

August 2016

Review of corporate governance disclosure

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Executive summary

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 principles² 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 companies³ 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.

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 investors⁴ 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.

Future focus

Transparent disclosures are an important aspect of good corporate governance. Many of the companies we reviewed provided clear and relevant disclosures. However, there is scope for New Zealand companies to improve their corporate governance policies, practices and disclosures. In particular, there is room for companies to improve how they provide information on shareholder relations and stakeholder interests to ensure investors and customers have clear information about the company.

All companies should think about their corporate governance practices. However, we are aware that it may take time for some smaller companies to achieve and report against all the principles. In the meantime, we think it would be helpful for smaller companies to keep their investors and stakeholders updated on the progress made towards observing and reporting on each principle.

We encourage unlisted financial services companies to review how they can improve their corporate governance practices, and increase disclosures where this would be useful to their shareholders or customers.

Like our international peers, we are committed to encouraging corporate governance best practice. We will continue to promote good corporate governance and may periodically review the corporate governance disclosures of companies as part of our monitoring programme.

We will also continue to work closely with the NZX on its review of corporate governance reporting requirements for listed companies. We support the objective of increasing consistency between different corporate governance reporting regimes. We will decide whether further changes are needed to the format of our handbook following the conclusion of the NZX's consultation processes.

We will continue to engage with other parties involved with corporate governance in New Zealand including the New Zealand Shareholders' Association, the Institute of Directors, and The New Zealand Corporate Governance Forum, to encourage consistency and high standards of corporate governance.

Findings by principle

Principle 1: Ethical standards

Directors should set high standards of ethical behaviour, model this behaviour, and hold management accountable for delivering these standards throughout the organisation.

On average, companies we reviewed provided 44% of the information recommended under principle 1.

- Two-thirds (67%) of companies we reviewed disclosed they had a written code of ethics, and almost half (48%) said they communicated their code of ethics to employees.
- Only 42% of companies published this document while only 30% of companies' code of ethics covered all matters recommended in the handbook's guidelines.
- Only one-third (33%) of companies disclosed information about a process for monitoring how they adhere to their code of ethics.

These results were markedly different for listed companies, which had an average of 62% disclosure of information recommended under principle 1. A total of 92% of listed companies disclosed that they had a written code of ethics, compared with only 22% of unlisted companies. Over three times as many listed companies (60%) communicated or published this document than unlisted companies (17%). One reason for this may be that NZX's Corporate Governance Best Practice Code requires companies listed on the main board and debt market to have a code of ethics.⁵

A total of 40% of listed companies disclosed that their code of ethics covered all the matters recommended in the refreshed guidelines. This figure is only 17% for unlisted companies.

Although it is more important that directors and management are seen by company employees to be modelling high standards of ethical behaviour, companies can improve transparency to shareholders and customers by publishing a code of conduct or code of ethics on their website. They can also explain how compliance with the code is brought to life within their companies and monitored.

Example: Process for dealing with breaches of the code of ethics

One company provided several ways of reporting suspected breaches, including a dedicated 'conduct' email address and direct email address to the chair of the audit and risk management committee. This could only be accessed by the chair, ensuring confidentiality. Providing direct access to an independent, non-executive director ensures people are not discouraged from reporting suspected breaches of the code by an employee or director. It also reflects that accountability for non-compliance applies across all tiers of the company. The board also reviewed the code on an annual basis, signalling that the company encouraged a culture of being able to speak up, and recognised the importance of promoting ethical behaviour and setting the 'tone from the top'.

⁵ The *Corporate Governance Best Practice Code* is Appendix 16 of NZX's Main Board/Debt Market Listing Rules available on the NZX's website. Although several questions in this review correspond to requirements under this code, levels of disclosure for listed companies may be less than 100%, as this figure includes companies listed on other NZX markets. Moreover, because this review measures disclosure, a company may have met the requirement in the code but not provided disclosure related to this.

Questions on principle 1	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
1. Do they disclose that a code of ethics (COE) exists?	96	22	67
2. Do they disclose that COE covers all matters outlined in the guidelines?	40	17	30
3. Is the COE published?	60	17	42
4. Is the COE communicated to employees?	68	18	48
5. Do they disclose a process for monitoring COE adherence?	48	11	33

Principle 2: Board composition and performance

To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.

On average, companies we reviewed provided 55% of the information recommended under principle 2.

- 81% disclosed they had a chief executive who was separate from the chair of the board. However, only half (50%) of the companies clearly demonstrated their chair was independent.
- 84% of companies provided disclosure about the experience of their board. However, only 39% showed that they trained their board, and only 39% mentioned a process for evaluating board performance.
- Just over half (52%) of the companies disclosed that they had a board charter.
- Only one-third (33%) of companies had written expectations of their non-executive directors.

Listed companies provided an average of nearly three-quarters (72%) of the information recommended under principle 2.

An effective board requires the right balance of capability and skills among its members. Because this can include considerations of gender, ethnicity, cultural background, age and specific relevant skills, it is difficult to assess whether a board can be considered balanced based on its disclosure. However, in general, listed companies' disclosures showed they tended to pay more attention to diversity when appointing board members compared with unlisted companies. This is likely due in part to NZX's Corporate Governance Best Practice Code for companies listed on its main board requiring a breakdown of the gender composition of the issuer's directors and officers. We support NZX's rules requiring reporting on gender diversity and also encourage reporting on other aspects of board and senior management diversity.

The majority (92%) of listed companies disclosed that they had a suitable test for board independence, that their chief executive was separate from their chair (96%)⁶, and provided details of their board’s experience (92%). However, only half (48%) of listed companies disclosed that they arranged board training or had written expectations of non-executive directors (50%).

The guidelines in the handbook include recommendations relating to suitable tests of director independence, succession planning and director tenure. Among listed companies, 92% report against the tests of director independence and 62% report against succession planning and director tenure. Only 25% and 13% of unlisted companies report against these respective guidelines.

Example: Transparency of board composition

One company provided information on its board composition and performance. The company included comprehensive documents about how the board operates, including definitions of independence, appointment policies on strategic priorities, set tenures, and a charter listing the board’s experience. The company has a dedicated section on its website providing information on:

- the board’s experience
- which of the group’s company/companies the board members sit on
- what other directorships the board members hold
- the terms of the directorship
- whether they are independent.

By making this type of information accessible and transparent, the company allows customers and investors to see that they take the board composition seriously. An emphasis on a balanced board can also add value to the company, with the diversity having a positive influence on decision-making.

Questions on principle 2	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
6. Is the board balanced?		See paragraph 7 above	
7. Do they disclose that a board charter exists?	73	22	52
8. Is there a suitable test of independence?	92	25	66
9. Is the chair independent?	77	11	50
10. Is the chair different from the CEO?	96	59	81

⁶ NZX’s Corporate Governance Best Practice Code (2.1) specifies that a director ‘should not simultaneously hold the positions of Chief Executive and chairman of the board of the same Issuer’. See note 4 for why figure may not be 100%.

11. Are board appointment procedures explained?	73	33	57
12. Are there written expectations of non-executive directors?	50	6	33
13. Is there disclosure of board training?	48	25	39
14. Is there a process for evaluating board performance?	58	11	39
15. Is board experience disclosed?	92	74	84
16. Is suitable succession planning and director tenure disclosed?	62	13	44

Principle 3: Board committees

The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

On average, companies we reviewed provided 56% of the information recommended under principle 3.

The guidelines put an emphasis on board committees, especially audit committees. Of the companies reviewed, 77% disclosed that they had an audit committee, including all the listed companies. Of companies that had audit committees:

- 82% had a chair that was different to the board chair
- 71% of the audit committees had a majority of independent members
- 71% disclosed that one of their members had accountancy experience
- 71% had only non-executive directors.

On audit committee proceedings and charters:

- 57% of companies disclosed that they had audit committees that reported proceedings back to their boards
- 44% of companies disclosed that they had a charter for all committees
- 27% published the charters and committee membership on a website.

These results are markedly different for listed companies, where 80% provided information based on principle 3's recommendations. In fact, principle 3 showed some of the largest disparities between listed and unlisted companies for disclosure. For example, 88% of listed companies had a majority of independent audit committee members, compared with only 13% of unlisted companies.

All listed companies reviewed had an audit committee⁷ and most provided disclosure based on all the recommendations we used to analyse principle 3 (with the exception of the publication of charters and committee membership on a website).

Example: Information on board committees

One company that provided information on board committees included a table on its website with the following information:

- members of each committee
- links to a description of each member's experience
- links to the governance documents of these committees.

Questions on principle 3	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
17. Do they disclose that there is a charter for all committees?	65	12	44
18. Are charter(s) and committee membership published on a website?	42	6	27
19. Do they disclose that committee proceedings are reported back to Board?	85	13	57
20. Is there an audit committee?	100	44	77
21. Is the audit committee made up of only non-executive directors?	81	19	57
22. Does the audit committee have a majority of independents?	88	13	60
23. Does one of the members of the audit committee have accountancy experience?	88	19	60
24. Is the audit committee chair different from the board chair?	85	35	65

⁷ NZX's Corporate Governance Best Practice Code (3.1 – 3.7) includes requirements for audit committees.

Principle 4: Reporting and disclosure

The board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures.

On average, companies we reviewed provided 64% of the information recommended under principle 4.

The key points on financial statement disclosures were:

- 60% of companies disclosed a process for ensuring quality, and 63% disclosed internal controls for the reliable reporting of financial statements
- 69% of companies explained their directors' responsibility for preparing financial statements (this was a new recommendation in the 2014 update of the handbook) and 88% of listed companies provided this disclosure
- 40% of companies said their financial statements were certified by a CEO and CFO
- 55% of those reviewed had governance documents available on their website.

On average, the listed companies reviewed provided 78% of the information recommended under principle 4 compared with 30% for unlisted companies. The majority of listed companies disclosed processes and internal controls for financial statements reporting. In total, 88% of listed companies explained the directors' responsibility for preparing financial statements, more than double the rate of unlisted companies (42%).

Example: Good disclosure of financial information

One company included a summary of its disclosures for each of the principles in its annual report. Its disclosure on the guidelines for 'Reporting and Disclosure' included a description of the role that the CEO and CFO play in certifying financial statements. They provided the board with written confirmation that the company's financial report presented a true and fair view of the company's financial position for the year, and that operational results met the relevant accounting standards.

The certification of financial statements by management means that investors and customers are able to have greater confidence that management, as well as the directors, are taking responsibility for the integrity and accuracy of the financial reporting.

Questions on principle 4	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
25. Is there a process for ensuring the quality of financial statements?	85	24	60
26. Are there internal controls for reliable financial statement reporting?	92	18	63
27. Is the directors' responsibility for preparing financial statements explained?	88	42	69
28. Are governance documents available	73	28	55

on a website?			
29. Are procedures for continuous disclosure regime disclosed (listed only)?	72	n/a	72
30. Are financial statements certified by CEO & CFO?	56	18	40

Principle 5: Remuneration

The remuneration of directors and executives should be transparent, fair and reasonable.

On average, companies we reviewed provided 37% of the information recommended under principle 5.

- 41% of companies disclosed that they had a remuneration policy, but only one in five companies (21%) published their policy
- 41% of companies disclosed that they made a distinction between executive and non-executive remuneration
- 31% of companies disclosed that their executive directors' remuneration was linked to company and individual results.

Listed companies provided a greater level of information (52%) on principle 5's recommendations against 14% for the unlisted companies.

The guidelines recommend transparency on the link between director remuneration and company results. Only 42% of listed companies provided this transparency compared with 13% of unlisted companies.

About 65% of listed companies disclosed that they had a remuneration committee. This is a new recommendation under the refreshed 2014 version of the handbook aimed at improving transparency in remuneration.

Example: Disclosing how remuneration is set

One company provided information for each of the recommendations on remuneration. It provided separate corporate governance documents for non-executive directors' remuneration and employees' remuneration. The latter clearly laid out the different components of the total remuneration. By making this information public, stakeholders are able to understand the incentives that exist for executives and non-executive directors and how these relate to the company's performance.

Questions on principle 5	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
31. Do they disclose that a remuneration policy exists?	58	17	41
32. Is a remuneration policy published?	31	6	21
33. Is distinction made between executive and non-executive remuneration?	64	6	41
34. Is executive director remuneration linked to company and individual performance?	42	13	31
35. Does a remuneration committee exist?	65	29	51

Principle 6: Risk management

Directors should have a sound understanding of the key risks faced by the business. The board should regularly verify that the entity has appropriate processes that identify and manage potential and relevant risks.

On average, companies we reviewed provided 50% of the information recommended under principle 6.

- 58% of companies disclosed that they had a risk management policy—a new guideline in the 2014 version of the handbook
- 57% of companies disclosed that their board regularly reviewed risk reports
- 36% of companies had risk management strategies that were reported at least annually to investors or stakeholders by the board.

Listed companies tended to disclose much more information about risk management than their unlisted counterparts, with 69% of listed companies mentioning a risk management policy, and 77% disclosing that their boards regularly reviewed risk reports.

Example: Explaining risk management policy

One company that provided information on risk management used a number of channels to provide easy-to-find and transparent information such as:

- a dedicated section on its website for corporate governance documents including a corporate governance statement and the policy for managing risks
- information about the roles and responsibilities of the audit and risk management committee in the corporate governance statement
- corporate governance disclosures, including risk factors, in the annual report as well as on its website.

This is an active way to ensure that customers and investors have easy access to information about risk management which helps them understand the key risks faced by the business and the company's approach to managing risk.

Questions on principle 6	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
36. Do they disclose that a risk management policy exists?	69	42	58
37. Does the board regularly review risk reports?	77	28	57
38. Does the board report annually on its risk management strategy?	46	22	36

Principle 7: Auditors

The board should ensure the quality and independence of the external audit process.

On average, companies we reviewed disclosed 59% of the information recommended under principle 7. This is relatively low considering 77% of companies had an audit committee.

A total of 79% of the companies reviewed reported the fees paid to their auditor.

Half of the companies reviewed (51%) disclosed that they paid auditors for non-audit services, and 78% of these companies had an explanation of the non-audit work undertaken. In our view it is important that companies and auditors consider threats to independence when non-audit services are provided.⁸ It may be useful to explain to shareholders and investors how the audit committee has challenged auditors on the safeguards they have in place to protect their independence, especially when non-audit fees are high, relative to the audit fee.

⁸ See the 'Audit Quality Annual Review' available on the FMA's website - <https://fma.govt.nz/assets/Reports/151130-Audit-Quality-annual-review-2015.pdf>

Of all companies reviewed:

- 75% confirmed that their auditor was independent
- 59% disclosed a suitable level of interaction between the audit committee and auditors
- 41% explained their auditor’s quality controls
- 38% reported that they had a maximum term for their auditors.

Almost all (96%) of the listed companies reviewed reported on fees paid to auditors (compared with just over half (53%) of unlisted companies). The largest disparity between listed and unlisted companies was in their disclosure of suitable levels of interaction between the audit committee and auditors. A total of 81% of listed companies disclosed information about this interaction compared with only 28% of unlisted companies.

Just over half (54%) of listed companies explained the controls they have in place to ensure the quality of their audits—this was a recommendation that was introduced when the handbook was refreshed in 2014.

Example: Improving the audit reporting process

One company went beyond the disclosure recommended in each guideline. The company included an ‘Auditors’ section in its annual report which detailed the processes for ensuring auditor quality and independence. Information provided included:

- a detailed breakdown of all work performed by the auditor
- provisions for non-audit work to be completed by another firm to ensure independence
- a semi-annual independence report by the auditor
- a policy for rotating lead audit partners.

This work strengthens the confidence that customers and shareholders have in the audited financial statements provided by the company. Auditors of FMC reporting entities will soon be required to provide more detail about the key audit matters addressed in their audit⁹ which should also help improve the information available for customers and shareholders.

Questions on principle 7	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
39. Is auditor independence confirmed?	85	61	75
40. Is a suitable level of interaction between the audit committee and auditor disclosed?	81	28	59
41. Is a maximum term of auditors disclosed?	52	13	38

⁹ See the ‘Auditor regulation and oversight plan 2016-2019’ available on the FMA’s website - http://fma.govt.nz/assets/Reports/_versions/8900/Auditor-regulation-and-oversight-plan-2016.1.pdf

42. Are auditor quality controls explained?	54	22	41
43. Is there a report of fees paid to auditor?	96	53	79
44. Is there an explanation of non-audit work undertaken?	71	40	59

Principle 8: Shareholder relations

The board should foster constructive relationships with shareholders that encourage them to engage with the entity.

On average, companies we reviewed provided 46% of the information recommended under principle 8.

Nearly three-quarters (73%) of the companies we reviewed had business descriptions and information on business goals and performance on their websites, and 72% of listed companies provided copies of the information released through NZX on their websites.

Companies we reviewed appeared to face challenges with disclosures on shareholder information:

- only one-quarter of companies (26%) disclosed that they had a shareholder relations policy
- one-fifth of companies (21%) published a shareholder relations policy
- 38% of companies disclosed steps explaining how to participate at shareholder meetings.

Example: Helping investors connect with the company

One company maintained a dedicated investor relations centre on its website. This meant that shareholders were able to find information, including:

- key dates in the investor schedule such as the company's annual general meeting, financial statements release dates, planned announcements or updates
- all key governance documents and policies
- all announcements and releases made by the company through NZX or the general media
- contact details for investor matters.

By providing this type of information in an easy-to-access format, shareholders are better able to engage with the company. It helps them understand the governance structures in place, how they can have their say on important issues and connect with the company directly.

Questions on principle 8	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
45. Do they disclose that a shareholder relations policy exists?	31	17	26
46. Do they publish a shareholder relations policy?	27	8	21
47. Does a website contain info on business description, goals, performance, etc?	81	61	73
48. Does a website contain information released to the stock exchange (listed only)?	72	n/a	72
49. Are steps for participation at meetings disclosed?	50	9	38

Principle 9: Stakeholder interests

The board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

On average, companies provided 19% of the information recommended under principle 9— the lowest level among the nine principles. Only 22% of companies disclosed that they had a stakeholder policy, and only 16% of companies said their boards assessed adherence to a stakeholder policy.

The low level of disclosure for this principle is also evident among listed companies where, on average, only 28% of the recommended information under principle 9 was disclosed. We encourage companies to think about their interactions with stakeholders including employees, creditors, customers and suppliers. The contributions of these stakeholders play an integral part in building competitive and profitable companies. Providing clear disclosure on how stakeholder interests are managed can be in the long-term interest of companies.

Example: Identifying stakeholders and how the company interacts with them

Companies may start by identifying their stakeholders and publishing clear policies explaining how they approach their relationships with significant stakeholders. Boards should regularly assess compliance with these policies to ensure that their conduct towards stakeholders complies with the company's code of ethics and the law and is within broadly accepted social, environmental, and ethical norms—generally subject to the interests of shareholders. By considering a company's impact on stakeholders Boards can help avoid negative public sentiment and contribute towards a sustainable long-term business strategy.

Questions on principle 9	% of listed companies who disclosed	% of unlisted companies who disclosed	% of all reviewed companies who disclosed
50. Do they disclose that a stakeholder policy exists?	31	11	22
51. Does the board assess adherence to a stakeholder policy?	24	6	16

Appendix 1: How we compiled this review

We reviewed the disclosures of 45 companies with balance dates ranging from 31 March 2015 to 31 March 2016. Of these, 26 had securities listed on an NZX exchange¹⁰ and 19 were unlisted companies selected from the Financial Service Provider Register (FSPR).

Good corporate governance by listed companies is an important contributor to transparency and efficiency in the capital markets. Moreover, the FSPR includes many companies that have economic impact in New Zealand. This includes companies licensed to provide specific financial services. We expect the boards of these licensees to observe high standards of corporate governance and we encourage all companies to apply good corporate governance that fits their size and business structure.

The listed companies were selected to provide a cross-section of companies. The unlisted companies were selected from the FSPR.

A full list of the companies reviewed is included in Appendix 3.

For the purpose of simplicity, we have looked at reporting against the principles both in annual reports and on company websites. Our handbook recognises that the investors and customers are rapidly changing how they access and receive their information. We acknowledge that shareholders may receive this information through means not accessible to us at the time of our review. However, what we find within annual reports and company websites is a good indicator of a company's focus on corporate governance.

The review measured corporate governance disclosures by assessing the information against specific questions related to the recommendations in the handbook's guidelines and commentary. These questions are found in the relevant sections of this report. Even though our handbook does not require companies to report specifically against the detail in every guideline, this methodology gives an overall impression of whether a company is focused on the corporate governance principles.

Companies reviewed by industry

As the unlisted companies were selected from the FSPR, the majority (53%) of all companies reviewed were from the financial industry.

Of the companies reviewed, 18% were consumer discretionary companies, and 9% were information technology. The remaining companies were from a mix of industries: materials, consumer staples, utilities, healthcare, industrials and telecommunication services.

Listed companies were more evenly spread across industries. One-quarter (27%) of the listed companies we reviewed were from the financial industry, equal with consumer discretionary. This was followed by information technology, utilities, consumer staples, materials, telecommunication services, industrials and healthcare.

¹⁰ Either NZX, NZAX (alternative market), NZDX (debt market) or NXT (market for smaller companies).

Industry	Listed		Unlisted		Total	
	% of listed companies	# of listed companies	% of unlisted companies	# of unlisted companies	% of all reviewed companies	# of all reviewed companies
Financial	27	7	89	17	53	24
Consumer discretionary	27	7	5	1	18	8
Information technology	15	4	-	-	9	4
Utilities	8	2	-	-	4	2
Materials	4	1	5	1	4	2
Consumer staples	8	2	-	-	4	2
Telecommunication services	4	1	-	-	2	1
Industrials	4	1	-	-	2	1
Healthcare	4	1	-	-	2	1
Total	100¹¹	26	100	19	100	45

¹¹ Due to the effect of rounding, the percentages in the table may not add up to 100.

Appendix 2: Our principles for corporate governance

1. **Ethical standards:** Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for delivering these standards throughout the organisation.
2. **Board composition and performance:** To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.
3. **Board committees:** The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility
4. **Reporting and disclosure:** The board should demand integrity in financial reporting and in the timeliness and balance of corporate disclosures.
5. **Remuneration:** The remuneration of directors and executives should be transparent, fair and reasonable.
6. **Risk management:** Directors should have a sound understanding of the key risks faced by the business, and should regularly verify there are appropriate processes to identify and manage these.
7. **Auditors:** The board should ensure the quality and independence of the external audit process.
8. **Shareholder relations:** The board should foster constructive relationships with shareholders that encourage them to engage with the entity.
9. **Stakeholder interests:** The board should respect the interests of stakeholders, taking into account the entity's ownership type and its fundamental purpose.

Appendix 3: List of companies reviewed

104 Victoria Street Limited	Kiwibank Limited
AFT Pharmaceuticals Limited	Livestock Improvement Corporation Limited
AMP Investment Management (N.Z) Limited	Medical Insurance Society Limited
ASB Bank Limited	Nikko Asset Management New Zealand Limited
BLIS Technologies Limited	Geneva Finance Limited
Broken Hill Prospecting Limited	Oyster Property Group Limited
Capricorn Society Limited	Pacific Financial Derivatives Limited
CBL Corporation Limited	Pumpkin Patch Limited
Chatham Rock Phosphate Limited	SkyCity Entertainment Group Limited
Currey Financial Services Limited	Smartpay Holdings Limited
Dealer Finance Limited	Smiths City Group Limited
Devon Funds Management Limited	Snakk Media Limited
Eagle Finance Limited	Spark New Zealand Limited
Energy Mad Limited	Squirrel Money Limited
Farmlands Cooperative Society Limited	Synlait Milk Limited
Gareth Morgan Investments Limited Partnership	Trade Me Limited
Geneva Finance Limited	TSB Bank Limited
Harmony Limited	Veritas Limited
Henderson Far East Income Limited	Vital Healthcare Property Limited
Horizon Energy Limited	The Warehouse Group Limited
Infratil Limited	Westpac Banking Corporation
Intueri Education Group Limited	Whai Rawa Fund Limited
Just Water International Limited	Windflow Technology Limited

Appendix 4: Glossary

Board	The governing body of a company.
Company	A company registered under the Companies Act 1993.
Entity	Any business governed by a board that is accountable to investors and/or stakeholders. It includes companies registered under the Companies Act 1993, all issuers of securities, unit trusts and other collective investment schemes, and state-owned enterprises, as well as many statutory bodies in the public sector.
Executive	Employees of a company who report to the board of the company or to the Chief Executive Officer (CEO).
Executive director	A director who is an employee of the company.
Independent director	A director who is not an employee of the company, who does not represent a substantial shareholder, and has no other direct or indirect interest or relationship that could reasonably influence his/her judgment and decision making as a director.
Non-executive director	A director who is not an employee of the company.
Shareholder	A person who owns shares in a listed or unlisted company, or a person who owns an interest in a collective investment scheme; this person also has rights (similar to those of a shareholder in a company) to participate in the assets of the company on winding up, and to vote on some company issues.
Stakeholder	Refers to any person or group, other than shareholders, who is affected by the affairs of the company.