ASA VOTING AND ENGAGEMENT GUIDELINES FOR ASX 200 COMPANIES

Updated 20 May 2024

Introduction

The voting and engagement guidelines of the Australian Shareholders' Association (ASA) have been developed as a basis for representing the interests and objectives of Australia's more than six million retail investors in the share market.

ASA is a member of the ASX Corporate Governance Council and generally agrees with its Principles and Recommendations. We expect listed companies to abide by the letter and spirit of the ASX Listing Rules, common law and statute, and in particular, the Corporations Law and associated legislation which underline the common principles of accountability, transparency, fairness and responsibility. We expect companies to engage fairly in all aspects of their operations.

ASA policies act as a tool for assessing the existence of effective corporate governance, where its absence may signal increased risks for all stakeholders, including employees, customers, debt holders and investors. ASA is focused on the performance and governance of S&P/ASX200 companies, but our policies may be interpreted for other listed companies and managed funds.

In terms of board governance, ASA is interested in the workload, remuneration, skills and performance of directors. In addition, ASA acknowledges the importance of engaging, retaining and rewarding effective management, which is entrusted with safeguarding and creating shareholder value. ASA expects that the risk-takers in a company (including debt and equity investors) are rewarded fairly, with a direct link between company performance and reward to shareholders. Where a company is unable to establish a direct link (through corporate profitability, share price and dividend performance, achieved in a socially responsible manner) and the reward to management and boards through remuneration, ASA will question the entity's corporate governance.

Contents

PART A: GOVERNANCE AND TRANSPARENCY

PART B: EXECUTIVE REMUNERATION

PART C: CAPITAL MANAGEMENT

PART A: GOVERNANCE AND TRANSPARENCY

1. Companies to observe good governance

Retail shareholders expect the companies in which they invest to operate in a fair manner with respect to all stakeholders, observing the spirit of legislation, rules, regulations and reflecting the impact of their mode of operation on the economy and community in which they operate.

2. Composition of boards

2.1 Majority of directors and chair to be independent

A majority of the board should be genuinely independent directors. Strict independence criteria includes issues such as tenure, associations and related party transactions. Where there is not a clear majority of independent directors, ASA may oppose the re-election of directors classified as "not independent". ASA is generally opposed to boards having more than one executive director. The chair should be an independent director. ASA does not support the appointment of an executive chair, but recognizes the practice occasionally occurs with founders or majority shareholders. A director should ideally serve on a board for at least one year before assuming the chair role and should not serve more than 10 years as chair, subject to exceptional circumstances. When a chair steps down, he/she should resign from the board completely so that the incoming chair has a clear run at any legacy issues.

2.2 CEO transition to non-executive role

A former CEO should not return to the board as a non-executive director, although where there has been exceptional performance this may be considered after a suitable "cooling off period" to allow the new CEO to settle in. A former executive who returns to the board will not be considered independent until after at least a three-year break. If they return to the board earlier than 3 years, they will not be classified as independent.

2.3 Board diversity

The board should be structured to produce a diversity of thought and avoid groupthink. Board composition should be representative of the population, its workforce, customers and region. They should avoid homogeneity of director's geography, ethnicity, age and industry. Boards should provide sufficient information to allow shareholders to assess diversity.[1] .At least 40% of the board should consist of female directors, and at least 40% male directors. Companies should disclose in each annual report the proportion of female employees, senior executives and directors and the steps they take to attain/maintain diversity within their ranks.

3. Reaching a voting recommendation on director elections

ASX-listed companies should provide appropriate information to shareholders to facilitate their decision making on director elections[1]. The website profiles of directors should include all relevant information such as professional background, qualifications, date of appointment to board, when last elected, city of residence, any committee positions, all other directorships held, past directorships of ASX listed companies and the size of any shareholding. When a director is up for election, these details should also be included in the formal notice of meeting.

3.01 Board skills matrix

Companies should disclose a meaningful board skills matrix which highlights the specific skills and competencies needed on the board, and how they align with the company's business and strategy.

[1] ASX Corporate Governance Council Corporate Governance Principles and Recommendations 4th Ed. Recommendation 1.2(b) covers reporting to allow assessment of diversity

The matrix should disclose the directors' assessed skills and competencies and the detail of how this has been established for each director. Each director should bring a particular skillset to a board, but boards should also have more than one director with direct relevant industry experience. The board skills matrix can help the board and shareholders identify any gaps in its collective skills, as well as enhancing shareholder confidence in determining how to vote on director election and re-election.

3.02 Director performance elsewhere to impact election/re-election

Where a director is nominated for (re-)election, we will refer to the performance of their past and current portfolio of board seats when determining the voting intention. Two poorly performing companies or one company that has received a second strike on the remuneration report would lead to an "against" vote subject to the specific circumstances.

Where a chair or CEO of a company included in the S&P/ASX200 Index has been associated with a demonstrable failure to remedy poor performance over a sustained period, ASA will oppose the director's re-election at that company. Further ASA will oppose the chair and/or the CEO's election /re-election at any other un-related companies in the future.

3.03 Directors to speak to their nomination at AGM

Directors up for election should speak to their nomination at the AGM and be prepared to engage with shareholders leading up to the AGM. The chair should encourage director candidates to answer any relevant questions at the AGM.

3.04 Board evaluation

Companies should disclose the process for evaluating the performance of the board, its committees and individual directors, including the chair, and disclose for each reporting period whether a performance evaluation has been undertaken in accordance with that process. When a director unexpectedly resigns, the company should include the reasons in the ASX announcement.

3.05 Tenure limits

Companies should voluntarily adhere to tenure limits of no more than 12 years for independent directors and this should be formalised in board protocols and disclosed. Whilst ASA will not automatically vote against a long-serving director, we will not classify them as "independent" after 12 years of service and we will encourage companies to maintain a majority of independent directors.

3.06 Board size

Boards should be large enough to have the diversity and skills required to direct the company, and of a size that facilitates effective decision making.

3.07 Selection process

In the recruitment of new directors, the chair, along with the nomination committee, should be able to demonstrate a transparent and independent process for the selection and appointment of new independent directors. ASA discourages mechanisms by companies which serve to reduce the ability of external, non-board endorsed nominees from being elected to the board.

3.08 Workload of non-executive directors

ASA considers directors need to ensure they have sufficient time to carry out their roles especially at times of crisis whether that crisis is specific to a company or to the broader economy. For this reason, we limit our support to a director sitting on five separate and un-related listed company boards. A chair role is assessed as the equivalent of serving on two boards. Any director who chairs two public companies should, at most, serve only on one additional board. When assessing the workload of a director, government or not-for-profit positions will also be considered, as will private company ownership or management roles. For the purpose of assessing director workloads, ASA will normally treat a paid role as a director of a government, semi-government or not-for-profit organisation as the equivalent of one directorship.

3.09 Outside directorships for executives

Executive directors of ASX200 companies should not serve on a S&P/ASX200 board that is unrelated to her or his executive role.

3.10 Directors transitioning to an executive role

ASA acknowledges there are times when a professional director is recruited into an executive role. If it is only in an acting capacity for a short period of time, multiple other directorships can be retained. If it is a permanent appointment, no more than one un-related non-executive directorship should be retained.

4. Board duty of care regarding risk management and communication to shareholders

The Corporations Act requires a listed entity include in the operating and financial review in its directors' report, a discussion of the main internal and external risks which could adversely affect the entity's prospects in future financial years. Boards should provide shareholders with an easily understandable explanation of their assessment of risk and the implications of any risks to the business.

4.1 Continuous disclosure

Companies should structure information releases required by law in plain English with adequate explanation of complex concepts, with a view to increasing the understanding of a greater number of shareholders.

4.2 Environmental, Social and Governance (ESG) risks

Companies should disclose meaningful information in relation to any ESG issues or risks facing their business and the processes in place to manage those issues/risks using a recognised standard such as Task Force on Climate-related Financial Disclosures or Global Reporting Initiative in the annual report or in a separate sustainability report. The level of disclosure ASA expects to see will depend on the company's specific circumstances, regulatory requirements, industry best practice and any relevant stakeholder behaviours or concerns.

5. Auditor rotation and performance

ASA believes good corporate governance mandates that audit firms should be changed periodically. There should be a competitive tender for the external audit every 10 years or sooner where audited accounts have been shown to be deficient, inaccurate and in breach of the accounting standards. The date of the most recent tender should be disclosed in the annual report.

6. NED remuneration, including board and committee fees

The fee cap for a company should be appropriate for the size, complexity, geographic spread, lifecycle and skill-requirements of a board. The level of current shareholder approved fee pool and any proposed or actual increases in individual director fees for the current year should be disclosed in the remuneration report, as should any proposed or actual increases in individual director fees for the current year. Where a company's market capitalisation has substantially decreased, ASA would expect that individual director fees are reduced accordingly.

7. Minimum shareholding requirement for KMP

ASA believes that companies should have a minimum shareholding for key management personnel and non-executive directors, to give alignment with shareholders through a meaningful equity investment in the company. Non-executive directors should not receive options or performance rights but can be paid board fees in the form of shares, preferably purchased on market, in lieu of cash. After three years on a board, a director should own or have invested at least one year's worth of base cash fees in the company's ordinary shares. Where they do not, and it appears they will not, ASA will vote open proxies "against" the director's re-election. There should be no equity ownership requirement for board candidates before they are elected as a director or appointed to fill a casual vacancy.

Executive Key Management Personnel should be encouraged to have a meaningful equity investment in the company as this promotes the alignment between executive and shareholder interests. As a guideline, the CEO should own or have invested a minimum of 100% of his or her fixed annual remuneration (including vested incentive awards but excluding any unvested awards) in the company's shares after five years of their appointment, with lower shareholding levels applying to the other executive KMP.

8. Board responsibility for political donations

ASA is opposed to cash donations and political contributions by companies out of shareholder funds. All listed companies should clearly disclose in their annual report any political expenditure, whether by cash donation, annual subscription or a fee for attending a political function. The company's policy on political contributions should also be available on the company's website with minimal delay.

9. "Say on Climate" resolutions

These resolutions have been proposed by a number of companies where climate risk has been identified as material. They are non-binding on the company but allow shareholders to voice concerns about whether a company's Climate Action Policy meets the expectations of shareholders. There is debate about whether the resolutions should be put to shareholders annually or tri-annually. ASA supports annual resolutions until such time as the sustainability standards and reporting reach maturity and change year on year is minimal. ASA Company Monitors will review disclosures to determine they appear clear, balanced and understandable, consistent over time and provided on a timely basis, as well as reliable, verifiable and objective. We will look for a just/fair transition, with corporate impacts on employees, communities and other stakeholders taken into account in the transition strategy and planning.

10. Changes to constitution

While most proposed changes to constitutions are non-controversial, we will vote against proposed changes where we see a potential lessening of shareholders' rights.

10.1 Virtual-only shareholder meetings

ASA will vote against a change to a company's constitution that enables the holding of virtual-only shareholder meetings. Our preferred format is a hybrid meeting.

10.2 Board size

We do not support a constitutional maximum number of directors, believing shareholders should have the flexibility to appoint an additional director without having to remove existing directors. We will not support resolutions seeking shareholder approval to enact a no-vacancy rule (where a company establishes a limit that is less than the maximum number of directors specified in the company constitution).

11. Importance of annual report to retail shareholders

Retail shareholders perceive the annual report to be a snapshot of the company that directors have agreed to be representative and audited to assert it is appropriately presented. The annual report should be written in plain English and laid out in a way which enhances retail shareholders understanding of the company and its financial data. As is required by law, shareholders should be able to select whether they receive the annual report and other shareholder communications by post or electronically. Shareholders should be given a written option, complete with a reply-paid envelope, to opt to receive the full annual report by mail.

The history of financial performance is a critical element of the annual report. Shareholders expect annual reports to include a table showing a 5-year history that will enable them to assess the financial performance, position, financing and investing policies of the company. This should be included in the first section of the annual report or be listed in the table of contents as a separate item, with a reference to the information required to be included in the remuneration report by s300A (1AA) and S300A (1AB) of the Corporations Act.

PART B: EXECUTIVE REMUNERATION

Reaching a voting recommendation on the remuneration report

A major part of the production of the Voting Intention report is for the monitor to reach a decision on whether to vote **For** or **Against** the remuneration report, with the focus on the CEO's package. Very occasionally a monitor may be undecided and require more information following the pre-AGM meeting, and question the Chair at the AGM to provide more detail before making a final voting decision based upon the response.

This section is numbered sections from 12 to 14 and consists of the guidelines that have been agreed and refined over the years as a means of reaching a decision on how to vote. Where a company does not comply with all the guidelines, a decision will be made based upon the degree of compliance. The financial results of the company will be compared with the remuneration outcome and a poor result is expected to be reflected in the remuneration result. However, a good trading result does not necessarily mean a **For** vote, a poorly constructed remuneration scheme will not be condoned simply because recent financial results are good.

12. Remuneration report

A remuneration report should be readable, transparent and understandable for investors. The most important element of any remuneration structure is to attract and retain superior executive talent which operates in an environment with long-term financial alignment with shareholders. ASA expects financial performance, corporate governance, shareholder reward and executive remuneration to have a logical relationship. The overall balance of an executive package will differ from company to company and ASA monitors take into account company specific arrangements when preparing our voting intention reports.

13. CEO remuneration

The CEO should have the largest component of at risk pay amongst the key management personnel. Salaries may rise with market capitalisation, but the industry, financial performance, size, competitiveness and complexity of a company's operations should be key determinants.

13.1 Directors and executives to exercise restraint

Bonuses, that is variable pay associated with performance beyond published target levels, should only accrue if there has been financial out-performance coupled with good corporate governance. Where the CEO contract appears to be overly generous, ASA will be unlikely to vote for the remuneration report at the next AGM. Further, ASA will also take structure of the contract into account when considering the next director re-election resolution for the Chair of the Remuneration Committee.

13.2 Board to seek shareholder approval for equity grant annually

Companies should seek shareholder approval on an annual basis for granting securities to the Managing Director and any other executive director under a share incentive scheme, whether or not the company intends to purchase the shares on market, or it qualifies for an exception from the ASX Listing Rule requirement. The exception applies on issuing shares to directors, where the terms of the scheme permit such purchases, and the scheme has been approved by shareholders within the three years prior to the issue. ASA considers an annual resolution provides greater certainty to shareholders regarding the size and nature of the equity grant being approved.

13.3 Structure

From the shareholder's point of view the long-term incentive (LTI) is the most important component of any remuneration package.

ASA requires remuneration structures to include for ongoing employment:

- At least 50% of a CEO's total potential pay to be genuinely at risk, primarily through the LTI;
- No use of retention payments or incentive awards which are subject only to continuing service;
- Hurdles or measures to be met on average or cumulatively over a period of preferably at least four to five years;
- No "re-testing" where measures are not met;
- Target short-term incentive (STI) opportunity not exceeding the CEO's fixed remuneration;
- At least 50% of any STI award should be paid in equity with a minimum 12 month holding lock;
- Payment of any dividend benefit associated with performance rights to be deferred or locked up until the share has vested and that share is unconditionally available to the executive;
- No sign-on benefits for newly hired executives, and where compensation is paid for foregone incentive payments, it should be structured as deferred equity-based payments that vest upon meeting three to five year performance hurdles.
- Number of performance rights allocated to be calculated using face value or current share price (calculated using volume weighted average share price (VWAP)), with no discount for the value of anticipated dividends paid during the performance period[2]; and
- Company-funded loans provided to allow executives to buy shares that are non-recourse, interest free or interest-forgiving in the face of poor performance will be viewed negatively when considering how to vote on remuneration reports and the issue of shares or rights.

As the company matures, we expect they will move away from using options in their incentive schemes. We acknowledge the equity-based rewards for companies at an early stage of evolution may comprise options, which being unlisted will be valued using fair value methodology. Boards should be mindful of the potential for windfall gains and consider how to cap excessive awards.

ASA requires remuneration structures to include for termination of ongoing employment:

- No ex-gratia payments to departing executives over and above their contractual entitlements on termination;
- No termination benefits exceeding the 12 months fixed pay Corporations Act requirement beyond vested incentive awards where we have been supportive of the remuneration arrangements;
- Notice periods for senior executives not to exceed six months after initial two to three years of appointment;
- Any pro-rata payments to departing executives for unvested long-term incentive schemes to be clearly disclosed as termination benefits;
- No automatic full vesting of incentive schemes in a takeover or "change of control" event, we prefer pro-rata vesting of past rewards and will accept limited board discretion where appropriate;
- No termination agreements that include lengthy consultation contract periods that appear designed to side-step the requirements relating to termination payments.

[2] No use of 'fair value' discounting methods to calculate inflated number of performance rights to be issued

13.4 Performance measures

All hurdles including non-financial hurdles, should be specific, measurable and relevant. Disclosures should clearly make the link to driving appropriate culture or cultural change, operational performance and the implementation of the company's strategy apparent to all shareholders.

For short term incentives (STIs):

- A majority of STIs should be based on quantifiable performance metrics, or measures that are clearly tied to the executive driving company to meet strategic goals;
- STIs should not be paid beyond target remuneration levels unless a financial gateway is met.

For long term incentives (LTIs), ASA requires companies to:

- Have at least two hurdles for an LTI scheme;
- Use different hurdles in the LTI plan than the hurdles used in the STI plan;
- Limit non-financial metrics in an LTI scheme to 50% of the award;
- Measure performance for more than three years, and preferably four or more;
- Apply specified hurdles in the year of vesting;
- Avoid structures that deliver excessive awards in a single measurement period as they are less likely to encourage out-performance and may encourage excessive risk taking;
- Have one hurdle based on Total Shareholder Return (TSR), which reflects share price performance plus dividends paid over the performance period of preferably at least 4 years;
- Apply any absolute TSR measure to a maximum of 50% of the LTI award;
- Not pay out-performance bonuses if TSR is negative in nominal terms whether relative TSR or absolute TSR is the measure;
- When measuring relative TSR, include comparator companies from similar industries or a specific index such as Financial Services or Resources. Any comparator group should include key competitors and at least five companies, including relevant companies listed on foreign exchanges;
- Show graphically the company's TSR performance as against the comparator group(s) in the remuneration report.

ASA prefers LTI awards based on a relative TSR hurdle should not vest unless performance is above the 50th percentile of the peer group over a minimum 4-year period. Our preferred position is 30% vesting at the 51st percentile, rising in a straight line to 100% vesting at the 85th percentile.

13.5 Other potential performance measures

A return on assets (ROA) measure may be suitable for some companies, such as banks. However, it needs to be assessed in conjunction with other risk ratios, such as those for credit, interest rate margins, liquidity, foreign exchange and off-balance sheet exposures;
Return on capital employed (ROCE) is suitable for some sectors such as real estate trusts or for divisional executives in conglomerate structures, but the composition of the return if it includes revaluations from equity accounted investments should be adjusted to reflect that such revaluations may not be realised;

A return on equity (ROE) target can be appropriate where it can be demonstrated that the target hasn't been achieved by excessive gearing, or by a capital restructuring (i.e. share buyback). If this measure is chosen it should be absolute, not relative, in view of the many different capital structures across companies;

An appropriate cash flow metric may be used where cash generation is the best sign of business success;
Where earnings per share (EPS) is a performance metric/hurdle for a CEO's incentive plan, ASA requires calculation of EPS to include negative items such as write-downs and restructuring costs which often arise from implementation of strategic initiatives. While "underlying" or "normalised" profit may measure improvements to the ongoing businesses, shareholders lose real money with write-downs and restructuring costs and other one-off items, whether the losses arise in the current year or from investment decisions in previous years, so these should not be excluded from any bonus calculation.

13.6 Disclosure

The CEO's actual take-home remuneration as well as the target and maximum opportunity for each component of the CEO's total remuneration should be clearly disclosed.

A company should clearly communicate to shareholders where a CEO is expected to be paid a portion of variable pay as well as the fixed remuneration for meeting budget (often referred to as target remuneration).

ASA expects clear disclosure of the performance hurdles and the weightings applied for each key executive. The remuneration report should set out individual outcomes for the year as measured against each metric and explain any board discretions applied, so that shareholders are able to understand the reasons for payments made. Where disclosing the measures at the commencement of the year is commercially sensitive, they must be specified at the end of the year.

The methodology to calculate the number of performance rights to be issued under an LTI plan needs to be clearly explained and easily understood by shareholders, as should the outcome of consideration of the potential for any windfall gains on vesting. Additional attention to clarity is required when options are used in a LTI, given their complexity and the potential to produce an excessive reward.

14. Voting in relation to the "two strikes" regime board spill

ASA's position regarding a vote on a board spill will be determined by the willingness of a board to accept the need for review and change to remuneration structures and their application after the company receives a first strike (25% or more of the voted shares) against the remuneration report. ASA expects the company will engage with shareholders to secure improvements in the following year and disclose how they have determined the changes meet the company's needs and shareholder expectations.

ASA regards the decision to vote in favour of a board spill after a second strike to be a serious step, with a successful spill likely to be highly disruptive for a company. We are unlikely to support a board spill where a board has responded appropriately to shareholders dissatisfaction with the previous remuneration practice.

PART C: CAPITAL MANAGEMENT

15. Treating all shareholders equitably

When raising capital, devising dividend policy or considering other capital management issues such as buybacks, directors must always strive to treat shareholders as equitably as possible. This includes minority shareholders, retail investors, institutions, directors, executives, staff and foreign investors.

15.1 Renounceable pro-rata entitlement offers

ASA prefers renounceable pro-rata entitlement offers as this method treats all shareholders equally. It compensates non-participants and avoids any dilution for investors who choose to participate. ASA supports companies raising capital by way of a Pro-rata Accelerated Institutional, Tradeable Renounceable Entitlement Offer (PAITREO) structure. Market evidence has demonstrated reduced differential outcomes in the institutional and retail bookbuilds when retail investors are given the opportunity to trade their rights on the ASX. The reduced size of a retail bookbuild at the conclusion of an offer also delivers lower underwriting costs for issuers.

15.2 Non-renounceable entitlement offers

If an entitlement offer is non-renounceable, retail investors should be able to make unlimited applications for “overs” or “additional shares” to take up any lapsed entitlements from other retail investors. This facility minimises the dilution of retail shareholders as a class.

15.3 Selective placements

ASA is opposed to selective institutional placements as these do not respect the property rights of existing shareholders to retain their proportional stake in the company. The reason for any placement should be clearly explained to retail investors. The introduction of a new strategic cornerstone investor can be secured through a placement, but only if there is a compelling commercial argument and it doesn’t remove the ability of shareholders to receive a change of control premium in the future.

ASA will generally vote against resolutions put up by companies which seek to refresh the 15% placement capacity in any 12 month period, except where the resolution relates to securities issued as part of an executive incentive scheme supported by the ASA, a capital raising conducted in conjunction with a renounceable rights issue or PAITREO or included a Share Purchase Plan (SPP) on the same or better terms than the institutional offer with proportionately adequate allocation to the retail shareholders.

15.4 Share purchase plans (SPP)

Individual shareholders should be offered the maximum 12-month limit of $30,000 in a share purchase plan. Participation will always be stronger and applications will arrive earlier if the price is set at the lower of the placement price and an alternative price based on a discount to Volume Weighted Average Price (VWAP). If the size of the SPP is capped, its proportion of the capital raising should reflect the percentage of the register owned by retail investors to minimise dilution of retail investors. How the size of any cap is determined should be disclosed when the capital raising is announced.

15.5 Communicating with shareholders when raising capital

Many retail investors have other priorities ahead of managing their investments and may not act in their best interests when presented with an attractive in-the-money capital raising opportunity. Therefore, companies are encouraged to actively market such offers to small investors. A good example is the sending of a reminder email shortly before the offer closes. This can be flagged in the SPP booklet, so as not to disadvantage those shareholders who receive notifications via the post.

15.6 Disclosure of allocation and scale-back

When raising capital through an SPP or entitlement offer with "overs", the documentation should clearly outline any scale-back policy which will apply in the event of applications exceeding the new shares which are available. ASA requires a scale-back formula which reflects the size of a shareholder's existing holding, to minimise dilution to the individual retail investor's holdings. The date of holding used for the pro-rata allocation may be the entitlement date or the allocation date, but this must be clearly advised in the SPP or entitlement booklet. There is merit in allowing the smallest investors to lift their holding to the marketable parcel threshold of $500. When disclosing the outcome of such offers, boards should clearly explain the application of the scale-back formula including disclosures such as the number of shareholders who participated and the amounts allocated to "overs".

15.7 ASA response to unfair capital raising structures

Despite a better general outcome through the COVID-19 pandemic[ii], ASA remains concerned about ongoing unfair treatment of retail investors in capital raisings. When this occurs, ASA will consider opposing incumbent directors seeking re-election at the next AGM.

15.8 Disclosure of fees paid when raising capital

The required disclosures of agreements with investment banks or under-writers should be prominent and include the total dollar figure in costs, the percentage or fixed fees to be paid for each component of the capital raising and the total costs as a percentage of the funds raised. [iii]

15.9 Access to capital raisings

ASA supports initiatives which lift retail shareholders' access to high quality capital raisings and make the capital raising process fairer and more transparent such as direct retail participation in bookbuilds associated with capital raisings. Companies benefit from retail shareholdings which provide stability to the share register.

16. Dividends

Boards should have a clear, consistent and broadly communicated dividend policy. Where franking credits have been generated, ASA believes public companies should strive to distribute as many of these as possible to Australian resident shareholders within the constraints of the company's balance sheet and cash requirements for investment. Dividend Reinvestment Plans are appropriate when companies need to retain some earnings.

17. Managing un-marketable parcels

Companies are within their rights to manage down the size of their share register where there are large numbers of holders with unmarketable parcels. ASA accepts a default position requiring holders who wish to retain their parcels of shares worth less than $500 to opt-out of the sale. However, opting out should be as easy as possible, whether the shareholder has selected electronic or postal delivery of shareholder notices. Where the document is posted to holders, a reply-paid envelope should be included. Shareholders should have the flexibility to crystalise tax losses at a time of their choosing where unmarketable parcels have emerged through value destruction.

18. Opposition to selective buybacks

ASA believes that all shareholders should be treated equally. We are generally opposed to selective buybacks, which often are associated with a distribution of franking credits, unless there is a compelling commercial proposition.

[i] While independence and diversity are important, ultimately the commitment to making the best possible decisions, cohesion of the team, and relevant skills they contribute to strategic planning and risk management are the keys to success.

[ii] ASA highlights that retail investors experienced dilution of more than $10 billion worth of value associated with the capital raisings that took place after the global financial crisis. The primary causes were discounted institutional placements with no follow-up SPP, unfairly restricted SPPs, use of non-renounceable entitlement offers, separate bookbuilds to deal with institutional and retail shortfalls and poorly marketed retail offers and limits on the ability of shareholders to apply for additional shares in entitlement offers.

[iii] ASX listed companies have at times paid excessive fees when raising capital, often with poor and minimally required disclosure. Any agreements with investment banks or under-writers should be fully disclosed to the market at the time of the capital raising announcement whether by SPP, entitlement issue or selective placement.