



Investor Group on  
Climate Change

## **Investor Group On Climate Change (IGCC)**

Submission to:

# **REVIEW OF THE ASX CORPORATE GOVERNANCE COUNCIL'S PRINCIPLES AND RECOMMENDATIONS**

30 July 2018



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Attention: Mavis Tan  
ASX Corporate Governance Council  
c/o ASX Limited  
PO Box H224  
AUSTRALIA SQUARE NSW 1215

### **Review of the ASX Corporate Governance Council's Principles and Recommendations**

The Investor Group on Climate Change (IGCC) welcomes the opportunity to respond to the call for submissions to the public consultation on the fourth edition of the *Corporate Governance Principles and Recommendations* as prepared by the ASX Corporate Governance Council.

IGCC represents over 70 Australian and New Zealand institutional investors with more than \$2 trillion of funds under management, along with members of the investment community focused on the impacts of climate and energy issues.

IGCC members are invested across the Australian economy and are part owners of most of Australia's large companies. As managers of retirement savings and pooled investments we are concerned with the evident and increasing impacts of climate change on the global and Australian economies and the flow through impacts for investment returns.

In recent years, a significant shift has been occurring in how business and the financial community views climate change and the need to reduce greenhouse gas emissions. Climate change has moved from being seen primarily as an environmental issue to additionally being understood as an economic risk. Whether physical, regulatory or market-driven, climate change has financial implications and for business and investors, carbon has a bottom line impact.

Australia has a carbon intensive economy that is undergoing significant transition. It is an economy which is exposed to the regulatory, physical and market risks of climate change. Investors who are managing financial risk for the long term, need to be managing for climate change, and to do this requires open and transparent assessment and disclosure of climate related risks.

As long-term investors, institutional investors are acutely aware of their fiduciary duties and obligations under the regulatory framework for institutional investors in Australia. In recent years, it has become increasingly clear that this obligation extends to the oversight and management of environmental, social and governance factors influencing financial performance, including climate change.

Effective carbon risk disclosure integrated into business-as-usual financial reporting is the foundation of good risk management. Around the world, a growing number of government bodies have begun

introducing statutory requirements for the disclosure of environmental and other non-financial information. These generally require companies to disclose environmental information in as part of mainstream financial reporting and to connect environmental performance with business strategy, performance and future profitability.

IGCC welcomes the proposed amendments to the ASX Corporate Governance Council's Principles and Recommendations providing advancement in the expectations and obligations of companies to incorporate climate change risk considerations into regular business practise.

IGCC notes that many of the proposed changes to the Corporate Governance Principles recognise the importance of climate change risk considerations and seeks to expand the knowledge and awareness of the growing climate risks to companies. IGCC supports each of the proposed changes to recommendations 2.2, 2.6, 7.4 that specifically address aspects of climate change related obligations of ASX listed companies.

Recommendations 2.2 and 2.6 recognise the need for particular skills and expertise within company boards to assess and consider the risks posed by climate change. While it is essential that companies begin assessing and disclosing climate change related risks, the ability for companies to do this in a meaningful and comprehensive manner is equally crucial.

In particular, IGCC recognises and supports the proposed change to recommendation 7.4 of the Corporate Governance Principles as it addresses and incorporates "recommendation 2" of the Senate Economic References Committee Inquiry into Carbon Risk Disclosure calling for greater guidance on the disclosure of a company's exposure to carbon risk.

The proposed changes to recommendation 7.4 provide much needed clarity in relation to the types and treatment of different climate change related risks to companies. The expanded recommendation makes clear the obligations that many companies carry in relation to climate change risk disclosure and IGCC supports greater adoption of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

A growing number of companies are looking to include assessments and plans for addressing climate change related risk, following the recommendations of the TCFD, into regular company reporting. However, the incorporation and reference of these recommendations in formal reporting principles and guidelines, such as the ASX Corporate Governance Principles and Recommendations will confirm their wide applicability and ensure their wider adoption across Australia's publicly listed companies.

We look forward to continuing to constructively engage further in the review of the ASX Corporate Governance Principles and Recommendations.

Yours sincerely,



Emma Herd  
Chief Executive Officer  
Investor Group on Climate Change