Responsible Investment Association Australasia

15 November 2013

Ms Mavis Tan
ASX Limited
20 Bridge St
Sydney NSW 2000
By email: mavis.tan@asx.com.au

Dear Ms Tan,

Re: Submission to the ASX Corporate Governance Council and ASX consultations on proposed 3rd edition of the ASX Corporate Governance Principles and Recommendations

The Responsible Investment Association Australasia (RIAA) welcomes the chance to make this submission on the proposed changes to the ASX Corporate Governance Principles and Recommendations.

About RIAA:

RIAA is the industry body representing responsible investors across Australasia, focussed on promoting the concept of responsible investment, accelerating its uptake and deepening its impact. RIAA has over 150 members who manage over $500 billion including fund managers, super funds, asset consultants, financial advisers, dealer groups, responsible investment researchers and analysts, information providers and others involved in the industry, across the full value chain of institutional to retail investors.

At its broadest definition, the size of the responsible investment industry in Australia is best reflected by the 120 signatories of the UN Principles for Responsible Investment. These Australian signatories investors now manage just under $1 trillion of funds under management.

Our experience from which we are making this submission also extends to the insight we have gathered from running a global Responsible Investment Academy through which we have trained over 850 candidates from some of the world's largest investment firms in 25 countries.

RIAA response:
RIAA represents members who recognise that the growth of a robust and principled responsible investment industry has an important role to play in improving economic, social and environmental outcomes.

Importantly, it is the firm belief of our members that improved environmental, social, governance and ethical performance of business can be linked to long term, sustainable financial returns and that responsible investment approaches can reduce risk, improve investment strategy and provide competitive returns for investors. These beliefs have been reiterated by numerous studies globally.[1]

It is in large part due to this strong base of evidence that two of the six principles of the UN PRI require strong disclosure of environmental, social and corporate governance (ESG) issues:

- We will incorporate ESG issues into investment analysis and decision making processes;
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.

In light of this, a prerequisite to enabling better and more responsible investing for PRI signatories and the many responsible investors beyond the PRI signatories (including retail investors), is the improved transparency and accountability of business, in particular through comprehensive disclosure of ESG risks (and management of those risks) in order that investors are adequately informed when making their investment decisions.

It is for these reasons that RIAA is strongly supportive of the recommendation 7.4, "That a listed entity should disclose whether, and if so how, it has regard to economic, environmental and social sustainability risks."

Assuming that better disclosure of these ESG risks will flow from the implementation of Recommendation 7.4, the response to these disclosures will be deeper engagement by investors in these risks, resulting in the gradual improvement in management of ESG risks. This improved management of ESG risks should minimise the amount of shareholder value destruction from companies inadequately managing ESG issues.

Unfortunately, investors continue to see regular examples of listed companies destroying value through a lack of focus on these types of issues: ignoring risks in long supply chains both domestic and international; undervaluing the importance of human capital management; failing to acknowledge and sufficiently respond to stakeholder concerns; poorly manage environmental impacts; failing to appropriately manage corruption and bribery risks in emerging market operations and many other examples.

RIAA considers that this improved disclosure of economic, environmental and social sustainability risks is a critical enabling factor for responsible investors to better understand the risks in the companies they are invested and will help to drive improved ESG risk management within companies.

Furthermore, we recognise that this improved disclosure is consistent with global developments regarding best practice company disclosure (some of these have been outlined within the Corporate Governance Council's consultation paper and in other submissions made to this consultation such as ACSI).

RIAA considers it critical that the regulatory environment supports and incentivises a long term view on investments and the ability for investors to be active owners, including exercising their ownership rights.

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[1] See for example: Deutsche Bank, *Sustainable Investing: establishing long term value and performance,* June 2012, a meta analysis of over 100 studies.

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These enhanced disclosures proposed in recommendation 7.4 are a key piece to achieving this, and should play a part in continuing to improve broader risk reporting from ASX listed companies and thereby keep investors better informed.

RIAA thanks the ASX for this chance to comment on the revised Corporate Governance Principles and Recommendations.

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