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TE MANA TATAI HOKOHOKO · NEW ZEALAND

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Review of corporate governance disclosure

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Purpose of this report

One of our strategic objectives is to make sure shareholders and customers have access to resources that help them make informed investment decisions. Institutional investors have told us they use companies' corporate governance reporting as a useful input into their investment decisions. Although corporate governance disclosures are not a direct measure of the quality of culture or conduct within an organisation, they can indicate the emphasis placed on governance by a board. Boards that focus on good governance can achieve better outcomes for their shareholders and customers.

This report presents our review of corporate governance reporting. We are sharing these findings with companies so they can reflect on their governance practices and disclosures. Our aim is to promote high standards of corporate governance, and ultimately improve confidence in New Zealand's capital markets.

This review is of corporate governance disclosures by selected companies, not of their actual behaviour. We measure whether companies have disclosed information as recommended in our handbook *Corporate Governance in New Zealand, Principles and Guidelines*[1] (the handbook). This handbook sets out high-level principles[2] of good corporate governance, together with more detailed guidelines and commentary which provide examples of the types of structures and processes that help businesses to comply with each principle.

The handbook acknowledges that different businesses will find different ways of reporting on the broad corporate governance principles, depending on their size, activities and ownership structure. There is no requirement for companies to report against all the specific recommendations in the handbook. For simplicity, however, our review assessed whether corporate governance disclosures followed the recommendations in the handbook's guidelines and commentary. The review therefore gives an overall impression of whether companies are focused on the corporate governance principles.

This review compares the annual report and website disclosures of 45 selected companies[3] against a set of recommendations in the handbook, which cover the core elements of good corporate governance. We acknowledge that shareholders may receive information through communications other than the annual report or websites. However, the information in annual reports and company websites is a good indicator of a company's focus on corporate governance.

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[1] 'Corporate Governance in New Zealand Principles and Guidelines: A Handbook for Directors, Executives and Advisers' (2004) is available on our website https://fma.govt.nz/assets/Reports/_versions/59/corporate-governance-handbook.1.pdf.
[2] A full list of the principles is included in Appendix 2.
[3] A list of companies reviewed is included in Appendix 3.

Survey of institutional investors

We also recently surveyed institutional investors[4] to assess their confidence in the current standards of corporate governance in New Zealand. Respondents were mostly investment or asset managers. Together, they represent businesses that manage about $100 billion dollars. They were generally confident with the quality of corporate governance in New Zealand, with around 46% of respondents agreeing that the standard is high. Most agreed, however, that there is still room to improve. There was some concern that smaller companies were less aware of good corporate governance practice and think that it only applies to larger businesses.

Confidence in NZ's corporate governance standards among institutional investors

When asked about their major areas of concern on implementation of the principles outlined in the handbook, the three most cited concerns were: board composition and performance, reporting and disclosure, and remuneration.

Key findings of disclosure review

In general, companies listed on the NZX published substantially more corporate governance information than unlisted companies. We encourage unlisted companies to consider improving their corporate governance disclosures where this would be useful to their shareholders or customers. In particular, we encourage newly licensed financial services companies to consider what corporate governance disclosures would be useful for their customers.

On average, listed companies disclosed 67% of all the information recommended by the handbook. There was a slightly lower level of disclosure (about 64%) for the recommendations that were newly introduced when the handbook was updated in 2014. Non-listed companies only disclosed, on average, 24% of all the information recommended by the handbook.

Of the nine principles outlined in our handbook, stakeholder interests had the lowest reporting (19%), followed by reporting on remuneration (37%). We encourage companies to improve their corporate governance reporting in these areas, and we have provided examples of good reporting.

Despite companies saying they have disclosures on codes of ethics, committee charters, remuneration and/or risk management policies, few make these disclosures publicly available. On average, companies only disclose 30% of this recommended information.

[4] Details from our survey of institutional investors will provide input for our Statement of Intent and our Strategic Risk Outlook to help prioritise our areas of focus. We will publish these documents separately.