



Australian Institute of Performance Sciences

SUSTAINED VALUE-CREATION OUT-PERFORMANCE

www.aips.online

contact@aips.online

Telephone: 1300 762 190

GPO Box 1524, Melb, VIC, 3001

ASX Corporate Governance Council
c/o ASX Limited
PO Box H224
Australia Square NSW 1215

30 July 2018

By email: mavis.tan@asx.com.au

Submission to the review of the ASX Corporate Governance Council's Principles & Recommendations

To the ASX Corporate Governance Council:

Thank you for the opportunity to submit commentary to the ASX Corporate Governance Council's review of its Principles and Recommendations Edition 4.

This submission is structured as follows:

- A. The emergent perspective from which this commentary is made
 - B. Commentary on the proposed changes in Edition 4
 - C. Recommendations through which the Council may advance its purpose
 - D. Precedent for impact and leadership action
 - E. Links to further reference materials
- APPENDIX 1: 'Letter to Fiduciaries' global outreach, currently in signatory gathering phase both directly, and through the UN PRI collaboration platform.
- APPENDIX 2: Example changes that may be possible for edition 5

We seek through this submission to commence the development of an appropriate engagement with the Council to maximise the contribution that new thinking can bring to the achievement of common goals.

Yours,

Danny Davis

Executive Director

Australian Institute of Performance Sciences

danny.davis@aips.online

Lars Schiphorst

Executive Director

Australian Institute of Performance Sciences

lars.schiphorst@aips.online

A. THE AUSTRALIAN INSTITUTE OF PERFORMANCE SCIENCES

The perspective from which this commentary is made.

The Australian Institute of Performance Sciences (AIPS) facilitates the development and application of the breakthrough 'Governance of Value Creation' approach for achieving sustained high-performance value-creation in large-scale organisations.

The approach is based on academic and commercial research that has engaged directors at the top 10 listed companies (seven at Chair), CEOs and directors of large-scale investors and their equivalents amongst government legislators, departments, agencies and regulators amongst a cross-section of Australia's most senior leadership.

This work has developed the basis for an enhanced governance practice that better enables leaders to effectively direct and monitor multiple-capital assets of the organisation towards sustained long-term value creation. The practice is a fit-for-purpose design for operation in the Australian context where "Boards are increasingly being called upon to address new or emerging issues including around social licence, culture, conduct risk, digital disruption, cyber-security, sustainability and climate change".

Our preliminary academic and commercial research has demonstrated this 'Governance of Value Creation' Integrated Thinking model as leading to:

1. sustained (multi-bottom-line) value-creation out-performance in large-scale organisations
(the most advanced practitioner identified in the research has delivered returns 350% ahead of the market in a decade of sustained outperformance), and
2. the basis for a globally scalable investible disclosure framework demonstrating the level of certainty associated with an organisation's future prospects.
(i.e.: a breakthrough costing of future-risk for use by long-term investors)

This enhanced governance practice is proposed to enable Boards to fulsomely engage and assure the 'Future Fiduciary' question 'Are we optimally invested in our own future?'

Preliminary research indicates: a) that Directors are generally unaware that a model exists or is even possible, b) that significant aspects of the model are in operation in relevant organisations and its components are recognised by discipline experts, and c) that integration of matured components of practice leads to enhanced decision-making and performance.

These approaches are applicable across large-scale listed, private, community and public organisations and across public networks. This work is attracting significant Australian and Global interest amongst a wide range of relevant stakeholders.

The AIPS is an independent NFP vehicle, with an independent advisory board and expert advisory committee. It is working to develop collaborative participation across the TOP500 participants in the Australian economy appropriate to the ongoing development and dissemination of enhanced practice.

B. COMMENTARY ON PROPOSED CHANGES IN EDITION 4

The work of the Australian Institute of Performance Sciences is being recognised as providing a significant breakthrough. It enables a potential step-change in enhanced governance practice. It has been described as “the answer that everyone is looking for, but no one is expecting to find”. And, as “providing new perspective and new pathways for action”. Directors, investors and others are at this stage are generally unaware that this capability is available to them. It provides an emergent capability.

We applaud the work of the Council in development of the enhancements involved in Edition 4 of the ASX Corporate Governance Council’s Principles and Recommendations. We believe that the proposed changes improve and clarify the previous platform.

However, we suggest that there is a far more material change coming.

We note that broadly highlighted systemic issues (e.g.: Financial Services Royal Commission, APRA inquiry into the CBA, INSEAD Global Innovation Index 2018 placement of Australia at #76 for Effective Investment Innovation, Intergovernmental Review of Business Investment 2017, and many others) involve companies who would all be predominantly compliant with the new code.

And, the code does little to direct behaviours that would impact the Council’s own observation that “Boards are increasingly being called upon to address new or emerging issues including around social licence, culture, conduct risk, digital disruption, cyber-security, sustainability and climate change”.

There is a building pressure in Australia from the public, staff, supply chains, and government for more fundamental systemic overhaul.

And, there is a building pressure globally from a range of initiatives variously working to upgrade the sustainability and effectiveness of global financial systems, social cohesion, sustainable development, responsibilities and purpose of the company, sustainable capitalism, inclusive democracy and effective government. These are globally engaged cross-economy at the most senior levels of governments, regulators, agencies, investors and companies. (e.g.: EU FISMA, IIRC, UN PRI, ICGN, AICPA, ACCA, WEF, CECP, A4S, IFAC, Inclusive Capital, and many others).

Each of these global movements pivot on the need for enhanced governance and reporting to deliver an increased level of effective performance necessary to improve future systemic outcomes. **Australia has not been at the forefront of global governance development or adoption.**

We applaud the work of edition 4 of the Principles and Recommendations to bring Board focus to improved governance and board practices available through Integrated Reporting and improved Risk Management.

Any organisation looking to provide the “effective leadership, good governance and appropriate culture” as prescribed in paragraph 10 of Treasury’s July 13 submission to the Royal Commission, should be looking to prioritise the immediate adoption of these available practices.

However, this is not the end of the road. Australia’s corporate boards have an obligation to continue to adapt their practice to meet the increasing expectations of the Australian public, the globally recognised issues of financial market sustainability, and the broad range of issues boards are now facing.

Our research shows directors of leading ASX listed companies are predominantly unaware of, and do not have access to, governance models that allow them to engage sufficiently with these challenges. Also, our research provides preliminary demonstration of those few companies whose application of Governance of Value Creation practices has resulted in significant outperformance in this same context.

System wide improvement of practice to address looming issues will only be developed, matured, engaged, understood and adopted through broad participatory collaboration.

The Australian Institute of Performance Sciences is formed as a vehicle to facilitate the collaborative development and adoption of enhanced Governance of Value Creation practice across the Australian economy.

The work of the Australian Institute of Performance Sciences is being recognised, and is attracting local and global engagement, for providing:

- enhanced governance for sustained effective performance in an increasingly complex operating environment, and
- a quantitative breakthrough, missing component, from global efforts in systemic upgrades to the sustainability of global investment markets.

C. RECOMMENDATIONS THROUGH WHICH THE COUNCIL MAY ADVANCE ITS PURPOSE

We note the Council's primary role is to develop and issue principles-based recommendations on the corporate governance practices to be adopted by ASX listed entities - in order to promote investor confidence and to assist listed entities to meet stakeholder expectations in relation to their governance.

We recommend that the ASX Corporate Governance Council:

- **uses its powerful mandate to motivate cross-economy participation in the Australian Institute of Performance Sciences initiative (see 'PRECEDENT', following) to collaboratively develop, mature, engage, understand and adopt enhanced governance practice.**
- **uses an extended process of engagement around drafting, consultation and publication of Edition 5 of the Corporate Governance Council's Principles and Recommendations to encourage systemic adaptation to meet emerging challenges.**

And, finally, we note that there are significant generational advantages to Australian companies, investors, governments and the public in Australia taking a global leadership role in the development and adoption of enhanced governance practice.

D. PRECEDENT FOR IMPACT AND LEADERSHIP ACTION

A brief history of the JORC Code

The JORC Code, produced by the Australasian Joint Ore Reserves Committee, established by the Australian mining industry, is a code of practice that sets minimum standards for Investor reporting of minerals exploration results, mineral resources and ore reserves.

Since publication 1989 it has become a requirement of the ASX (and NZ) Listing Rules, and together with related forward looking statements is subject to legal and ASIC compliance.

Work on JORC commenced after the Poseidon nickel boom/bust in the late 1960s, providing a standardised evidence base for reporting claims of resource potential. It was developed with the intention of a) increasing the sustainability of financial markets' resource investments, and increasing the invest-ability of small-cap miners on the basis of the quality of their assets.

JORC is a scalable investible disclosure framework provides an accounting for a complex engineering assessment of uncertainty.

The JORC code defines mandatory disclosure rules for reporting the level of certainty associated with an organisation's mining or resource assets. It is an accounting for the extent and quality of geophysical testing (how well do we understand what is below the ground), and of the geochemistry (how well do we understand what is involved in extracting the target mineral from the rock).

Since its development, the JORC code has been replicated and implemented across a range of global jurisdictions. There are now moves to harmonise these into a single global standard.

The Value-Creation Maturity Assessment

The Value-Creation Maturity Assessment (VCMA) is the assessment model associated with the Governance of Value Creation practices. It has been applied to rate Australian listed companies within research that has demonstrated Governance of Value Creation's performance impacts.

VCMA is proposed as the basis for an assurable, investible disclosure of the certainty of an organisation's future-prospects. It is a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to the JORC / SAMREC / SME standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets.

VCMA is fit-for-purpose designed to provide an investible costing of future-risk suitable for long-term capital and complex market conditions:

- Standardised disclosure of prospects across multiple time-horizons, including the extent of consideration and level of preparedness for standardised contingencies.
- Standardised disclosure of the levels of certainty associated with future prospects to increase investor visibility of the level of increasing certainty of regenerative and growth activity.
- Protection of the confidentiality of an organisation's proprietary strategies.
- Appropriate roles for directors in preparation and assurance.
- Increased impact for fiduciaries from a global-scale systemic approach that moves beyond proxy voting and informal behind-closed-doors 'engagement' discussions.
- Increased opportunity for fiduciaries and economic development in application beyond traditional listed vehicles (including government and social programs).

These approaches integrate, and thereby activate (not duplicate) the vast multi-disciplinary body of professional practice. They can be understood as implementation extensions to Integrated Thinking (IIRC) encompassing GRI, UN PRI, CIMA Principles and a broad variety of additional measures.

Governance of Value Creation, and the Value-Creation Maturity Assessment are the culmination of, not a diversion from, historical investments in good practice.

Large-scale Australian investors are currently considering the use of VCMA to rate long-term capacity of companies within their Australian equities portfolio to improve long term performance, and as a contribution to the sustainability of investment markets.

We recommend that the ASX Corporate Governance Council choose play an engaged role within the further development of VCMA practices to accelerate its time-to-market impact as compared to the timelines associated with the development of the JORC Code.

E: LINKS TO FURTHER REFERENCE MATERIALS

We recommend the Council make themselves familiar with other information published on the www.aips.online website including our:

- Advisory Board
- Expert Advisory Committee Global outreach through the ‘Letter to Fiduciaries’ initiative
- The Institute’s white-paper series:
 - **Australian Prosperity**: An alternative approach to sustained economic Development. Economic growth and budget repair.
 - **Enhanced Stewardship**: Enhanced Government and Community Sector Performance, Better Societal Outcomes, and Activation, Engagement and Alignment across Public, Commercial and Community Sectors.
 - **The Executive Epidemic**: Unsustainable Overload. Idea resistance. Perverse incentives. Frustrated value. Career risk.
 - **Active Value**: New Research Empowering Sustained Superannuation Prosperity.
- Responses to various Parliamentary Committees
- Reporting from our series of Roundtable workshops held at State and Federal Parliaments

And, additional information is available on request, including:

- A Research Summary
- An introduction to ‘Phase Shifting’ transformation methodology
- A presentation on the Institute’s operation, model and strategy, and
- Our recent budget submission calling for the funding of a paper entitled “Sustained High-Performance Value-Creation in the Australian Economy”

The concepts, opportunities, economics, interest-in-participation and development pathways for Governance of Value Creation in Australia’s commercial, investment, public and community sectors... and, its context within Australian and Global regulation and practice development.
- Our recent submission to the Australian Public Service review including recommendations on the adoption of enhance governance practices through the Development of a Capability Upgrade Plan: “Effectiveness Enhancement from a Governance of Value Creation perspective.”

To provide actionable guidance to enhance the Secretaries Board’s capacity to lead, oversight, engage, prioritise and lift the rate of sustained effective value-creation – across public and community sectors – and across economic and social outcomes.
- Our recent submission to the Financial Services Royal Commission on the applicability of enhanced governance practices to engage;
 - New and emerging issues for Directors including around social licence, culture, conduct risk, digital disruption, cyber-security, sustainability and climate change. Concepts of sustained value-creation out-performance and its potential impact on Australia’s future economic and social prospects.



LETTER TO FIDUCIARIES:

BlackRock
Vanguard
State Street Corporation
Fidelity Investments
BNY Mellon Investment Mgmt
JP Morgan Asset Management
PIMCO
Capital Group

Prudential Financial (PGIM)
Goldman Sachs Asset Mgmt
Amundi
Pension Funds
Sovereign Wealth Funds
and global scale Asset Managers
cc: G20, World Bank, WEF
IIRC, UN PRI, GRI, A4S, et al

Stock Exchanges
Rating Agencies
Reserve Banks
Treasurers & Finance Ministers
Regulators (and IOSCO)
Boards and Executives
and aligned civil, business and
investment leadership forums

April 2018

Dear Fiduciary,

We have heard the calls. BlackRock's 'Annual Letter to CEOs', CECP SSI's 'Investor Letter to Presenting Companies' and many other voices seek stronger engagement on long-term perspectives of shareholder and stakeholder value within climate, sustainability, societal and broader contexts.

In response, we propose engagement around a breakthrough Australian solution to this issue as the potential basis for a Global disclosure framework – providing an investible periodic assessment of the quality of an organisation's future prospects – and indicating how sustained increases in effective performance can be achieved in large, mature organisations.

We applaud your success in driving awareness through forums of fiduciaries, CEOs, Finance, ESG and CSR professionals, governments, regulators and institutions. This very success suggests that the constraint is no longer awareness, goodwill, or even leadership. **The systemic capacity to engage future-value creation is the most significant remaining constraint on the achievement of these widely endorsed goals.**

Our future-challenges engage multiple measures of value. They are uncertain, complex to execute, and difficult to communicate between trust-stakeholders. We lack the effective means to reliably engage, execute, govern and communicate future-value creation, at the human, organisational and systemic level. Enhanced practice is required.

Accounting for Sustainability's observation that we are battling to meet 21st Century challenges with 20th Century decision-making and reporting systems has spurred global advances (IIRC, GRI, et al) in measurement and reporting. We have not seen similar advances in systemic capacity for decision-making, governance and the organisation of human labour.

Boards, executives, and managers of funds are constrained from acting without assurable, quantifiable capacity to make enhanced contextualised decisions. They need the ability to demonstrate the appropriateness of actions taken in support of long-term shareholder and stakeholder interests.

The Australian Institute of Performance Sciences is facilitating the development and application of the breakthrough 'Governance of Value Creation' approach. This approach enables enhanced decision-making and system-wide engagement with the core 'Future Fiduciary' question "Are we optimally invested in our own future?".

You called for long-term stakeholder perspectives on value-creation. We have developed a globally scalable systemic approach to achieve it. This is best matured to impact through collaboration. Please respond to us with contacts for appropriate engagement.

Sincerely,

Signatories (in their individual capacities):

Danny Davis

Executive Director
Australian Institute of
Performance Sciences.

Lars Schiphorst

Executive Director
Australian Institute of
Performance Sciences.

John Stanhope

Chair, Australia Post
Chair, Bionics Institute.
Director AGL.

Judge Professor

Mervyn King

Integrated Reporting

Michael Roux

Ex Dep Secretary of Treasury, Chair
VicSuper, V-Chair Citigroup. Australian
Davos Connection. WEF Ambassador.

Andrew Harding

Chief Executive Management Accounting,
The Association of International Certified
Professional Accountants.

Gavin Yeates

Former Vice President
Business Optimization, BHP Billiton.
Former member JORC

Rob Loader

Director Capital Planning
Telstra.

Victor Perton

Ex Commissioner to the Americas, Snr
Advisor to G20 Presidency & Central
Bank Governors. Parliamentarian.

Jeroen Veldman

Senior Research Fellow, Cass Business
School. Coordinator,
The Modern Corporation Project.

Gordon Noble

Principal Advisor John Grill
Centre for Project Leadership.

Filip Gregor

Head of Responsible Companies,
Frank Bold.
Purpose of the Corporation Project

Michael Bray

Deakin Fellow in Integrated Reporting.

Dr Matthew Kiernan

Chief Executive
Inflection Point Capital Management.

"Surely, we know how to make boards effective as an organ of corporate governance. Having better people is not the key; ordinary people will do. Making a board effective requires spelling out its work." PETER DRUCKER

"I suspect that in the end we shall develop a formal business-audit practice, analogous perhaps to the financial-audit... based on predetermined standards (of) a systematic evaluation of business performance." PETER DRUCKER

"It may not be too fanciful to expect that in ten years a major pension fund will not invest in a company's shares or fixed-income securities unless that company submits itself to (such) a business-audit." PETER DRUCKER, 1991

"The person who figures out how to harness the collective genius of the people in his or her organization is going to blow the competition away." PETER SENGE

BACKGROUND

Academic and commercial research undertaken in Australia has engaged directors at the top 10 listed companies (seven at Chair), CEOs and directors of fiduciary investors and their equivalents amongst government legislators, departments, agencies and regulators. **On the basis of the preliminary indications of this research, the Institute seeks to facilitate the collaborative maturing and global application of:**

Governance of Value Creation, as a future-oriented analogue to Financial Governance. This is an integrated, multi-disciplinary model for sustained highly-effective value-creation. It can be applied across all sectors, strategies and structures of organisation or asset.

- Quality information-foresight enables timely, balanced decision-making for optimising multiple bottom-line outcomes, across multiple time horizons, in the context of complexity and uncertainty.
- Accounting for periodic movement in certainty of future-outcomes (from experimentation, learning and changing externalities) empowers decision-agility and the immediacy of KPI performance measurement of progress towards long-term objectives as a counter to short-term pressures.

And, the related Value-Creation Maturity Assessment (VCMA), as an assurable, investible disclosure of the certainty of future-prospects. This is a cross-sector, knowledge economy, societal-value, intangible-value-creation equivalent to the JORC / SAMREC / SME standardised reporting on the levels of certainty associated with extracting value from Mining and Resource assets.

- Standardised disclosure across multiple time-horizons, including the extent of consideration and level of preparedness for standardised contingencies. And, use of a method that maintains confidentiality of strategy, and appropriate roles for directors in preparation and assurance.
- Enhanced impact for fiduciaries from a global-scale systemic approach that moves beyond proxy voting and informal behind-closed-doors discussions, and beyond listed vehicles whilst expanding your investible universe.

These approaches integrate, and thereby activate (not duplicate) the vast multi-disciplinary body of professional practice. They can be understood as implementation extensions to Integrated Thinking (IIRC) encompassing GRI, UN PRI, CIMA Principles and other measures. This is a culmination of, not a diversion from, historical investments in good practice.

We see increased systemic productivity defined not as cost-cutting, but as the 'effective creation of new sustained value'. We identify the vast latent capacity in human ingenuity, and how it can be liberated and applied to new value-creation through updated practice. We identify that effective growth does not demand increased risk. Creation of new value presents as the path to sustained wage growth, trickle-up economics, participation, trust and sustainably vibrant societies.

Systemic advantages suggest piloting cross-economy uptake in the Australian context, as an exemplar for accelerated global advancement. We have years, not decades in which to deliver global impact. Success will contribute to how corporations and investors create value, but moreso, to how corporations, investors, governments and community jointly participate in achieving effective future outcomes.

This is an opportunity to exercise the great responsibility invested in you as fiduciaries. It enlivens your role as leaders and system-makers in fulfilment of your own social licence. This call for support and participation is a chance to demonstrate this leadership and model the behaviours you seek in others.

APPENDIX 2: EXAMPLE CHANGES THAT MAY BE POSSIBLE FOR EDITION 5

The ASX Corporate Governance Council and its Principles and Recommendations are an important component of system-wide checks, balances, guidance, precedent, regulation and influence supporting the sustained viability of Australian capital markets.

The Australian Institute of Performance Sciences (AIPS) is focused on improved systemic outcomes achievable through enhanced governance. It seeks to build ongoing cross-economy engagement for both collaborative practice development, and its broad systemic adoption. A hypothetical-future description of the full gamut of possible systemic adaptation is beyond the scope of this submission.

Tighter governance principles would form an important part of more effective future ecosystems. We have attempted here to forecast the nature of changes that could potentially be considered for future editions of the Principles and Recommendations as a result of emergent capabilities arising from the systemic uptake of enhanced governance.

Potential amendments for consideration in Edition 5:

a. Principle 1.

Lay solid foundations for management and oversight: A listed entity should clearly delineate the respective roles and responsibilities of its board and management and disclose **its basis for validating and assuring the quality and integrity of** how their performance is monitored and evaluated.

Putting monitoring and evaluation on the same footing as Financial Governance.

b. Principle 4.

Produce corporate reports of high quality and integrity: A listed entity should ~~have formal and rigorous processes to validate~~ **disclose its basis for validating and assuring** the quality and integrity of its corporate reporting.

Putting reporting on the same footing as Financial Governance.

c. Principle 5.

Make timely and balanced disclosure: A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities, **or material change in the certainties of its future prospects over the short, medium and longer term.**

Including sustainability and future risk profile within disclosure.

d. Principle 9. (new)

Lay solid foundations for decision making: A listed entity should disclose its basis for validating and assuring the quality, integrity and timeliness of its decision making to optimise future outcomes.

Including the Future Fiduciary responsibility to disclose directors' appropriate stewardship of multiple financial, non-financial and intangible assets.