

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

e: mavis.tan@asx.com.au

26 July 2018

Dear Ms. Tan,

Re: Review of ASX Corporate Governance Council's Principles and Recommendations

On behalf of the International Integrated Reporting Council (IIRC) it is our pleasure to respond to the Review of the ASX Corporate Governance Council's Principles and Recommendations.

The IIRC is a global coalition of regulators, investors, companies, standard setters, the accountancy profession and non-governmental organizations who share the view that communication about businesses' value creation should be the next step in the evolution of corporate reporting. Our stated mission is to create a globally accepted international framework for integrated reporting that will ensure that entities disclose material information about their strategy, governance, performance and prospects in a clear, concise and understandable language.

Leading Australian businesses contributed to the development of the International Integrated Reporting Framework which was released in December 2013¹, including National Australia Bank, Stockland and Bank Australia (formerly Bank mecu). We have always received a high level of institutional investor support from Australia, including from ACSI, Colonial First State Asset Management, the Financial Services Council, Regnan, Victorian Funds Management Corporation and AMP Capital Investors, all of which were participants in the IIRC's Investor Network during the creation of our Framework. In addition, Australian superannuation funds Cbus Super and VicSuper prepare integrated reports in their own right and are signatories to the IIRC's investor statement, which underscores the usefulness of integrated reports to investors' decisions².

Distinguished business leader and Chair of Australia Post, John Stanhope, is Deputy Chair of the IIRC's global Council, and Australia's voice within the IIRC's governance is strengthened further by CEO of ACSI, Louise Davidson, and KPMG Fellow of Integrated Reporting at Deakin University, Michael Bray, both of whom are members of the IIRC's Board of Directors. From the accountancy profession, the leaders of CPA Australia and Chartered Accountants Australia and New Zealand (CAANZ) serve on the IIRC's global Council.

Support for integrated reporting in Australia is gaining momentum and we are delighted with this progress. A KPMG report published in November 2017 showed that 25% of the top 200 Australian companies are adopting or moving towards the adoption of integrated reporting³. A policy position issued by the Australian Institute of Corporate Directors (AICD) states that, "The AICD encourages directors to consider the aims and principles of the Integrated Reporting Framework in corporate reporting as relevant to their organization and stakeholder needs⁴".

¹ <http://integratedreporting.org/wp-content/uploads/2013/12/13-12-08-THE-INTERNATIONAL-IR-FRAMEWORK-2-1.pdf> International Integrated Reporting Framework, December 2013

² IIRC Investor Statement: <http://integratedreporting.org/resource/investor-statement/>

³ "Corporate reporting: a significant shift towards adoption of the principles of integrated reporting, KPMG, November 2017: <https://assets.kpmg.com/content/dam/kpmg/au/pdf/2017/asx-200-corporate-reporting-integrated-reporting-principles.pdf>

⁴ "Integrated Reporting: The whole picture", AICD, 26 September 2017: <https://aicd.companydirectors.com.au/membership/company-director-magazine/2017-back-editions/october/integrated-reporting-the-whole-picture>

The strength of support for integrated reporting in Australia is matched by other major global economies as international businesses and institutional investors seek a common global framework for understanding and explaining value creation to help restore trust through enhanced transparency. There are today over 1,600 companies adopting integrated reporting globally, across 64 markets, including in every G20 economy. As Larry Fink, chairman and chief executive officer of the world's largest equity investor BlackRock, said in his letter to company CEOs in January 2018, "We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans⁵".

Through the IIRC's role as convener of the Corporate Reporting Dialogue, the group of global corporate reporting standard setters and framework providers, we have a role internationally in seeking to bring about greater clarity, consistency and alignment of the corporate reporting landscape to ensure investors have the information they need to make informed investment decisions⁶.

It is for these reasons that we have an interest in the development of the highest quality corporate governance principles and practice in Australia. We strongly welcome the reference to integrated reporting in Principles 4.4 and 7.4 of the consultation draft. This is consistent with corporate governance and reporting principles and practice in other jurisdictions, most notably in Japan, South Africa, Brazil, the United Kingdom and Malaysia. Moreover, the Securities and Exchange Board of India (SEBI) is encouraging the top 500 companies in India to adopt integrated reporting, citing principle 16 of IOSCO securities regulation for making this change. Principle 16 states that, "There should be full, accurate and timely disclosure of financial results, risk *and other information which is material to investors' decisions*" (our italics).

In welcoming new Recommendation 4.4, with its focus on ensuring a company's corporate reports are "accurate, balanced and understandable and provide investors with appropriate information to make informed investment decisions", we would encourage one amendment to the supporting commentary.

The first sentence of the third paragraph of the commentary under recommendation 4.4 currently reads, "Some entities use the principles of integrated reporting as 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".

We suggest amending the sentence to read, "The principles of integrated reporting are a useful basis for preparing operating and financial reviews to provide the market with information about a listed entity's strategy and business model, risks and opportunities, and future prospects".

We advance this recommendation because it is supported by all the available international academic and empirical evidence and is a more active statement likely to encourage the consideration and adoption of integrated reporting by Australia's company boards.

Harvard Business School analysis concludes that companies adopting integrated reporting attract more dedicated long-term investors, thereby orienting the company towards future performance. As the research states, "Firms that report more information about the different forms of capital or follow more closely the guiding principles as described in the International Integrated Reporting Framework of the IIRC exhibit a more long-term oriented investor base⁷".

Research from academics at Stanford University and the universities of Auckland and Pretoria, made the direct connection between improved corporate governance and better performance, concluding that, "integrated reporting is positively associated with both stock liquidity and firm value". The research states, "...when we decompose the firm value into an expected future cash flow effect and cost of capital effect, we find that the positive association between integrated

⁵ "A sense of purpose", Larry Fink's letter to CEOs, 16 January 2018: <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>

⁶ Corporate Reporting Dialogue: <http://corporatereportingdialogue.com/>

⁷ "Integrated Reporting and the investor clientele", Prof. George Serefeim, Harvard Business School: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2378899

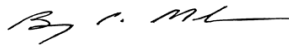
reporting quality and firm value is driven mainly by the cash flow effect, consistent with investors revising their estimates of future cash flows upward as a result of a better understanding of the firm's capitals and strategy or future cash flows increasing because of improved internal decision-making by managers⁸.

We conclude by warmly congratulating the ASX Corporate Governance Council on this consultation draft of its Principles and Recommendations. The IIRC remains a strong advocate for corporate governance and reporting that achieves enhanced transparency, in turn providing greater insight to investors and supporting better decision-making, productive investment and a resilient economy.

Yours sincerely,



Judge Professor Mervyn King SC
IIRC Chair of Council and
Hon. Fellow, CPA Australia



Barry C. Melancon CPA, CGMA
IIRC Board Chair



Richard Howitt
IIRC Chief Executive

⁸ "The Economic Consequences Associated with Integrated Report Quality: Capital Market and Real Effects", Mary E Barth, Stanford University; Steven F Cahan and Li Chen, University of Auckland; Elmar R Venter, University of Pretoria:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699409