



## **MEDIA RELEASE**

Regnan governance research and engagement

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### **LEADING INSTITUTIONAL INVESTORS SAY SHARE TRADING GOVERNANCE NOT GOOD ENOUGH!**

Ten leading institutional investors have today called for dramatic improvement to the governance of director and executive share trading, after commissioned research found an increasing number of company directors failing to exercise effective governance.

Regnan's detailed investigation into 3,255 share trades by S&P/ASX200 company directors during the 12 months ended 30 September 2007 revealed declining governance standards for director and executive share trading at many of Australia's largest listed companies.

The research found that active director share trading in the weeks prior to profit announcements and upgrades increased from a previous study released in 2005. Also rising was the number of directors actively trading company shares in the period after books-close and prior to public release of financial results.

"The results of this research suggest that investors are justified in being both alert and alarmed as to the lack of governance over director and executive share trading. The way some company directors choose to trade their company shares clearly invites the perception of insider trading," said Regnan Managing Director, Erik Mather.

Key findings of the research are:

- More than a third of Australia's 200 largest listed companies failed to comply with the Corporations Act - notifying changes in directors' interests more than 14 calendar days after the event.
- Nearly half of Australia's 200 largest listed companies breached the Listing Rules of the Australian Securities Exchange (ASX) - notifying the market of director trades more than five business days after the event.
- Directors of 32 of Australia's 200 largest listed companies actively purchased shares within eight weeks prior to a material earnings upgrade or takeover announcement – a 40 % increase from 2004.
- Directors of 23 of Australia's 200 largest listed companies actively traded shares during the period between books-close and results-release – a 15 % increase from the 2005 study.

"These figures show a clear failure in governance when it comes to director share trading. The extent of poor governance by company directors and executives appears to be equally matched by a lack of regulatory vigilance by both the ASX and ASIC," Mr. Mather said.



In a detailed Position Paper, released today, ten leading institutional investors have outlined their concerns and called upon company directors and regulators to ensure a transparent and honest market for securities. These investors together account for some A\$ 65 billion of listed security investments, or nearly one in six dollars invested by institutions in listed entities.

“It defies logic that a company director should actively trade shares between books-close and results announcement. If a company director absolutely, positively must trade in any sensitive period, then it is simply common sense that they should publicly disclose reasons for it,” Mr. Mather said.

Regnan uncovered 48 individual director trades executed after books-close date and before financial results were released. Not one of these trades was accompanied by any disclosure of governance processes.

In line with its mandate, Regnan will now embark on a constructive and confidential program of engagement with 54 S&P/ASX200 companies. These companies had either multiple instances of directors trading at a time when they were likely to have inside information, or a poor record of reporting on director trading. Regnan will engage with these companies to encourage improved governance.

Regnan’s research was commissioned by:

- BT Investment Management
- Catholic Super
- Hermes Investment Management Ltd
- HESTA Super Fund
- Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS)
- NSW Local Government Superannuation Scheme (LGSS)
- NSW State Super (SAS Trustee Corporation)
- Vanguard Investments Australia Ltd
- VicSuper
- Victorian Funds Management Corporation (VFMC)

**The full report is available at [www.regnan.com.au](http://www.regnan.com.au).**

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#### **About Regnan**

Regnan is a governance research and engagement service owned by eight major institutional investors: ARIA, BT Investment Management, Hermes UK, HESTA Super, NSW Local Government Superannuation Scheme, Vanguard Investments Australia Ltd, VicSuper, and VFMC. Regnan was formed in 2007 out of the proven engagement model and resources of BT Financial Group’s Governance Advisory Service. It provides quantitative data on environmental social and corporate governance performance of companies for mainstream funds management. It also engages directly with companies in order to promote a behavioural change. The research, including this research on share trading governance, is distributed via Goldman Sachs JBWere’s PortfolioWise platform.