



24 July 2018

Ms Elizabeth Johnstone
Chair
ASX Corporate Governance Council
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Dear Ms Johnstone

Review of the ASX Corporate Governance Principles and Recommendations

The Australian Auditing and Assurance Standards Board (AUASB) appreciates the opportunity to comment on the current review of the *ASX Corporate Governance Principles and Recommendations 4th Edition* (Principles and Recommendations), which is being undertaken by the ASX Corporate Governance Council.

One of the strategies of the AUASB is to monitor and respond to emerging issues impacting the development of auditing and assurance standards and guidance. We note that the review of the principles and recommendations is to address emerging issues including corporate values and culture, social licence to operate and carbon, climate change and cyber risks which align with the AUASB's strategy.

The AUASB are generally supportive of the Council's review of the Principles and Recommendations, in particular the addition of recommendation 4.4, amendments to the commentary to Principle 7 and recommendation 7.4 to enhance the overall governance of listed entities and contribute to stakeholder confidence by addressing broader corporate reporting. More detailed comments on the proposed changes to principles, recommendations and commentary are provided below.

Proposed Changes to Principles, Recommendations and Commentary

We are supportive of the proposed addition of recommendation 4.4 which accompanies the proposed changes to principle 4: *Produce corporate reports of high quality and integrity* highlighting that quality and integrity needs to be maintained in the broader corporate reporting context. The addition of recommendation 4.4 supports the need for listed entities to have adequate credibility enhancing mechanisms in place to ensure that the annual directors' report and any other corporate reports are accurate, balanced and understandable and provide investors with appropriate information to make informed decisions. These mechanisms may include external assurance provided by the listed entities auditor. These initiatives are consistent with the direction being adopted internationally and current academic research also supports the view that such credibility enhancing techniques are beneficial to market participants (Zhou, et al., 2018)¹.

¹ [Evaluating Combined Assurance as a New Credibility Enhancement Technique](http://aaajournals.org/doi/abs/10.2308/ajpt-52175) – Shan Zhou, Roger Simnett, Hien Hoang. Available at <http://aaajournals.org/doi/abs/10.2308/ajpt-52175>.

We have some concerns about the inconsistencies between current frameworks of qualitative characteristics of information and the qualitative characteristics applied to recommendation 4.4. While the commentary at recommendation 4.4 provides greater context on what a listed entity needs to consider disclosing to provide balanced corporate reporting, we do note that the qualitative characteristics applied to recommendation 4.4 (accurate, balanced, understandable and appropriate) are different to those in the AASB *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) and the corresponding IASB *Conceptual Framework for Financial Reporting*. It would be beneficial to users and preparers of this information if the two could be reconciled to enhance consistency.

The AUASB also notes the proposed changes to recommendation 7.4, which now solely focus on a listed entity's material exposure to environmental or social risks and how it manages or intends to manage those risks. We believe the additional commentary is useful in providing broader considerations for social and environmental risk encapsulating both sustainability and climate change risks for the contemplation by a listed entity when addressing Principle 7 – *Recognise and manage risk* and recommendation 7.4.

The AUASB would be pleased to further discuss the views expressed in this letter. Please do not hesitate to contact Marina Michaelides, Senior Project Manager (mmichaelides@auasb.gov.au) or Technical Director, Matthew Zappulla (mzappulla@auasb.gov.au).

Yours sincerely,



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