Executive Summary

from the

WFE Governance of Exchanges Survey

March 2006
Member Exchanges

The World Federation of Exchanges is an international association comprised of the world’s leading bourses. Its membership includes:

American Stock Exchange  
Athens Exchange  
Australian Stock Exchange  
Bermuda Stock Exchange  
BME Spanish Exchanges  
Bolsa de Comercio de Buenos Aires  
Bolsa de Comercio de Santiago  
Bolsa de Valores de Colombia  
Bolsa de Valores de Lima  
Bolsa de Valores do São Paulo  
Bolsa Mexicana de Valores  
Bombay Stock Exchange Ltd.  
Borsa Italiana SpA  
Bourse de Luxembourg  
Bourse de Montréal  
Budapest Stock Exchange Ltd.  
Bursa Malaysia  
Cairo & Alexandria Stock Exchanges  
Chicago Board Options Exchange  
Colombo Stock Exchange  
Cyprus Stock Exchange  
Deutsche Börse AG  
Euronext Amsterdam  
Euronext Brussels  
Euronext Lisbon  
Euronext Paris  
Hong Kong Exchanges and Clearing  
Irish Stock Exchange  
Istanbul Stock Exchange  
Jakarta Stock Exchange  
JSE Limited  
Korea Exchange  
Ljubljana Stock Exchange  
London Stock Exchange  
Malta Stock Exchange  
NASD  
National Stock Exchange of India Limited  
New York Stock Exchange  
New Zealand Exchange Ltd.  
OMX  
OMX Copenhagen Stock Exchange  
Osaka Securities Exchange  
Oslo Børs  
Philippine Stock Exchange  
Shanghai Stock Exchange  
Shenzhen Stock Exchange  
Singapore Exchange  
Stock Exchange of Mauritius  
Stock Exchange of Tehran  
Stock Exchange of Thailand  
SWX Swiss Exchange  
Taiwan Stock Exchange Corp.  
Tel-Aviv Stock Exchange  
Tokyo Stock Exchange  
TSX Group  
Warsaw Stock Exchange  
Wiener Börse AG

Every effort has been made to ensure that the information in this publication is accurate at the time of printing, but the secretariat cannot accept responsibility for errors or omissions
At the beginning of his term of office in 2005, WFE Chairman Takuo Tsurushima of the Tokyo Stock Exchange asked to conduct a review of how exchanges govern themselves, as this question is broadly subject to public scrutiny at the moment. His purpose was to learn about current practices, and to get members’ evaluations of them. By joining members’ answers together, individual exchanges should gain perspective on the broader context in which to respond to the debate in their jurisdictions.

Here are the main findings of the survey on the governance of exchanges.

A total of 38 members answered the questionnaire circulated in mid-2005.

1. General information on respondents

<table>
<thead>
<tr>
<th>Type of Exchange</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private limited company</td>
<td>4</td>
</tr>
<tr>
<td>Demutualized exchange</td>
<td>11</td>
</tr>
<tr>
<td>Public listed company</td>
<td>11</td>
</tr>
<tr>
<td>Association or mutual</td>
<td>5</td>
</tr>
<tr>
<td>Other (specify)</td>
<td>7</td>
</tr>
</tbody>
</table>

The variety of respondents’ legal structures explains in part the diversity of corporate governance structures found.

20 exchanges out of 34 respondents, which is more than the number of public listed exchanges, met the corporate governance listing requirements set for issuers in their market. But most responding exchanges which are private companies consider that listing requirements only apply to plcs.

In terms of structure, 29 exchanges have a board of directors, seven have a split supervisory board / management committee as is common in the EU, and one has a different set-up as it is not a company.

On average, there are 13 persons sitting on the board/supervisory body, a large majority being non-executives.

2. Organization

Only five exchanges operate their regulatory and commercial activities in separate legal entities, but most of the 28 other respondents have “Chinese walls” or a distinct organizational entity to separate these activities.

Most organisations (28 out of 34 respondents) have publicly communicated procedures known to stakeholders in order to identify and resolve conflicts of interest. In some cases, they are included in the company’s code of ethics, and some exchanges have a dedicated conflicts committee.

The board is, in most cases, ultimately responsible for the affairs of the exchange for 31 out of 34 respondents.

Most exchanges have a corporate secretary (or equivalent) who assists the board on governance (30 out of 34 respondents).

26 respondents indicated that some directors positions are specifically reserved for persons from the following constituencies:

<table>
<thead>
<tr>
<th>Constituency</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive managers</td>
<td>12</td>
</tr>
<tr>
<td>Non-executives nominated and approved</td>
<td>7</td>
</tr>
<tr>
<td>Participants</td>
<td>12</td>
</tr>
<tr>
<td>Issuers</td>
<td>9</td>
</tr>
<tr>
<td>Owners</td>
<td>10</td>
</tr>
<tr>
<td>Public sector representative</td>
<td>11</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
</tr>
</tbody>
</table>

The diversity of independent non-executive directors is seen as a good way to ensure that all stakeholders are represented.

Most exchanges have several committees reporting to the board/supervisory body. The most common are audit and remuneration committees (respectively cited 27 and 26 times out of 31 respondents), followed by nominating (19 cases), risk management (quoted 12 times) and compliance committees (eight times).

The internal audit function reports directly to the board in 23 exchanges out of 34 respondents, often through the audit committee.
The same applies to the external audit function (27 exchanges out of 35 respondents).

3. Specific Board duties

The board assesses the effectiveness of risk management in 24 exchanges out of 31 respondents. This is done with the audit/risk management committee when there is one, and on a very variable frequency – the most common being monthly, but sometimes less often, and in some cases even just yearly.

The board evaluates its own performance in 21 exchanges out of 33 respondents, mainly on an annual basis.

The chief executive/general manager’s performance is evaluated by the board with the help of the nomination/remuneration or human resources committee. This review is conducted annually in most cases (32 out of 34 respondents).

The chairman’s performance is evaluated, most of the time on a yearly basis, by the board, with the help of the relevant committee when applicable (24 out of 32 respondents).

4. Other corporate governance issues

Whether listed or private companies, most exchanges have rules regarding directors’ own dealings in the company’s shares, black-out periods, and the like. One exchange has set up a share trading committee whose approval is necessary prior to any purchase or sale of the company’s shares by these persons.

Director remuneration is most often set by the remuneration/compensation committee. At certain exchanges, non-executive directors are not entitled to remuneration. The details of individual directors’ remuneration are made public in 17 exchanges out of 34 respondents.

Many exchanges (18 out of 29 respondents) have restrictions on the maximum percentage of shares that can be owned by a single shareholder, from 5% to 50%; but only 3 out of 28 respondents have limitations on the nationality of outside ownership.

18 exchanges out of 33 respondents have a structure or procedure for receiving and responding to ideas and questions from stakeholders without going through management.

List of respondents

- Athens Exchange
- Australian Stock Exchange
- Bolsa de Valores de Lima
- Bolsa de Valores do São Paulo
- Bolsa Mexicana de Valores
- Bourse de Luxembourg
- Bourse de Montréal
- Borsa Italiana
- Bursa Malaysia
- Chicago Board Options Exchange
- Colombo Stock Exchange
- Copenhagen Stock Exchange
- Deutsche Börse AG
- Euronext N.V.
- Hong Kong Exchanges and Clearing
- Irish Stock Exchange
- Istanbul Stock Exchange
- JSE Limited
- Korea Exchange
- Ljubljana Stock Exchange
- NASD
- New Zealand Exchange Ltd.
- OMX Exchanges Ltd.
- Osaka Securities Exchange
- Oslo Børs
- Philippine Stock Exchange
- Shanghai Stock Exchange
- Shenzhen Stock Exchange
- Singapore Exchange
- Stock Exchange of Tehran
- Stock Exchange of Thailand
- SWX Swiss Exchange
- Taiwan Stock Exchange Corp.
- Tel-Aviv Stock Exchange
- Tokyo Stock Exchange
- TSX Group
- Warsaw Stock Exchange
- Wiener Börse AG

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