Corporate Governance Council
Australian Securities Exchange
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Amsterdam, 27 July 2018

Subject: Consultation to the draft *Fourth Edition of Corporate Governance Principles and Recommendations*

Dear Ms. Tan,

GRI recognizes the Australian Corporate Governance Council for the opportunity to respond to the proposed amendments to the *Fourth Edition of Corporate Governance Principles and Recommendations*. The ASX Corporate Governance Council's *Principles and Recommendations* are a key vehicle to drive corporate transparency by encouraging reporting on economic, environmental, social, and governance topics. In this context, the GRI Standards are an instrumental tool for transparency, effective stakeholder engagement and better corporate governance practices. GRI agrees that it is essential to address emerging governance issues to ensure that the *Principles and Recommendations* remain contemporary and continue to deliver good outcomes for ASX listed entities. Based on the proposed revisions, GRI would like to provide the following feedback:

Principle 3

– GRI is pleased to see that the revised principle recognizes the **importance of corporate culture**. The board should ensure a culture that is aligned with the business' purpose and strategy. We recommend a more **explicit reference to the importance of environmental responsibility**. Governance bodies should be encouraged to better evaluate businesses' contribution - including environmental factors - to their long-term sustainability and success. Examples where the value of environmental responsibility is stressed - in addition to the GRI Standards - are the Task Force on Climate-related Financial Disclosures (TCFD) and the UK Green Finance Task Force. The European Commission's High-level Expert Group on Sustainable Finance (HLEG) is also focusing on the integration of climate-related topics in boardrooms.
– GRI recommends the Council to reconsider 'social license to operate' as a central theme. While this notion allows companies to focus their reporting on issues which might be of high interest to the public, these might be short term risks and therefore distinct from medium- and long-term priorities and the United Nations Sustainable Development Goals (SDGs). GRI suggests to review this term and to include a clear definition in the glossary.
– Apart from the definition, being a steward of corporate citizenship doesn't have to be limited to maintaining the 'social licence to operate.' There are also incentives for companies, substantiated by scientific evidence,[1][2] that highlight the link between ESG considerations and better financial performance, especially in the longer term.
– GRI welcomes the revision of recommendations 3.3 and 3.4 to disclose the location of whistle-blowing and anti-bribery policies. This amendment fundamentally increases the level of transparency and enables to move away from *box-ticking* mentalities. As a next step, GRI encourages the Council to also consider the **disclosure of all processes and systems in place to evaluate the effectiveness of these policies**.

Recommendation 4.4

[1] How ESG Affects Equity Valuation, Risk and Performance, MSCI (2017).
[2] ESG and financial performance: aggregated (2015).

- GRI fully agrees with the emphasis on **validation processes** for all corporate reports to be published. The increasing interest from investors to incorporate ESG into their investment decisions processes highlights the need for high quality sustainability reporting.
- At GRI, we recognize that sustainability reporting enables the mobilization of capital towards sustainable business practices, and thus the need to ensure that the data from sustainability reporting is fit for purpose. This has been a focus area for GRI and is reflected in the GRI Reporting Principles that support corporates in their sustainability reporting efforts.

Recommendation 1.5

- GRI commends the steps taken towards promoting the issues of diversity and gender equality by including the disclosure of targets. GRI encourages the Council to **provide guidance to companies on setting ambitious and realistic timeframes for implementing the diversity measures**. In addition, GRI recommends to add further guidance on how to interpret the ‘each gender’ statement.

Recommendation 7.4

- In defining material topics, organizations should consider all of their significant economic, environmental and social impacts – not only the risks that influence short-term financial performance. Managing these long-term risks requires incorporating sustainability into strategic decision-making and capacity building. This contributes to the resilience of companies as well as the markets they operate in and consequently leads to long-term performance[3]. The suggested amendment removes ‘economic’ considerations from the recommendation. This would result in a very narrow scope of sustainability issues which does not promote the satisfactory level of disclosure. Many companies are moving beyond reporting only on social and environmental risks to the business, and define their contribution to sustainable economic development through the SDGs. Encouraging companies to report on their contribution to the SDGs facilitates transparency and connects economic, environmental and social impacts, risks, and opportunities. **GRI therefore recommends to keep economic sustainability in the recommendation**.
- Further, it is important to understand the different purposes of the initiatives related to sustainability reporting. GRI suggests to include an overview of the available reporting standards (i.e., GRI and CDP) and other reporting initiatives (e.g., UNGC and IIRC).

Recommendation 2.2

- GRI sees great value in the inclusion of sustainability in the board skill matrix. GRI supports the integration of sustainability factors throughout the company and value chain. The lack of integration of sustainability factors is often due to a gap in the knowledge about internal and external sustainability-related risks and opportunities. GRI sees the need to break down the ‘sustainability silos’ to make sure that sustainability questions are not only addressed in the sustainability meetings but more so in the strategy meetings.

I hope this feedback is useful and my team and I remain available to discuss the above further.

Sincerely,

Tim Mohin,
Chief Executive, GRI

[3] The long-term benefits of organizational resilience through sustainable business practices (2015)