CHARTERED SECRETARIES AUSTRALIA

Leaders in governance

30 April 2013

INCR Listing Standards Drafting Committee
Investor Network on Climate Risk
99 Chauncy Street
Boston, MA 02111
UNITED STATES OF AMERICA

By email: scharn@ceres.org; rembert@ceres.org

Dear Committee members

Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges: Consultation paper

Chartered Secretaries Australia (CSA) welcomes the opportunity to comment on the *Proposed Sustainability Disclosure Listing Standard for Global Stock Exchanges: Consultation paper* (the consultation paper).

CSA is the peak professional body delivering accredited education and the most practical and authoritative training and information in governance and risk management in Australia.

Our Members are all involved in governance and corporate reporting, with primary responsibility to develop and implement governance frameworks in public listed companies. Company secretaries have primary responsibility in listed companies to deal with the Australian Securities Exchange (ASX) and interpret and implement the listing rules. Our Members deal on a day-to-day basis with ASX and have a thorough working knowledge of the operations of the markets, the needs of investors and the listing rules, as well as compliance with the Australian Corporations Act (the Act).

As leaders in governance, we have been long-time champions of transparency and accountability through disclosure. We are therefore firm advocates of corporate reporting that demonstrates the stewardship capacities of an organisation and how it creates and sustains value.

However, CSA does not support the proposal to introduce a sustainability disclosure listing standard for global stock exchanges, due to the following reasons:

- There is significant support and momentum for companies to move to integrated reporting. The underlying principles of integrated reporting are to make disclosures that accommodate the complexity of financial, management commentary, governance, remuneration and sustainability reporting. CSA is strongly of the view that integrated reporting will capture the sustainability disclosures relevant to each company in a manner best suited to investor needs.
- Integrated reporting is supported by the Global Reporting Initiative (GRI), which worked in close consultation with the IIRC to ensure that GRI 4 was aligned to the aims of

integrated reporting. Therefore, GRI clearly supports the capacity of integrated reporting to provide comprehensive and integrated corporate reporting that covers sustainability issues.

- The proposal to introduce a sustainability disclosure listing standard conflicts with the objectives of integrated reporting, which is to provide a framework where companies can report on the connectivity and interdependence of sustainability issues with the strategy, performance and prospects of the company. It separates sustainability reporting from financial reporting, which CSA believes is a regressive step.
- Integrated reporting is being developed, shaped and tested by the direct involvement of over 50 institutional investors, who are helping to ensure that the framework addresses the needs of providers of financial capital by providing insight to the business model and future orientation to underpin long-term investment decision making. The strong support of institutional investors for integrated reporting demonstrates both that integrated reporting is seen as a model that provides insight to the connectivity of financial and sustainability reporting, but also that there is not unanimity among investors on any proposal for the introduction of a sustainability disclosure listing standard.
- The proposed sustainability disclosure listing standard appears to demand the use of the GRI framework, despite a small note on p 11 to the effect that a GRI-based sustainability report is not mandated. However, given that the proposal states that the GRI Content Index must be referred to, CSA is of the view that it is mandating the use of the GRI framework. CSA notes that, while the GRI framework may be suitable for a large multinational corporation, it is not necessarily suitable for a small to medium-size entity. There are approximately 2,200 entities listed on the Australian Securities Exchange (ASX), and the majority are smaller entities to which the application of the GRI framework is inappropriate and demanding of a level of internal resourcing that such companies cannot sustain. Insisting on reference to the GRI framework for such companies would be detrimental to shareholder value. The proposed sustainability disclosure listing standard does not accommodate the needs of the majority of Australian listed entities.
- The GRI Content Index which is referenced is a very prescriptive approach to sustainability disclosure. The ASX Corporate Governance Council issues the *Corporate Governance Principles and Recommendations* (the Principles and Recommendations) against which all listed entities report under Listing Rule 4.10. The Council is comprised of all market participants, with both retail and institutional investors strongly represented. Principle 7 addresses the need for a listed entity to recognise and manage risk, and report on that framework. The Council is currently developing a new edition of the Principles and Recommendations, including revisions to Principle 7. The Principles and Recommendations are principles-based.[1]

CSA does not support the proposal to introduce a sustainability disclosure listing standard.

We are of the view that entities need to be encouraged to move to integrated reporting. We do not support the mandating of integrated reporting, as the journey to this form of reporting involves cultural change, and any mandating of it is likely to produce a compliance' tick-the-box' approach that will not provide useful disclosures to investors.

Integrated reporting

CSA is of the view that integrated reporting is a more suitable model to capture the sustainability disclosures investors need to inform long-term investment decision making. This is because we

[1] In Australia, this is known as the 'if not, why not' approach, where if a company considers that a recommended governance practice is inappropriate to its circumstances, it has the flexibility not to adopt it — a flexibility tempered by the requirement to explain why.

believe that the integrated reporting framework helps organisations to undertake integrated thinking, which allows them to undertake a change management program so that they can:

- break down the propensity to thinking and operating in 'silos' that occurs in many organisations
- approach the business in a desegregated manner in order to understand how the interrelationship of all its functions and actions can inform decisions concerning prospects, risks and opportunities
- make better business decisions as a result of an enhanced understanding of the business.

The integrated report is the outcome of this process.

Integrated thinking takes into account the connectivity and interdependencies between the range of factors that have a material effect on a company's ability to create value over time. Value is:

- influenced by the external environment, including economic conditions, technological change, societal issues and environmental challenges
- created through relationships with others, including employees, customers, suppliers, business partners and local communities
- dependent on the availability, affordability, quality and management of various resources.

An integrated report results in a broader explanation of performance than traditional reporting by describing and measuring, where practicable, the material elements of value creation and the relationship between them. In particular, it makes visible all the capitals on which value creation (past, present and future) depends, how the company uses those capitals and its effects on them.[2]

Integrated thinking cannot be achieved quickly, particularly in large listed corporations, and the International Integrated Reporting Council (IIRC) recognises that an integrated report will be a work in progress. The IIRC also recognises that a company can take some steps in its first year of preparing an integrated report, and further steps in the second and third years, progressing toward a more sophisticated integrated report over time.

Integrated reporting is about 'telling the organisation's story' to its investors but doing so with empirical data that can be reported on year-on-year. CSA supports the creation of one report integrating social, environmental and financial data that will help companies succeed by building trust with their investor and stakeholder communities.

[2] The six capitals comprise: Financial capital — the pool of funds available to a company for use in the production of goods or provision of services; and/or obtained through financing; Manufactured capital — manufactured physical objects that are available to a company for use in the production of goods or provision of services, including buildings, equipment and infrastructure; Intellectual capital — organisational, knowledge-based intangibles, including intellectual property, tacit knowledge, systems, procedures and protocols, and intangibles associated with brand and reputation; Human capital — people's competencies, capabilities and experience, and their motivation to innovate; Social and relationship capital — the institutions and relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being; Natural capital — all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, present or future prosperity of a company, including air, water, land, minerals, forests, biodiversity and eco-system health.

However, we do not support the introduction of a listing standard for integrated reporting. Mandating disclosure of this kind is likely to lead to a compliance mindset where such disclosures are seen as a ‘tick-the-box approach’. CSA is of the view that encouraging integrated reporting will lead to the cultural change within entities that is more likely to produce integrated thinking and the capacity to connect sustainability and financial reporting that is meaningful.

Yours sincerely

Tim Sheehy

Tim Sheehy
CHIEF EXECUTIVE