

Corporate Governance

Macquarie's approach to Corporate Governance

Macquarie's approach to corporate governance aims to achieve superior and sustainable financial performance and long-term prosperity while meeting stakeholders' expectations of sound corporate governance.

Macquarie's corporate governance framework has been developed to support Macquarie's client focused business operations while providing clear guidance on how authority is exercised within Macquarie, including Board oversight of key controls. The Board, with the assistance of the Board Corporate Governance, Audit and Compliance, Remuneration and Risk Committees, determines the most appropriate corporate governance practices.

Macquarie Group Limited is listed on the Australian Securities Exchange (ASX) and is regulated by the Australian prudential regulator, APRA, as a non-operating holding company of a licensed Australian Bank, Macquarie Bank Limited. Macquarie is also supervised by the Australian corporate regulator, ASIC. A number of Macquarie's key operating subsidiaries are supervised by regulators in the overseas jurisdictions in which they operate.

Members of the Board and staff are responsible for upholding the goals and values to which Macquarie aspires: *Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest standards*. Adherence to Macquarie's Goals and Values is a relevant factor in assessing individual performance.

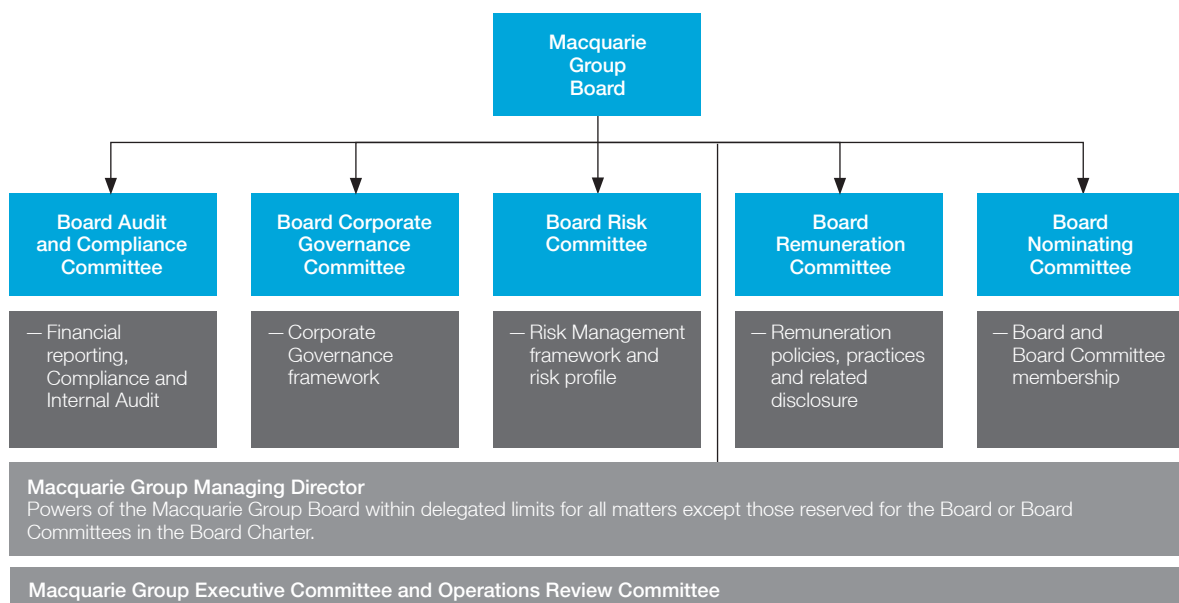
While Macquarie's Board and Board Committee structure has remained largely unchanged for a number of years, Board delegations and Board/Committee charters are regularly reviewed. Macquarie's approach to risk management and remuneration has also been consistent over time.

Macquarie monitors regulatory and corporate governance developments that impact on Macquarie's businesses, adopting corporate governance practices it considers are in the best interests of Macquarie and its shareholders, consistent with Macquarie's responsibilities to other stakeholders including clients, investors and staff. Macquarie considers that its governance practices are consistent with all but one of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations as set out below under the description of the role of the Chairman. A summary of the ASX Principles and Recommendations and reference to the applicable Macquarie governance practice is available on Macquarie's website at macquarie.com.au

Key developments during the year included changes to the delivery mechanism and retention and release conditions of Macquarie's deferred remuneration arrangements. In particular, the Macquarie Group Employee Retained Equity Plan was approved by shareholders at a General Meeting in December 2009.

The following is a description of the corporate governance framework and associated practices in place during the year to 31 March 2010.

Corporate Governance framework



Board oversight and management

The current composition of the Macquarie Board, as at the date of this report, is set out in the table below. Details of each Director's experience is summarised in Schedule 1 of the Directors' Report. Macquarie's Constitution includes requirements concerning board size, meetings, election of directors and powers and duties of directors. As at 31 March 2010, the Board had nine Directors. [A copy of the Constitution is available on Macquarie's website.](#)

The Board has reserved certain matters for its approval and has delegated specific authorities to its various Board Committees. The Managing Director has been granted general authority for those matters not reserved for the Board or Board Committees. Macquarie's Executive and Operations Review Committees operate as management committees pursuant to the Managing Director's delegated authority. Details of the Board's relationship with management and its role and responsibilities are contained within [the Board's Charter](#) which is [available on Macquarie's website.](#)

Macquarie has adopted a number of practices to regulate the division of responsibilities between the Board and management, including:

- having a majority of independent directors on the Board
- the separation of the roles of chairman and chief executive officer
- having, at least annually, the Non-Executive Directors meet in the absence of management
- that the number of Non-Executive Directors present at a meeting must be greater than the number of Executive Voting Directors

- that the Board Risk, Remuneration, Audit and Compliance, and Corporate Governance Committees be chaired by Independent Directors
- providing Directors with the ability to seek independent professional advice for company related matters.

Chairman

David Clarke is the Non-Executive Chairman of Macquarie Group. He sought and was granted leave from 27 November 2008 to 30 August 2009 due to illness. Kevin McCann, the Board's Lead Independent Director, served as Acting Chairman during this time.

Given Mr Clarke's role as Executive Chairman of Macquarie Bank from its formation until 31 March 2007, he is not considered to be an Independent Director.

APRA's Governance Standard, *APS 510 Corporate Governance*, requires that regulated entities have an independent chairman. Notwithstanding this requirement, APRA has confirmed that it will allow Mr Clarke to continue as Chairman. The ASX Recommendations also include a recommendation that the Chairman be independent. The Board believes that Mr Clarke is the most appropriate Director to be Macquarie's Chairman because of his relevant financial and industry experience, record of leadership and deep understanding of Macquarie's operations which are diverse and highly specialised. The Board has appointed a Lead Independent Director to act as a conduit to the Chairman for issues that the Independent Directors have as a group.

Director	Board Membership	Date of Appointment
David Clarke AO	Non-Executive Chairman	August 2007
Nicholas Moore	Executive	February 2008
Michael Hawker	Independent	March 2010
Peter Kirby	Independent	August 2007
Catherine Livingstone AO	Independent	August 2007
Kevin McCann AM	Independent	August 2007
John Niland AC	Independent	August 2007
Helen Nugent AO	Independent	August 2007
Peter Warne	Independent	August 2007

Corporate Governance

continued

Lead Independent Director

Kevin McCann, as the Lead Independent Director, chairs meetings of the Independent Directors as a group and provides feedback to the Chairman on any issues raised by them.

Independent Directors

Macquarie recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role including monitoring the performance of senior management. Seven of the Macquarie Board's nine members are independent directors.

The independence of directors is determined annually by the Board Corporate Governance Committee (BCGC). Based on Macquarie's criteria for assessing director independence, each Independent Director is asked to confirm whether they have any interests or relationships that may impact either on their ability to act in the best interests of Macquarie or independently of management. In March 2010, each Independent Director confirmed their independence and agreed to inform the Board should they believe that their status may have changed.

Mr Warne noted that he is Chairman of ALE Property Group (ALE) and a Non-Executive Director of ASX Limited. During the year ALE paid Macquarie fees that exceeded five per cent of ALE's total operating costs which is not a material amount of Macquarie's operating revenue. Mr Warne did not take part in any decisions to appoint Macquarie in relation to banking services and corporate advice provided by Macquarie to ALE. Macquarie also undertakes significant trading activity through the ASX on behalf of its clients resulting in amounts paid by Macquarie to the ASX that vary from month to month. The BCGC has determined that fees paid by ALE to Macquarie during the year and by Macquarie to the ASX as a consequence of its trading activity do not materially interfere with the exercise of Mr Warne's independent judgement.

At its meeting in March 2010, the BCGC determined that Helen Nugent, Catherine Livingstone, Kevin McCann, Peter Kirby, Peter Warne and John Niland continued to be Independent Directors. On appointment, Michael Hawker confirmed that he was independent in accordance with Macquarie's director independence criteria.

Directors are able to consult independent experts at Macquarie's expense, subject to the estimated costs being approved by the Chairman in advance as being reasonable, and have unlimited access to senior management of Macquarie.

[The criteria used to assess independence, including materiality thresholds, are reviewed annually and are available on Macquarie's website.](#)

Board performance

The Board reviews its performance and the performance of each director on an annual basis. The process for conducting the review is agreed by the Board and typically includes individual interviews by the Chairman with each director and the use of a questionnaire to cover matters such as:

- the Board's contribution to developing strategy and policy
- the Board's performance relative to its objectives
- interaction between the Board and management and between Board members
- the Board's oversight of business performance and compliance, control risks and management
- Board composition, including consideration of relevant skills, and structure
- the operation of the Board, including the conduct of Board meetings and group behaviours.

The Lead Independent Director provides feedback to the Chairman on matters listed above based on a meeting with other Independent Directors.

A written report summarising the results, issues for discussion and recommendations is presented to the Board and discussed at a Board meeting. Regular Board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

The Board appointed an external consultant to conduct its review in 2009. A written report, including outcomes of the review, issues for discussion and recommendations, was presented to the Board and considered at a Board meeting in May 2009. In 2010, the Board's review is being undertaken internally following the process described above.

Each Board Committee also undertakes a periodic review of its performance at least biennially. The process for the review also includes use of a questionnaire and discussion of the outcomes, including recommendations, led by the Chairman of the Board Committee.

During the year four Board Committees undertook an evaluation of their performance, with the Board Risk Committee's review being part of the annual Board review process.

[A summary of the processes adopted by Macquarie for Board and Key Executive Performance Review is available on Macquarie's website.](#)

Performance of key executives

Formal processes, summarised below, have been adopted by Macquarie to review the performance of Macquarie's most senior executives. As part of the review, the Non-Executive Directors meet as a group to approve the remuneration of the Managing Director and Executive Committee members.

Every year the Managing Director presents to the Non-Executive Directors as part of the formal review of the Managing Director. The Non-Executive Directors review performance by considering a range of indicators including financial performance measures, strategic initiatives, risk management, governance and compliance, staff and human resources indicators, reputation management and monitoring, and community and social responsibility matters. A similar process is also followed to review the performance of the Managing Director of Macquarie Bank.

The Managing Director evaluates, at least annually, the performance of the Deputy Managing Director and the Operating Group Heads, including the Head of Risk Management and the Chief Financial Officer. Performance criteria vary according to the individual's role. Factors relevant to assessing performance include (as appropriate) relative contributions to profits, capital usage, how business is done, including risk management, governance and compliance, people leadership and upholding Macquarie's Goals and Values. The Managing Director reports to the Board Remuneration Committee on the performance of these key executives.

The Board and Management seek to ensure that remuneration for the Head of the Risk Management Group is determined in a way that preserves the independence of the function and maintains Macquarie's robust risk management framework.

A performance evaluation for senior executives has taken place during the year in accordance with the process described above. Further detail on the remuneration policy for Key Executives is found in the Remuneration Report in the Macquarie Group 2010 Annual Report.

Board Committees

The Board has delegated specific authorities to its five standing Board Committees to assist it with the execution of its responsibilities. All Board members are sent Board Committee meeting agendas and may attend Board Committee meetings. Subsequent to each Board Committee meeting, the minutes are included in the Board papers and the Board Committee Chairman reports to the Board.

[Board Committee Charters set out the duties, responsibilities and membership requirements of each Committee and are available on Macquarie's website.](#)

The current membership of each Board Committee is set out below. Details of each Director's experience is summarised in Schedule 1 of the Directors' Report in the Macquarie Group 2010 Annual Report.

Standing Board Committee Membership	Audit and Compliance	Corporate Governance	Nominating	Remuneration	Risk
Non-Executive (non Independent)					
Director					
David Clarke AO			Chairman	Member	Member
Executive Voting Director					
Nicholas Moore					Member
Independent Directors					
Michael Hawker					Member
Peter Kirby	Member	Member			Member
Catherine Livingstone AO	Chairman		Member		Member
Kevin McCann AM	Member	Chairman			Member
John Niland AC		Member		Member	Member
Helen Nugent AO			Member	Chairman	Member
Peter Warne	Member			Member	Chairman

Corporate Governance

continued

For the duration of Mr Clarke's leave of absence, which ended on 30 August 2009, Mr McCann was a member and Acting Chairman of the Board Nominating Committee and a member of the Board Remuneration Committee. Members' attendance at Board and Board Committee meetings is set out at the beginning of the Directors' Report.

Board Nominating Committee and board renewal

The Board Nominating Committee assists the Board in maintaining a board that has an appropriate mix of skills and experience to be an effective decision-making body, contributing to the successful oversight and stewardship of Macquarie. Its members are Non-Executive Directors and the majority are independent. [The Board Nominating Committee Charter, which sets out its responsibilities and how it exercises its authority, is available on Macquarie's website.](#)

The Board recognises the importance of undergoing a regular process of renewal via changes in membership. [Macquarie's Policy on Board Renewal and Appointment of Directors is available on Macquarie's website.](#) The Board has delegated responsibility for identifying candidates for the Board to the Board Nominating Committee which considers succession planning for the Board and the necessary and desirable competencies for a new Board member. The Board Nominating Committee is able to engage external consultants to assist with the selection of new candidates or other independent experts to the extent it considers it necessary to carry out its duties. The Board Nominating Committee is chaired by David Clarke.

New Independent Directors are appointed for terms that will not exceed a maximum of 12 years.¹ In addition to providing an induction program for new Directors, regular Board education sessions are held during the year in response to business awareness needs, as identified by the Non-Executive Directors.

Board Corporate Governance Committee

The Board Corporate Governance Committee (BCGC) assists the Board in adopting the most appropriate corporate governance policies for Macquarie and meeting Macquarie's corporate governance requirements. The Committee is chaired by Lead Independent Director, Kevin McCann, and all Committee members are Independent Directors.

Board Risk Committee

Primary responsibility for ensuring an appropriate risk management framework including the establishment of policies for the control of risk lies with the Board Risk Committee. The Board Risk Committee receives information on the risk profile of Macquarie, any breaches of the policy framework and external developments which may have some impact on the effectiveness of the risk management framework. It also approves significant changes to the risk management policies and framework.

All members of the Board are also members of the Board Risk Committee to focus appropriate attention on the oversight of risk. The Committee is chaired by Independent Director, Peter Warne.

Further information on the operation of the Board Risk Committee is provided below under Oversight of risk management.

Board Audit and Compliance Committee

The Board Audit and Compliance Committee (BACC) has responsibility for exercising oversight over compliance of the financial statements with legal requirements and other mandatory professional reporting requirements and advising the Board on these matters. In addition, it is responsible for monitoring compliance with the risk management framework approved by the Board Risk Committee for internal control and compliance matters. In this role, the BACC oversees plans for the activity of the Internal Audit, Compliance, and Credit Assurance functions.

All four members of the BACC are Independent Directors. The Committee is chaired by Catherine Livingstone, a Chartered Accountant with significant and relevant finance and accounting experience. The Chairman of the Board Risk Committee is also a member of the BACC and one member of the Committee, Kevin McCann, has a legal background.

Further information on the role of the BACC is provided below under Financial reporting.

¹ Time served by Independent Directors on the Board of Macquarie Bank prior to the restructure of Macquarie in November 2007, calculated in accordance with transitional provisions that broadly weight past time on the Board prior to August 2002 at 50 percent, will be regarded as time served on the Macquarie Board.

Board Remuneration Committee

The Board Remuneration Committee (BRC) makes recommendations to the Board that promote appropriate remuneration policies and practices for Macquarie. It also has responsibility to liaise with the Board Risk Committee, the BCGC and the BACC in relation to remuneration related disclosures in the financial statements and remuneration report.

The Chairman of the BRC, Helen Nugent, is an Independent Director and a majority of the Committee's members are Independent Directors. The Chairman of the Board Risk Committee is also a member of the BRC.

Further information on the role of the BRC is provided in the Remuneration Report.

Ethical and responsible decision making

Code of Conduct

Macquarie has adopted a Code of Conduct, which incorporates Macquarie's Code of Ethics (What We Stand For). The Code of Conduct is also reflected in, and supported by, a broad range of Macquarie's internal policies and practices.

The Code of Conduct, which is endorsed by the Board, is intended to help staff to understand their responsibilities to uphold the following goals and values to which Macquarie aspires: *Integrity, Client commitment, Strive for profitability, Fulfilment for our people, Teamwork and Highest standards*. It also details standards and expectations around conflicts of interest, disclosure and corruption, to ensure that the highest standards are maintained and Macquarie's reputation enhanced.

[A copy of the Code of Conduct is available on Macquarie's website.](#)

Integrity office

The integrity of an organisation is maintained by the people that work within it. All Macquarie staff are expected to uphold, and are supported in maintaining, the highest standards.

Macquarie established the position of Integrity Officer in 1998. The Integrity Officer acts as an independent point of contact for staff on integrity issues and works to ensure that all Macquarie business is conducted in accordance with sound ethical practices and the Goals and Values of the organisation. The Integrity Officer reports directly to the Chief Executive Officer and provides a report on the activities of the Integrity Office to the BCGC.

[Macquarie's Corporate Citizenship statement is available on Macquarie's website.](#) Further information about the role of the Integrity Officer and activities of the Integrity Office is provided in the Sustainability report in the Macquarie Group 2010 Annual Report.

Dealing with potential conflicts

Failure to identify a conflict of interest before entering into a transaction, undertaking any dealing (either directly with clients or otherwise), or undertaking any fiduciary role, can give rise to considerable harm to Macquarie's relationship with clients and its reputation.

Macquarie has systems and protocols in place to identify a conflict of interest and a framework for managing conflicts. It is the responsibility of each business head to ensure that conflicts of interest are adequately managed and that their business is conducted in accordance with applicable laws, regulations, rules and statements of regulatory policy.

Macquarie has adopted a variety of measures to manage conflicts of interest, including Macquarie-wide and Divisional policies, systems, lists, information protocols and appropriate disclosures. The appropriate mechanism to manage a conflict will depend on the circumstances and nature of the conflict. Conflict management arrangements at Macquarie are subject to the oversight function of RMG Compliance.

The Board has guidelines for its members for declaring and dealing with potential conflicts of interest which include:

- Board members declaring their interests as required under the *Corporations Act 2001* (Cth) (the Act), ASX Listing Rules and general law requirements;
- Board members with a material personal interest in a matter not receiving the relevant Board paper and not being present at a Board meeting during the consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise
- Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

Macquarie Bank is a wholly owned subsidiary of Macquarie, and the Macquarie Bank Board is ultimately responsible for the sound and prudent management of Macquarie Bank, with due consideration for the interests of deposit holders.

The Macquarie Bank Board also has processes in place to ensure that decisions made by them are done so at arm's length. Where potential conflicts arise, management will ensure that Directors of the relevant Board have sufficient information to manage conflicts appropriately.

Corporate Governance

continued

Staff and Director trading

Macquarie's Personal Dealing Policies apply to Directors and all Macquarie staff. They identify the principles by which Macquarie balances the personal investment interests of staff against Macquarie's responsibility to ensure that the personal dealing and investment activities of its staff in any financial product are conducted appropriately. [A summary of Macquarie's Trading Policy is available on Macquarie's website.](#)

Key aspects of the Policy include:

- **pre-clear securities trading:** Directors, staff and their associates must pre-clear their securities trading with Macquarie
- **trading windows:** Generally, Directors and staff may only trade in Macquarie securities and related derivatives during designated trading windows. These are typically of three to five weeks' duration and follow Macquarie's announcement of its interim and full year profits and after the AGM. Participants in Macquarie's Employee Equity Plans may also be allowed to deal in other designated exercise periods
- **trading prohibition while in possession of material non public price sensitive information:** in all cases Macquarie prohibits Directors and staff from dealing in such investments while they possess material non-public price-sensitive information about Macquarie
- **unvested options, retained shares and minimum shareholding requirements cannot be hedged:** Staff are not permitted to undertake any action that is designed to limit their exposure to Macquarie shares which are subject to retention arrangements, or their unvested Macquarie options. Non-Executive Directors may also not enter into a transaction that operates to limit the economic risk of their Macquarie shareholding below their minimum shareholding requirement
- **net short positions not permitted:** Directors and employees are not permitted to take net short positions in Macquarie Group Limited shares or any securities in Macquarie-managed funds.

Each member of the Board is encouraged to consider positions in a Macquarie-related security as a long term investment and is not permitted to trade derivatives without the prior approval of the Chairman (or the Managing Director in the case of the Chairman). Board members and Executive Committee members are also required to annually disclose any financing arrangements relating to their Macquarie securities to Macquarie and manage their financing arrangements in accordance with Macquarie's Trading Policy.

Sustainability and the community

Macquarie has a robust framework of policies, underpinned by its Goals and Values and Code of Conduct, relevant to environmental, occupational health and safety, diversity, social and governance responsibilities. Macquarie's approach to sustainability is included in the Sustainability report within the Macquarie Group 2010 Annual Report.

Macquarie has committed to becoming carbon neutral by December 2010. Macquarie also invests continually in the development and training of its staff and engages in the wider community through the Macquarie Group Foundation (the Foundation).

In the year to 31 March 2010, the Foundation and Macquarie staff contributed \$A22.5 million to more than 900 community organisations globally.

In addition, there are also a number of Foundation volunteer programs. Through volunteer activities, staff can directly help community organisations and also build sustainability in the not-for-profit sector by transferring their business skills, providing mentor support, serving as board members and giving pro bono advice. The Foundation works closely with its community partners to assess how this volunteer support can be best utilised.

[Details of Macquarie staff community initiatives and organisations supported by the Foundation are available on Macquarie's website.](#)

Financial reporting

On behalf of the Boards of Macquarie and Macquarie Bank, the BACC monitors:

- the integrity of Macquarie's financial reporting and, as part of this role, the operation of the financial reporting processes. The processes are aimed at providing assurance that the financial statements and related notes are complete, in accordance with applicable legal requirements and accounting standards, and give a true and fair view of Macquarie's financial position. During its review of Macquarie's interim and year end financial reports the BACC meets with the external auditor in the absence of management
- the external auditor engagement. The BACC reviews the appointment, the terms of the engagement and the performance of the external auditor, prior to making recommendations to the Board on the appointment and removal of the external auditor
- the operation of the Internal Audit Division. The BACC reviews the appointment and performance of the Head of the Internal Audit Division (IAD), as well as the remuneration arrangements in place, to maintain the objectivity of the Internal Audit function. It also monitors the scope and implementation of the IAD annual plan.

The BACC monitors regulatory compliance as it relates to Macquarie's internal controls and compliance with internal control guidelines and policies including those that have the potential to impact financial reporting processes. During the year the BACC commissioned an external review of the Compliance function within Macquarie.

Auditor independence

The BACC reports to the Board, prior to the approval of the interim and year end financial report, on its monitoring of the independence of the external auditors in accordance with its obligations under the *Corporations Act 2001* (Cth), Macquarie's Auditor Independence Policy and the BACC Charter.

Macquarie's Auditor Independence Policy requires BACC approval, or between meetings the approval of the BACC Chairman, for material non-audit work performed by its auditors. Also in accordance with the Policy, Macquarie's audit engagement partner and review partner must be rotated every five years. Macquarie's lead audit engagement partner rotated at the conclusion of the 2008 financial reporting period.

[The BACC Charter and an External Auditor Policy Statement](#) contain key aspects of Macquarie's Auditor Independence Policy and external auditor selection process and are available on Macquarie's website.

Chief Executive Officer and Chief Financial Officer declaration

The Macquarie and Macquarie Bank Boards receive written confirmation from the Chief Executive Officer and the Chief Financial Officer that:

- their statement given to the Board on the integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- Macquarie's risk management and internal compliance and control system is operating effectively in all material respects.

Macquarie's senior management has reported to the Boards of Macquarie and Macquarie Bank on the effectiveness of the management of material business risks for the year ended 31 March 2010. The Boards have received the Chief Executive Officer and Chief Financial Officer declarations described above for this financial year.

Commitment to shareholders and an informed market

Macquarie believes that shareholders, regulators, ratings agencies and the investment community should be informed of all major business events and risks that influence Macquarie in a factual, timely and widely available manner. Macquarie has a Continuous Disclosure Policy which is incorporated in the External Communications Policy.

It is Macquarie's policy that any price-sensitive material for public announcement, including annual and interim profit announcements, release of financial reports, presentations to investors and analysts and other prepared investor briefings for Macquarie and Macquarie Bank, will be:

- factual and reviewed internally before issue
- timely and expressed in a clear and objective manner
- lodged with the ASX as soon as practical and before external disclosure elsewhere.

[An External Communications Policy Summary](#) is available on Macquarie's website.

Corporate Governance

continued



Shareholder meetings

Macquarie typically holds its AGM in July of each year. Macquarie encourages shareholders to participate in general meetings and aims to choose a date, venue and time considered convenient to the greatest number of its shareholders. This year Macquarie's AGM will be held in Sydney and the Macquarie Bank AGM will be held on the same day, after the Macquarie AGM. Other general meetings may be held as required during the year.

Macquarie's auditor is required to attend each AGM and be available to answer questions about the conduct of the audit, and the preparation and content of the auditor's report. Notices of meeting are accompanied by explanatory notes on the items of business and together they seek to clearly and accurately explain the nature of business of the meeting.

Shareholders, if unable to attend the meeting, are encouraged to vote on the motions proposed by appointing a proxy. The proxy form included with a notice of meeting will seek to clearly explain how the proxy form is to be completed and submitted.

Online proxy voting is also available to shareholders. Unless specifically stated in a notice of meeting, all holders of fully paid ordinary shares are eligible to vote on all resolutions. Holders of Macquarie Income Securities have the right to attend the Macquarie Bank AGM, at which they have limited voting rights, as set out in the terms of their issue which can be found at macquarie.com.au/au/about_macquarie/investor_information/macquarie_income_securities.htm.

Oversight of risk management

Risk management is sponsored by the Board, and is a top priority for senior managers, starting with the Chief Executive Officer. Macquarie's approach to risk management is embedded across all business units. The Board, through the Board Risk Committee, oversees the risk appetite and profile of Macquarie and ensures that business developments are consistent with the risk appetite and goals of Macquarie.

[A copy of the Board Risk Committee Charter is available on Macquarie's website.](#)

The Head of the Risk Management Group (RMG), as Macquarie's Chief Risk Officer, is a member of Macquarie's Executive Committee, reports directly to the Chief Executive Officer of Macquarie and presents on risk matters at each Board meeting. The Head of RMG has a secondary reporting line to the Board Risk Committee which approves the replacement, appointment, reassignment or dismissal of the Head of RMG.

At the executive management level, the Macquarie and Macquarie Bank Executive Committees and Operations Review Committee focus on strategic and operational issues, material transactions and review the performance of Macquarie on a monthly basis. Beneath this level, other committees exist where senior specialists focus on specific risks as appropriate (e.g. Market Risk Committee, Asset and Liability Committee).

Macquarie's approach to risk management is detailed in the [Risk Management Report](#) in the Macquarie Group 2010 Annual Report and [is available on Macquarie's website.](#)

Remuneration

The Board of Directors oversees Macquarie's remuneration arrangements, including executive remuneration and the remuneration of Non-Executive Directors. The Board is assisted by the Board Remuneration Committee. The Board Remuneration Committee annually reviews the remuneration strategy to ensure it delivers the best outcomes for Macquarie and shareholders.

[A copy of the Board Remuneration Committee Charter is available on Macquarie's website.](#)

Non-Executive Directors are not granted equity, nor do they receive bonus payments. They do not receive termination payments on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration. Details of Macquarie's approach and the amount of remuneration paid to Non-Executive Directors are contained in the Remuneration Report in Macquarie Group's 2010 Annual Report.

Details of the nature and amount of remuneration (including non-monetary components such as equity grants) paid to each Executive Voting Director and the members of the Executive Committee as well as Macquarie's remuneration policies and practices are also set out in the Remuneration Report.

Corporate Governance in Macquarie-managed funds

The Macquarie-managed funds (Funds) governance standards provide an alignment of interests between the manager and investors in the Funds and adopt an appropriate governance framework to ensure protection of security holder interests.

The key elements of Macquarie's corporate governance framework for Funds are:

— **Appropriate management of conflicts of interest arising between a Fund and its related parties.**

Related party transactions should be identified clearly, conducted on arms' length terms and tested by reference to whether they meet market standards. Decisions by listed Funds about transactions with Macquarie or its affiliates should be made by parties independent of Macquarie.

— **Appropriate resourcing of funds management businesses.** In particular:

- staff involved in managing a Fund should be dedicated to the relevant funds management business, rather than to advisory or other activities
- all recommendations to Fund boards (and supporting information) should be prepared or reviewed by funds management staff
- each listed Fund that invests in operating assets or businesses should have its own managing director or chief executive officer
- Chinese Walls operate to separate Macquarie's corporate finance, advisory and equity capital markets businesses from its funds management businesses

Macquarie's expertise in managing fund assets and sourcing new value-adding opportunities is a key attraction for investors in Macquarie-managed funds. While Macquarie exercises general oversight of its funds management subsidiaries as set out above, decision-making relating to transactions by Funds are made by the directors of the responsible entities of, and companies within, the Funds.