

29 September 2011

Ms Diane Lewis  
Head, ASX Corporate Governance Council Secretariat  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

Dear Diane

## **AUSTRALIAN IMPLEMENTATION OF EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE**

The Financial Services Council (*FSC*) represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advisory networks. The FSC has 128 members who are responsible for investing \$1.8 trillion on behalf of more than 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Stock Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

In December 2010, the FSC established an Environmental, Social and Governance (ESG) working group which is responsible for advising the FSC Investment Board Committee on the investment implications of ESG risks and opportunities. Members of the working group include some of Australia's largest institutional investors.

Recently, members of the working group were briefed by representatives from the 'Publish what you Pay' initiative, who advised us that the listing rules for 'Additional reporting on mining and exploration activities' are currently under review by the ASX and will soon be open to public consultation.

While the FSC looks forward to contributing to the consultation process, we also understand that the scope of the review does not currently include payment transparency by companies to sovereigns.

The 'Publish what you Pay' and related 'Extractive Industries Transparency Initiative' (EITI) have been established to encourage greater transparency in relation to these payments, with the EITI also developing a robust framework by which both companies and sovereigns can make these disclosures. The EITI initiative has been supported by the Australian Government.

As institutional investors with exposure to companies operating around the world, we believe it is in the interest of the companies in which we invest to operate in a business environment that is characterised by stability, transparency and respect for the rule of law. These factors are essential to securing economic prosperity and social cohesion, which, in turn, enable the companies in which we invest to prosper. However, they are frequently undermined by poor standards of governance and transparency, which can give rise to corrupt operating environments.

We are concerned that extractive companies are particularly exposed to the risks posed by operating in these environments. Companies that make legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behaviour, impairing their local and global "licence to operate", rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.

In July 2010, the United States passed the Dodd-Frank Financial Reform Act which requires companies engaged in extractive industries, and registered with the U.S. Securities and Exchange Commission to publicly disclose any payments they make to governments, country by country and project by project.

Recognising the power of such regulations, other jurisdictions throughout the world are now developing similar or expanded legislative proposals. These reforms provide information which allows investors to better understand investee companies' exposure to sovereign risks.

The FSC believes that the proposed review of ASX listing rules related to additional disclosures for extractive industries presents an ideal opportunity to introduce similar requirements for the Australian market and in doing so bring Australia in line with global best practice. This issue is of significant importance to the Australian market as Australia has the largest number of listed extractive companies of any stock exchange, with many of these companies having operations in foreign jurisdictions including high risk countries.

We would welcome a meeting with you to further discuss the relevance and significance of this additional reporting both to investors and the integrity of the Australian stock market. We would also appreciate being notified once the consultation period commences.

Yours sincerely



**MARTIN CODINA**  
Director of Policy