ESG REPORTING GUIDE FOR AUSTRALIAN COMPANIES 2015

FSC
FINANCIAL SERVICES COUNCIL

acsi
AUSTRALIAN COUNCIL OF SUPERANNUATION INVESTORS

ABOUT FSC

The Financial Services Council (FSC) has over 115 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, licensed trustee companies and public trustees. The industry is responsible for investing more than $2.6 trillion on behalf of 11.5 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

ABOUT ACSI

The Australian Council of Superannuation Investors (ACSI) represents 29 Australian superannuation funds and six major international pension funds with a combined $1.5 trillion under management.

We help our members manage long-term investment risks, in the belief that companies with good ESG practices are, over time, more sustainable and provide better risk-adjusted returns. ACSI engages strongly and constructively with major listed companies on ESG issues; provides vital research, policy and voting advice for our members; and interacts with the regulators to ensure markets are focused on the long term benefits of investors.

Our mission is to enhance the sustainable and enduring value of the retirement savings entrusted to our members.

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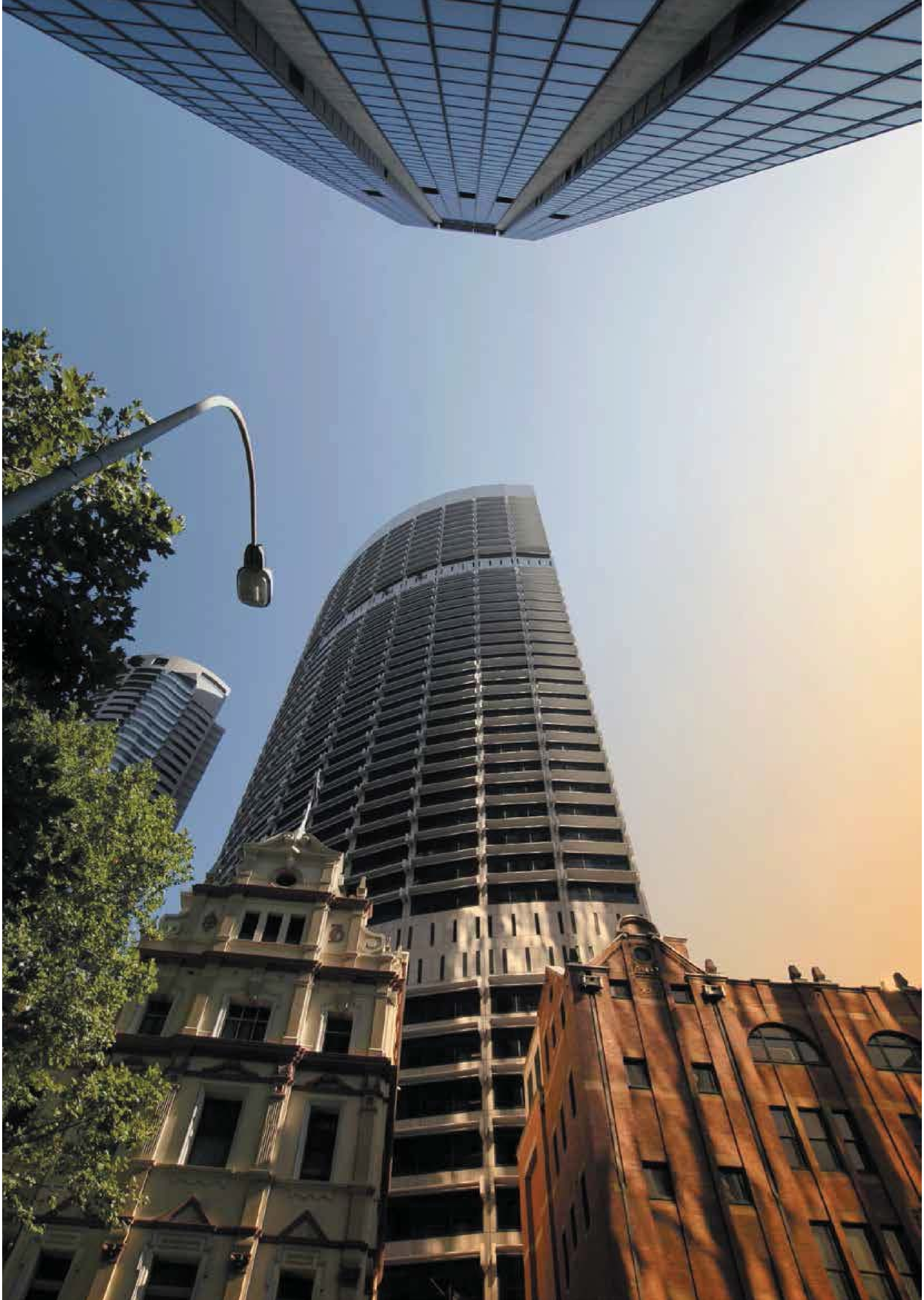

WELCOME AND INTRODUCTION

The Australian Council of Superannuation Investors (ACSI) and the Financial Services Council (FSC) are pleased to provide this update to the ESG Reporting Guide for Australian Companies.

Investment managers (represented by the FSC) and asset owners (represented by ACSI) recognise that environmental, social and governance (ESG) factors are of vital importance to the financial performance of the companies in which they invest both in the short and long term.

While there are a variety of ESG factors at play at any given time, it is unquestionable that many of these factors impact on the ability of companies and their investors to achieve sustainable growth and prosperity.

Institutional investors and companies seek to find common ground to define the ways in which ESG factors influence their shared goals. They require a shared understanding of how to report on ESG factors and their financial materiality.

This Guide has been updated for this purpose.

Investors need accurate, timely and comparable information to identify and manage exposure to ESG investment risks. Such information assists investment managers to decide the selection and holding of stocks in their portfolios, and in their investable universe. This information also prompts investment managers, broker analysts and asset owners (principally superannuation funds) to constructively engage with companies on these matters.

Companies need consistency in the information required by institutional investors, and for reporting obligations not to impose undue costs, competitive disadvantages or other commercial burdens.

Recognising both perspectives, ACSI and the FSC have jointly updated this Guide to highlight the types of information needed by our member organisations to understand, price, analyse and manage ESG investment risks.

This Guide is designed to complement the reporting requirements of other best practice guides such as the ASX Corporate Governance Principles and Recommendations, and the existing best practice guides issued by each of our Councils.

We look forward to continuing improvements in ESG disclosure levels, consistency and quality of engagement between Australian companies and their institutional investors.

Louise Davidson
CEO, ACSI

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BACKGROUND

In 2011 the Australian Council of Superannuation Investors ("ACSI") and the Financial Services Council ("FSC") published the first edition of the ESG Reporting Guide for Australian Companies ("The Guide"). The Guide was designed to help companies disclose environmental, social and governance ("ESG") risks to investors in a consistent and comparable manner across different companies and sectors, giving investors and asset owners a fuller understanding of a company's risk profile and future growth prospects.

1. WHY USE THE GUIDE?

Since the release of the first guide, ESG disclosure practices (both in Australia and overseas) have evolved significantly, due to growing recognition from investors, regulators and companies about the importance of disclosure of these issues. Of particular note:

- In Australia, the **ASX Corporate Governance Council Principles & Recommendations (3rd Edition),** published in 2014 and taking effect from the first full financial year commencing on or after 1 July 2014, includes a new Recommendation 7.4 explicitly requiring that:

> "A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks".

- At an international level, the **Global Reporting Initiative (GRI)** in 2013 released its fourth generation of reporting guidelines (**"G4"**), listing over 400 indicators on corporate sustainability performance;
- The **International Integrated Reporting Council (IIRC)** has issued its <IR> Framework, with many efforts still underway to harmonise this framework with traditional financial reporting, accounting standards and the like at the international level;
- In the United States, the **Sustainability Accounting Standards Board (SASB)** has issued standards for 45 industries in 6 sectors. By 2016, standards for more than 80 industries in 10 sectors will be available;
- The **Sustainable Stock Exchanges Initiative (SSE),** co-convened by the UN-supported Principles for Responsible Investment, the United Nations Conference on Trade and Development, the United Nations Environment Programme Finance Initiative and the UN Global Compact, has launched its Model Guidance for exchanges to lay out the business case for reporting ESG information and basic principles to guide the reporting process.

While many companies have embraced GRI reporting over recent years, and some have begun to embrace the <IR> Framework as well, many other companies are still unsure of what ESG risks to disclose. This is especially so among newly-listed companies, and among those entering market indices such as the ASX200 or ASX300, which are commonly used as investment benchmarks by institutional investors and which generally entail an uplift in disclosure expectations of institutional investors. The Guide has been designed to help companies in these categories meet those investor expectations.

In 2015, according to recent research undertaken by ACSI, 13% of ASX200 companies still do not provide any meaningful reporting on sustainability factors, while a further 17% provide only a rudimentary level of disclosure.[1] These results highlight the need for further practical guidance tailored for Australian companies and their investor needs, complementing the GRI, <IR> and other reporting frameworks.

1.1 Link with Existing Governance Guidance

Detailed guidance relating to Australian listed companies' corporate governance policies and practices is already contained in the ASX Corporate Governance Principles, as well as in ACSI's regularly-updated Governance Guidelines.[2]

This Guide is not intended to replicate or replace anything in those existing documents relating to core governance issues such as board structure, diversity, executive remuneration and the like. Rather, this Guide specifically addresses institutional investors' expectations regarding the disclosure of material company-specific ESG risks and opportunities, to a level sufficient for investors to fully understand, price and manage those risks and opportunities. The provision of this information will assist investors to better understand and compare company level information, and allow asset owners (such as superannuation funds) to engage more constructively with companies on ESG matters.

In this way, the Guide is intended to complement and enhance the existing body of contemporary corporate governance best practice material in Australia. In particular, ACSI and FSC believe the Guide will be of assistance to listed companies in addressing the new disclosure requirements of Recommendation 7.4 of the ASX Principles, noted above.

1.2 A Positive Step for Companies

In addition to providing investors with a more comprehensive understanding of a company's risk profile, disclosing this information is an opportunity for a company's board and management to demonstrate strategic thinking for long-term financial sustainability that goes beyond the achievement of short-term financial targets. It is for these reasons we believe companies that provide insightful ESG disclosure can broaden their potential appeal to providers of long-term equity capital.

ACSI and the FSC are confident that the views presented in the Guide will assist companies to streamline their reporting as well as reduce the volume of ad hoc information requests that are made by the investor community. Where applicable, the Guide draws upon various existing sources, including the:

- Global Reporting Initiative[3];
- International Integrated Reporting Council Framework[4];
- Carbon Disclosure Project[5];
- International Corporate Governance Network[6];
- Global Framework for Climate Risk Disclosure[7];
- Sustainable Accounting Standards Board[8]; and
- Sustainable Stock Exchanges Initiative.[9]

These frameworks provide extensive information on particular aspects of ESG disclosure, and where appropriate, companies should be aiming to report against them.

We recognise that many companies already publicly disclose ESG related information described in this Guide, and in many cases information over and above the minimum levels suggested. Those companies are not expected to disclose anything more (or less), but we do ask that they ensure that their information is readily accessible.

1.3 Who does this Guide apply to?

The Guide was created to provide a reporting guide for all Australian listed companies. We recognise that some companies, especially those at the smaller market capitalisation end of the market, may find full ESG disclosure to be a challenge at the beginning of their reporting journey. However, companies also need to be aware that the issues raised in the Guide are the base level of information that investment analysts require to make stock selection decisions. We encourage these companies to progressively embrace the principles of risk reporting as they meet their obligations under Principle 7 of the ASX Corporate Governance Council Principles and Recommendations.

1.4 How should it be applied?

The format of reporting is at the discretion of the company. High quality reporting of ESG issues can come in a variety of forms. The investor bodies publishing this Guide are in no way seeking to impose uniform templates or disclosure 'checklists' on companies. Companies should focus on providing quality, accurate, consistent and relevant information on their business operations. Any reporting should be easy to locate within a company's communications such as in the annual report or on the company website.

1.5 When do we expect to see this happen?

Reporting on ESG risks and opportunities should ideally be released, at or around the time that the annual report is released and updated throughout the year via website disclosure as required. Where companies produce a sustainability report, we strongly encourage announcement of the release of their sustainability report to the ASX.

1. ACSI (April 2015) Corporate Reporting in Australia, The Sustainability Reporting Journey, Disclosure of sustainability risks among S&P/ASX200 companies. Available at http://acsi.org.au/images/stories/ACSIDocuments/detailed_research_papers/Sustainability_Reporting_Journey_2015.Apr15.pdf
2. New 2015 edition available at www.acsi,org.au
3. See: https://www.globalreporting.org/Pages/default.aspx for information on the Global Reporting Initiative
4. See: http://integratedreporting.org/ for information on the Integrated Reporting Council Framework
5. See: https://www.cdp.net/login for information on the Carbon Disclosure Project
6. See: https://www.icgn.org/ for information on the International Corporate Governance Network
7. See: http://www.unepfi.org/fileadmin/documents/global_framework.pdf for the Global Framework for Climate Risk Disclosure
8. See http://www.sasb.org/ for Sustainable Accounting Standards information
9. See http://www.sseinitiative.org/exchanges-providing-guidance-on-sustainability-reporting/

2. GETTING STARTED AND FOLLOWING THROUGH

2.1 Define your business and operations

Companies should clearly define their business and hence reporting boundaries in relation to included and excluded business entities (e.g. subsidiaries and JVs) and activities.

In general, more comprehensive reporting encompassing the full geographical span of the company's operations, subsidiary as well as parent entities, supply chain information and time-spans beyond the annual report period alone, are beneficial to investors. As highlighted by a number of recent examples, ESG risks that manifest in a company's supply chain or excluded business entities can still have a material impact on shareholders.

2.2 Identify your key stakeholders

An important consideration for companies is to think through who their key stakeholders are and how they will engage with them and take their concerns and feedback into consideration. Stakeholders may include employees, customers, suppliers, distributors, community, unions, shareholders and governments. It is important to note that this Guide is designed to meet investor expectations. We recognise that companies have many other stakeholders. This Guide does not seek to address the reporting requirements of other stakeholders.

2.3 Determine what is material

Investors and asset owners strive to understand corporate business models and strategy, what underlies success, differentiates them from the competition and issues that could potentially lead to significant loss of shareholder value. Useful reporting seeks to identify, measure and disclose information (including ESG risks) which in turn informs investors and other stakeholders about the future sustainability and profitability of a company.

While it is incumbent upon companies to identify material ESG risks or opportunities, engagement with stakeholders will be of benefit. A careful review of ESG risks will be required to assess which risks are impacting or will impact the business or supply chain and what that impact might be. Principle 7 of the ASX's Corporate Governance Principles and Recommendations requires companies to disclose 'material' risks or opportunities.

ESG risks are material, where a reasonable person would consider the information to have an impact on a company's valuation or the sustainability of its operations. The risk(s) could have an immediate or foreseeable impact on earnings, an impact on a balance sheet, or an impact on the sustainability of its operations. This is a useful approach to consider. More detailed guidance on materiality can be found in the GRI (G4) Implementation Manual[10] and on the SASB website[11].

Thinking about the future business environment or impact of megatrends on your company may also help you to identify and determine material issues. Megatrends are major global societal and transformative forces that present material long or short term risks and opportunities to companies and their shareholders. These may include:

- Ageing demographics;
- Urbanisation;
- Digitisation;
- Cybersecurity;
- Climate change;
- Population growth;
- Wealth distribution;
- Water scarcity;
- Material resource scarcity;
- Ecosystem decline; and
- Food security.

Many investors are interested in identifying the long-term societal and environmental trends that are likely to affect the businesses in which they invest and understanding how the board views such issues. This is not about companies disclosing a forecast about their future value, but rather a discussion based on all available information and technology to hand at present, as it relates to scenario planning for the future. Investors want to understand what strategies companies have in place to face future business environments and how these will be managed.

Materiality of ESG risks will vary greatly between companies. Companies are expected to report on indicators which are material to their business and strategy.

10. See: https://www.globalreporting.org/resourcelibrary/GRIG4-Part2-Implementation-Manual.pdf for the GRI G4 Implementation Manual
11. See http://www.sasb.org/materiality/sasb-materiality-map/ for the SASB Materiality MapTM visual tools

2.4 Identify how to measure and report material risks

Having established what ESG risks are material and therefore pursuant to ASX Principle 7.4 what disclosure is required, companies then need to consider how to measure and report the ESG risks and measures to manage them.

Investors value good quality, accurate, consistent and relevant ESG information over volumes of marketing material. Qualitative information is important to capture company strategies, initiatives and understanding of ESG risks; however quantitative data is particularly useful. For example time series/trend data reported consistently year to year.

With regard to quantitative reporting, should companies change ESG risk reporting methodology, the rationale for the change should be explained. Companies should provide current ESG information and targets, as well as report historical performance against previously-stated targets.

The absence of generally accepted standards for measuring and presenting environmental, social and governance metrics creates challenges for investors in interpreting performance.

Where they do exist, companies should follow generally accepted standards for measuring and presenting metrics. There are a number of mandated key performance indicators (KPI) that companies are required to report to regulators. For example on human capital to the Workplace Gender Equality Agency. Others include measurement of greenhouse gas and energy information in accordance with the Measurement Determination under the National Greenhouse and Energy Reporting Act 2007.

Furthermore, understanding a company's governance and accountability mechanisms concerning E and S issues provides investors with insight as to how the board and management prioritise such issues. A lack of disclosure on the governance of E and S issues may indicate a lack of understanding and awareness of how material E and S issues may affect the business.

The following is an example of how an ESG disclosure on the risk of loss of human capital through a poor approach to diversity may appear in company reporting:

Managing our greatest assets: our people

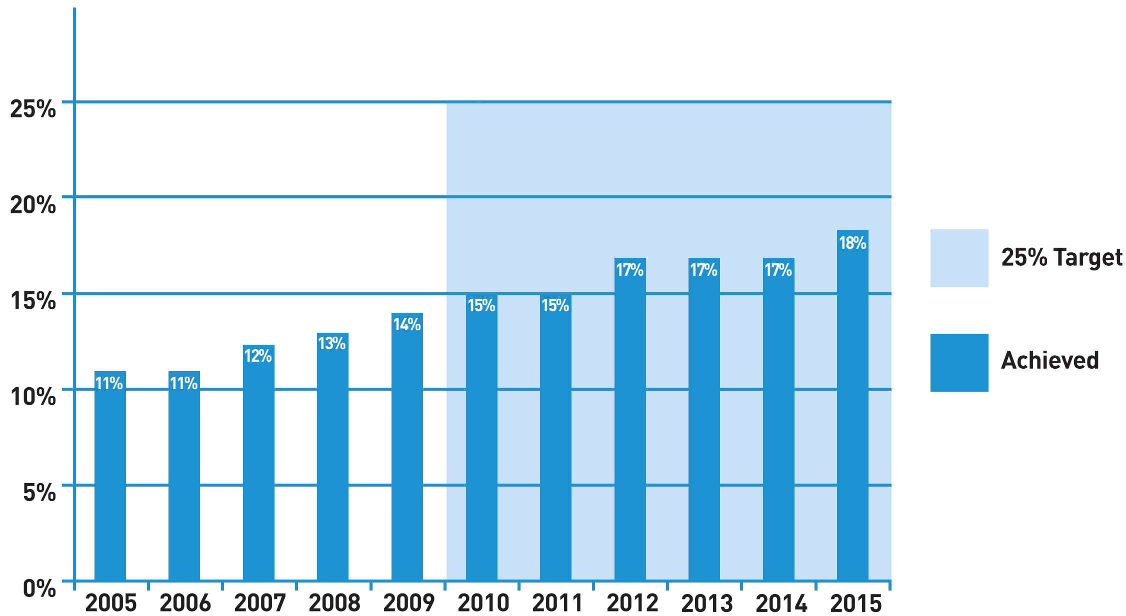
We believe in our people and are interested in ensuring a workplace that enables good decision making, fosters innovation and high productivity. Strong diversity policies and practises are an important aspect of our approach to human capital management – to attract and retain high-quality employees is of vital importance to our business.

How are we managing the gender diversity of our people?

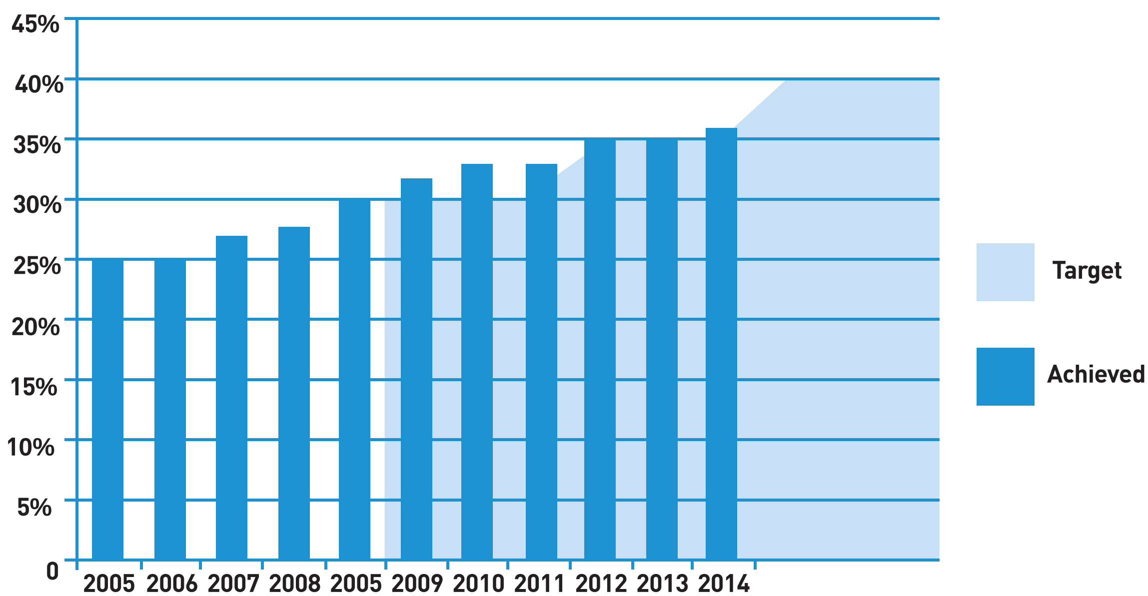
- The company's Diversity Policy (provide link) encourages retention of female employees through a number of initiatives including flexible work arrangements, maternity leave, return-to-work financial incentives etc.
- Performance against diversity targets is a performance metric in executive variable compensation (detail provided).
- The Board has direct oversight over diversity through the following reporting line (detail provided).

How are we tracking?

% of women in senior management



% of women returning after maternity leave



2.5 Report the framework and standards used to measure ESG risks

Companies should describe to investors and other stakeholders any standards that they have applied to determine materiality and in the preparation of ESG key metrics. Where an external standard has not been applied, companies should detail key definitions and assumptions used in metrics. A brief 'basis of preparation' explanation should be made available alongside the ESG risk disclosure. Example statement may include the following:

> We review annually our "Disclosure on Sustainable Management" series of publications. These publications are prepared in accordance with the Global Reporting Initiative G4 guidelines.

Useful information for companies to disclose to investors in this regard includes:

- Internal processes for identifying and reporting material ESG risks, opportunities, targets or goals;
- How such risks and opportunities are reported to the Board, senior management and various internal committees (e.g. Risk Oversight committees);
- Decision-making frameworks on how material ESG risks are managed;
- Person(s) responsible or accountable for ESG related issues within the business including at the Executive level and/ or Board/ Committee level.

2.5.1 Assurance

Companies could consider disclosing information about internal assurance processes or consider independent external assurance to provide investors with a greater degree of comfort over the integrity of information disclosed.

3. APPLICATION OF THE GUIDE

This Guide broadly divides ESG issues between environmental, social and governance themes, for ease of illustrating what may be important for a company to report.

Investors in putting this Guide together are looking for information on relevant, material investment risks. Hence reporting will vary significantly across sectors and companies. The descriptions of these themes and the metrics suggested for their assessment are not intended to be exhaustive. Rather, they represent a starting framework for identification and disclosure of ESG issues, upon which companies can build to develop a set of disclosures that reflects what is material for them. **Although, we do not expect all companies to report on all factors, it is expected that, where material, companies make every effort to ensure the appropriate level of disclosures.**

Corporate governance is just as critical as the governance of environmental and social factors. Investors' expectations with respect to Corporate Governance have already been comprehensively documented elsewhere. In particular, the ASX Corporate Governance Principles and ACSI's Governance Guidelines provide good guidance. For completeness, this ESG Guide also refers to Corporate Governance as per below.

Environment

- **Environmental management**
- **Climate change**

Social

- **Human capital management (including Occupational Health and Safety)**
- **Other stakeholder management**

Corporate Governance

- **Corporate Governance**

ENVIRONMENT

Environmental management

Context – why is it important to investors?
Operational activities which impact on the environment within a company's supply chain, direct operations or products can have far reaching implications to shareholder value including:

- Production disruptions as the incident is investigated and new safeguards are put in place;
- Capital costs associated with remediation;
- Compensation costs to affected communities, business partners and employees;
- The impact on the company's regulatory and/or social license to operate – this can manifest as reputational damage, operational delays, product boycotts, new regulation, etc.

Investors are also becoming increasingly aware of the potential negative impacts on a company's social license to operate of long-term environmental externalities that result due to company operations, including the depletion of scarce resources (for example fresh water, arable land, etc.) and the disposal of future environmental waste.

A company with significant environmental impact that demonstrates a lack of commitment, capacity or track record in the management of environmental considerations presents a higher risk for investors.

Reporting should be tailored to each business - pollution, water and other environmental considerations will be more relevant and material for certain sectors and businesses while investors will be less concerned with companies with a small current or anticipated environmental footprint.

Commonly reported indicators

Investors want to know:

1. Track record of environmental incidents, including information such as:

- Fines and non-monetary sanctions for non-compliance with environmental laws and regulations;
- Environmental provisions as reported on the balance sheet;
- Number and severity of breaches of environmental license conditions;
- Proportion of operations with ISO 14001 certification;
- Process safety incident reporting.

2. Policies and systems related to environmental management, commensurate with the circumstances (materiality) specific to the business. Considerations include:

- Biodiversity impact management;
- Water management;
- Hazardous waste management;
- Involvement in toxic materials.

3. Environmental data, if the company has a significant environmental footprint or is exposed to material environmental risk or externality discussed above. For example:

- Energy consumption information including renewables;
- Water consumption; and
- Waste production.

Resources
ISO 14001 Environmental Management System Standard: www.iso.org
Process Safety Leading and Lagging Metrics published by the Centre for Chemical Process Safety provides an excellent overview of metrics related to process safety http://www.aiche.org/uploadedFiles/CCPS/Metrics/CCPS_ProcessSafety_Metrics_2011_FINAL.pdf
The Australian Government publishes a range of reports on water use and conservation initiatives at http://www.environment.gov.au/water/ including the Oct 2006 Water **Efficiency Guide for use in building management.** http://www.environment.gov.au/settlements/chemicals/hazardous-waste/index.html has more information on waste and recycling.

Leading Reporter
Orica's 2014 Sustainability Report provides investors with details relating to:
- **Instances of non-compliance with environmental license conditions**
- **Containment losses experienced**
- **Number of process safety incidents**

See: http://www.orica.com/Sustainability#.VaNdv_mqpBc

BHP Billiton 2014 Sustainability Report: see: http://www.bhpbilliton.com/home/society/reports/Pages/Roll%20up%20Pages/2014-BHP-Billiton-Sustainability-Report.aspx provides details of waste produced, recycled or sent to land fill. They also provide information on water recycled and re-used including targets for the future.

ENVIRONMENT

Climate change

Context – why is it important to investors?
With many countries announcing targets to reduce carbon emissions to address climate change, the risk of climate change regulation impacting companies is only likely to grow. While the regulatory mechanisms (carbon price, emission abatement grants, "pollution" controls, etc.) to achieve emissions reductions may change over time, the long-term trend is clear.

Clearly this risk (especially in the short and medium-term) is more relevant and material for certain sectors or companies, for example those heavily involved in fossil fuels. Therefore investors expect far greater disclosure from these companies on how these risks are being managed.

However over the long-term many other indirect risks will impact a broader range of companies. For example over time consumption patterns will change in favour of low-carbon goods and services, leading to significant changes in industry structure. Also the physical effects of climate change such as changes in weather patterns, storm intensity and sea level rise may put assets at risk. We encourage all companies to consider these long-term trends as they apply to their business and disclose where a material risk exists.

A company that fails to understand its carbon emissions, exposure to regulatory and other indirect impacts could risk:

- Higher costs as the cost of complying with carbon regulation increases;
- Loss of market share as customers move to low-emissions suppliers;
- Damage to assets as the physical impacts of climate change increase.

Commonly reported indicators

Investors look for:
1. Direct and indirect (for example product) carbon emissions (e.g. via the Carbon Disclosure Project - see resources below), other data and information to inform investors of each company's risk
2. Other indirect exposure to climate change risk – for example if major clients are involved in fossil fuels
3. Measures to address these risks, commensurate with the relevance and materiality to each business; for example:

- Opportunities to reduce carbon emissions and energy use;
- Steps to manage the physical risks from climate change;
- Measures to reduce indirect exposure to climate change risk.

Resources
The Carbon Disclosure Project provides a framework for reporting carbon emissions and climate change risk: www.cdproject.org
The US Securities and Exchange Commission has published guidance on climate change disclosure: http://www.sec.gov/rules/interp/2010/33-9106.pdf
The Global Reporting Initiative is a widely-used framework for sustainability reporting: www.globalreporting.org

Leading reporter
AGL Energy 2014 Sustainability Report: see: http://agl2014.sustainability-report.com.au/ **publishes extensive equity-accounted data, see:** http://agl2014.sustainability-report.com.au/data-centre/environment#tab-90 on its carbon emissions.

SOCIAL

Human capital management

Context – why is it important to investors?
Human capital management (HCM) is central to execution of business strategy, expansion, innovation, and business continuity, and is therefore a key area of investor attention. Human capital is an intangible asset of every company that investment markets demonstrably ascribe a value to.

For all companies, strong HCM controls and practices contribute to employee productivity and loyalty. In contrast poor HCM can lead to:

- Failure to meet strategic objectives and project targets;
- Contribute to business disruption;
- Poor morale, engagement and sub-optimal productivity;
- Inability to attract skills in tight labour markets / loss of key talent;
- Industrial disputation and poor employee relations;
- Encourage increased regulation or regulator action; and
- Reputational damage.

Many companies face additional HCM risks that can impact shareholders even more acutely. In particular:

- Workplace or Occupational Health and Safety (OH&S) risks, both at project and employee level – companies employing workers or contractors in high-risk occupations often have a higher cost base in workers compensation premiums, safety equipment, and safety processes, and face (often severe) operational and reputational damage for OH&S incidents such as worker fatalities;
- Labour and human rights – On the surface, investment in companies with lower-cost supply lines (for example products or services sourced from low-income countries or poorly paid domestic workforces) represents an upside for investors as a function of company cost savings. Closer inspection reveals that shareholders may be exposed to increased risks from poor working conditions, unacceptable OH&S and human rights outcomes. These risks are principally legislative, operational and reputational. Adequate reporting of these risks is important for investors in undertaking cost-benefit assessments.

Commonly reported indicators

Investors look for evidence of the following:

Qualitative indicators:

- Board oversight of HCM;
- Integration of HCM and people risks into risk management processes;
- Executive remuneration linked to achievement of HCM objectives;
- Policies and systems to encourage employee satisfaction / engagement outcomes, and key drivers of same - diversity, anti-discrimination, flexible working, training and development, etc.;
- OH&S policies and systems (for all companies);
- Policies and systems to manage supply chain issues (including contractors and subcontractors).

Quantitative indicators:

- Voluntary turnover rates;
- Employee engagement / satisfaction;
- Rate of return from maternity/parental leave;
- Professional development training data;
- % women at Board and Senior management levels;
- Remuneration levels for male and female employees;
- OH&S performance indicators such as injury fatalities, frequency rates, near misses and severity indicators;
- Results of supply chain audits.

Resources
Global Reporting Initiative (Labour Practices and Decent Work). See: http://www.globalreporting.org
Good Health and Safety Means Good Business (WorkSafe Australia 2006). See: www.worksafe.vic.gov.au/__data/assets/pdf_file/0004/21658/ohs_public_reporting.pdf
AS/NZS 4801 is the Australian (and NZ) Standard for Occupational Health and Safety Management Systems. http://www.healthsafety.com.au/as4801/
Safe Work Australia has many free resources and tools. See: http://www.safeworkaustralia.gov.au
Australian Petroleum Production and Exploration Association Limited Safety Incident Reporting Guideline 2005 with edits in July 2013. See: http://www.appea.com.au/wp-content/uploads/2013/04/APPEA-Safety-Incident Reporting-Guidelines-2005-with-edits-July-2013.pdf

Leading reporters
Downer EDI Ltd reports year on year indicator data on workplace health and safety, along with the absence of fines or prosecutions. Commentary provides insight into safety governance to enhance risk management, and the responsibilities of business leaders. Performance and the area for performance improvements going forward is discussed along with initiatives implemented which enhance business-specific risk management. See: http://www.downergroup.com/Resources/Documents/Sustainability/Reports/2014/2014-Sustainability-Report_FINAL.pdf

National Australia Bank. Refer to NAB's 2014 Dig Deeper Paper. See: http://cr.nab.com.au/download-centre

SOCIAL

Other stakeholder accountability

Context – why is it important to investors?
In addition to a company's human capital, an absence of accountability to a company's other key stakeholders (such as customers, suppliers, government, and the broader community) is being recognised by investors as a source of risk.

This is central to a company's 'social license to operate' – it is now widely established that corporations adhering to a narrow view of providing accountability only to shareholders risk loss of shareholder value. This is a broader obligation than a company and its officers simply complying with all relevant laws. A company's social license is inextricably linked to its brand and reputation – intangible assets which all companies need to nurture and protect.

By ignoring the stakeholder interests below, reputational and brand damage, product boycotts, new or increased regulatory hurdles or costs can result.

Customers
Product or service failings can inflict broader damage to a company beyond the direct financial impact of an initial loss of turnover. Measures to safeguard product/service quality should be critical to any business, however these risks can be more acute where:

- Customers are vulnerable, disadvantaged, or otherwise viewed as more susceptible to product/service failings or poor company conduct; and/or
- A product or service is especially reputation-sensitive, e.g. food, health care, financial products/advice.

'B2B' (business-to-business) companies are less exposed to this social license risk.

Suppliers
In seeking to maximise shareholder value, companies that exploit dominant market positions beyond what is legally and socially acceptable risk reputational damage and/or regulatory action to curb this misuse of market power. The social license risk to shareholders of exploiting suppliers is commensurate with the perceived vulnerability of the supplier, for example if smaller or otherwise disadvantaged relative to the company.

Community stakeholders directly impacted by company operations
Land owners/ occupiers and other community groups can be directly impacted by company operations. These groups have also become increasingly empowered with the help of NGOs and social media. Consequently it is now the norm for many companies to closely manage these risks.

Broader community and other stakeholders

Tax
Optimisation of company tax arrangements to maximise shareholder value may invite controversy if it involves persistently low effective tax rates and/or shifting earnings away from their point of origin. These companies should explain their approach to managing this trade-off between shareholder value and social license risk (which may manifest in government/ regulatory action).

Other corporate conduct issues
Poor corporate conduct (such as involvement in bribery and corruption) is a relevant investment risk, as it can:

- Inflate projects costs and reduce profitability;
- Increase risks and costs resulting from prosecution;
- Create brand damage;
- Be an indicator of poor corporate culture;
- Generate an unsustainable business environment by perpetuating poverty, entrenching corruption and having other adverse impacts in low-income countries.

Investors are looking for information from companies who are, at least at face-value, at high risk of adverse corporate conduct, specifically, involvement in:

- Countries at high corruption risk;
- Government or regulator business or contracts;
- High community-impact sectors such as resource extraction;
- Sectors vulnerable to criminal activity such as money laundering or concealment of assets, e.g. gambling, financials.

SOCIAL

Other stakeholder accountability continued

Commonly reported indicators

Investors look for:

- Main sources of stakeholder risk as they apply to the business and governance oversight of these risks;
- Stakeholder engagement mechanisms e.g. meetings, surveys, briefings, use of online media;
- Other processes to manage stakeholder risk, e.g. community involvement, partnerships, local employment;
- Corporate codes of conduct and other significant policies, the extent of their application, associated training and indications of importance (for example Board or senior management responsibility, linkages with remuneration);
- Whistleblower policies and systems;
- Reporting on previous incidents and associated costs.

Resources

The Global Reporting Initiative is a widely-used framework for sustainability reporting: www.globalreporting.org

Group of 100, "Sustainability: a guide to triple bottom line reporting" (2008): http://group100.com.au/

BSR, Five Step Approach to Stakeholder engagement (2011)

http://www.bsr.org/en/our-insights/report-view/bsrs-five-step-approach-to-stakeholder-engagement

Leading reporters

Westpac Banking Corporation is recognized by the Group of 100 as a leading practice reporter in the Financial Services Industry sector. Westpac has reported on stakeholder engagement in its 2014 Annual Review and Sustainability Report. See: http://www.westpac.com.au/about-westpac/sustainability-and-community/reporting-our-performance/stakeholder-impact-reports/

RIO and BHP have published extensive code of conduct documents outlining their standards, who they apply to, membership of global transparency initiatives, whistleblower policy, staff training, reporting of breaches and so on.

CORPORATE GOVERNANCE

Context – why is it important to investors?

Applicable law and standards (see resources below) already extensively cover Corporate Governance practices and disclosure, hence are not reproduced in this Guide. Under this category investors will seek to gain an understanding of the company's governance practices. These practices provide insight into the quality of management in the company, and the quality of risk oversight by the board who are the representatives of shareholders.

In particular, companies that fail to comply with ASX standards (see resources below) under the "If not, why not?" regime are encouraged to provide a thorough explanation for same.

Failure of the board to address these issues has contributed to many of the high profile corporate collapses over the past decade. Investors require reporting on corporate governance to better understand the framework, policies, and incentives in place to ensure best performance by the company.

Best practice guidelines for corporate governance reporting can be found below.

Resources

The ASX Corporate Governance Principles and Recommendations supplement black letter law in the Corporations Act in Australia: http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf

The Australian Council of Superannuation Investors publish Governance guidelines for listed company boards. http://www.acsi.org.au/acsi-guidelines23/acsi-governance-guidelines.html

4. CONCLUSION

Appropriate management of ESG issues continues to be an essential ingredient for the establishment of long term sustainable returns. The Global Financial Crisis, along with a number of recent individual company environmental and social events, have once again reminded investors that investment considerations cover a broad range of risks and opportunities that affect the value of companies.

This Guide aims to assist companies with the view of investors on the information needed to assess ESG risks and opportunities which can be factored into short, medium, and long term valuations. All companies should provide disclosure on material ESG considerations.

Research into corporate reporting practices shows that over a third of the S&P/ASX 200 fail to provide meaningful information on ESG considerations. One of the aims of this Guide is to assist these companies in beginning to report meaningful ESG data.

The Financial Services Council and the Australian Council of Superannuation Investors thanks the many individual industry associations, organisations and institutions that provided input into this guide.

5. RESOURCES

- The International <IR> Framework, International Integrated Reporting Council (IIRC), 2013.
- Corporate Ecoforum and World Environment Centre. (2015). Sustainability and the CFO: Challenges, Opportunities and Next Challenges.
- CPA Australia, GRI Focal Point Australia, KPMG Australia. (2014). From Tactical to Strategic: How Australian Businesses create value from sustainability.
- United Nations Principles of Responsible Investment. (2014). Principle of Responsible Investment Fact Sheet.
- AA1000 AccountAbility Principles Standard 2008, AccountAbility, 2008.
- G4 Sustainability Reporting Guidelines: Reporting Principles and Standard Disclosures, Global Reporting Initiatives, 2013.
- G4 Sustainability Reporting Guidelines: Implementation Manual, Global Reporting Initiatives, 2013.
- Integrated Governance: A New Model of Governance for Sustainability, UNEP Finance Initiative, 2014.
- Sustainability Accounting Standards Board www.sasb.org
- Carbon Disclosure Project www.cdp.net
- Sustainable Stock Exchanges Initiative www.sseinitiative.org

Performance/ Industry guidelines and standards

- Consumer Goods Forum www.theconsumergoodsforum.com
- International Petroleum Industry Environmental Conservation Association www.ipieca.org
- International Council on Mining and Metals www.icmm.org
- Greenhouse Gas Protocol www.ghgprotocol.org
- Roundtable on Sustainable Palm Oil www.rspo.org
- WBCSD Cement Sustainability Initiative www.wbcsdcement.org
- Roundtable on Responsible Soy www.responsiblesoy.org/en
- The Marine Stewardship Council Certification www.msc.org
- Forestry Stewardship Council Certification https://au.fsc.org/

Stakeholder engagement

- AA1000 Stakeholder Engagement Standard (AA1000SES), AccountAbility, 2008.
- BSR, Five Step Approach to Stakeholder engagement, BSR, 2011

Materiality

- Redefining Materiality II: Why it Matters, Who's Involved, and What It Means for Corporate Leader and Boards, AccountAbility, 2013.
- Sustainable Insight: The essentials of materiality assessment, KPMG International, 2014.
- The Materiality Report: Aligning Strategy, Performance and Reporting, AccountAbility, BT Group Plc and LRQA, 2006.

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