



**Lion Selection Group**

18 October 2013

ASX Corporate Governance Council  
Australian Securities Exchange  
Exchange Centre  
20 Bridge Street  
Sydney NSW 2000

Attn: Mavis Tan ([Mavis.tan@asx.com.au](mailto:Mavis.tan@asx.com.au))

Dear Sir/ Madam

**Re: Submission: 3<sup>rd</sup> Edition ASX Corporate Governance Principles and Recommendations**

I am writing on behalf of Lion Selection Group Limited, an investor in the junior mining sector with respect to the ASX Corporate Governance Council's draft 3<sup>rd</sup> edition of the ASX Corporate Governance Principles and Recommendations.

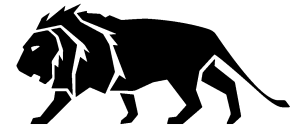
As investors we are supportive of the Council's overall framework that has been established and from time to time updated to match corporate governance trends in other major financial markets. Our submission focuses on what we believe to be a unique subset of widely held listed companies that make up a high percentage of the companies on the ASX, but low with respect to value - junior resource companies. With the possible exception of the Toronto's "Venture" Exchange, there is no comparable market in the world, and it is important that the Council's Principles and Recommendations specifically consider these companies.

**Recommendation 7.1 Risk Committee**

Our submission is that the risk committee (or the audit committee/ board to the extent that they act as the risk committee) should have some technical representation to the extent that this is relevant to the company. This could be put as Commentary to the Recommendation, comparable with the stipulation for an audit committee to have a director with financial expertise. Our proposal stems from our firm belief that it is essential that smaller mining and exploration companies should be required to have a director with JORC related expertise in this role. Importantly, we suggest that our specific experience may be applicable to other fields (eg. biotech, oil and gas, banking and finance).

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The Council notes that the proposed changes contained in the 3<sup>rd</sup> edition stem from OECD findings with respect to risk management being found wanting in the lead up to the GFC. The formation of a “Risk Committee” without the necessary technical background is unlikely to have addressed many of the issues arising in the GFC. It is notable that many of the entities most impacted by the GFC had leading edge risk management systems, perhaps leading to false confidence by the respective boards of those companies. A risk committee including some “hands on” understanding of the business is vital to challenge management with respect to business risks.

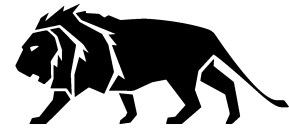
Our principal concern remains the governance issue regarding what is generally the only significant asset of junior resource companies, their Resources and/or Reserves. Information supplied to the market regarding these assets is governed by the Australasian Joint Ore Reserves Committee (JORC). In many cases, the disclosure of a Resources and/or Reserves is far more important than the financial statements of the company. We are aware of continuing wide variations and inconsistencies in the way this has been applied by small resource companies, to the extent that it is impossible to compare Resources and/or Reserves statements between different companies, even though all claim to comply with JORC.

The ASX Listing Rules have recently been amended to require compliance with JORC which is a generally a positive step forward. This does not however deal with the role of the board with respect to releasing a JORC compliant Resources and/or Reserves, with a potential disconnect between the Board and the author of a JORC compliant Resources and/or Reserves, the competent person. Our discussions with the ASX and JORC members show that there is a general lack of understanding of how the JORC requirements are being applied in practice, and lack of clarity of responsibility for assessing and ensuring compliance.

Our view is that the proper governance in relation to smaller exploration and mining companies’ major asset is just as important as financial governance of larger organisations.

### **Recommendation 8.2 – Guidelines for Non-Executive Directors**

Lion does not believe that the guidelines are appropriate for many smaller entities where there is limited cash flow from operations. In particular, the emphasis for Junior Mining and Exploration companies should be on minimum salary and maximum incentive to attract talent. Accordingly options and similar performance related incentives should be provided to non-executives. Importantly as these incentives vest they provide “skin in the game” for the directors taking the project forward.



### **Exceptions for Smaller Entities**

Lion is supportive of the Council's recommendations on nomination, audit, risk and remuneration committees (recommendations 2.4, 4.1, 7.1 and 8.1 respectively) and internal audit (recommendation 7.3) for the boards of smaller listed entities. These concepts are consistent with Lion's previous submissions to the Council.

We look forward to discussing these matters further.

Yours sincerely

A handwritten signature in black ink that reads "Peter Maloney". The signature is written in a cursive, flowing style.

Peter Maloney  
**Chairman**