline 14 - 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.

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10 PART 1: RATIONALE

10.1 The common interest of all Investors

- 10.1.1 The Investment and Financial Services Association Limited (IFSA) represents the major institutional shareholders who manage their own or their clients' funds.
- 10.1.2 Whether as major Investment Managers, with responsibility to their clients or their ultimate beneficiaries, or as major shareholders themselves, the Members of IFSA have both a duty and an interest to monitor the integrity, and foster the growth, of the investments which they manage. This interest is compatible with the interest of other shareholders.
- 10.1.3 The third edition of this Guidance Note is issued by IFSA to assist its Members to provide a lead and implement a process on behalf of all Investors in matters central to the interests of all shareholders and to take into account changes to the law and practice since the second edition was issued in July 1997.

10.2 Growth, performance and accountability

- 10.2.1 IFSA's Members manage or own a significant amount of the available capital of companies listed on the Australian Stock Exchange. If the Australian shareholdings of major overseas investors are included, the aggregate percentage of institutional management or ownership of Australian listed stocks is even greater.
- 10.2.2 Apart from the growing concentration of shareholdings in the hands of institutions, the nature of share ownership in Australia is also changing. Increasingly, the ownership of our public companies is being held for the longer term by fiduciaries of Superannuation Funds. These fiduciaries have a mandate to secure real and long-term growth in value of the investments of the funds. The growth is needed to provide the long-term retirement security of the funds' beneficiaries, the working and retired people of Australia.
- 10.2.3 Investment Managers, Superannuation Fund trustees and other shareholders have a keen interest and a major stake in all aspects of Governance which may influence the performance of our listed companies.
- 10.2.4 In addition, there is the question of the accountability of management and the equitable treatment of Investors and, in particular, the equitable sharing of reward between owners and management. The Hoare Panel in its advice to the Attorney-General on the super voting share issue in April 1994 said:

“The Panel believes the experience of investors, particularly during the eighties, has left deep residual concerns about standards of Corporate Governance, the reality of legal enforcement and the integrity of company disclosure. Suppliers of funds clearly believe those who use them are not as accountable as they should be.”

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10.3 Corporate Governance: the shareholder mechanism

- 10.3.1 Corporate Governance, as the name suggests, is concerned with the way corporate entities are governed, as distinct from the way businesses within those companies are managed.
- 10.3.2 Corporate Governance addresses the issues facing boards of directors, such as the interaction with top management, and relationships with the owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators.
- 10.3.3 Concern about corporate performance through involvement with strategy formulation and policymaking, and about corporate conformance through top management supervision and accountability to the stakeholders, fall into the field of Governance.
- 10.3.4 Influencing Corporate Governance, through discussions with companies or the exercising of proxy votes, is the mechanism available to institutional Investors around the world to address these issues, but particularly the issue of poor performance.
- 10.3.5 In particular, institutional Investors are using this best practice to assist companies to work efficiently and equitably as they were originally intended in the interests of all their stakeholders and especially their owners.

10.4 The IFSA Corporate Governance Guidelines

- 10.4.1 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.
- 10.4.2 With companies increasingly calling on their shareholders to participate in decision making by voting and the more frequent exercise by shareholders of their votes, this Guidance Note should provide both management and Investors with the criteria on which to base those decisions and votes.
- 10.4.3 In producing this third edition, regard has been had to the globalisation of capital markets, the emergence of international best practice and to the experience and feedback gained in producing the first two editions, as to not only the content of the Guidelines themselves but also how they are implemented.
- 10.4.4 As part of the development of international best practice in Corporate Governance this third edition acknowledges the endorsement in May 1999 by the Organisation for Economic Co-operation and Development ('OECD') of the "OECD Global Principles of Corporate Governance". IFSA welcomes the OECD Principles as representing a convergence on Corporate Governance amongst the diverse interests, practices and cultures represented within the OECD and as the emergence of a statement on international best practice in Corporate Governance. These principles can be found at www.oecd.org.

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10.4.5 Adoption of these IFSA Guidelines will result in improved Corporate Governance in Australian listed companies and increased confidence in the integrity and efficiency of the Australian capital markets. Adoption of these Guidelines will also enhance the competitiveness of the Australian economy.

10.5 Disclosure Standard

10.5.1 The Guidelines are considered to set an appropriate standard of disclosure by Australian listed companies to their owners. In particular, this disclosure standard builds on the requirements of listing rules and other regulations. It is therefore recognised that this standard may go further than any listing rule or regulation.

10.6 Further review

10.6.1 These Guidelines will be reviewed by IFSA from time to time in light of experience in the Australian market and the status of international best practice. Where appropriate, existing Guidelines will be revised and new Guidelines may be introduced.

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11 PART 2: GUIDELINES FOR INVESTMENT MANAGERS

11.1 Introduction

- 11.1.1 Effective Governance depends heavily on the willingness of the owners of a company to behave like owners and to exercise their rights of ownership, to express their views to boards of directors and to organise and exercise their shareholder franchise if they do not receive a satisfactory response.
- 11.1.2 The relative size of their shareholdings gives Investment Managers both a particular responsibility and a capacity to exercise that beneficial shareholder influence and franchise.
- 11.1.3 IFSA's Corporate Governance Guidance Note should be made available to companies which should be informed that the Guidelines are consistent with responsible investment management 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 Investment Managers should be informed of IFSA's Guidelines and of their consistent application.

11.2 Guideline 1 – Communication

Investment Managers should encourage 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 circulars from companies which are required by statute or, for example, by the stock exchange. They also have the right to attend company meetings where they can raise questions about the affairs of the company. In addition, some companies have a practice of making presentations to institutional or other shareholders. While these communications are necessary, they may not be sufficient to allow companies and shareholders to gain a full understanding of each other's aims and requirements.

A direct dialogue gives Investors a better appreciation of a company's objectives, its potential problems and the quality of its management, while also making the company aware of the expectations and concerns of shareholders. Two-way communications between companies and institutions is an important aspect of Corporate Governance because corporate managers need full information about the assessments of the institutions who hold their shares. The institutions need to be given sufficient confidence to continue to be supporting Investors. Some Guidelines for improving this communications process follow: -

11.2.1 *Value of institutional feedback*

Institutions represent an informed professional Investor constituency and are more able to provide direct feedback to companies. Mechanisms to take advantage of institutions' viewpoints can benefit other Investors, as institutions often serve as a channel for the interests and concerns of more dispersed Investors. Communication channels should not, of course,

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preclude communication with other Investors. Instead, the goal should be to add a new avenue for effective information gathering from the larger Investors.

11.2.2 Use by companies of institutional information

Information from institutions 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 managers. 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.

11.2.3 Communication should be at senior level

As it is the chief executive officer, the board and senior managers who set long term policy, it is at this level of the company that broad Investor and market opinion should be made available. Consequently, communication on Corporate Governance matters should generally be held between senior members of institutions and a company's board members or senior management.

Direct communications are, however, only credible when those engaged in them, both institutional Investors 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.

11.2.4 Companies' expectations

Companies agreeing to enhance communications with their major investors can expect positive undertakings from major investors in response. These might include a commitment to continuing informed, expert 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 Investors to respond responsibly and positively.

11.2.5 Institutions' expectations

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

11.2.6 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.

In particular, communications should be managed by both companies and institutions so that no Investor or potential Investor obtains material or price sensitive information which is not publicly available. Where, exceptionally, there are compelling reasons for a board to consult institutional shareholders on issues which may be price sensitive, those shareholders will have

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to accept that consultation would involve the receipt of confidences which will have to be strictly safeguarded and insulated from their other activities. In these circumstances, shareholders will not be able to trade in the company's shares unless they have constructed appropriate 'Chinese Walls'.

If information is in a proper form to disclose to an Investor, the company should consider whether it has a duty to disclose the information to the market as a whole, under Australian listing rules and continuous disclosure laws. This has become an area of increased focus in the market since the second edition was issued in 1997.

11.3 Guideline 2 – Voting

Investment 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". Voting rights are a valuable asset of the Investor which should be managed with the same care and diligence as any other. Ultimately, shareholders' ability to influence management depends on shareholders' willingness to exercise those rights.

Institutions 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 an institution intends to vote against a proposal, it may be appropriate for the institution 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.

11.4 Guideline 3 - Proxy Voting Policy and Procedures

Investment Managers should have a written policy on the exercising of proxy votes that is approved by their board and formal internal procedures to ensure that that policy is applied consistently.

To ensure that voting rights are managed with due care and diligence, it is important that there is a documented policy on proxy voting which is approved at board level and that procedures are in place to ensure it is consistently applied. The benefits to both the company and the investment community of a consistently applied policy are self-evident and can do much to avoid conflict and uncertainty.

Where Investment Managers have written policies on Corporate Governance which will affect the exercise of their proxy votes, these should also be communicated to clients.

11.5 Guideline 4 - Reporting to Clients

Wherever a client delegates responsibility for exercising proxy votes, the Investment Manager should report back to the client when votes are cast (including abstentions) on investments owned by the client. Reporting on voting should be a part of the regular

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reporting process to each client. The Manager should report back to clients whether or not the votes are cast.

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

The responsibility for exercising proxy votes should be clarified between the Investment Manager and the client and incorporated in the contract between them. The Investment Manager will, however, still be subject to the client's instructions on voting issues.

Where that authority is delegated to the Investment Manager, reporting to the client on the exercise of proxy votes by the Investment Manager will both enhance this performance of the Manager's duty to the client and provide evidence that both Manager and client have satisfied their fiduciary duties.

The Manager should report whether or not votes are cast. Information about abstentions is just as relevant to clients, as abstentions are another form of dealing with proxy votes.

Reporting, with the client's approval, should at least be annual and at least be detailed enough to deal with:

- material Corporate Governance issues resolved by discussion before an AGM;
- resolutions where the Investment Manager voted against the board's recommendation; and
- issues voted in favour of a board's recommendation where there is a significant opposition view known to the Manager.

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12 PART 3: GUIDELINES FOR CORPORATIONS

12.1 Introduction

The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters:

- adoption of a corporate strategy;
- succession planning, including board succession planning, as well as appointing, training and monitoring of 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.

12.2 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 public investors understand how the company deals with those issues.

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" that is, 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 on providing in the annual report an analysis of Corporate Governance issues specific to the company. It is emphasised in the Note that a company should make its own assessment of the practices appropriate to its particular circumstances. That approach is consistent with these Guidelines.

An independent report to IFSA by Corporate Governance International Pty Ltd, entitled: "Corporate Governance Statements by Major ASX Listed Companies", released in August 1998 reviewed how 100 major Australian listed companies have responded to this Listing Rule in its second full year of operation. The review concluded that "there was considerable improvement in the overall level of disclosure", with an "improvement in the overall quality of disclosure".

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That report concluded:-

“In the Australian regime of voluntary disclosure, the level and quality of disclosure varies considerably. The revised “[IFSA] Blue Book” guidelines reflect mandatory or accepted best practice in the two markets (US and UK) of most importance to the Australian market. On the results of this review, reporting by Australian companies to international standards has not yet become accepted practice.”

The improvement identified in this report shows the benefit of the continuing efforts by IFSA to promote debate and discussion of those important matters. It should be recognised, however, that as the Australian market becomes more global the benchmarks will reflect the generally higher standards of disclosure prevailing in offshore markets and the demanding expectations of major international Investors. Australian companies must accept that the criteria have shifted if they are to be competitive with alternative investments.’

The Annual Disclosure Guideline, therefore, remains important in providing listed companies with clear guidance on what needs to be covered in the annual Corporate Governance statement.

In IFSA’s view, the most practical way for the ASX to ensure the utility to public Investors of information on Governance issues material to the company concerned is for ASX listed companies to be required to disclose whether they satisfy the Guidelines in this Part 3 and, if any Guideline is not satisfied, what principle is followed in lieu and why that alternative is preferable. As indicated in the Introduction, IFSA recognises that some companies (including smaller companies) may develop other practices that are also sound. If so, they should be explained.

The success of the UK experience of the London Stock Exchange Listing Rule, and the Listing Rules on Corporate Governance on the Toronto and Johannesburg Stock Exchanges, provides further encouragement for that view. Consequently, the introduction by the Australian Stock Exchange of a Listing Rule on Corporate Governance, which prescribes what needs to be disclosed, in line with international best practice, is strongly advocated by IFSA.

12.3 Guideline 2 - Composition of the board of directors

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 board should annually review and disclose in the annual report its required mix of skills, experience and other qualities, including the core competencies which the independent directors should bring to the board.

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.

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If the majority of the board are genuinely independent they have the power to implement board decisions, even contrary to the wishes of management or a major shareholder, if the need arises. This power not only creates a more desirable board culture but also imposes a responsibility on the independent majority to be especially competent and diligent in carrying out their role and making decisions.

The independent board majority is a key mechanism to assure shareholders that their company will be run competently in its own best interests and consequently in the best interests of all shareholders.

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 each annual report, first, which directors qualify as independent directors and, second, the principles supporting each conclusion.

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;
- is not a principal of a professional adviser to the company or another group member;
- is not a significant supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a significant supplier or customer;
- has no significant 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.

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.

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12.4 Guideline 3 - Chairperson to be an Independent Director

The chairperson should be an independent director or, if the chairperson is not an independent director, the independent directors should appoint one of their number to be lead director and to monitor and report to them on issues falling within the normal purview of a non-executive chairperson.

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. A strong independent chairperson provides the appropriate counterbalance and check to the power of the CEO.

12.5 Guideline 4 – Board Committees Generally

Committees of the board of directors should:

- **generally be constituted with a majority who are independent directors;**
- **be entitled to obtain independent professional or other advice at the 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.**

The composition and resourcing of board committees is fundamental to their effectiveness and ensures that they operate on behalf of, and not to bypass, the full board.

12.6 Guideline 5 - 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, certain key committees have become accepted mechanisms of Corporate Governance:

12.6.1 The Audit Committee

- **should be chaired by an independent director and be composed entirely of non-executive directors, a majority of whom should be independent directors;**
- **should be composed of directors with the mix of skills, experience and other qualities appropriate for its role;**
- **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**

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- should have written terms of reference which include core matters to be dealt with by the committee and core rights of the committee.

An audit committee composed entirely of non-executive directors is free, and would be well advised, to involve company executives, including executive directors, in its business, and it can do so by inviting the appropriate participation of those executives. 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 is so that external and internal auditors are not inhibited by the presence of senior management from raising matters with the committee.

The appointment of an audit committee comprised entirely of non-executive directors with the requisite mix of skills, experience and other qualities achieves all of these objectives.

12.6.2 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 whether the remuneration, in the case of non-executive directors, realistically reflects the responsibilities and risk involved in being an effective director, and in the case of senior management, promotes the long-term growth of shareholder values and is reasonable in comparison with industry or other yardsticks;
- should be responsible for preparing the disclosure in the company's annual report of the information specified in Guideline 10 of this Part 3; and
- should have written terms of reference which include core matters to be dealt with by the committee and core rights of the committee.

12.6.3 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 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.

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12.7 Guideline 6 - 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 at the 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, resources and information at 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 (or, if the chairperson is not an independent director, the lead director) to obtain independent professional or other advice at the cost of the company.

One or more non-executive directors should be entitled, with the approval of the chairperson (or, if the chairperson is not an independent director, the lead director) to obtain such resources and information from the company, including direct access to the employees and advisers to the company, as they may require.

12.8 Guideline 7 – Performance Evaluation

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.

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

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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 and for reporting to shareholders in the notice of meeting on the evaluation, or, in the case of a director appointed by the board during the year, on the reasons for the board making that appointment.

This is necessary to address the reality that, whilst a basic concept of corporate law is that the shareholders select the directors, the actual practice in most listed companies is that the board itself selects the directors and directors, whether retiring by rotation or appointed by the board during the year, come up for endorsement by the shareholders at the annual (or next) general meeting.

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

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

12.9 **Guideline 8 - 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.

Equity participation by non-executive directors should be acquired by them independently and, in particular, not through a share or option scheme designed for the executives whose role is to manage the company. The directors' 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.

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12.10 Guideline 9 - Respective Roles of the Board and Management

The board should at least annually review the allocation of the work of the company between the board and management.

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.

12.11 Guideline 10 - 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 Investor concern 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 and fairness.

In particular, disclosures 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.

The present extensive use of share and share option schemes as important elements of remuneration packages should be designed to align the interests of executives with those of shareholders through direct equity participation in the future of the company. While the alignment of interests is important, shareholders need adequate disclosure to ensure they are receiving due reward for the dilution that equity participation entails.

Present and past practice by companies has seen these schemes used as incentives for future performance, as rewards for past performance, as an element of deferred compensation or as a mixture of all these and more. Shareholders need to understand the policy objective of these schemes. The Executive Share Option Schemes and Employee Share Scheme Guidelines, originally published as appendices to the first edition of this Guidance Note will be reviewed shortly. The review will be undertaken by a Task Force consisting of representatives from the AICD, the ASA and IFSA.

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This Guideline is not intended to restrict or diminish the flexibility of companies to attract, retain and motivate employees in the interest of improved company performance. Shareholders, however, do 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.

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.

IFSA acknowledges the passage of the Company Law Review Act 1998 in which disclosure of the remuneration policy, nature and amount of each director and the five most highly paid executives of a company is required. At the date of publication this Guidance Note this Act has been referred to the Parliamentary Joint Committee on Corporations and Securities for review. IFSA believes this Guideline provides a useful elucidation of best practice in relation to remuneration disclosure.

12.12 Guideline 11 - Company Meetings

12.12.1 Format of Resolutions

Separate issues should not be combined and presented as a single motion for shareholder vote.

Bundling separate issues into one resolution prevents shareholders from exercising the right to say yes or no to 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.

12.12.2 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 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 is the first practical step to solving the present difficulties of the proxy voting process.

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.

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12.12.3 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 institutional Investors and the well known difficulties (see under next heading) 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. At the date of publication, this amendment has been referred to the Parliamentary Joint Committee on Corporations and Securities for review.

12.12.4 Method of Voting 2

Voting should be by poll only on the conclusion of discussion of each item of business and appropriate forms of technology should be utilised to facilitate the proxy voting process.²

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.

12.12.5 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.

Exercise of the vote is one of the Investor's most important rights. In practice, proxy voting is the only feasible means of voting for most Investors in listed companies and especially for many institutional Investors.

Institutions' holdings are often registered through domestic and international custodians, usually reflecting contractual obligations under client mandates or other legal obligations on the institutions. In those cases institutions have to vote via the custodian.

A custodian often cannot vote on a show of hands because of the number of institutional Investors whose instructions the custodian represents and the different voting instructions of those institutions, which may in turn reflect different instructions to the institutions or even to

² The Australian Shareholders' Association is opposed to this recommendation and believes that voting in the first instance should be by way of a show of hands.

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a single institution in the various client mandates of the institution(s) In those cases the institutional Investors and their clients are effectively disenfranchised from voting on a show of hands.

Those Investors 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). That most resolutions at company meetings are passed by the current show of hands method is, consequently, a major concern among IFSA Members and, in IFSA's assessment, of similar institutional Investors.

This concern has essentially two sources. The first is the substantial effort and expense to which many institutional Investors go to discharge their voting responsibilities, only for these efforts not to be apparent on resolutions which are passed on a show of hands. The second is the difficulty of reporting these unseen efforts to the satisfaction of their clients.

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 (these days using convenient computer technology) and made available prior to the meeting to that director (and often to other directors and senior management).

This is so that the director chairing the meeting is able to assess whether to exercise the responsibility given to the chairperson to call for a poll where necessary - ie whether it is certain or possible that a decision different from that obtained on a show of hands would be obtained on a poll, in which case the chairperson is obliged to call for 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.

In a very real sense, therefore, the 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.

In particular, disclosure of that 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 monitoring role, that is, of the director's responsibility to ensure that those decisions reflect the true will of the meeting;
- 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, and
 - the potential relevance of all or any of the above information for their voting on future resolutions submitted to shareholder vote;

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- 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.

It should also be noted that the only thing which prevents this information being disclosed in Australia to public Investors, as currently happens in many cases, is the decision of the agents of those Investors, that is, boards and management – to withhold the disclosure. In particular, this information is clearly not confidential information of the company itself, disclosure of which would be against the interest of the company. Withholding by those agents from their principals of information on how those principals have exercised one of their most important rights is clearly unjustifiable and contrary to best practice.

Finally, IFSA believes that the obvious way to solve all of the issues raised in the above analysis, and especially to achieve effective enfranchisement of all Investors, transparency of voting and ease and transparency of reporting to ultimate beneficiaries, is for each shareholder resolution to be voted on by poll at the conclusion of discussion of that item of business at the annual or other general meeting.

For the reasons indicated, the base information to enable this to be done is already in place and polling all resolutions in this manner will involve very little additional effort, inconvenience or cost over the current system.

It should also be emphasised that polling all resolutions in this manner will not stop Investors, including smaller Investors, from continuing to use the meeting to ask questions for response by company management or the board – ie the only difference over the current system will be that voting on the conclusion of discussion will be by poll.

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. At the date of publication, this Act has been referred to the Parliamentary Joint Committee on Corporations and Securities for review.

12.12.6 Access to Minutes

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

Shareholders ought to be able to authorise an agent to obtain companies of these documents for them.

12.13 Guideline 12 – Disclosure of Beneficial Shareholder Information

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

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

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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 including in the event of a proxy battle.

12.14 Guideline 13 - 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.

12.15 Guideline 14 - 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.

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APPENDIX A: (A) Non-Executive Directors

(A) Non-Executive Directors

Column	A	B	C	D	E	F	G
	<u>Annual Compensation</u>						
	<i>Total Cash Paid</i>	<i>Total Shares Awarded (Number/ Value)</i>	<i>Value of Benefits</i>	<i>Total Annualised (Number/ Value)</i>	<i>Options Granted (Number/ Value)</i>	<i>Options Total (Number/ Value)</i>	<i>Professional Fees & Other</i>
Note	(1)	(2)	(3)	(4)	(5)	(6)	(7)
<i>Name & Position</i>							
<i>[Chairman]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director A]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director B]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director C]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director D]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director E]</i>	\$	\$	\$	\$	\$	\$	\$
<i>[Director F]</i>	\$	\$	\$	\$	\$	\$	\$
<i>Total of Directors</i>	\$	\$	\$	\$	\$	\$	\$

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.

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APPENDIX A: (B) Executives

(B) Executives

Column	A	B	C	D	E	F	G	H	I	J
	<i>Annual Compensation</i>									
	<i>Cash Salary</i>	<i>Cash Bonus</i>	<i>Other Benefits</i>	<i>Total compensation</i>	<i>Shares Awarded (Number/Value)</i>	<i>Shares Awarded (Number/Value)</i>	<i>Options Awarded (Number/Value)</i>	<i>Options Awarded Total (Number/Value)</i>	<i>Other Long Term Payouts</i>	<i>All other compensation.</i>
<i>Note</i>	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>	<i>(4)</i>	<i>(5)</i>	<i>(6)</i>	<i>(7)</i>	<i>(8)</i>	<i>(9)</i>	<i>(10)</i>
<i>Name & Position</i>										
<i>[Managing Director]</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>[Executive A]</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>[Executive B]</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>[Executive C]</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>[Executive D]</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$

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.

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APPENDIX B: MODEL PROXY FORM

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. In drafting the model form the Working Party reviewed the proxy forms of many companies, and adopted the best elements of these.

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.

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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. **Appointment of Second Proxy**
Generally, shareholders are legally entitled to appoint a second proxy. If a shareholder does this they should be able to state the proportions of their voting rights held by each proxy.
7. **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.

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MODEL PROXY FORM

**Your vote is important
Please direct your proxy how to vote**

For your vote to be counted, the Proxy form opposite, duly completed, must be received not later than 00.00 on ().

1. Insert your telephone number in case we need to contact you.
2. Insert here the name of the person you wish to appoint as proxy; shareholders cannot appoint themselves. **The Chairman of the meeting will act as your proxy if you do not appoint someone.** You can vote your shares by proxy even if you plan to attend the meeting.
3. If you wish to direct your proxy how to vote on any item, place a mark in the appropriate box. If a mark is placed in a box, your total shareholding will be voted in that manner. You may, if you wish, split your voting direction by inserting the number of shares you wish to vote in the appropriate box. The vote will be invalid if a mark is made in more than one box for a particular item or if the total shareholding shown in “FOR”, “AGAINST” and “ABSTAIN” boxes is more than your total shareholding on the share register.
4. A Shareholder is entitled to appoint up to two persons (whether shareholders or not) to attend the Meeting and vote. If you wish to appoint two proxies please obtain a second proxy form by telephoning Sydney xxxx xxxx or toll free xxxx xxx xxx. Both forms should be completed with the nominated percentage of your voting rights on each form. Please return proxy forms together.
5. **Shareholder (member) must sign here.**
This proxy must be signed by the shareholder, or if a Corporation, under the hand of an Authorised Officer or Attorney or in accordance with Section 127 of the Corporations Law. If this proxy is signed by a person who is not the registered Shareholder then the relevant authority must either have been exhibited previously with the Company or be enclosed with this proxy.

It is not appropriate to appoint a second proxy with a percentage of your voting rights unless you intend to complete your proxy instructions by inserting a mark in a box against the agenda items.

FURTHER IMPORTANT INFORMATION

A reply paid envelope is enclosed for the return of your completed proxy to (), for depositing at the Company's registered office on your behalf. To be effective, the proxy must be deposited at the registered office of the Company not less than () hours before the time of the meeting.

If you require further information on how to complete the proxy form, telephone () on xxx xxxx.

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ABC LIMITED
ACN 000 000 000

PROXY FORM

Name and address

Shareholder Reference Number
C00012345
(bar code)

1. Insert your telephone number

() _____

2. APPOINTS ➡ ➡ ➡

Or failing the person so named or, if no person is named, the Chairman of the Meeting as proxy to vote in accordance with the following directions or, if no directions have been given, as the proxy or the Chairman sees fit at the [Annual] _____ General Meeting of the Company to be held on 00/00/00 commencing at 00.00 and at any adjournment thereof.

Name

3. ORDINARY BUSINESS ➡ ➡➡

	FOR	AGAINST	ABSTAIN
1. Adoption of Reports and Financial Statements	<input type="text"/>	<input type="text"/>	<input type="text"/>
2. Declaration of Fully Franked Final Dividend Election of Directors	<input type="text"/>	<input type="text"/>	<input type="text"/>
3. (Name)	<input type="text"/>	<input type="text"/>	<input type="text"/>
4. (Name)	<input type="text"/>	<input type="text"/>	<input type="text"/>
5. (Name)	<input type="text"/>	<input type="text"/>	<input type="text"/>
6. (Name)	<input type="text"/>	<input type="text"/>	<input type="text"/>
7. (Name)	<input type="text"/>	<input type="text"/>	<input type="text"/>

4. APPOINTMENT OF A SECOND PROXY ➡

%

5. SIGNATURE(S) ➡ ➡ ➡ ➡

If a Corporation see Note 5