

RESPONSE TO DISCUSSION DRAFT.

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Introduction.

My wife and I are long-term retail shareholders holding shares in about 15 companies holding them for up to 25 years. We also invest in a number of funds and trusts that hold Australian shares with monies invested by us (and others).

We wish to commend you on the clarity, readability and educational value of the discussion draft. Much would be gained if all annual reports were as readable. We substantially agree with all your recommendations and wish to make some comments under the following headings:

- Board capability – Election of Board members.
 - Disclosure – Institutional investors.
 - Shareholder engagement – Electronic voting.
- Readability of reports.

Preamble.

You note that the proportion of the population who are shareholders has increased in the last decade or so. This increase has been encouraged by the Federal Governments so that many “ordinary” Austalians now hold shares. It is probably now the case that the average retail shareholder is less knowledgeable and less sophisticated in business affairs than in the past when shareholding was more “class” based. Since many then relied on their shares for a substantial part of their income, their oversight of companies in which they were invested would tend to be penetrating. In contrast most current retail shareholders have other, more regular sources of income so are less exacting in their oversight. Boards can, therefore, expect that many shareholders will take little interest in the company's issues while profits continue.

The passivity on the part of retail shareholders (as evidenced by the small number who made representations to the Commission) is increased when company reports are incomprehensible, when there is a sense of powerlessness (particularly related to the power of the large shareholders), and there is a lack of trust, even amounting to cynicism, of the Executive and Boards.

We are of the opinion that the Draft exaggerates the special characteristics and expertise of CEOs and Board members. The sources of your information are necessarily biased and we do not read of any other opinions being sought. While there may be other factors influencing their remuneration, their expertise by itself is comparable with other highly skilled individuals in science, medicine, transportation and diplomacy.

Board Capability.

Election of Board members.

In the 25 years that we have held shares on only one occasion have we experienced an election for the Board where there was an opportunity to choose between candidates. On that occasion the candidate who was not nominated by the board was subjected to disparagement in the Board's statements that we considered was disgraceful and unnecessary.

We agree with your statements that board membership is too restricted. We suggest:

- *All candidates for board membership should be nominated and seconded by individuals not the full board.*
- *Candidates should provide a statement to shareholders that mentions what they believe to be the major issues facing the company, how their expertise will contribute to dealing with these issues, and where they stand on such issues as ethics, sustainability and the future of the company.*

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- *Where possible there should be a choice of candidates for the number of seats on the board.*

We believe these improvements would go some way towards combating the impression that board members come from an elite group.

Disclosure.

Institutional shareholders.

We agree that it is important for investors in fundings holding Australian shares to receive reports regarding how they voted at company annual meetings. We further suggest that *funds develop some mechanism to elicit the views of their members on their voting decisions.*

Shareholder Engagement.

Electronic voting.

While we accept that electronic voting is efficient, we are concerned that *this method does not come to completely replace all other voting methods.* Not everyone has access to a computer nor is everyone internet literate. We deplore the present situation where only summaries need to be sent and access to other information is by online reports. We suspect that most retail shareholders do not have the time or commitment to continually access these reports. *A method of signalling such reports are available is necessary.*

Readability.

As noted earlier we consider that *company annual reports, financial statements and remuneration reports need to be readable and intelligible to the average Australian citizen.* Further more, we consider that since many retail shareholders are not well educated in the area of company governance there is a place for the company to assist shareholders to make sense of their reports. Some funds do this fairly well but most companies that we are connected with fail in this area.