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Via electronic submission: [matthew.gibbs@asx.com.au](mailto:matthew.gibbs@asx.com.au)

ASX Corporate Governance Council  
PO Box H224  
Australia Square NSW 1215  
Australia

## **Comments to Consultation on Fourth Edition of Corporate Governance Principles and Recommendations**

Dear Corporate Governance Council Members:

State Street Global Advisors appreciates the opportunity to comment on the ASX Corporate Governance Council's ("The Council") proposals to update and issue a fourth edition of its Corporate Governance Principles and Recommendations ("The Code"). The Code provides investors with a useful framework for strengthening corporate governance practices and we appreciate the efforts of The Council.

State Street Global Advisors is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors. We have a global presence and research focus with 29 global offices, 10 investment centers and a 24-hour global trading capability with trading desks in Boston, London and Hong Kong. With over \$2.8 trillion (USD) of assets under management ("AUM") across a range of asset classes and investment styles<sup>1</sup>, State Street Global Advisors is a large global investment manager. In addition, we are also one of the largest investment managers in Australia with more than \$29 billion (USD) of equity AUM in the market<sup>2</sup>.

We believe that well-governed companies are better positioned to navigate challenging economic conditions while protecting shareholder interests. Therefore, we have been focusing our stewardship efforts on improving board quality in our portfolio companies, which can be further strengthened by increasing board accountability. We believe that annual director election cycles improve board accountability and encourage board members to be more responsive to shareholder interests.

An annual director election process allows shareholders to hold individual directors accountable as compared to a staggered board structure, where individual directors stand for elections periodically and, once elected, serve for multiple years before standing for re-election. This is the case for a super-majority of publicly listed companies in Australia. The following table provides an overview of the proportion of listed companies with staggered board structures in Australia. It should be noted that Australia stands out compared to the United Kingdom and United States, where a majority of companies have directors stand for elections annually.

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<sup>1</sup> as of 12/31/17

<sup>2</sup> as of 12/31/17

**Table: Number of ASX listed companies with staggered boards**

Index	Number of Companies with Staggered Board	% of Index with Staggered Board Structure
ASX 100	95	95%
ASX 200	190	95%
ASX 300	280	94.3%

*Source: ISS Analytics as of May 2018*

As demonstrated by recent events in Australia, no matter how dissatisfied shareholders are with director performance, they have to either wait several years to hold the appropriate board members accountable or take action against the directors standing for election in a given year, which may lead to unintended consequences in the long term. Changing market practice would allow shareholders to hold board members accountable in a timely manner and thereby help improve the quality of board oversight.

Our research suggests that national corporate governance codes have had a strong influence in establishing best market practices with regards to director terms of office<sup>3</sup>. We applaud The Council's focus in the proposed revisions on outlining measures to strengthen board effectiveness and improve board quality. However, we strongly urge The Council to also consider addressing the current director election practices prevalent in the market, which we believe are limiting investors' ability to hold directors accountable. Towards that end, we suggest that The Council recommend that Australian companies move to annual board election cycles. The "comply-or-explain" framework of The Code gives companies the flexibility to choose the most appropriate director election structure for their board, while providing investors the transparency needed to better engage with companies on this issue.

We appreciate your willingness to consider our perspectives and hope that you find our feedback useful. Please feel free to reach out to us if you would like to discuss our views in more detail.

Sincerely,



Susan Darroch  
Sr. Managing Director



Rakhi Kumar  
Sr. Managing Director

<sup>3</sup> <https://www.ssga.com/investment-topics/environmental-social-governance/2018/05/board-accountability-in-europe-2018.pdf>