



Corporate Governance Code for Listed Companies

Consultation Paper

March 2023

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Introduction

PNGX

PNGX Markets is the national stock exchange of Papua New Guinea. PNGX is responsible for providing an orderly and fair market in relation to securities which are traded through its facilities and for acting in the public interest having regard to the need for protection of investors. PNGX is regulated and licensed by the Papua New Guinea Securities Commission. PNGX is the National Numbering Agency for Papua New Guinea.



PNGX's Listing Rules govern the quotation of securities, admission of securities to the official list, suspension of securities from quotation and removal of issuers. They also govern disclosure and some aspects of a listed issuer's conduct.

PNGX and investors in the PNGX markets have an interest in high standards of corporate governance practices by the Boards of companies in which they invest.

Stock markets can play a meaningful role in enhancing corporate governance by establishing and enforcing requirements that promote effective corporate governance by their listed issuers. Also, stock markets provide facilities by which investors can express interest or disinterest in a particular issuer's governance by allowing them to buy or sell the issuer's securities, as appropriate. The quality of the stock market's rules and regulations that establish listing criteria for issuers and that govern trading on its facilities is therefore an important element of the corporate governance framework.

Background to this consultation

*"A strong corporate governance framework is essential for a well-functioning capital market. It reassures shareholders that their rights are protected and makes it possible for corporations to lower their cost of capital. This is why the G20/OECD Principles of Corporate Governance¹ were developed with an understanding that corporate governance policies have an important role to play in achieving broader economic objectives with respect to investor confidence, capital formation and allocation. To tackle the challenges imposed by the COVID-19 crisis, this perspective is more important than ever."*²



The COVID-19 pandemic has brought increased attention to the importance of identifying systemic risks and unexpected shocks. Importantly, it has led many investors to consider environmental, social and governance (ESG) risks when making their investment and voting decisions. It is policy makers' and regulators' responsibility to ensure that

¹ <https://www.oecd.org/corporate/principles-corporate-governance/>

² "The Future of Corporate Governance in Capital Markets Following the COVID-19 Crisis. Conclusions by the OECD Corporate Governance Committee". <https://www.oecd.org/corporate/Future-COVID-19-Conclusions-by-the-OECD-Corporate-Governance-Committee-English.pdf>

investors have access to consistent, comparable, and reliable material information when managing their savings and assets.

Clearer ESG disclosure frameworks will also help the corporate sector meet increased expectations when it comes to recognising and appropriately balancing the interests of different stakeholders, including investors, employees, creditors, customers and suppliers, and their contribution to the long-term success of corporations.

The PNG Government launched its Financial Sector Development Strategy (“FSDS”) in 2019.

The FSDS recognises that a key building block to redeveloping PNG’s capital markets is the development of a more effective secondary market in equity securities and government securities.

The FSDS seeks to make Port Moresby at least as attractive a centre for PNG firms to raise debt and equity capital as is Sydney. It acknowledges the competitive advantages of PNG in that firms can achieve greater visibility and investor interest locally than in Australia, the “home bias” of PNG investors and the absence of currency risk investing in PNG by PNG investors.

The FSDS recognises that further work is needed on strengthening corporate governance to support the development of a local equity market in PNG.



The PNG Institute of Directors (“PNGID”) provides leadership in corporate governance and leads directors’ thinking in the area of ethics, excellence, professionalism and practice. The PNGID has previously identified that recent changes in the regulation of the financial services have highlighted the need to grow the pool of professional directors in PNG. PNGID also proposes to encourage business to adopt more formal search and nomination processes for their board to support gender diversity and to engage with institutional investors who can exert significant influence on boards to adopt best practice for corporate governance to increase board diversity.

Similarly, the Independent Director’s Association of Papua New Guinea (“IDAPNG”) champions “best business practices and effective corporate governance in PNG”.

PNGX supports these initiatives by PNGID and IDAPNG.

However, PNG was classified as one of the most highly corrupt countries in the world according to the 2021 Corruption Perceptions Index (“CPI”) published by Transparency International³. PNG ranked 124 out of 180 countries with a score of 31 out of 100. The CPI scores countries on a scale of zero to 100, with 100 being perceived to be “very clean” and zero perceived to be “highly corrupt”.

³<https://www.transparency.org/en/cpi/2021/index/png>

The Transparency International “Global Corruption Barometer - Pacific 2021: Citizens’ Views and Experiences of Corruption”⁴ report stated that results from Papua New Guinea are particularly concerning as “almost all respondents (over 95 per cent) believe that corruption in government is a big problem”.

Efforts to enhance the corporate governance standards in PNG are one contribution PNGX can make, in partnership with like-minded stakeholders, to lift the reputation of PNG, improve its ability to attract investment and lower the cost of capital for the country. In a time of considerable global disruption arising from pandemics, war and inflation, establishing a vision and standards for the future become particularly important.

Each PNGX listed entity is required under the Listing Rules to have a corporate governance policy which is appropriate having regard to the nature and scale of its operations and which, at a minimum, addresses each recommendation set out in the PNGX Corporate Governance Code. It is also required to include in its annual report a corporate governance statement or the URL of the page on its website where a corporate governance statement is located.

Appendix 4A of the current Listing Rules provides an indicative list of corporate governance matters. Appendix 4A has not been updated for more than 10 years and hence has not kept pace with expectations of corporate governance standards.



PNGX is proposing to introduce new corporate governance standards for the guidance of Boards of listed companies.

Whilst the scope of PNGX is limited to listed companies, it is hoped that the governance standards become a benchmark for corporate governance by the private sector in PNG generally and, [potentially, for State Owned Enterprises.

The attached draft Corporate Governance Code has been developed based upon the existing PNGX corporate governance standards, the ASX standards and with the assistance of the International Finance Corporation (IFC) as part of the Sustainable Stock Exchanges Initiative⁵ which PNGX joined in April 2022.

IFC has provided an expert education program relating to the development of environmental, social and governance (ESG) rules to help create appropriate disclosure standards for PNGX and its companies. Expert training on board gender diversity was also provided. This laid the foundations for a new corporate governance code that, importantly, factors in gender and other elements specific to PNGX. The IFC input has been integral to aligning the proposed standards with international best practice for developing markets and the revised OECD Principles of Corporate Governance to be issued in 2023 and standards proposed to be factored into new accounting standards.

⁴ https://images.transparencycdn.org/images/2021_Report_GCB-Pacific_EN-WEB-reduced-size-v2.pdf

⁵ <https://sseinitiative.org/>

Sustainable Stock Exchanges Initiative

PNGX solidified its commitment to transparency and sustainability by becoming a partner exchange of the UN SSE initiative and joins a network of now 114 stock exchanges around the world that are committed to promoting sustainable development.

The SSE works with stock exchanges through technical assistance, consensus building, and research to contribute to the achievement of the United Nations Sustainable Development Goals (SDGs) and to stimulate investment for a sustainable future. Exchanges around the world partner with the SSE to work towards a common objective of fostering financial markets that support the growth of sustainable and responsible business practices.



Partnering with the SSE initiative compliments the goals PNGX is striving towards to help develop the Papua New Guinea capital markets and support the sustainability of the PNG economy.

PNGX recognizes the number of sustainability challenges that an emerging economy like Papua New Guinea face, which include access to capital for SMEs, corporate governance and transparency, climate change, gender equality, and environmental sustainability. Addressing sustainability factors is of increasing importance to obtaining access to finance in today's world and PNGX is committed to it.

As part of a network of like-minded exchanges, PNGX can draw upon the resources of the SSE and its members and partners to develop locally relevant guidance and standards to support the development and sustainability of the local economy. While sustainability-based finance is not yet well developed in Papua New Guinea, joining SSE will have direct relevance by assisting PNGX to give companies the tools they will need to access future finance.

Consultation Process

PNGX is releasing the proposed Corporate Governance Code for consultation and feedback from interested parties.

The consultation period will be open for 2 months.

The Consultation period will close at 5.00pm on Friday 5 May 2023.

Please provide any comment by 5.00pm on Friday 5 May 2023 in writing by email to:

Elizabeth Wamsa
General Manager
PMGX Markets Limited
consultation@pngx.com.pg.

Reference materials

Gender

Policy Brief: Gender Equality on Corporate Boards

<https://sseinitiative.org/wp-content/uploads/2021/03/UN-SSE-Gender-Equality-Policy-Brief.pdf>

How exchanges can advance gender equality. Updated guidance and best practice

<https://sseinitiative.org/wp-content/uploads/2022/03/How-exchanges-can-advance-gender-equality-Updated-guidance-and-best-practice.pdf>

Gender equality in corporate leadership (Regional Analysis): analysis of 3,246 issuers on 35 stock exchanges in 7 regions

<https://sseinitiative.org/wp-content/uploads/2022/12/SSE-IFC-Regional-Analysis-Women-in-Corp-Leadership-2022.pdf>

Climate

Model Guidance on Climate Disclosure: A template for stock exchanges to guide issuers on TCFD implementation

<https://sseinitiative.org/wp-content/uploads/2021/06/Model-Guidance-on-Climate-Disclosure.pdf>

Action Plan to Make Markets Climate Resilient: How stock exchanges can integrate the TCFD recommendations

<https://sseinitiative.org/wp-content/uploads/2021/06/Action-Plan-to-Make-Markets-Climate-Resilient.pdf>

Human Rights

Policy brief: Stock exchange guidance on human rights disclosure

<https://sseinitiative.org/wp-content/uploads/2021/06/Policy-brief-Stock-exchange-guidance-on-human-rights-disclosure.pdf>

The structure of the Corporate Governance Code

The Code, Standards and Recommendations

The existing Listing Rules were introduced in April 1999 and were based upon the then current Listing Rules of the Australian Stock Exchange. The existing Listing Rules have not been substantially amended since 1999. Since that time capital markets have changed significantly. PNGX has initiated a project to rewrite its Listing Rules, which should come into effect in the second quarter of 2023. In parallel with that project, PNGX initiated a project to establish a Corporate Governance Code for listed companies.

As many of the currently listed companies are also dual listed on ASX, there is an interest in having the proposed PNGX Corporate Governance Code align with the Australian corporate governance standards in order to minimize compliance costs. However, regard has also been had to corporate governance standards of New Zealand, Fiji and other developing markets, along with various academic and industry publications, including those of the Organisation for Economic Cooperation and Development (OECD), International Finance Corporation (IF), Sustainable Stock Exchanges Initiative (SSE), World Federation of Exchanges (WFE) and the International Organization Of Securities Commissions (IOSCO).

Notwithstanding that the proposed PNGX Corporate Governance Code has been developed by reference to practices adopted in other markets, the Code and related Standards must be adopted and implemented having regard to the characteristics of the PNG markets and be fit for purpose in that regard.

The proposed PNGX Corporate Governance Code has been structured to adopt 17 standards. Within each of the 17 standards are a number of recommended practices.



The proposed PNGX Corporate Governance Code is not prescriptive (other than to the extent that the PNG *Whistleblower Act 2020* applies). The Code is a set of standards and recommendations. Each company is at liberty to either adopt the standards and recommendations or not. However, as they are standards of expectations established through a mechanism of industry and stakeholder consultation, it is expected that directors should disclose in the company's annual report the extent to which the company has adhered to the PNGX Corporate Governance Code, and where there has not been adoption of a standard or recommendation, to give reasons. This "if not, why not" approach is common in markets globally.

Having regard to the stage of development of the PNG capital markets, as acknowledged in the FSDS, and having regard to the diversity of scale and maturity of companies listed on the PNGX market, in addition to considerations of compliance costs and benefits, PNGX has not proposed to adopt some standards adopted in other markets.

The decision to not include standards adopted in other markets is not an indication that PNGX does not consider them important or relevant to PNG. It is a reflection of PNGX's assessment of the level of preparedness of the

PNG market in 2023. It is PNGX's expectation that additional or amended standards or recommendations will be introduced over time as the PNG market matures. However, if there is a sufficient body of support for the introduction of standards or recommendations relating to other matters now, PNGX will consider their introduction in the first edition of the PNGX Corporate Governance Standards.

Whilst PNGX is proposing not to adopt some standards adopted in other markets, in the context of the PNG market and the rapidly emerging focus upon environmental, social and governance ("ESG") reporting, it is proposed to adopt some environmental and social reporting standards. By the end of 2019, over 2,300 global asset owners and asset managers representing close to \$80 trillion had signed the UN Principles for Responsible Investment committing to incorporate ESG issues into their investment analysis and decision-making investment processes.⁶ From an issuer's perspective, international pressure to address ESG geopolitical and economic priorities are also making sustainability one of the most significant sets of business factors they face. To the extent that PNG wishes to attract international investment, ESG reporting will become increasingly important. The proposed PNGX Corporate Governance Standards in this regard are an initial step towards comprehensive ESG reporting. Many PNG listed companies already incorporate elements of the proposed Standards in various forms in their annual reports.

While the Corporate Governance Code is wide-ranging in its scope, it also includes some important initiatives relevant to gender equity and equality. This includes companies reporting on:

1. whether at least 25% of Directors are people identifying as women;
2. the company's framework for the conduct of gender equality remuneration audits;
3. the establishment of a diversity and gender equality policy;
4. details of measurable objectives, and performance against them, for achieving diversity and gender equality in the composition of its board, key management and workforce;
5. whether the company has policies for reducing the incidence of domestic and gender-based violence and its impact upon the company.
6. whether the company has policies for promoting and supporting the return to work of employees from family duties (eg childbirth).

Guidance to the Proposed PNGX Corporate Governance Standards

Owing to resource constraints, the Proposed PNGX Corporate Governance Standards do not contain guidance to the implementation of the standards or commentary to the standards. It is PNGX's expectation that such guidance and commentary will be introduced over time as the PNG market matures.

Various stakeholders have an interest in the standards of corporate governance for listed companies. These include the stock exchange, listed companies, directors and their professional bodies, institutional investors such as superannuation funds, financiers such as banks, and insurers. These stakeholders can not only have an influence over the implementation of corporate governance, but upon the expectations. They will be key stakeholders for providing guidance on what is expected of companies, the interpretation of the new Code and the development of future Codes. PNGX would welcome input on the new Code and the development of a forum for the development of future Codes, guidance and interpretation.

⁶ <https://www.unpri.org/pri/about-the-pri>

Relationship with PNGX's listing rules

Each PNGX listed entity is required under the Listing Rules to have a corporate governance policy which is appropriate having regard to the nature and scale of its operations and which, at a minimum, addresses each recommendation set out in the PNGX Corporate Governance Code. It is also required to include in its annual report a corporate governance statement or the URL of the page on its website where a corporate governance statement is located.

The PNGX Corporate Governance Code does not form part of the new Listing Rules but are managed separately from the Listing Rules.

