

MEMORANDUM OF UNDERSTANDING

between

AUSTRALIAN STOCK EXCHANGE LIMITED

and

THE FINANCIAL REPORTING COUNCIL

1. Parties to Memorandum

1.1 This Memorandum of Understanding is between Australian Stock Exchange Limited (ASX) and the Financial Reporting Council (the FRC).

2. Purpose

2.1 ASX and the FRC recognise that mutual co-operation between them is desirable to discharge their respective functions in relation to audit and auditor independence and compliance by companies of audit-related disclosure requirements of the Corporations Act, accounting standards and the ASX Listing Rules.

3. ASX

3.1 ASX is a market licensee and has general statutory obligations under Part 7.2 of the Corporations Act, which include provision of a fair, orderly and transparent market and adequate arrangements for supervision of that market.

3.2 ASX operates Australia's primary national stock exchange for equities, derivative and fixed interest securities. It also provides comprehensive market data and information to a range of users.

3.3 The maintenance of a high level of market integrity is essential for the continued success of ASX operations. ASX promotes market integrity in a number of ways including:

- the development and implementation of Business Rules and Listing Rules designed to ensure fair, orderly and transparent markets;
- supervision of those markets;
- the active pursuit of technological improvements to meet market participants' requirements for system reliability, integrity, performance, capacity and cost effectiveness;
- the development by the ASX Corporate Governance Council of guidelines for good corporate governance practice; and
- close co-operation and liaison with other regulators, notably the Australian Securities and Investments Commission (ASIC).

3.4 ASX has no specific auditor independence function or responsibility.

4. FRC

4.1 The FRC is an independent statutory body established by Part 12 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act).

4.2 The FRC has the following responsibilities:

- to provide broad oversight of the process for setting accounting standards in Australia;

- to provide broad oversight of the processes for setting auditing standards in Australia;
- to monitor the effectiveness of auditor independence requirements in Australia; and
- to provide the Minister responsible for the FRC with reports and advice about the matters falling within the scope of its responsibilities.

4.3 The specific auditor independence functions of the FRC include:

- monitoring and assessing the nature and overall adequacy of:
 - the systems and processes used by Australian auditors to ensure compliance with auditor independence requirements;
 - the systems and processes used by professional accounting bodies for planning and performing quality assurance reviews of audit work undertaken by Australian auditors to the extent to which those reviews relate to auditor independence requirements;
 - the action that Australian auditors who have been subject to such quality assurance reviews have taken in response to the reports prepared as a result of those reviews;
 - the action taken by professional accounting bodies to ensure that Australian auditors who have been subject to such quality assurance reviews respond appropriately to the reports prepared as a result of those reviews; and
 - the investigation and disciplinary procedures of the professional accounting bodies as those procedures apply to Australian auditors.
- Monitoring the overall compliance by companies, registered schemes and disclosing entities with the audit-related disclosure requirements of the Corporations Act and the accounting standards.
- Giving professional accounting bodies reports and advice about the matters relating to the FRC's auditor independence functions in relation to the professional accounting bodies.
- Monitoring international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements provided for in the Corporations Act and codes of professional conduct and in light of those developments and giving the Minister, and professional accounting bodies, reports and advice on any additional measures needed to enhance the independence of Australian auditors.
- Promoting, and monitoring the adequacy of, the teaching of professional and business ethics by, or on behalf of, professional accounting bodies to the extent to which the teaching of those subjects relates to auditor independence.

5. Information Sharing

5.1 The FRC is not authorised under the ASIC Act to disclose to the ASX information given to the FRC in confidence.

5.2 ASX and the FRC recognise, however, that, subject to the confidentiality requirements applying to the FRC under s.237 of the ASIC Act and subject to confidentiality obligations arising both at common law and from the contract between ASX and each listed entity, the sharing of information about auditor independence and in that context, overall compliance by listed companies:

- with audit-related disclosure requirements of:
 - the Corporations Act and the accounting standards; and
 - any ASX Listing Rules; and
- with the Principles of Good Corporate Governance and Best Practice Recommendations adopted by the ASX Corporate Governance Council relevant to auditor independence and the role of audit committees,

would be likely to assist the other in carrying out its functions.

5.3 ASX and the FRC agree to use their best endeavours to notify the other party of the existence of any information of a kind referred to above, notwithstanding that it may not have received a request from the other party for such information.

6. Liaison between ASX and the FRC

6.1 To promote co-operation between the parties, regular liaison meetings will be held between ASX and the FRC. These meetings should occur at least every twelve months.

7. Effective Date

7.1 This agreement is effective upon signature of the parties and will remain in effect unless and until terminated as provided below.

8. Amendment

8.1 This agreement may be modified or amended by written agreement between the parties. If it becomes apparent that it is necessary or desirable to amend or add to this agreement, ASX and the FRC will each use best endeavours to agree upon appropriate amendments or alterations as soon as possible thereafter.

9. Termination

9.1 ASX or the FRC must give written notice to the other of its intention to terminate this agreement. The agreement will terminate 30 days after the date upon which the notice was given.

10. Execution

Signed for and on behalf of ASX

Mr Richard Humphry
Managing Director and Chief Executive Officer

Date

Signed for and on behalf of the FRC

Mr Charles Macek
Chairman

Date