

Corporate Governance Advisory Committee Statement on Directors Disclosures in Rights Issues

This CGAC statement is made in light of recent commentary about whether directors should be required to disclose their intentions as to whether they will subscribe to rights issued by their company.

Mainboard Listing Rule 814(1)(j) provides that an issuer which intends to make a rights issue must provide, among others, a statement from the issuer's directors on why the issue is in the interest of the issuer and their basis for forming such views.

The CGAC notes that the statement required under the Listing Rule is a statement in respect of why an issue is in the interests of the company, and not necessarily a statement on the suitability for shareholders. As there may be particular reasons as to why an individual exercises his or her rights, it is not inconsistent for a director to hold the view that the rights issue is in the company's interests but still choose not to subscribe.

Nevertheless, the CGAC is of the view that, for good corporate governance, companies should disclose whether the directors intend to subscribe to their rights entitlement if, at the time of announcement of the rights issue, directors hold interests in the shares of their company.

Principle 13 of the 2018 Code of Corporate Governance (Code) states that: "The Board adopts an inclusive approach by considering and balancing the needs and interests of material stakeholders, as part of its overall responsibility to ensure that the best interests of the company are served."

The CGAC is of the view that the needs and interests of stakeholders include the need for shareholders to be provided with material information to make informed decisions. Information as to whether directors intend to subscribe to the rights issued by their company constitutes such material information.

Furthermore, companies are already required under the Securities and Futures Act to disclose to the market if its directors take up the rights issue. Therefore, shareholders will eventually be

informed about the directors' participation. The CGAC recommends that upfront transparency by directors would be preferable.

The disclosure of directors' intent regarding rights issues is not new and is practised by companies in Australia, the United Kingdom and the United States.

Following the examples in those countries, companies should disclose directors' intentions and, if directors do not intend to take up their rights issues, companies can assess whether or not it is appropriate to disclose the reasons and to what extent. This would balance shareholders' need for relevant information with directors' right to consider their own particular circumstances.