

Mavis Tan

From: Michael Hannell <mike@hannell.com>
Sent: Friday, 27 July 2018 10:20 AM
To: Mavis Tan
Subject: Comments on the Proposed Edition 4 of the ASX Corporate Governance Principles and Recommendations

As a long-time Director in the ASX listed company space, I submit my comments as follows:

1. In my view the draft prepared by the Council is not sensible regulation. It is far too prescriptive and does not reflect the basic principles about the commercial and legal purpose and principles of running a company.
2. The draft comes across as patronising and quite frankly will not resonate with the majority of professional directors as it contains far too many platitudes and statements of the obvious (commonly known as “motherhood statements”). It is overcomplicated and convoluted, and seems to be straying into the territory of trying to impose centralised control over company’s activities (despite the “if not, why not” mantra).
3. A big opportunity seems to have been lost to make the document simpler, more pragmatic, more concise, and suitable for the real world of business – which would be to the ultimate advantage of the large majority of the general public rather than to minorities.
4. The draft suggests to me that the Council has been captive to a number of “political” pressures such as diversity, climate change, and social licence. Furthermore it would appear that input has been primarily sourced from advisers, lawyers, activists and pressure groups mainly from the left of the spectrum, rather than from active and practising Directors and senior managers. It certainly does not come across to me as a balanced document.
5. Far too much emphasis has been placed on “diversity”, with in my view the highly contestable claim that “diversity is increasingly seen as an asset to listed entities and a contributor to better overall performance, particularly in a competitive market”. While I do accept that diversity can add to the effectiveness of a company’s operations, this section needs to be severely pruned as it is far too prescriptive. The fundamental principle of “the best available person for the job” should be stated up front, rather than trying to artificially engineer outcomes which can result in an inferior outcome. In particular, quotas for females for ASX 300 companies (dressed up as targets) should be removed from the draft.
6. Climate change is given far too much prominence in the draft and should be toned down. The concept is highly contentious and debatable in the public arena, and in any case Boards and senior management are well aware of the public debate, the wide variation of views and the possible implications. It is just one of many potential risks that Boards and their managements assess as a matter of routine.
7. Principle 3 contains too many imprecise social engineering words, such as human rights and living wage. The ASX is a Stock Exchange and should not see itself as a vehicle for wider social change as there are other political avenues to do this. Having said this I accept that regulation does need to reflect the wider community views and expectations, so by all means include a statement that companies are expected to act responsibly towards the communities in the market place in which they operate. However it needs to be brief and not contain emotive syntax.

In summary, in my view the present 3rd edition of principles and recommendations are poorly conceived and written, and have been largely ineffective in practice. They unnecessarily distract Boards and management from running a company for its core purpose.

The proposed 4th revision will further stifle the ability of companies to perform efficiently in the best interests of their shareholders and the general public, and will further provide minority activists and any hostile media with ammunition to unnecessarily harass and distract Boards and managements from their core business.

I will be happy to expand on these views if required.

Regards,

M D Hannell