

Chapter One - Introduction

Background

1.1 On 30 June 2006 the committee resolved to inquire into the engagement and participation of shareholders in the corporate governance of the companies in which they are part-owners. The committee agreed to examine the following terms of reference:

1. barriers to the effective engagement of all shareholders in the governance of companies;
2. whether institutional shareholders are adequately engaged, or able to participate, in the relevant corporate affairs of the companies they invest in;
3. best practice in corporate governance mechanisms, including:
 - a) preselection and nomination of director candidates;
 - b) advertising of elections and providing information concerning director candidates, including direct interaction with institutional shareholders;
 - c) presentation of ballot papers;
 - d) voting arrangements (eg. direct, proxy); and
 - e) conduct of Annual General Meetings.
4. the effectiveness of existing mechanisms for communicating and getting feedback from shareholders;
5. the particular needs of shareholders who may have limited knowledge of corporate and financial matters; and
6. the need for any legislative or regulatory change.

Conduct of the inquiry

1.2 The inquiry was advertised in the *Australian* newspaper on 11 July, 27 July, 8 August, 22 August and 5 September 2007. The government also invited written submissions from a range of industry stakeholders, academics and government departments and agencies. Details of the inquiry were placed on the committee's website.

1.3 A total of 45 submissions were received and a list of them is included in Appendix 1.

1.4 The committee held two public hearings; in Canberra on 15 April 2008 and Sydney on 16 April 2008. A list of the witnesses who appeared at the hearings is included in Appendix 2 and copies of the Hansard transcripts are available on the internet at: www.aph.gov.au/senate/committee/corporations_ctte/sharehold/index.htm.

Report structure

1.5 Chapter Two outlines Australia's current regulatory framework for corporate governance, the role of shareholders in ensuring good corporate governance, the importance of effective communication between company boards and shareholders and the voting mechanisms through which shareholders enforce the accountability of company boards. The final section of the chapter canvasses the opinion of contributors to the inquiry on the most appropriate way to approach shareholder engagement reform.

1.6 Chapter Three examines possible improvements to the flow of information and dialogue between companies and shareholders, with attention also given to the disclosure of stock lending and margin lending activities; as well as examining issues specific to the separate institutional and retail investor groups.

1.7 Chapter Four assesses issues raised with the committee pertaining to the efficacy and integrity of different absentee voting mechanisms and the ability of shareholders to express their views effectively through the voting process.