Executive Summary

from the

WFE Governance of Exchanges Survey

March 2006

WORLD FEDERATION OF EXCHANGES

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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

Private limited company	4
Demutualized exchange	11
Public listed company	11
Association or mutual	5
Other (specify)	7

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:

Executive managers	12
Non-executives nominated and approved	7
Participants	12
Issuers	9
Owners	10
Public sector representative	11
Other	11

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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