



QBE

Insurance
Group

15 April 2008

The Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600



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Dear Sir

Inquiry into shareholder engagement and participation

We refer to the inquiry being undertaken by the Parliamentary Joint Committee on Corporations and Financial Services on shareholder engagement and participation and note the public hearings scheduled for today and tomorrow.

We welcome the opportunity to comment on two parts of the Terms of Reference, namely;

- 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.*

QBE is concerned at the recent significant amount of short selling which has occurred in the Australian stock market, the impact this has had on our investors, particularly small investors, and the failure in our view of ASIC and ASX to properly regulate the market.

In this respect, we refer you to the following comments made by our Chairman at our AGM on 4 April 2008:

"In the 21 days following our 2007 results announcement around 24% in volume of QBE's issued shares have been traded compared with around 9% for the equivalent period last year. The average daily trading volume in this recent 21 day period was around 10 million shares compared with around 3.5 million shares last year.

Significant short selling of the stock has occurred and on more than one occasion, unfounded market rumours have added to the share price volatility. We are conscious that this phenomena is not limited to QBE shares; however we urge the corporate and market regulators to increase their vigilance and require better disclosure to ensure a more orderly market to protect the interests of all shareholders.

We are firmly of the view that the Australian Securities Exchange (ASX) has a conflict of interest in its dual role as market operator and market regulator. As market operator, it is not in the ASX's interest to take steps to decrease trading volumes. They clip the ticket for every transaction so the more transactions the better. Therefore we believe that existing regulation of the market should be transferred to the Australian Securities



and Investments Commission (ASIC) and disclosure introduced to protect smaller shareholders. We do not need more regulation, rather we need effective regulation.”

In particular, we also believe the suggestions of John Green in his article in The Australian on 3 April 2008 are worthy of consideration, especially:

1. enforce the spirit of ASX's short-selling rules; and
2. name intermediaries who lend clients' stock, and disclose stock lending above say a \$5 million aggregate.

ASX argues that its proximity to the market and the experience and expertise of its employees are why ASX is best placed to regulate the market. We agree these are important factors. However, they do not prevent a dedicated area of ASIC from being the supervisor.

To achieve active shareholder engagement and participation in the market, shareholders must have confidence in the market. Such confidence is primarily achieved through strong governance structures within the companies listed in the market, supported by regulators who are prepared to enforce the rules and ultimately protect both market participants and investors.

We would be pleased to assist you with any further information you may require. If you have any questions, please do not hesitate to call either Peter Smiles on (02) 9375 4322 or me on (02) 9375-4422.

Yours faithfully

A handwritten signature in black ink that reads "Duncan Ramsay". The signature is written in a cursive style with a large initial "D".

Duncan Ramsay
General Counsel and Company Secretary

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