

## **Politics of regulation**

In a speech delivered on 16 July, when launching the Monash Governance Research Centre, David Knott, the chairman of the Australian Securities and Investments Commission (ASIC), criticised the Australian Stock Exchange (ASX) for being both a listed company and a market regulator. Knott stated that ASX had ‘disavowed any intention to endorse best corporate governance practices’ (Pheasant 2002a, p. 1). Knott also stated that overseas exchanges were reviewing corporate governance standards, and he proposed that the ASIC take over responsibilities in this area, as has occurred in the United Kingdom. The ASX’s chief executive, Richard Humphries, rejected these criticisms, stating that the ‘ASIC clearly feels under pressure to be seen to take the initiative in certain areas’ (Davis et al. 2002, p. 1).

As a result of government pressure, the ASX has apparently acquiesced, announcing on 1 August that it would establish a Corporate Governance Council to devise directions on corporate governance ‘best practices’ for listed companies. The council met and delivered its first recommendations on 15 August. The guidelines that relate to auditors are as follows:

- It strongly recommends that audit committees be established by at least the top 500 companies.
- It sets out the preferred structure, composition and responsibilities of audit committees.
- It recommends disclosure of the date of appointment of auditors and the dates of rotation of the audit partners involved.

The council also advocates greater disclosure of companies’ policies relating to capitalising costs as assets and deferring liabilities.

Given this debate over corporate governance, the Prime Minister, John Howard, delivered a timely speech to the Securities Institute and Institute of Chartered Accountants on 6 August outlining his philosophical preference for the style of regulation in Australia. Mr Howard acknowledged the public’s unease about corporate excesses and its view that wrongdoers

should be punished, but he warned of the dangers of overreacting, and was concerned about introducing unproductive and self-defeating regulation. He saw the need for Australia to have high-quality accounting standards that are acceptable to international capital markets. The Institute of Chartered Accountants in Australia supported the Prime Minister's comments. The Treasurer, Peter Costello, Senator Ian Campbell, the government's spokesman for corporate regulation, business commentators and newspaper editorials have also supported the Prime Minister's views on corporate regulation. The Opposition leader, Simon Crean, suggested that for contentious issues in financial reports, auditors should disclose the financial implications of alternative treatments. The one commentator to express a contrary view to the Prime Minister's is Tony Harris, a former NSW auditor-general. Read his article 'Big business gets its way' in *The Australian Financial Review* for his views on regulation. As noted earlier, the government will soon publish a discussion paper on financial reporting and auditing. In relation to auditing, the discussion paper will consider the Ramsay Report's recommendations, oversight structures of the auditing profession and auditing standards. In implementing the reforms, the government will ultimately also need to consider the recommendations of the HIH royal commission.

## References

Pheasant, Bill 2002a, 'ASIC Demands Boards Rein in "greedy" executives'. *The Australian Financial Review*, 17 July, p. 1.

Pheasant, Bill 2002b, 'ASX Backflip on Corporate Governance'. *The Australian Financial Review*, 2 August, p. 1.

Davis, M, Cornell, A, and Clearly, P 2002, 'PM rejects corporate regulation push'. *The Australian Financial Review*, 18 July, p. 1.

Howard, John 2002, Transcript of the Prime Minister, The Hon John Howard, MP, Address to the Securities Institute & Institute of Chartered Accountants of Australia Luncheon, Sydney, 6 August 2002, [www.pm.gov.au/news/speeches/2002/speech1773.htm](http://www.pm.gov.au/news/speeches/2002/speech1773.htm)

Harris, Tony 2002, 'Big business gets its way'. *The Australian Financial Review*, 13 August, p. 58.

Fabro, A 2002, 'Crean turns up volume on governance'. *The Australian Financial Review*, 20 August, p. 5.