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Corporate Australia not convinced shares subject to a margin call should be disclosed

While corporate Australia would welcome tighter regulation around short selling and stock trading, the jury is still out as to whether directors and executives should disclose if they are tied to a margin loan, a survey of senior governance professionals conducted by Chartered Secretaries Australia (CSA) last week has found.

CSA's survey revealed that while 82 per cent of respondents supported tighter regulation around short selling and stock lending to curb market manipulation, a significant 37 per cent believed that directors and executives should not be required to disclose if they own shares that are subject to a margin loan.

This is despite the fact that an overwhelming majority of respondents (82 per cent) believe shares that could be exposed to a margin call owned by directors and executives would leave a company more vulnerable to short selling.

"Recent market disquiet concerning the disclosure and non-disclosure of margin loans held by directors and senior executives indicates that the market wants greater clarity around when a director and or executive should disclose when they hold shares tied to a margin loan," CSA's Chief Executive Mr Tim Sheehy says.

"There needs to be a clear rule that is not open to interpretation. A number of respondents suggested disclosure should be mandatory if the holdings tied to the margin loan could make a material difference to the company's share price.

"It appears that current continuous disclosure definition of 'materiality' under Listing Rule 3.1 is inadequate and that the market requires greater clarification. And, as recent events have confirmed, a lack of relevant and meaningful disclosure around margin loans can provide an opportunity for market manipulation through short selling and stock lending.

However, defining 'materiality' can be difficult as would be determining an objective test to determine what is 'material' and what is not. One suggestion is that 'materiality' should be defined by a percentage of issued capital.

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“The issue of disclosure around margin loans needs to be addressed and the views of all stakeholders, including shareholders, should be canvassed as a matter of priority,” Mr Sheehy said.

The survey also found that nearly two thirds of respondents (65 per cent) felt that directors and executives personal finances should be respected, saying disclosure of a margin loan should only be required when a margin position may be material to the company’s share price.

Thirty three per cent of respondents felt directors and executives should not be required to disclose their personal financing arrangements even though failure to do so might give a false impression of their confidence in or indeed their personal wealth invested in the company.

And even though 100 per cent of respondents said the company had a share trading policy in place for directors and executives, 19 per cent did not formally track compliance with this policy.

Ends

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About Chartered Secretaries Australia

Chartered Secretaries Australia (CSA) is the peak professional body delivering accredited education and the most practical and authoritative training and information on governance, as well as thought leadership in the field.

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