

Information request 2 – Sustainability and environmental reporting

To what extent is reported information used by stakeholders, and what effects has its availability had on their decisions, activities or outcomes?

Investors rely on sustainability and climate-related disclosures as an input to investment decision-making, and to better understand the risks and opportunities associated with their investments. Information is used in investment analysis, risk assessment, stewardship activities and investment due diligence.

Information can provide insights into strategic and risk management decisions. Disclosure requirements can be an important trigger for reporting entities to consider their risks and opportunities in an integrated way. Disclosure is most useful when it follows the strategic exercise that underpins it.

With a fiduciary obligation to pursue the best risk-adjusted returns and facing a multitude of risks and opportunities across various time horizons, investors require information to better understand the risks and opportunities across their portfolio. Information is used to assess the quality of management, compare company performance and strategy across sectors and the market.

While reporting entities may not hear direct questions from investors on each data point, information is used within models and digested, similar to how financial information is fed into financial models. An absence of questions or queries on a particular matter does not indicate that the data is not used.

Reporting requirements can also drive efficiency, as entities can issue the information publicly once, generally through annual reporting, rather than respond to a greater number of bilateral information requests. Reporting requirements can also support the adoption of standardised metrics which enables comparisons between companies/sectors.

What changes to reporting requirements, reporting processes and mechanisms could reduce compliance and reporting costs and data duplication? For example, changes to reporting frequency or systems integration to enable reuse of existing government data.

Our view is that systems integration should be considered where it promotes re-use of existing data. Any changes should preserve the quality of decision-useful information provided to investors, while promoting efficiency. For example, a better, more detailed central register of acute climate-related physical risk information would benefit the market. This could be used in insurance and property valuations that incorporate physical risk adaption through building codes and in planning development to avoid acute physical risk. Similarly, as organisations can spend significant time verifying the integrity of carbon offsets, centrally held, consistent verification standards, processes and information could promote efficiency.

Information request 3 – Workplace gender equality reporting

To what extent is reported information used by stakeholders, and what effects has its availability had on their decisions, activities or outcomes?

Extensive research links diversity to better financial outcomes. In general, diversity in board and senior executive teams is correlated with better financial performance, as well as more innovation, higher retention rates and reputational benefits².

A range of research shows links between cognitive diversity and better company performance.

² See, for example, Miller and Triana, 2009, "Demographic Diversity in the Boardroom: Mediators of Board Diversity – Firm Performance Relationship," Journal Of Management Studies, and Catalyst, 2020, .Why Diversity and Inclusion Matter (Quick Take)

This research shows that cognitively diverse teams are more innovative, less likely to exhibit groupthink and engender higher levels of trust³. This is why ACSI expects boards to consider how to support cognitive diversity, ideally through an assessment of the presence of different backgrounds, experiences, education and perspectives on the board⁴.

Information on diversity is used by investors to assess board quality, but also to provide insight into corporate culture. For example, improvements that have seen the aggregation of data on WGEA's website help investors better use the information, including to support investment stewardship.

What other tools could be used to increase gender equality in the workforce? Are these preferable to WGEA reporting, and why?

ACSI supports disclosure that provides meaningful information to investors, and which can drive accountability and transparency. We also support target setting. ACSI's *Governance Guidelines* expect that "no gender occupies less than 30% of board positions in an ASX-listed company" and that companies should set a realistic timeframe within which they will achieve gender balance (40:40:20) on their boards. ACSI's *Governance Guidelines* also encourage companies to advance gender diversity at the executive level and disclose the actions they are taking.

With the proportion of women directors on the ASX200 currently at 38%, the current proposal in the ASX Corporate Governance Principles and Recommendations to retain a measurable objective of 30% women directors encourages a lack of ambition. Given the 'if not, why not' nature of the Recommendations, there is sufficient flexibility for entities that determine the objective is not appropriate to them to explain their alternative approach.

Information request 4 – Other non-financial reporting requirements

How is the reported information used by stakeholders, and how does it affect their decisions, activities or outcomes?

ACSI's focus is on listed entities, in particular, the ASX300. Information disclosed by listed entities in response to the *ASX Corporate Governance Principles and Recommendations* is an input to investment decision-making and used to better understand the risks and opportunities associated with their listed equity investments. Disclosures are used in investment analysis, risk assessment, stewardship activities and investment due diligence. Information is useful to investors' decision-making when it provides insight into strategic and risk management choices. Reporting should be considered a strategic exercise, rather than a compliance one.

We support scrutiny of unnecessary duplication and process costs. However, we caution against framing sensible governance practices and associated disclosure as costly or burdensome. Fit-for-purpose governance and disclosure promotes transparency, accountability and fair treatment of investors, helping support long-term value creation and bolstering Australia's reputation as a trusted investment destination. The *ASX Corporate Governance Principles and Recommendations*, properly operate on an 'if not why not' basis, and provide listed entities with flexibility to adopt the practices appropriate to their circumstances. Reporting on this basis provides valuable information to investors.

We believe opportunities to harmonise definitions across reporting requirements and regulators sharing data to promote efficiency are worth exploring where possible, so long as decision-useful information continues to be provided to investors in an accessible format.

³ Juliet Bourke, 2021, Which Two Heads are Better than One?, AICD, and ACSI, 2023, Gender Diversity Policy

⁴ ACSI Governance Guidelines