

15 November 2013

Ms Mavis Tan  
ASX Corporate Governance Council  
20 Bridge Street  
Sydney NSW 2000  
By email: [mavis.tan@asx.com.au](mailto:mavis.tan@asx.com.au).

Dear Ms Tan,

**Response to public consultation on the review of the  
ASX corporate governance principles and recommendations consultation**

We welcome the opportunity to respond to your consultation on the proposed update to ASX Listing Rules and Guidance Note 9 and begin by expressing strong support for your objectives to encourage listed companies to extend their disclosure requirements to consider environmental and social matters. We have some concerns about whether your proposals will achieve the intended outcome as currently drafted and hope that our suggestions below will assist with the progress of your work.

By way of introduction, The Climate Disclosure Standards Board (CDSB) is an international organisation committed to the integration of climate change-related information into mainstream corporate reporting. In support of its objectives, CDSB has developed a Climate Change Reporting Framework<sup>1</sup>. CDSB's Framework draws on the work of CDSB's Board Members<sup>2</sup> on international developments in corporate disclosure and on the work of the International Accounting Standards Board (IASB). Due to industry demand, CDSB are currently expanding its Framework so that it incorporates all forms of natural capital including water and forests.

CDSB has the **only** global framework designed specifically for the inclusion of non-financial information into annual reports. By following the "Climate Change Reporting Framework"<sup>3</sup> and its associated Guide<sup>4</sup>, an organization should be able to disclose non-financial information so that it is linked to financial information. CDSB's Framework allows companies to disclose non-financial information into corporate reports in a manner that is standardized, consistent and comparable. The Framework proposes that the organization presents its material impacts, aligning itself with the requirements of Integrated Reporting.

Although focussed on climate change-related disclosure, the approach and principles set out in CDSB's Framework are based on and enhance relevant principles from many other corporate disclosure practices and established financial reporting models. The approach taken in CDSB's Framework is therefore relevant to many other forms of corporate reporting and we believe that the extensive process undertaken by CDSB to determine the most suitable framework mirrors some of the challenges the ASX Corporate Governance Council face in achieving your objectives for this review.

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<sup>1</sup> CDSB's Climate Change reporting Framework can be downloaded from [www.cdsb.net/ccrf](http://www.cdsb.net/ccrf)

<sup>2</sup> CDSB Board members include The World Economic Forum, World Business Council for Sustainable Development, CDP and the World Resources Institute. Full overview of governance available from <http://www.cdsb.net/about-cdsb/leadership-and-governance>

<sup>3</sup> Climate Disclosure Standards Board, 2012 – "Climate Change Reporting Framework – Edition 1.1 September 2012" available at [www.cdsb.net/ccrf](http://www.cdsb.net/ccrf)

<sup>4</sup> Climate Disclosure Standards Board, 2013 – "Communicating climate change information in mainstream reports" available at [www.cdsb.net/FrameworkGuide](http://www.cdsb.net/FrameworkGuide)

CDP is an international, not-for-profit organisation providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with market forces, particularly investors and large purchasing companies, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. CDP now holds the largest collection globally of primary corporate climate change, water and forest-risk information and puts these insights at the heart of strategic business, investment and policy decisions. CDP was formerly known as the Carbon Disclosure Project.

Over 720 institutional investors with US\$87 trillion in assets are currently signatories to CDP's climate change information request, including 55 investors with US\$4 trillion in assets that are headquartered in Australia. It should be noted that the views expressed in this submission are those of CDP and CDSB alone.

Together, CDSB and CDP help investors understand the extent to which management of environmental information is integrated into a company's strategy and risk management, and thereby the extent to which corporate value is being protected and enhanced in this respect. As CDP utilises the power of measurement and information disclosure to improve the management of environmental risk and opportunities, and CDSB is focused on the integration of non-financial information into annual reports, we have limited our response to the specific questions within the consultation which address environmental matters.

### **Response to recommendation 7.1**

CDSB and CDP commend Recommendation 7.1 for establishing a more independent risk committee. Whilst the recommendation has rightly made links with Recommendation 7.2, we observe that there is no link with the proposed changes for Recommendation 7.4. CDSB and CDP question the effectiveness of Recommendation 7.4 unless it is cross-referenced in the same manner with Recommendation 7.1.

Acknowledging that less than 20% of a company's value is currently captured in a financial statement, it is crucial that environmental and social risks and opportunities are placed at the heart of the business strategy. However, without adequate representation at either Board level on environmental issues or in a risk committee, it remains unclear as to what extent these issues will be taken into consideration.

Therefore we suggest that Recommendation 7.1, in the context of Recommendation 7.4, include a provision requiring that **companies should include sustainability representatives at C-suite and Board level.**

### **Response to Recommendation 7.4**

CDP and CDSB congratulate the ASX Corporate Governance Council on their leadership in this initiative and support this recommendation to incorporate traditional non-financial information into companies' risk portfolios. We acknowledge the influential role that stock exchanges can play in promoting high-quality sustainable reporting through listing rules, and the importance of this is reflected in the Recommendation. Corporate disclosure on sustainability issues is widely viewed as an effective tool to encourage better sustainability performance. Moreover, sustainability reporting addresses the information demands of investors and other stakeholders who seek to better understand a company's ability to address social and environmental risks and opportunities.

With that said, CDSB and CDP believe that the broad definition of sustainable risks proposed in Recommendation 7.4 could hinder its ability to succeed in meeting investor demand for transparent and, more importantly, **material consistent and comparable** information. As early supporters of non-financial reporting with over 11 years of experience of capacity building at CDP, working globally with companies, investors and regulators, we know that there is confusion in reporting of non-financial information, particularly around the consistency and comparability of non-financial disclosures.

Evidence from our work and others such as the recent report issues by the ACCA/Eurosif (see ACCA Eurosif report<sup>5</sup>) support the view that unless strong reporting requirements are put in place from the outset that eventually more consistency and comparability will be demanded by both companies and investors, especially in relation to reporting and communicating progress. This is particularly likely to be the case if investors are to incorporate non-financial disclosures and progress in their analyses.

To demonstrate the need for consistency in non-financial reporting for investors, in 2011-12, CDSB worked with the OECD, UNCTAD and the GRI to review consistency of approaches to climate change-related reporting. This work provided an evidence base for policy makers interested in determining where greater consistency of approach might be achieved for the benefits of companies and readers of corporate reports. The “Consistency Report”<sup>6</sup> was welcomed by UNCTAD’s International Expert Working Group on Accounting and Reporting Standards (ISAR)<sup>7</sup> and while focussed on climate change it was acknowledged that many of the findings were equally applicable to other areas of corporate activity and compliance including governance and CSR.

The report concluded that reporting on sustainability performance should be conducted in accordance with international standards and guidelines which provide a consistent and comparable approach to sustainability issues. The benefits of a harmonized approach among companies internationally have long been evident in financial reporting, as reflected in the efforts of policy makers to work towards convergence around IFRS.

CDSB and CDP therefore have two recommendations to avoid the aforementioned problems. To avoid inconsistency and lack of comparability companies should ensure material information relating to environmental and other matters is integrated into the annual report rather than included in a separate financial statement. CDSB and CDP suggest that the listing add the requirement that

*‘a listed entity should disclose whether, and if so how, it has to regard economic, environmental and social **material** risks’*

As material non-financial issues can vary tremendously depending on the industry, the business model and the regions of operation, the ASX need not provide prescriptive guidance on exactly what to report, rather companies can be required to conduct their own materiality analysis and to disclose both their process and the results. Determining the appropriate scope of application and subject matter for a sustainability reporting initiative should focus on the disclosure of material information. This would also ensure that sustainability reporting does not place an undue burden on report preparers.

Further, the Listing should provide guidance that specifies that ‘material’ business risks are by definition inclusive of sustainability risks. A definition of ‘material’ that includes sustainability considerations and that is inclusive to all stakeholders is aligned with Integrated Reporting:

*“A matter is material if, in the view of senior management and those charged with governance, it is of such relevance and importance that it could substantively influence the*

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<sup>5</sup>Eurosif & ACCA, 2013 – “Investor needs and policy implications”, available at <http://www.accaglobal.com/content/dam/accaglobal/PDF-technical/integrated-reporting/tech-tp-inapi.pdf>

<sup>6</sup> CDSB, 2012 – “The case for consistency in climate change-related reporting” available at <http://www.cdsb.net/consistencyreport>

<sup>7</sup> <http://unctad.org/en/pages/DIAE/ISAR/ISAR-Corporate-Transparency-Accounting.aspx>

*assessments of the primary intended report users with regard to the organization's ability to create value over the short, medium and long term"*<sup>8</sup>

**We recommend that this definition is included in the Listing.**

Secondly, to avoid a lack of consistency and comparability between sustainability disclosures, and also to meet investor demands we recommend that strong tools be recommended to companies according to existing international standards. We note that the Recommendation indicates a number of frameworks that can be used to meet this requirement. However we also note that these tools do not necessarily meet investor demand for sustainability information.

**We therefore recommend that CDP and CDSB's Framework be recognised and included in the Principles as international environmental reporting standards along with GRI and the UN Global Compact.** CDP collaborates closely with both the GRI and the UN Global Compact on the development of their environmental reporting frameworks and platforms, particularly on initiatives to reduce sustainability reporting burden. It should be noted also that CDP has a much greater uptake amongst ASX-listed companies than both the GRI and the UN Global Compact. Additionally, CDSB's Framework has been listed as a method of compliance with the UK Companies Act and listed in the draft amendments to the EU Accountancy Directive as a globally accepted reporting standard for non-financial information..

Over 4,500 companies globally disclosed climate change information through CDP in 2013, including 69% of ASX 100 companies. ASX 200 companies which disclosed through CDP's climate change program in 2013 represented 89% of the ASX 200 total market capitalisation (as at 31 December 2012). CDP's leadership indices have also recently been recognised as the most credible corporate sustainability ranking in the world in an independent survey of 850 sustainability professionals in over 70 countries.<sup>9</sup>

CDP's water program currently requests water information from water-sensitive companies in the ASX100, JSE 100, S&P 500 and the FTSE Global Equity Index Series. In 2013, over 40% of the 50 ASX100 companies which were invited to respond disclosed through CDP's water program. Five ASX companies also disclosed forest risk commodity information through CDP's Forests program in 2013.

In closing, CDSB and CDP congratulate the ASX in taking steps towards the inclusion of environmental and other factors in listing requirements and encourage the consideration of the points noted in the consultation. If we can be of any assistance or you require additional information please do not hesitate to contact us .

Your Sincerely,

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Managing Director  
CDSB

James Day  
Director, Australia & NZ,  
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<sup>8</sup> IIRC, 2013 "Consultation draft of the International <IR> framework" paragraph 3.24 available at <http://www.theiirc.org/wp-content/uploads/Consultation-Draft/Consultation-Draft-of-the-InternationallIRFramework.pdf>

<sup>9</sup> Globescan/SustainAbility (2012), *Rate the Raters*, [www.globescan.com/component/edocman/?task=document.viewdoc&id=37&Itemid=591](http://www.globescan.com/component/edocman/?task=document.viewdoc&id=37&Itemid=591)

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## **About CDSB**

The Climate Disclosure Standards Board (CDSB) is an international consortium chaired by the World Economic Forum of business, investor and environmental organizations committed to the integration of climate change-related information into mainstream corporate reporting. CDSB's Climate Change Reporting Framework helps companies include climate change information into financial reports in a way that is of most use to investors by harmonizing existing financial and non-financial reporting standards. CDSB's aim is to promote aligned reporting practices to reduce reporting burden and provide comparable information to capital markets. CDSB's Framework is listed as a method for compliance for mandatory Greenhouse Gas reporting in the United Kingdom.

Download CDSB's Framework for the inclusion of non-financial information in annual reports at [cdsb.net/Framework](http://cdsb.net/Framework).

[www.cdsb.net](http://www.cdsb.net)

## **About CDP**

CDP is an international, not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. CDP works with market forces, including 722 institutional investors with assets of US\$87 trillion, to motivate companies to disclose their impacts on the environment and natural resources and take action to reduce them. CDP now holds the largest collection globally of primary climate change, water and forest risk commodities information and puts these insights at the heart of strategic business, investment and policy decisions.

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