

ASX Corporate Governance Council  
c/o ASX Limited  
PO Box H224  
Australia Square NSW 1215  
Attention: Mavis Tan

By email: [mavis.tan@asx.com.au](mailto:mavis.tan@asx.com.au)

**Re: Submission on the consultation draft of the fourth edition of the *Corporate Governance Principles & Recommendations***

To the ASX Corporate Governance Council,

Market Forces is an affiliate project of Friends of the Earth Australia. We advocate for policy and practical action to redirect finance from projects and activities that harm the environment and into those that protect and enhance it. We appreciate this opportunity to make a submission on the consultation draft of the fourth edition of the *Corporate Governance Principles & Recommendations*.

We welcome the increased guidance on climate change risk management presented within the consultation draft, but suggest more should be done to ensure robust climate risk disclosure and management amongst listed entities. Below are our responses to each of the proposed updates relating to climate change.

**(a) Amendments to the commentary to recommendations 2.2 and 2.6**

We find phrase ‘boards are increasingly being called upon to address new or emerging issues including... sustainability and climate change’ particularly problematic. It falls well below the standard of climate risk management that is already required of boards.

The financial risks posed by climate change have been recognised as ‘distinctly financial in nature,’ and ‘material, foreseeable, and actionable now.’<sup>1</sup> To suggest that boards are ‘increasingly being called upon to address’ these risks is incorrect, and could give boards the wrong impression of the extent of their duties with respect to climate risk management.

It is beyond doubt that each individual board member must possess the skills to address sustainability and climate change issues where they pose material risks to the company. Every director must be competent to appropriately consider and manage climate change risks in order to satisfy their duty of care and diligence.<sup>2</sup> Given the prevalence of material climate change risks amongst listed entities, the commentary to recommendations 2.2 and 2.6 downplays the level of climate competence already legally required of directors.

Further, for the many companies facing transition risk due to policy and technological responses to climate change, boards must increasingly exhibit experience and skills in industrial transformation. We believe reference to these skills should be made in the updated commentary to recommendations 2.2 and 2.6.

**(b) Amendments to the commentary to principle 3**

We believe the update to principle 3 is a significant improvement. However, the phrase ‘a socially responsible manner’ is unnecessarily vague, which we expect will erode accountability of

1 Geoff Summerhayes (APRA), [‘Australia’s new horizon: Climate change challenges and prudential risk’](#) (17 February 2017)

2 Noel Hutley SC and Sebastian Hartford-Davis, [‘Climate Change and Directors Duties’](#) (7 October 2016)

companies and directors. We would like to see clarification in the commentary, confirming that action which undermines the climate goals instilled in the Paris Agreement is socially irresponsible.

**(c) Amendments to recommendation 7.4**

Updating recommendation 7.4 offers the greatest opportunity for the ASX Corporate Governance Council to ensure robust climate risk disclosure amongst listed entities. As noted in the proposed update to the commentary, many listed entities are exposed to climate change risks. In fact, there would be very few, if any, listed entities that could rationally argue they have no material climate risk exposure. As such, we believe the wording of recommendation 7.4 should explicitly call for implementation of the TCFD recommendations, rather than include this request as a suggestion in the commentary.

Such an approach would benefit from the ‘if not, why not’ nature of Listing Rule 4.10.3, encouraging TCFD-aligned disclosures across the board. Listed entities would retain the option to adopt and report alternative climate risk governance approaches, or state their belief and an explanation as to why they have no material exposure to climate change risk.

[Market Forces’ research](#), last updated on 29 March 2018, found that 73 ASX100 companies operate in sectors defined as ‘high risk’ by the TCFD. Yet the vast majority of these companies had failed to implement the Task Force’s recommendations. This research demonstrates the need for mandatory climate risk disclosure requirements to be instituted by regulators, including the ASX Corporate Governance Council. We ask that this research and the resultant [‘Investing in the Dark’ report](#) be considered as part of our submission.

**For further information**

Market Forces is happy to provide further information on request of the Council. To respond, please contact us by return email: [contact@marketforces.org.au](mailto:contact@marketforces.org.au), attn: William van de Pol.

Sincerely,

William van de Pol  
Market Forces