
Contents

Contributors xv

Table of cases xvii

Table of statutes xxi

Preface xxiii

Preface to the first edition xxv

PART ONE BASIC CONCEPTS, BOARD STRUCTURES AND COMPANY OFFICERS 1

- 1 The concept 'corporate governance' and 'essential' principles of corporate governance 3
 - 1.1 The meaning of corporate governance 3
 - 1.1.1 Generally 3
 - 1.1.2 Origins of the corporate governance debate and the stakeholder debate 5
 - 1.1.3 Definition of 'corporate governance' 10
 - 1.2 'Essential' principles of corporate governance 11
 - 1.3 Is 'good corporate governance' important and does it add value? 14
 - 1.4 Are corporate governance models converging? 18
 - 1.5 Conclusion 19
- 2 Stakeholders in corporate governance and corporate social responsibility 20
 - 2.1 Introduction 20
 - 2.2 Stakeholders in the corporation: An overview 22
 - 2.2.1 What is a stakeholder? 22
 - 2.2.2 Discussion of different stakeholders 24
 - 2.2.2.1 Shareholders 25
 - 2.2.2.2 Employees 25
 - 2.2.2.3 Creditors 29
 - 2.2.2.4 Customers 30
 - 2.2.2.5 The community 31
 - 2.2.2.6 The environment 31
 - 2.2.2.7 Government 35
 - 2.2.2.8 All stakeholders have vested interests in the sustainability of corporations 35

2.3	Stakeholders' interests and the corporation: The role of the law	36
2.3.1	The Australian position	36
2.3.2	Overseas position: A snapshot	40
2.3.2.1	OECD	40
2.3.2.2	European Union (EU)	41
2.3.2.3	United States	43
2.3.2.4	United Kingdom	45
2.3.2.5	Canada	49
2.3.2.6	New Zealand	49
2.3.2.7	South Africa	51
2.4	Stakeholder interests, good governance and the interests of the corporation: A mutual relationship	53
2.4.1	General analysis	53
2.4.2	Case study of James Hardie's asbestos compensation settlement	56
2.5	CSR and directors' duties	65
2.6	Conclusion	69
3	Board functions and structures	71
3.1	Higher community expectation of directors	71
3.1.1	Initially low standards of care, skill and diligence expected of directors	71
3.1.2	Legal recognition of changed community expectation of directors	73
3.2	The organs of governance	75
3.3	Board functions	77
3.4	Board structures	83
3.5	Board structures in the broader context of a good corporate governance model	90
3.5.1	Overview	90
3.5.2	Effective board structure	91
3.5.3	Effective support mechanisms to assist the board in properly fulfilling its functions	93
3.5.4	Effective statutory provisions	93
3.5.5	Effective regulators	94
3.5.6	Effective charters, policies and codes of best practice and conduct	96
3.5.7	Corporate governance rating systems for companies	98
3.6	Conclusion	100
4	Types of company directors and officers	101
4.1	Overview	101
4.2	Definition of 'director'	102
4.2.1	De jure and de facto directors covered	102
4.2.2	Shadow director	103
4.2.3	Nominee directors	104
4.3	Definition of 'officer'	106
4.3.1	Statutory definition	106
4.3.2	Senior employees and senior executives as 'officers'	107
4.3.3	Middle management as 'officers'?	108

- 4.4 Types of company officers 109
 - 4.4.1 Executive and non-executive directors 109
 - 4.4.2 Independent non-executive directors 110
 - 4.4.3 Connected non-executive directors 116
 - 4.4.4 Lead independent directors or senior independent directors 117
 - 4.4.5 The managing director, managing directors, the chief executive officer and executive directors 117
 - 4.4.6 Chairperson 118
 - 4.4.7 Alternate director 120
 - 4.4.8 Secretary 120
- 4.5 Training and induction of directors 122
 - 4.5.1 Training 122
 - 4.5.2 Induction of new directors 124
- 4.6 Ethical behaviour by directors 125
- 4.7 Remuneration of directors and executives 127
(with contributions by Christine Jubb)
 - 4.7.1 A controversial issue 127
 - 4.7.2 Disclosure of remuneration and emoluments in Australia 128
 - 4.7.3 Investigations into excessive remuneration of directors and executives 128
- 4.8 Conclusion 129

PART TWO CORPORATE GOVERNANCE IN AUSTRALIA 131

5 Corporate governance in Australia – background and business initiatives 133

- 5.1 Background to the corporate governance debate in Australia 133
- 5.2 The Bosch Report 136
 - 5.2.1 Background 136
 - 5.2.2 The Bosch Report (1991) 137
 - 5.2.3 The Bosch Report (1993) 139
 - 5.2.4 The Bosch Report (1995) 141
- 5.3 Divergence from UK practice: 1995 to early 2003 142
- 5.4 The Hilmer Report 142
 - 5.4.1 Background 142
 - 5.4.2 The Hilmer Report (1993) 144
 - 5.4.3 The Hilmer Report (1998) 145
- 5.5 The virtues of good corporate governance in Australia between 1991 and 1998 146
- 5.6 The IFSA Blue Book 146
- 5.7 Standards Australia 152
- 5.8 Conclusion 154

6 Regulation of corporate governance 156

- 6.1 Overview 156
- 6.2 Regulation generally 157
- 6.3 Objectives in regulating corporate governance 159

6.4	Sources of regulation in Australia	161
6.4.1	'Hard law'	162
6.4.1.1	Statutory regulation – corporate law	162
6.4.1.2	Statutory regulation – other than corporate law	165
6.4.1.3	'Corporate governance and the judges' – the place of judge-made law	165
6.4.2	'Hybrids'	166
6.4.2.1	ASX Listing Rules	166
6.4.2.2	ASX Corporate Governance Principles and Recommendations	168
6.4.2.3	Accounting standards	169
6.4.2.4	Auditing standards	169
6.4.3	'Soft law'	170
6.4.4	The role of market forces	172
6.5	Towards an effective supervision of financial markets regulatory framework in Australia – analysis	174
6.5.1	OECD's guidelines for achieving an effective governance framework	174
6.5.2	Division of responsibilities between ASX and ASIC	176
6.6	Conclusion	178
7	The role of the regulators: ASIC and ASX	179
7.1	Introduction	179
7.2	The Australian Securities and Investments Commission	180
7.2.1	Overview	180
7.2.2	Statutory powers under the ASIC Act	181
7.2.3	The role of ASIC in corporate governance	182
7.2.4	ASIC enforcement patterns	185
7.3	The Australian Securities Exchange Ltd	187
7.3.1	Slow to get out of the blocks	187
7.3.2	Rapid change in attitude since the end of 2002	189
7.3.3	ASX Corporate Governance Council's <i>Principles of Good Corporate Governance and Best Practice Recommendations</i>	190
7.3.3.1	Changes in 2007	190
7.3.3.2	Structure	190
7.3.3.3	Recommendations	191
7.3.3.4	The roles and relationship between ASX and ASIC	193
7.4	Conclusion	195
8	Accounting governance	198
8.1	Overview	198
8.2	Background to the Corporate Law Economic Reform Program and some later developments	199
8.3	The Corporate Law Economic Reform Program	200
8.4	Impetus for CLERP 9: Responding to corporate collapses	202
8.5	Explanation of key CLERP 9 reforms	205
8.5.1	Audit reform	205

8.5.2	Corporate disclosure	206
8.5.2.1	Remuneration of directors and executives	206
8.5.2.2	Financial reporting	207
8.5.2.3	Continuous disclosure	208
8.5.2.4	Shareholder participation	209
8.5.2.5	Whistleblowers	209
8.5.2.6	Disclosure rules	211
8.5.3	Miscellaneous	213
8.5.3.1	Managing conflict by financial services licensees	213
8.5.3.2	Register of relevant interests	213
8.5.3.3	Officers, senior managers and employees	214
8.5.3.4	Enforcement	214
8.5.3.5	Proportionate liability	214
8.6	Accounting standards	215
8.7	Conclusion	216
9	Auditors and audits	219
	(with contributions by Christine Jubb)	
9.1	Introduction: The audit role and where it fits into corporate governance	219
9.1.1	Overview of the audit role	219
9.1.2	The link between the audit role and corporate governance	221
9.2	CLERP 9 changes to audit role	222
9.3	Auditor independence	224
9.3.1	Overview of rationale behind independence requirement	224
9.3.2	General requirement for auditor independence	225
9.3.3	Meaning of 'conflict of interest situation'	225
9.3.4	Disclosing and resolving conflicts	226
9.3.5	Specific independence requirements – minimising conflict of interest through employment and financial restrictions	226
9.3.6	Auditor rotation	228
9.3.7	Disclosure of non-audit services	228
9.4	Auditors and the AGM	229
9.5	Auditors' duties	229
9.6	Reducing the legal exposure of auditors	231
9.6.1	Overview of auditors' liability	231
9.6.2	Registration of audit companies	232
9.6.3	Proportionate liability	233
9.7	Qualification of auditors	235
9.8	Uniform auditing standards	235
9.9	Audit oversight	236
9.10	Audit committees	237
9.11	Conclusion	239
10	Directors' duties and liability	240
10.1	Introduction	240

10.2	Part 9.4B – civil penalty provisions or pecuniary penalty provisions	243
10.2.1	Overview	243
10.2.2	The civil penalty provisions in particular	244
10.2.2.1	Section 180: Duty of care and diligence – civil obligation	244
10.2.2.2	Section 181: Duty of good faith – civil obligation	247
10.2.2.3	Sections 182 and 183: Duty not to use position or information to gain personally or cause detriment to the corporation	248
10.2.2.4	Part 2E: Duty relating to related party transactions	249
10.2.2.5	Part 2H: Duty relating to share capital transactions	250
10.2.2.6	Part 2M.2 and 2M.3: Duty relating to requirements for financial reports	251
10.2.2.7	Part 5.7B: Duty to prevent insolvent trading	251
10.2.2.8	Part 5C: Duties relating to managed investment schemes	254
10.2.2.9	Chapter 6CA: Duty relating to continuous disclosure	255
10.2.2.10	Part 7.10: Duty not to be involved in market misconduct and other prohibited conduct relating to financial products and financial services	255
10.2.2.11	Subclause 29(6) of Schedule 4: Duty relating to disclosure for proposed demutualisation	258
10.2.2.12	Relief from civil liability	258
10.3	Case studies regarding civil penalty provisions or pecuniary penalty provisions	260
10.3.1	Overview	260
10.3.2	<i>ASIC v Adler</i> [2002] 41 ACSR 72	260
10.3.2.1	Summary of the facts	260
10.3.2.2	Contraventions of civil penalty provisions	261
10.3.2.3	Court orders	264
10.3.3	<i>ASIC v Macdonald</i> (No 11) (2009) 256 ALR 199 – James Hardie litigation	265
10.3.3.1	Background and summary of the facts	265
10.3.3.2	Legal issues	266
10.3.3.3	Decision and significance of the decision	267
10.3.3.4	Court orders	271
10.3.4	<i>ASIC v Rich</i> [2009] NSWSC 1229	272
10.3.4.1	Background and basic facts	272
10.3.4.2	Legal issue	273
10.3.4.3	The decision and its significance	273
10.4	Conclusion	277
11	Enforcement of directors' duties	279
11.1	Introduction	279
11.2	The statutory derivative action: Part 2F.1A	281

- 11.2.1 The case to introduce a statutory derivative action 281
- 11.2.2 Eligible applicant 282
- 11.2.3 Cause of action 283
- 11.2.4 Leave of court required to institute the statutory derivative action 283
- 11.3 Oppressive conduct of affairs: Part 2F.1 284
 - 11.3.1 Type of conduct covered by Part 2F.1 284
 - 11.3.2 Who may apply for relief under Part 2F.1? 285
 - 11.3.3 Nature of relief available under Part 2F.1 286
- 11.4 Section 1324 injunctions 287
 - 11.4.1 Introduction 287
 - 11.4.2 Section 1324(1) 287
 - 11.4.3 The court's discretion 288
 - 11.4.4 Remedies in particular 289
- 11.5 Criminal liability of directors 290
 - 11.5.1 The importance of the criminal sanction in the corporations law 290
 - 11.5.2 Selected criminal offences directors and other officers can commit under the Corporations Act 293
 - 11.5.2.1 General 293
 - 11.5.2.2 Specific offences for breaches of duties 294
- 11.6 Conclusion 294

PART THREE CORPORATE GOVERNANCE IN INTERNATIONAL AND GLOBAL CONTEXTS 297

- 12 Corporate governance in the USA, the UK and Canada 299
 - 12.1 Introduction 299
 - 12.2 United States 300
 - 12.2.1 Background to the corporate governance debate in the USA 300
 - 12.2.2 The American Law Institute's involvement in the corporate governance debate 301
 - 12.2.2.1 Basic aims of the project 301
 - 12.2.2.2 Impact and importance of the project 301
 - 12.2.2.3 Some of the key aspects addressed 302
 - 12.2.3 The Securities Exchange Commission 303
 - 12.2.4 The *Sarbanes-Oxley Act* of 2002 – the US response to collapses such as Enron and WorldCom 304
 - 12.2.4.1 Backdrop 304
 - 12.2.4.2 Aims and objectives 305
 - 12.2.4.3 Some perspectives on SOX and its effect 307
 - 12.2.5 NYSE: Sections 303 and 303A – corporate governance rules 309
 - 12.2.5.1 Background 309
 - 12.2.5.2 Summary of the most important NYSE corporate governance rules 310
 - 12.3 United Kingdom 312
 - 12.3.1 Background to the corporate governance debate in the UK 312
 - 12.3.2 The Cadbury Report and the unfolding of the concept of 'corporate governance' in the UK 312

12.3.2.1	Context of the Cadbury Report	312
12.3.2.2	Code of Best Practice	313
12.3.2.3	Further developments	314
12.3.3	The Greenbury, Hampel, Smith and Higgs reports	316
12.3.3.1	The Greenbury Report (1995)	316
12.3.3.2	The Hampel Report (1998)	316
12.3.3.4	The Higgs Report (2003) and the Smith Report (2003)	317
12.3.4	The 2008 UK Combined Code and the 2010 UK Corporate Governance Code	317
12.4	Canada	320
12.4.1	Overview	320
12.4.2	Regulatory environment	321
12.4.3	Proposed National Policy 58–201: Corporate governance principles	323
12.4.4	Current National Policy 58–201: Corporate governance guidelines	330
12.4.5	National Instrument 58–101: Disclosure of Corporate Governance Practices	330
12.4.6	National Instrument 52–110 and Companion Policy 52–110CP Audit Committees	331
12.4.7	Future direction	334
12.5	Conclusion	336
13	OECD Principles of Corporate Governance, and corporate governance in Germany, Japan and China	337
13.1	Introduction	337
13.2	OECD Principles of Corporate Governance	338
13.2.1	Background	338
13.2.2	Broad aims and application	338
13.2.3	Structure	339
13.2.4	Ensuring the basis for an effective corporate governance framework	339
13.2.5	Disclosure and transparency	341
13.2.6	Conclusions on OECD corporate governance principles	342
13.3	Germany	342
13.3.1	Background to the corporate governance debate in Germany	342
13.3.2	The German Corporate Governance Code	345
13.3.2.1	Background to its adoption	345
13.3.2.2	Structure and explanatory nature of the German code	347
13.3.3	Employee participation at supervisory board level – co-determination	348
13.3.4	The German board structure	351
13.3.5	Conclusions on Germany	351
13.4	Japan	352
	(by Luke Nottage)	
13.4.1	Introduction	352

13.4.2	Japan and debates on comparative capitalism and corporate governance	353
13.4.3	Historical transformations in Japanese corporate law and practice	359
13.4.4	Japanese corporate forms and internal governance mechanisms	363
13.4.4.1	Overview	363
13.4.4.2	Companies with committees versus companies with boards of auditors	365
13.4.4.3	Directors' duties and derivative actions	369
13.4.5	Shareholder versus bank finance	373
13.4.5.1	Overview	373
13.4.5.2	Share-class diversification	374
13.4.5.3	Takeovers regulation	375
13.4.5.4	Main banks	379
13.4.6	Core employees	382
13.4.7	Conclusions on Japan	385
13.5	China	386
	(by Vivienne Bath)	
13.5.1	Introduction	386
13.5.2	Government and legislation in China	387
13.5.3	Corporate entities in China	390
13.5.3.1	State-owned enterprises	390
13.5.3.2	Foreign-investment enterprises	392
13.5.3.3	Companies under the Company Law	393
13.5.4	Corporate governance – issues and resolutions	395
13.5.5	Controlling the board of directors and the managers – the supervisory board	397
13.5.6	Increasing the duties of directors	398
13.5.7	Independent directors	401
13.5.8	Committees	402
13.5.9	The issue of the controlling shareholder – protection for minority shareholders under the Company Law	403
13.5.10	Improved disclosure requirements	406
13.5.11	Imposing additional requirements on the sponsors of public offerings	408
13.5.12	Higher standards of accounting	408
13.5.13	Direct intervention – the case of dividends	409
13.5.14	Enforcement	410
13.5.15	Consequences of breach	410
13.5.16	Conclusions on China	413
13.6	Conclusion	415

PART FOUR BUSINESS ETHICS AND FUTURE DIRECTION 417

14	The ethical obligations of corporations	419
14.1	Introduction – the nature of morality	419
14.2	The threshold issue: Is there a role for ethical considerations in business?	424

14.2.1	A brief look at the short history of business ethics	424
14.2.2	The disunity between business and ethics argument	427
14.2.3	Morality applies to business because moral judgments are universalisable	427
14.2.4	Exception to universalisation – activities with internal settled rules?	428
14.2.5	Are moral norms too vague to apply to business?	429
14.2.6	Promise to shareholders to maximise profits as a basis for rejecting application of moral principles to business?	430
14.2.7	Summary of the general link between business and ethics	431
14.3	Application of moral principles to a business setting	432
14.3.1	Types of duties imposed on corporations – proscriptions against causing harm, lying and environmental damage already legally enforced	432
14.3.2	Additional duties imposed on corporations – a duty of benevolence?	434
14.3.2.1	Acts and omissions doctrine serves to minimise obligations on corporations	434
14.3.2.2	Principal duty is for corporations to comply with law – business is morally neutral	436
14.3.2.3	A more elaborate duty – extreme wealth and a maxim of positive duty	437
14.3.2.4	Requirement to pay social dividend	439
14.3.3	Extreme wealth and duty to not frustrate access to justice	441
14.3.4	Is corporate social responsibility the answer?	442
14.4	Conclusion	444
15	Reflections on contemporary corporate governance and its future direction	446
15.1	Introduction	446
15.2	Regulatory pyramid and the cycles of regulation: A perspective on contemporary corporate governance regulation	447
15.3	Interaction of cycles of regulation and ‘law and norms’ discourse	451
15.3.1	The significance of norms	451
15.3.2	Norms, corporate governance and the utility of behavioural analysis	457
15.4	Conclusion: The future of corporate governance regulation	465
	<i>Index</i>	469