

Updated ASX Corporate Governance Principles and Recommendations

ASX puts sustainability risks firmly on the agenda of listed entities

From 1 July 2014, listed entities will need to disclose their exposure to economic, environmental and social sustainability risks. This significant change was introduced on 27 March, when the ASX released the 3rd Edition of its Corporate Governance Principles and Recommendations¹.

Specifically, Principle 7: *Recognise and Manage Risk* has been updated to include a new recommendation 7.4 that deals with sustainability risks:

Recommendation 7.4

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.

'Material exposure' in this context means a real possibility that the risk in question could substantively impact the listed entity's ability to create or preserve value for security holders over the short, medium or long term.

In addition the 3rd Edition also enhanced the language in Principle 3: *Act Ethically and Responsibly* to include being, and being seen to be a 'good corporate citizen' through for example respecting human rights of employees, creating a safe workplace, dealing honestly and fairly with customers and suppliers, acting responsibly towards the environment and only dealing with others who have similar ethical and responsible practices.

Applicability

The ASX principles and recommendations continue to be applied on an 'adopt or explain' basis and listed entities should take this new recommendation seriously. The 3rd Edition is applicable for the first full financial year commencing on or after 1 July 2014.

Recognising the importance of non-financial information and risks

The changes in the ASX Principles elevates sustainability risks and disclosures and is consistent with trends seen around the world including the adoption of various

sustainability information reporting requirements at a number of stock exchanges; the recent adoption of the Directive on non-financial reporting by the EU Parliament² as well as the release of the Integrated Reporting Framework.

Disclosure of non-financial information is increasingly important with stakeholders recognising that in order to make decisions to allocate capital, assess risks and opportunities and to understand how an organisation creates value, information on economic, environmental and social impacts must be publicly available.

The inclusion of sustainability risks within the ASX Principles means that CFOs, Boards and Audit Committees should specifically consider sustainability issues and risks as they review their corporate governance obligations.

Increasing global focus on sustainability reporting and disclosure:

Around the world sustainability disclosures are increasing - driven by government regulations as well as voluntary guidelines and frameworks including:

- Integrated Reporting Framework (Global)
- GRI G4 Sustainability Reporting Guidelines (Global)
- Directive on non-financial reporting (EU)
- Grenelle II large company ESG disclosures (France)
- Johannesburg Stock Exchange integrated reporting (South Africa)
- Conflict Minerals disclosure (USA)
- London Stock Exchange GHG emissions reporting (UK)
- Top 100 listed companies ESG reporting and invest at least 2% of net profits on socially responsible projects (India).

The impact of these global drivers will only put more pressure on Australian listed entities to disclose high-quality sustainability information regularly to stakeholders, particularly as Australian entities look to world markets for capital.

¹<http://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>

²http://ec.europa.eu/internal_market/accounting/non-financial_reporting/index_en.htm

What does this mean for listed entities?

In order to comply with Recommendation 7.4 listed entities should perform an analysis of their exposure to economic, environmental and social sustainability risks and determine their approach to reporting and disclosure. This should be subjected to a formal review of the process and outcomes and also be linked to the wider business strategy and risk management processes.

Where entities currently report sustainability information this process should be reviewed to confirm it aligns with the sustainability risks requirements of Recommendation 7.4.

Entities should also consider obtaining independent assurance over sustainability information where they are not currently doing so, in order to increase the rigour of reported information.

How Deloitte can help

Deloitte can assist you comply with the recommendations as well as enhance your sustainability reporting strategies in line with better-practice. This can include:

- Assisting the entity perform its materiality assessment
- Review, assess or assure the application of the entity's materiality and sustainability risk management framework
- Assist with reporting and disclosure strategies and implementation - whether in stand-alone in sustainability reports or in Annual Reports
- Assurance of sustainability reports or specific statements, information or claims made in Annual Reports or on websites.

Contact us

For more information or to discuss how we can assist you please contact:



Paul Dobson
National Lead Partner,
Sustainability Services
Tel: +61 (0) 2 9322 5422
padobson@deloitte.com.au



Shailesh Tyagi
Principal,
National Energy & Resources Lead,
Sustainability Services
Tel: +61 (0) 2 9322 5741
shtyagi@deloitte.com.au

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the "Deloitte Network") is, by means of this publication, rendering professional advice or services.

Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

About Deloitte Australia

In Australia, the member firm is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia's leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 6,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit Deloitte's web site at www.deloitte.com.au.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

© 2014 Deloitte Touche Tohmatsu.

MCBD_HYD_08/14_02117