



Ms Elizabeth Johnstone
Chairman
ASX Corporate Governance Council
20 Bridge Street
Sydney NSW 2000

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

25 July 2018

Dear Ms Johnstone

ASX CG Principles and Recommendations 4rd Edition Submission

Thank you for the opportunity to review and make a submission on the ASX Corporate Governance Council's proposed 4th edition of its Corporate Governance Principles and Recommendations (**CG P&R**).

In our view, the CG P&R – 4th edition will be an important stimulus for boards and executives to rethink how they report to investors and other key stakeholders to enhance transparency and rebuild corporate trust and legitimacy overall. It will also be an important enabler for investors to further build their stewardship capabilities. Finally, it will have important implications for research and education in universities such as ours.

Recommendation 4.4 in particular is an important component part of the draft 4th Edition.

Deakin and Integrated Reporting

To date, Australia has lagged other major capital markets such as the UK, Japan, South Africa, and now India and increasingly the USA, in integrated reporting adoption. The integrated reporting progress of companies such as GE, JLL, American Electric Power and Prudential, and the formation and activities of the US Integrated Reporting Committee, are driving good progress in North America¹. Integrated reporting forms part of the current Chinese Five Year Plan, and China is represented on the IIRC. Universities around the world are starting to build integrated reporting capacity to match the quickly growing demand for integrated reporting skills.

¹ <https://iruscommunity.org/directory-united-states-integrated-reports>



In our view, Australia can quickly catch up on integrated reporting adoption through the stimulus of Recommendation 4.4 in the draft 4th Edition of the ASX Corporate Governance Principles and Recommendations.

Deakin University (Deakin) established a focus on integrated reporting in 2016, a first among Australian universities. This was a strategic move by the university in anticipation of Australia following other major capital markets in adopting integrated reporting as a key tool of corporate governance, as companies, institutions and governments take actions to improve transparency and restore trust.

Deakin seeks to contribute to this mission. Deakin was, with KPMG and UNSW (the *Integrated Reporting Education Australia Consortium*), selected by the International Integrated Reporting Council (IIRC) in 2016 as one of the IIRC's eight global Foundation Training Partners, giving it a unique position in integrated reporting in Australia.

This appointment enabled Deakin to commence teaching integrated reporting to business degree under-graduate and post-graduate students in 2017, standing Deakin apart in preparing for the next step in the evolution of Australian corporate reporting. We expect that our courses will be a significant contributor to the process of building the required system capacity in integrated reporting, as demand for integrated reporting skills grows. This is a key 'ask' of universities as the now inevitable move towards integrated reporting as the corporate reporting norm gathers pace.

Deakin was also selected in June 2018 by the IIRC to be the inaugural chair of the Oversight Body of its Global Academic Network. The Body will oversee the IIRC's Global Academic Network, a group of around 100 universities and other educational bodies which are currently only loosely connected and without a united agenda.

We have taken this approach as we believe that integrated reporting will become the corporate reporting norm in the years to come, and system capacity in commerce and other graduates will be required to meet demand for integrated reporting skills.

The benefits of adoption are not enjoyed only by listed public companies, making the draft Recommendation 4.4 valuable outside of the listed public company sector, and certainly to those looking to the ASX Corporate Governance Council for leadership on contemporary good practice in corporate governance.

Universities are among those benefiting from the adoption of integrated reporting. For example, the British Universities Finance Directors Group (BUFDG) has become a significant proponent of



integrated reporting², and leading universities such as the University of Edinburgh³ are leading the charge, based on the proven business benefits of adoption. Deakin, in its global leadership role, intends to lead in Australia, establish contact with the BUFDG and make it a key contributor to the global adoption mission, and publish its own integrated report.

Looking further forward, Deakin is establishing a dedicated Integrated Reporting <IR> Centre to add depth and breadth in its capacity to lead integrated reporting research and education in Australia, and globally, as part of the mission to make integrated reporting a significant contributor to improved business performance, more efficient capital markets, and enhanced Australian competitiveness. We expect the Centre to be operational in the months to come, and certainly before Recommendation 4.4 becomes effective.

We need the credibility of Recommendation 4.4 to assist in driving our local and global education mission.

The Academic Contribution

In November 2017, research undertaken over a five year period by some of the world's leading accounting academics, led by Professor Mary Barth of Stanford University, was published in the globally acclaimed Journal of Accounting, Organisations and Society. The research found that good integrated reporting is positively associated with all of investor projections of expected future cash flows, stock liquidity and firm value⁴.

Achieving widespread adoption of integrated reporting is in our view a key enabler of driving good practice corporate governance in Australia through the 4th Edition of the ASX CGP&R. Widespread adoption will require and academic contribution in support of Recommendation 4.4:

- Dedicated research on the potential impact of integrated reporting on improving business performance and enhancing societal licence to operate. We intend to drive this through the Deakin Integrated Reporting Centre.
- Enhanced integrated reporting courses to build the required system capacity.

We, along with UNSW and RMIT University, have already started teaching integrated reporting at the under- and post-graduate levels. It will take time for today's under-graduates to reach

² <https://www.bufdg.ac.uk/search?s=integrated+reporting>

³ <https://www.accaglobal.com/an/en/professional-insights/global-profession/Insights-into-integrated-reporting-2-walking-the-talk/university-of-edinburgh.html>

⁴ 'The economic consequences associated with integrated report quality: Capital market and real effects'. By Professor Mary Barth, Steven Cahan, Li Chen, Elmar Venter, in Accounting, Organisations & Society, 2017



influential levels in business. We will need to invest quickly and significantly in executive education to catch up on building the required skills in the field at leadership level.

Further research areas that Deakin is considering include:

- Extending the findings of Barth et al to Australia, and other parts of the world. It would be helpful if your Council encourages quantitative and qualitative research into the business benefits, investor demand and investor usage found by the Barth team.
- Evaluation of whether we have the right educational arrangements in place to optimise the benefits of the ASX CG P&R. For example, are we equipped to educate at the right scale and pace?

From a research perspective, the ASX CG Council may like to consider commissioning Deakin to monitor changes driven by Recommendation 4.4, or to encourage its members to do so.

The Deakin Council will most likely approve the required investment with a good practice stimulus such as the proposed Recommendation 4.4.

Submission

We recommend that the ASX CG Council retain the draft Recommendation 4.4, with the minor modification to the associated Commentary noted below:

The principles of “integrated reporting” are a useful framework for preparing operating and financial reviews to provide the market with information about a listed entity’s future prospects, risks and opportunities, strategy and business model. Although not required, some entities prepare annual reviews using the principles of integrated reporting. Other entities are required under the Listing Rules to prepare quarterly activity reports and quarterly cash flow reports that are not typically subject to audit or review by the entity’s external auditor. Some also release to the market other corporate reports, such as a “sustainability report”, to provide insights into other aspects of their operations.

Concluding Remarks

Deakin University welcomes the Council’s proposed update of the CG P&R to ensure they remain relevant in today’s challenging environment, and reflect current good practice in corporate reporting, and make a contribution to Australian capital markets.



Thank you for the opportunity to provide feedback and we would welcome the opportunity to provide further feedback or support should you require.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Barry J Cooper'.

Professor Barry J Cooper

**Associate Dean (Engagement)
Deakin Business School**

+61 3 5227 2733

barry.cooper@deakin.edu.au

Deakin University CRICOS
Provider Code 00113B