ACSI

GOVERNANCE
GUIDELINES

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About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material sustainability and corporate governance risks and opportunities. Our members include Australian and international asset owners and institutional investors with more than $1.9 trillion in funds under management.

Through our company engagement, policy advocacy, research and education, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage.

ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the environmental, social and governance practices of the companies in which they invest.



Research

We identify the most material sustainability issues for long-term investors.



Company engagement

We engage directly with the boards of ASX-listed companies to discuss, understand and improve corporate governance practices and sustainability performance.



Voting advice

We provide our members with voting recommendations that are consistent with the principles set out in these Guidelines. In determining our voting recommendations, we take into account our engagement work and consider the issues as they apply to each company on a case-by- case basis. Our advice is developed independently from our members.



Policy and advocacy

We engage with governments, regulators and other market participants to support policy reform and markets that are focused on the long term and best serve our members' beneficiaries.

Further details about us, our publications, policy positions and membership are available on our website at www.acsi.org.au.

Acknowledgement of Country

We acknowledge and respect the traditional lands and cultures of First Nations people in Australia and globally and pay our respects to Elders past and present. We recognise First Nations peoples' longstanding and ongoing spiritual connections to land, sea, community and Country. Appreciation and respect for the rights and cultural heritage of First Nations peoples is essential to the advancement of our societies and our common humanity.

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Introduction

Efficient and vibrant markets are essential to Australia's economic success, and good governance, transparency and investor protections are the foundations of confidence in listed markets. Governance is a competitive advantage underpinning investor confidence, market integrity, and sustainable economic performance.

ACSI's superannuation fund members have a duty to act in the best financial interest of the more than 11 million Australians whose retirement savings they steward. ACSI focuses on financially material issues, recognising that not all issues will be financially material for all companies. ACSI's research paper on materiality outlines some of the factors that may be material for companies, but it is for boards to assess which issues are material for the company and then monitor, report on and incentivise effective management of those issues.

ACSI provides voting advice, company engagement and public policy advocacy. Constructive company engagement is one way ACSI and our members work to improve and preserve investment outcomes. The Governance Guidelines ('Guidelines'):

- highlight ACSI's expectations of boards of listed companies
- articulate ACSI's views on the issues that form the basis of company engagement, and
- outline the factors ACSI takes into consideration when determining voting recommendations.

The Guidelines assume companies comply with relevant Australian corporate law and guidance, including the *Corporations Act 2001 (Cth)*, the Australian Stock Exchange (ASX) Listing Rules and the Fourth Edition of the ASX Corporate Governance Council's Principles and Recommendations. These Guidelines build upon, rather than duplicate, those provisions. ACSI supports the 'if not, why not' principle, on the basis that it provides appropriate flexibility for a company to adopt the governance practices it considers appropriate to its circumstances and explain its reasons for doing so. ACSI considers these Guidelines to be the pre-eminent guidance for companies as to their approach to financially material sustainability issues and good governance. The Guidelines are principles-based and, while non-binding, provide a useful reference point for companies and ACSI members.

While the Guidelines are divided into sections, many areas of risk and opportunity are interconnected. ACSI encourages companies to consider their practices holistically.

Principles of good governance and stewardship

The following principles underpin ACSI's expectations of boards and approach to engagement:

Board oversight of all material risks for sustainable, long-term value creation: Effective board governance contributes to shareholder value and creates the foundations for sustainable long-term investment.

Transparency: A company is more likely to attract long-term capital if it discloses enough information to give investors confidence in its identification and management of key risks.

Social license to operate: Companies rely on a range of stakeholders to operate and succeed, and effectively engaging with stakeholders is key to maintaining a social license to operate.

Stewardship approach: When assessing a company's performance, ACSI considers a broad range of factors including the materiality of the issue, the context in which the issue arises and the size of the company. ACSI also considers the time over which any shortcomings have occurred, any improvements in company behaviour and responsiveness to engagement. These factors are set out in ACSI's voting research and recommendations, so subscribers can consider them when determining their own voting positions. ACSI:

- seeks to engage with a company's board to understand the company's position before providing voting advice
- provides a copy of ACSI voting advice to the company that is the subject of the research and recommendations, and
- notifies a company of issues ACSI considers to be contentious ahead of making recommendations.

What's new in this edition of the Guidelines?

The updates in this edition have been made in response to issues across the market, feedback from stakeholders or observations made through company engagements.

Key updates include:

- Amended drafting, or new sections, on succession planning, the governance of Artificial Intelligence, culture, workforce and diversity and strengthening the ties between board skills and experience, succession and election.
- Structural updates to clarify expectations of the board's activities, governance role, and expectations of disclosure.

1. Board and director responsibilities

1.1 Investment rationale and expectations

Strong corporate governance provides a solid foundation for strategic success, supporting a company's ability to manage a broad range of risks and opportunities and better drive long-term value.

Directors are elected by shareholders to act in the best interests of the company. They play a critical role on behalf of shareholders, who are best served by well-constructed boards driving better decision making and long-term value creation. Accountability promotes ongoing effectiveness, encourages better performance and instils confidence and trust.

ACSI encourages companies to adopt governance arrangements fit for their organisation and to explain their approach. ACSI encourages directors to be innovative, recognising that each company will necessarily differ on the details of their governance arrangements. Some generally accepted approaches to effective governance are outlined below. It is critical for boards to:

- exercise independent judgement over the company's performance, financial statements, resources, standard of conduct and ethics
- develop and oversee the implementation of the company's strategy
- manage the selection, appointment, remuneration and performance management of the Chief Executive Officer (CEO) and other senior executives. This includes giving sufficient weight to the CEO's capacity to execute an effective strategy
- oversee the maintenance of financial integrity. This includes reviewing the company's accounts and certifying that they comply with Australian accounting standards and represent a true and fair view of the affairs of the company
- oversee the system of risk management to ensure risks are properly and regularly identified, managed and integrated into company strategy. This includes setting the company's risk appetite and receiving regular assurance that management is operating within that risk appetite, including in respect of sustainability risks
- ensure proper accountability mechanisms and systems are in place
- inform shareholders of relevant information in accordance with continuous and other disclosure obligations
- develop and maintain a publicly disclosed charter, or code, on conduct, governance and ethics
- develop, articulate and oversee the company's values to underpin the desired culture and demonstrate alignment between expected and actual behaviour. This includes consideration of the CEO's capacity to drive the desired culture
- ensure the constitution does not include any features or proposed changes that may diminish or impinge upon the rights of shareholders
- provide opportunities for shareholder engagement at regular intervals throughout the year, not only at Annual General Meetings (AGMs), and adequately address shareholder questions in all forums
- engage actively with shareholders and stakeholders. This includes consideration of relevant views in decision making and being responsive to concerns, and
- be composed of directors who are personally familiar with the company's operations and do not rely solely on information provided by executives or external advisers, and devote sufficient time and effort to their duties as a director.

1.2 Role of the board chair

The chair is responsible for the effective functioning of the board and plays a key role in setting the tone of the boardroom, and the company itself.

ACSI expects chairs to:

- provide leadership to all directors. The chair's approach can establish a culture of constructive support and challenge
- ensure appropriate board procedures and structures are in place for relevant issues to be elevated to the board, and
- be selected from the pool of independent non-executive directors. The roles of chair, CEO and executive director should be separated to avoid a concentration of power. Where the chair is an affiliated or executive director, or where there are real or perceived conflicts arising from the chair's position, the independent non-executive directors should nominate a lead independent non-executive director, or equivalent, to perform the chair's responsibilities.

Board and committee chair workload and capacity

The role of chair of the board, or of a committee such as audit, can be time intensive. To ensure the chair of a board or committee has adequate capacity, ACSI expects boards to consider any other commitments that may compromise the capacity to fully engage in periods of high workload (such as significant corporate action, or an unforeseen crisis). It may be appropriate for the company to limit the number of other board and chair positions held.

1.3 Board composition

The board should be comprised of individuals who can work together effectively to steer a profitable and sustainable company. In forming the board, consideration should be given to skills, independence and diversity, both individually and collectively. Boards should include a sufficient number of members to reflect the company's context, maturity and complexity, the desirability of specific experience and to ensure sufficient cognitive diversity.

Skills, experience and attributes

Directors with a broad range of relevant skills are better placed to drive long-term value creation. Boards should assess director skills and performance before the election and re-election of directors. Boards should also consider how recently these skills were acquired, and whether the skills across the board are complementary. Skills can take all forms, including conflict management, understanding of emerging risks, knowledge of the company's industry or environment, effective communication and curiosity to address complicated decisions.

ACSI expects boards to:

- undertake regular, robust and independent skills assessments. Directors should not be solely responsible for assessing their own skills, and
- ensure members are appropriately skilled to oversee the company's strategy. This should include assessing the skills and experience of current and potential future board members given the company's strategy, market dynamics and wider systemic risks such as climate change and digitalisation.

Independence

Independence is determined predominantly by an individual's character and integrity. Independence indicators are useful, however, while a director may not meet strict independence guidelines they may have a proven record of exercising independent judgement. In such cases, a director should not automatically be considered inappropriate to serve on the board, however the board should explain why they are an appropriate candidate.

ACSI expects boards to:

- consist of a majority of independent non-executive directors who are sufficiently motivated and skilled to provide independent oversight of the company's activities
- make decisions in an independent manner, free from any actual or potential conflicts of interest and business (or other) relationships which could materially interfere with their judgement, and
- exclude directors with material conflicts of interest from decision making and assign independent non-executive directors the lead where potential conflicts of interest arise at the board level. This process is particularly important when the board considers related-party transactions.

Box 1.1: Assessing independence

Below is a non-exhaustive list of some circumstances in which directors may be considered affiliated and non-independent. ACSI evaluates each director and overall board composition on a case-by-case basis.

Relevant relationships and activities	Factors that may compromise independence
Relationship to the business and advisers	Employment within the company in the past three years.
	Senior employment by a significant professional adviser in the past three years.
Relationship to substantial shareholders	Owning more than 5% of the voting rights in the company's shares.
	Being, or having been, an officer, director, representative or employee of such a shareholder.
Relationship to customers, suppliers and other service providers	Being a major supplier or customer to the company (or their representative or executive).
	Having a material contractual relationship with the company.
	Receiving fees for services to the company at a level indicative of either significant involvement in a company's affairs, or significant in relation to the salaries received by directors.
Past or present personal or business relationships	Concurrent service between a non-executive director and executive or adviser or other connected directorships (past or present).
Relationship with a related party	Being a spouse, de facto spouse, parent or child of affiliated directors, executive directors, senior executives or advisers.
	Benefiting from a related-party transaction.
Incentive pay	Participation in performance incentive schemes, including options that are also granted to executives.
Participation in a takeover bid	Participating in the bid for the counterparty (either as buyer or seller).
Length of tenure	Where the director has served for a significant period on the board, independence may be affected, although not necessarily in all cases. Many boards consider the impact on independence where a director has served a period of 10 years or more. ACSI considers individual tenure in light of broader board renewal.

Board diversity

Companies are likely to be most successful when they harness collective intelligence and approach problems with diversity of thought. Cognitive diversity brings a wider set of perspectives and can help boards to set and challenge strategy and better to understand the markets in which the company operates. Teams exhibiting diversity of thought can engender higher levels of trust amongst each other, are more likely to be innovative and less likely to fall prey to groupthink.[1]

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 board
- ensure that no gender occupies less than 30% of board positions, and
- set a realistic timeframe within which they will achieve gender balance. Gender balance typically refers to a minimum of 40% men; 40% women; and 20% unallocated to allow for renewal or any gender (40:40:20).

[1] For example, Foster et. al., 2021, Noteworthy diversity efforts and financial performance: Evidence from Diversity Inc's top 50, Advances in Accounting; McKinsey, 2023, Diversity matters even more, Workplace Gender Equality Agency (WGEA), Gender Equality and intersecting forms of diversity, Scott Page, 2018, *The Diversity Bonus*.

ACSI also encourages companies to advance gender diversity at executive level and to disclose steps that they are taking to achieve this, by:

- committing to achieve gender balance (40:40:20) in executive leadership by 2030, and
- setting measurable interim gender targets in the lead up to 2030 and beyond.

These expectations are consistent with *Workplace Gender Equality (Gender Equality Targets) Instrument 2025* expectations. ACSI's policy for proxy voting recommendations is updated periodically and available at ACSI Gender Diversity Policy | ACSI.

CEOs as board members

ACSI expects the CEO or Managing Director of a company to sit on the board, as it drives greater transparency of CEO incentives and trading, and is likely to lead to more fulsome discussions on strategic issues.

In addition, a serving CEO or other executive may add value as a non-executive director of another listed company board. This can enhance their understanding and insight into directors' duties and board responsibilities. However, such positions should be subject to rigorous consideration of the ability to manage primary responsibilities as an executive. Such consideration is relevant for the board the CEO or executive seeks to join, and for the company approving the additional role. ACSI expects the executive role to be the person's primary responsibility.

1.4 Board process

Board evaluation

Board evaluation is a key function in assessing the skills and experience of the current directors, and identifying any gaps that should be filled by future appointments.

ACSI expects boards to:

- regularly evaluate the effectiveness of the board and individual directors to assess the board's ability to provide strategic oversight. It is better practice for this assessment to be periodically undertaken by an external party
- regularly review the composition of the board, including the independence of directors, as well as the current, and desired, state of skills, experience and or diversity within the board
- assess the board's performance in overseeing corporate culture, and
- review the workload of directors as part of their appointment and in evaluation processes.

Nomination, appointment and succession

Nomination, appointment and succession plans should be informed by board evaluations alongside the company's business model and strategy. This will support the company in establishing a board best placed to drive long-term company success.

ACSI expects boards to consider the following factors in director appointment, succession and nomination processes:

- the results of the evaluation, including the experience of current directors relevant to the company and its strategy, how the board supports cognitive diversity, and any skills gaps
- succession plans for current directors. There should be sufficient overlap in chair, committee chair and director succession to preclude gaps in key skills, experience, subject matter expertise or corporate memory. Boards should also consider contingency plans to address unforeseen turnover or absence, and
- the size of the board, ensuring sufficient size to allow an adequate number of skilled and independent non-executive directors

The board should not limit the ability of shareholders to nominate and elect additional directors. In addition, investor and stakeholder expectations are likely to increase commensurate with the company's size and governance maturity.

CEO and executive succession planning

ACSI expects boards regularly to assess the CEO's position and the composition of the executive team to understand the pipeline for senior positions. The board should maintain a dedicated CEO succession plan, which articulates desirable or necessary attributes.

Board committees

The board should establish audit, risk, remuneration and nomination committees, and other committees as appropriate for the nature of the company's business. A company should disclose clearly where the responsibility for oversight of sustainability issues lies, for example with specific committee(s), as well as the board as a whole.

ACSI expects board committees to have the following attributes:

- composition of a reasonable size, considering the size of the board
- an independent non-executive director as chair, and
- majority independent directors, except the audit and remuneration committees, which should have only independent directors.

We also expect committees to have the opportunity to select their own service providers and advisers at a reasonable cost to the company, and during takeovers and related-party transactions, all committees formed should comprise only directors that are not associated with the counterparty to the transaction.

Committees should hold regular meetings, including having a regular item of business without executives present.

Significant votes against

Where a company receives a significant vote 'against' management's recommendations on resolutions, ACSI expects thorough discussions, with a broad range of shareholders, to address the material issues that led to this vote.

Existence of founding or controlling shareholders

Controlling or founding shareholders who are members of a board, or nominate specific directors, may perform an important role in the oversight of a company. Founders and controlling shareholders can make a significant contribution to a company's success, benefiting all shareholders.

However, founding or controlling shareholders can introduce a range of governance risks or potential conflicts of interest. This makes the role of independent directors on the board of controlled, and founder-led, companies particularly important, as they consider and protect the interests of all shareholders.

To address these risks, ACSI expects boards to:

- manage the competing interests that may arise and ensure adequate safeguards for minority and non-controlling shareholders are built into board structures and the company constitution
- have appropriate oversight to understand potential influence across the business, for example on the business's culture, and to establish appropriate mitigations
- consider connections and relationships between directors and controlling or founder shareholders when nominating directors
- appoint a chair without any connection to the controlling shareholder. If this is not possible, an explanation for why not should be provided, and the board should appoint a lead independent director, and
- be sensitive to the votes and interests of the non-controlling shareholders, particularly where there may be misalignment between the controlling shareholder and other shareholders.

1.5 Board oversight of related-party transactions

Oversight of related-party transactions is a critical duty of the board in representing shareholders' best interests.

ACSI expects boards to:

- disclose the policy for managing potential related-party transactions, and
- form a specific committee to assess material related-party transactions.

In interpreting what constitutes a related party, the board should not only observe the law but also its underlying purpose. Transparency is critical, even where transactions are conducted on arm's length terms.

1.6 Director elections

Shareholder voting in the election and re-election of directors is a key part of investor stewardship, in the best financial interests of beneficiaries. The board is a unitary decision-making structure, but it is comprised of individuals who are elected individually.

Annual election of directors is an international best practice that has been adopted by several Australian companies. ACSI supports annual director elections to promote engagement and board succession planning. Annual elections can drive accountability, providing a regular and timely opportunity for boards and investors to consider director performance. The experience of markets like the UK suggests that adopting annual elections has not led to short termism or instability.

Box 1.2: Assessing proposals on election and re-election

When formulating recommendations on director election or re-election, ACSI considers factors relating to the performance and accountability of the individual candidate, the performance of the company and the composition and performance of the board in its entirety. These issues are not considered in isolation and ACSI's recommendation will be based on an assessment of the likely best outcome for the company.

ACSI considers an individual's:

- skills, qualifications and experience
- performance on the company's board or other boards (as evidence of their skills and experience)
- engagement with shareholders and responsiveness to material issues
- exercise of independent judgement
- attendance at board and committee meetings, capacity and workload, taking into account competing commitments, including other directorships and chair roles
- tenure on the company's board, considering average overall board tenure and company performance, and
- relevant, publicly known conduct.

In relation to the board, ACSI considers:

- company performance under the incumbent board and its committees, including the management of material risks
- board composition and progress on the board's diversity make-up
- oversight of management processes and remuneration arrangements
- how the director fits within the board's skills matrix
- the proportion of independent non-executive directors, and
- how the board undertook the process to identify and select new board members.

1.7 Financial integrity

Boards play a key role in establishing systems to monitor financial integrity and sign off the accounts.

Audit committee

The audit committee and auditors execute many responsibilities regarding financial integrity. However, as each director retains ultimate responsibility for the oversight of a company's financial statements, where there is a material failure in oversight, ACSI will consider recommending a vote against the re-election of relevant directors.

ACSI expects boards to establish audit committees:

- with adequate technical expertise to support diligent independent oversight and scrutiny
- entirely composed of independent directors, and
- that have discussions with external and internal auditors without executives or executive directors present.

Auditor responsibilities, independence and services

Auditors play a key role in assisting the audit committee to discharge its responsibilities and providing advice and insight to the board.

ACSI expects auditors to:

- meet appropriate, ongoing competency requirements established by the audit committee
- provide reports of their activities to the audit committee
- be present at AGMs to answer shareholders' questions, and
- be, and be perceived to be, independent of the company, including of its directors and executives.

To be independent, there should be no significant financial, business or employment relationship between the company and the audit partner or the audit firm.

Independence can be affected by relationships where:

- the auditor:
  - has a business, investment or other financial relationship with the company that is not insignificant to the auditor, or
- the company employs:
  - current or former partners or employees of an auditor, or
  - an immediate family member of one of the auditors who is not 'arms length' from the audit.

The law requires auditors to provide an annual statement of independence detailing whether there were any circumstances during the year that may affect independence. If there are such circumstances, an explanation should be provided of why the audit has not been materially compromised.

Non-audit services and rotation

An audit firm can provide a limited range of non-auditing services. However, some non-audit services should never be provided as they may compromise independence. These include:

- preparing accounting records and financial statements
- valuation services
- internal audit services
- strategic taxation advice, and
- services that may result in the situation where the audit firm is required to audit its own work.

ACSI expects boards to:

- have the auditor outline the provision and quantum of non-audit services to the audit committee for approval
- ensure the ratio of audit to non-audit fees remains low to reduce potential, or perceived, conflicts of interest and consequential effects on independence, and
- rotate audit firms and individual audit directors.

ACSI will consider these issues when recommending on the re-election of audit committee members.

1.8 Tax practices

Boards should understand how the company's tax strategy operates in practice and be ready to challenge unduly complex strategies. ACSI expects boards to oversee the company's tax approach, ensuring it aligns with strategic aims and appropriately manages the associated risks.

Box 1.3: Better practice disclosure

Corporate governance is key to generating long-term shareholder value and effective disclosure supports investor confidence in material areas. Common better practice disclosures, drawing on the principles outlined in this chapter, are outlined below.

Better practice disclosure on governance includes reporting on:

- why the company's approach to governance is the most suitable in the circumstances and if there are any timeframes in place to meet the expectations of these guidelines (for example, achieving diversity aims can take some time).

Better practice disclosure on board composition includes reporting on:

- the board evaluation. Commentary should include, where possible, findings, and how and over what timeframe it intends to fill any identified skills gaps
- the mix of skills and experience the board has and is looking to achieve. Meaningful information on this should include commentary on how the board's composition aligns to the company's strategy and key risks, and how these assessments drive decisions on the election and re-election of board members. Understanding the skills of individual directors builds insight into the board's ability to guide and oversee the company's strategy
- the processes for succession and renewal. This should include references to how board composition and director tenure is considered in succession and renewal processes. This should include how candidates are selected for election or re-election and the nomination committee's approach to a merit-based recruitment process
- the gender diversity on the board. ACSI also encourages boards to consider factors that support diversity beyond gender. Depending on a company's operating context and strategy, this may include differences in background, experience, expertise, perspectives and other attributes[2]. Any mechanisms for collecting information on these attributes should be asked on a self-identified, voluntary basis, and include the ability to state 'not disclosed.' Each company should decide in what form and at what level it considers it appropriate to disclose this information, with respect given to individual privacy
- actions taken on senior executive composition. ACSI encourages boards to disclose the approach to encouraging diversity in the executive team. This can be through disclosing the plan to promote diversity in the executive team and reporting annually on performance against targets, and
- the nature of any legal proceedings (past, present or anticipated) that a director is involved in or otherwise implicated in. This disclosure should occur prior to appointment or when the board becomes aware of such an issue.

[2] There are a wide range of factors that may be relevant to a consideration of diversity. One indicative list of potential factors can be found on page 10 of the CFA Institute Inclusion Code (Australia) 2025.

Better practice disclosure regarding real or perceived conflicts of interest includes reporting on:

- how potential conflicts of interest or affiliations are mitigated by the board
- actions taken to manage all material related-party transactions, including how the relevant director(s) manage(s) any conflict(s) of interest during the board's consideration and decision making, and
- which material service providers the board and/or committees have appointed, the types of services those service providers have supplied, and the types of services supplied by the same service providers to other parts of the company.

Better practice disclosure where the board has a founder or controlling shareholder includes reporting on:

- all connections and relationships (past and present) between directors and controlling shareholders and any relationship agreements between a company and its controlling shareholder
- the checks and balances in place to respond to this governance structure, including how potential undue influence is mitigated, and
- the existence of a plan for founder succession.

Better practice disclosure regarding audit includes reporting on:

- where the amount paid for non-audit services is higher than 50% of the total fees paid to the auditor, an explanation as to why
- reasons for extending the tenure of the signing audit partner beyond the required rotation periods, and
- when the external audit firm's role was last reviewed, including if this involved a formal tender, and if the board decided not to rotate audit firms, the reasons why.

Better practice disclosure on tax practices includes reporting on:

- a tax policy signed by directors outlining the company's approach to taxation and how it aligns with its strategy
- evidence of tax governance as part of the risk oversight mandate of the board and management of the tax policy and related risks, and
- details of tax strategies, tax-related risks, inter-company debt balances, material tax incentives, any gap between the effective tax rate and the statutory tax rate, country-by-country activities and current disputes with tax authorities.

2. Capital structure and shareholder rights

2.1 Investment rationale and expectations

Major equity capital raisings, share buybacks and mergers and acquisitions have the potential to inequitably transfer or destroy shareholder value. They may also increase the potential for conflicts of interest between shareholders and company executives or their advisers.

It is the board's responsibility to exercise independent judgement to ensure that major transactions are conducted in accordance with existing shareholders' interests and in the best long-term interests of the company.

ACSI expects boards to:

- take account of shareholder views in setting the capital structure, and
- be mindful of issues that affect shareholders, such as transactions that result in dilution.

2.2 Capital raisings and share issuances

Capital raising and share issuances may significantly alter investor holdings. ACSI expects boards to:

- maintain effective oversight of management and external advisers in equity capital raisings and share issuances to ensure they are conducted in the best interests of shareholders
- seek to minimise the costs of raising new equity, and ensure that the fees paid to advisers, including investment banks and underwriters, reflect the actual value delivered and the risks incurred, and
- respect the interests of existing shareholders by raising new equity capital or other issuances in such a way that existing shareholders have an opportunity to maintain their proportionate interest or be compensated for the resulting dilution. ACSI considers that a renounceable rights issue (also known as an entitlement offer) best meets this requirement. Potential dilution should also be considered when undertaking share issuances.

Non-pro-rata capital raisings

Where equity raisings do not reflect existing shareholders' allocations, or where compensation has not been offered, companies should provide disclosure to the market within five business days of:

- how the board oversaw the capital-raising process
- how the capital raised was priced
- whether best efforts were made to allocate pro-rata to existing shareholders, and, if not, why this was not possible or other reasons for this decision
- the identity of advisers and underwriters
- the fees paid to advisers and underwriters, and
- any differential in the fees paid to underwriters and those paid to sub-underwriters.

Box 2.1: Assessing capital raising proposals

Boards play a critical role in the governance of capital-raising processes. Where an unfair and dilutive capital raising is not put up for shareholder approval at a shareholder meeting, ACSI will generally recommend voting against the directors present at the time the placement was agreed.

Where capital raisings, such as selective placements, do not adequately respect existing shareholders' interests, ACSI will generally recommend voting against the capital raising in the post-facto approval process.

Where companies seek approval for capital raisings or share issuances that are not pro rata, ACSI will consider a range of issues including:

- the board's oversight of the capital-raising process to ensure existing shareholders' interests are considered
- the context and reason for the type of capital raising, such as the need to raise capital quickly
- the ability for existing shareholders to participate in the raising process, and
- the price paid by subscribers relative to market and the dilution caused by the capital-raising process.

Selective placements can be unfair and dilutive to non-participating shareholders, and there is no regulatory limit on the discounts at which shares may be issued.

2.3 Share buybacks

Share buybacks can be strong signals of management's view of future prospects, but can also result in significant value destruction for investors.

ACSI expects boards to:

- maintain effective oversight of management and external advisers to ensure any buyback is conducted in the best interests of shareholders
- consider the potential control implications of any share buybacks, and
- conduct pro-rata buybacks where shareholders' ability to participate in the buyback is directly proportional to their shareholding. Where a selective buyback is proposed, the Corporations Act requires approval by special resolution of shareholders not involved in selling shares (or their associates).

2.4 Mergers and acquisitions

Mergers and acquisitions (M&A) have the potential to increase or decrease shareholder value. During M&A activity, there is increased potential for misalignment between the interests of shareholders and executives, and between shareholders and advisers.

ACSI expects boards to:

- be responsible for managing possible conflicts and ensuring executives and advisers always act in the interests of shareholders
- establish appropriate protocols setting out the procedure to be followed if there is an offer for the company, including any communication between insiders and the bidder. These protocols should include the option of establishing an independent takeover committee, its likely composition and implementation, and
- establish an independent takeovers committee, comprised of non-conflicted directors. This is critical where the executive management or directors are involved with a bidding party in a takeover.

Transaction structures which disenfranchise shareholders

A merger should not be structured in a way which unduly disenfranchises the shareholders of one of the entities. The expectations are that existing shareholders can vote on any company-changing transactions where these are material transactions. Consideration should be given to the interests of shareholders, rather than mere compliance with the law or listing rules.

Box 2.2: Assessing proposals relating to M&A activity

In assessing proposals on M&A activity (such as a takeover or scheme of arrangement), ACSI's voting recommendations are focused on governance aspects of the proposal. In developing recommendations ACSI will consider:

- the process the board followed to arrive at the proposal, including consideration of alternative transactions
- the risks associated with the transaction
- the governance of the proposed merged entity, including board representation, proposed executive team, management structures and any control implications
- the proposed benefits to shareholders under the transaction, assessed against the likely consequences of the transaction being rejected
- the management of related-party risks, including any benefit accruing to related parties, and
- any other issue relevant to the particular transaction.

Where shareholders do not have the opportunity to vote on an acquisition (a reverse takeover), ACSI will consider, on a case- by-case basis, recommending a vote against the re-election of directors who commenced the reverse takeover.

2.5 Voting, rights and meetings

AGMs are one of the key mechanisms for supporting accountability and transparency. Participation in company meetings is a fundamental shareholder right and a cornerstone of corporate governance. Voting is an important means by which shareholders can hold directors accountable for their actions and the future direction of the company.

ACSI expects boards to:

- establish governance structures and practices that protect and enhance the board's accountability to shareholders. Companies should not take any actions which disenfranchise shareholders or inhibit shareholder participation in company meetings
- ensure shareholders do not face unduly difficult thresholds to call general meetings, propose resolutions or otherwise exercise their rights
- provide a 'one share, one vote' capital structure. ACSI does not support the existence of non-voting shares
- provide shareholders with efficient access to the voting process. ACSI supports company initiatives designed to overcome impediments and constraints to more active shareholder involvement

- use technology to improve shareholders' access to AGMs. ACSI supports a hybrid model for AGMs, whereby participants can attend in-person or virtually. The use of technology should not compromise shareholders' ability to actively participate in AGMs. Better practice includes allowing unscripted, live questions with follow-up, or use of an independent moderator for the question and answer session
- ensure all directors, senior executives and the external auditor attend AGMs and be available, when requested by the chair, to answer shareholders' questions, and
- provide the following:
    - confidential shareholder voting
    - voting separately where issues are unrelated – resolutions should not be bundled
    - chairs exercising proxies in accordance with the way they are directed
    - secure electronic voting, not paper-based voting
    - the creation of an audit trail by which shareholders can receive confirmation that their votes have been processed
    - the right for shareholders to vote on corporate governance decisions, such as director election or re-election, executive and director remuneration policy, appointment of external auditor and all constitutional changes
    - shareholder approval for the award of securities to a director, unless it is under a bona fide salary sacrifice arrangement from a director's fixed remuneration
    - all substantive items of business being decided by poll
    - procedures to ensure votes are properly counted and recorded, and
    - ASX-listed companies domiciled outside of Australia with a primary listing on the ASX, voluntarily submitting resolutions for a shareholder vote in alignment with expectations for Australian domiciled companies. Such instances may include, for example, having a standard cycle of director re-election with, at a minimum, one director proposed for re-election every year.

Information disclosure

In relation to company meetings, ACSI supports:

- provision of adequate, accurate, unbiased and timely information to enable informed decisions by shareholders
- additional information regarding a general meeting item being made available upon request, and
- shareholders having reasonable access to minutes of general meetings.

Disclosure expectations

ACSI expects disclosure of:

- results of an advisory resolution, regardless of the constitutional amendment vote, where a resolution on constitutional change and an advisory vote are proposed, and
- appropriate disclosure in relation to how undirected proxies have been voted by the chair.

Adjournment of company meetings

ACSI expects boards to:

- provide appropriate and timely notice of shareholder meetings, including about any change in meeting date, time, and place or shareholder action, to ensure that shareholders have a reasonable opportunity to exercise their vote, and
- not adjourn a meeting for the purpose of soliciting more votes. Adjourning a meeting should be for compelling reasons only, such as security, vote fraud, problems with the voting process or lack of a quorum. If there is evidence that a company meeting has been adjourned for improper reasons, ACSI will consider recommending against the re-election of the chair or any non-executive directors as appropriate.

Board accountability to shareholders at company meetings

Corporate governance structures and practices should protect and enhance board accountability. As such, ACSI expects boards to:

- submit any proposal that alters the fundamental relationship between shareholders and the board for prior shareholder approval and action. For example, major corporate changes, which in substance or effect may impact shareholder equity or erode share ownership rights, should be submitted to a vote by shareholders
- provide sufficient time and information (including balanced assessment of relevant issues) to shareholders to enable them to make informed judgements on these resolutions, and
- decide all director election and re-election resolutions by a majority shareholder vote. The board should not employ a 'no vacancy' policy or seek to utilise a statutory board-limit resolution where the size of the board is below the maximum size defined in the company's constitution.

Trading and voting rights in company shares

Governance structures need to ensure oversight of executive trading and voting in company shares, as such activity can result in misalignment with shareholders and wider regulatory issues. ACSI expects boards to have a policy on trading and voting in company securities by directors, officers and employees, and an approach to overseeing and identifying such activity. This policy should address the rules that apply to directors and senior executives who enter into margin loans over the company's shares; the requirements that such loans be made known to the company; and the policy of the company towards the disclosure of such loans to the market where the holdings or exposures are material.

Disclosure expectations

In addition to any applicable regulatory requirements, ACSI considers that disclosure should extend to:

- where shares are purchased on market to fund employee share schemes, the cash costs of these transactions should be provided within the company's cash flow statement as an operating cost
- companies disclosing on their website information about beneficial holding details within two days of receiving the information. This complements the statutory requirement for companies to make the information publicly accessible
- the board disclosing directors', CEO's and senior executives' share trading within two days, and
- the policies restricting the times directors may trade shares to specific 'trading windows'. ACSI generally supports an approach that would include:
  - a director not dealing in any securities of a listed company during a 'closed period', which is a period of:
    - two months immediately preceding the preliminary announcement of the company's annual results
    - two months prior to announcement of half yearly reports
    - one month prior to announcement of quarterly results, and
  - a director dealing outside the closed period only after receipt of clearance by the board.

2.6 Assessment of shareholder resolutions

The ability to propose resolutions at a company meeting is an important shareholder right. In practice, shareholder resolutions often require a proposal to amend a company's constitution.

ACSI supports the development of a right for shareholders to bring non-binding proposals in the Australian market, subject to appropriate controls or support (such as the 5% or '100 member' rule).

Resolutions should be linked to improved governance or transparency within the company and promote effective management of risk over the long-term. Such a policy change could see shareholder proposals which are not framed as constitutional amendments, and due to their non-binding nature, would not disrupt the board's role.

ACSI expects boards to:

- consider the substance of shareholder resolutions and offer to engage with their proponents. If the board recommends an 'against' vote, ACSI expects it to explain publicly why its position better serves shareholders' long-term interests, and
- ensure any shareholder proposal supported by a majority of votes (regardless of the constitution amendment resolution) is adopted by the board and include a detailed explanation of the board's progress towards implementing the proposal in the company's next annual report.

Box 2.3: Assessing shareholder resolutions

ACSI considers each resolution on a case-by-case basis, in the context of the best interests of shareholders over the long term and a thorough assessment of any potential impacts on the company.

ACSI will generally favour proposals that result in the disclosure of information useful to shareholders and not overly prejudicial to the company's commercial interests.

When assessing resolutions, ACSI will consider any communication and commitments made by the company.

ACSI will consider whether:

- adopting the proposal protects or increases long-term shareholder value or shareholder rights
- the proposal addresses a material issue
- the company has already responded adequately to the shareholder concerns outlined in the proposal, for example via a 'Say on Climate' resolution
- the issue can be dealt with more effectively through legislation or regulation
- the company's approach to addressing the issue compares favourably with its peers or standard industry practice
- if the proposal is seeking increased disclosure or transparency, there is already adequate information publicly available from the company, and
- adopting the proposal would require the company to reveal commercially sensitive information.

2.7 Stapled and externally managed entities

ACSI expects stapled and externally managed entities to:

- have boards comprising a majority of directors who are independent of the external manager and not appointed by the external manager
- appoint auditors who are separate from the auditors of the external manager, and
- ensure remuneration arrangements for the external manager are aligned with shareholder interests and disclose the basis on which management fees are calculated - including the potential termination fees which would be payable.

3. Remuneration

3.1 Investment rationale and expectations

Remuneration is key to aligning management with company strategy and performance. Well-structured remuneration can support the long-term success of a company. Conversely, excessive pay, performance-related remuneration that is not genuinely at risk, persistently high bonus outcomes or a lack of alignment with shareholders can adversely affect a company's long-term performance and licence to operate.

Executive remuneration provides investors with an insight into the relationship between the board and executives, company culture and strategy. It should be designed to promote sustainable long-term performance and shareholder value creation.

A wide range of factors, which will differ from company to company, drive remuneration. The sections below outline the types of issues ACSI considers when assessing remuneration, and the factors ACSI considers the most important to the development of an appropriate remuneration approach.

ACSI expects boards to:

- establish a remuneration committee comprised only of independent non-executive directors, which actively seeks investors' views
- have oversight of the remuneration approach, structure and quantum and ensure remuneration structures are based on transparent and measurable objectives and reflect the company's long-term value drivers and the shareholder experience
- regularly assess the effectiveness of remuneration structures, including in respect of managing risk, promoting the desired culture, and reducing the risk of misconduct, and
- regularly assess pay parity, consider remuneration outcomes for the whole organisation when setting executive remuneration, including specific increases, and monitor for discriminatory pay practices.

> ***"Culture, governance and remuneration march together. Improvements in one area will reinforce improvements in others; inaction in one area will undermine progress in others."***
>
> *Justice Hayne, in Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, February 2019 Volume 1 Page 412.*

3.2 Executive remuneration structure and approach

ACSI does not have a preferred remuneration structure, rather the focus is on how remuneration structures support long-term success. The reasonableness of executive pay will be a function of structure, quantum and application in practice.

Fixed remuneration

Fixed remuneration is paid without a direct link to individual or company performance. Increases in fixed remuneration have the potential to significantly inflate total remuneration, particularly where other components of executive pay are determined as a proportion of fixed remuneration. For example, a fixed pay increase may also increase respective variable remuneration sizes, termination entitlements and superannuation contributions. The setting of fixed remuneration should take account of the complexity and context of the business and the executive's skills and experience.

ACSI expects boards to:

- set fixed pay no higher than required to retain or attract executives. Increases in fixed pay for incumbent executives should be appropriate, given increases in executive fixed pay usually flow through into incentive pay potential, and
- avoid creating perverse incentives for executives by linking fixed pay to company size or simply following benchmarks. Consideration should instead be given to company context.

Variable remuneration

Variable remuneration may include short-term incentives (such as an annual payment in cash, deferred equity or a combination of both) and long-term incentives (such as share options or share-based incentives). In ACSI's experience long-term incentives are more correlated with shareholder outcomes than short-term incentives assessed over a single year. ACSI expects to see fluctuation in pay outcomes from year to year.

ACSI expects boards to:

- set performance-related remuneration that is truly 'at risk', with genuine potential for variable remuneration outcomes, including zero outcomes where performance indicates that this is appropriate
- require incentives to be set at sufficiently challenging levels to ensure high executive incentive outcomes reflect outperformance rather than 'business as usual'. The board should ensure all variable pay structures incorporate performance hurdles
- weight variable executive remuneration toward measures assessed over three or more years with most variable pay delivered through equity
- set remuneration structures that allow them to withhold, or clawback, variable pay in the event of poor performance, excessive risk-taking or misconduct. ACSI expects boards to apply discretion to the pay outcomes where this is warranted by, for example, specific actions or a misalignment of outcomes between company performance and shareholder experience
- avoid adjusting incentive targets to shield management teams from accountability for their own decisions by, for example, excluding 'below the line' costs
- be wary of creating perverse incentives – such as encouraging management teams to make debt-funded acquisitions to achieve earnings per share growth targets – and of the potential for management teams to de-risk themselves through selling vested equity and/or receiving large cash awards, and
- only use recruitment incentives – so-called 'sign-on awards' – where they reflect a commercial negotiation with an incoming executive, considering not only the value of incentives foregone, but the total remuneration package being received in the new role. Any sign-on award should be delivered in equity vesting over time to ensure it provides ongoing alignment with shareholders.

Box 3.1: Assessing termination pay resolutions

ACSI expects boards to minimise termination payments for executives and does not support termination pay outcomes that can be regarded as a reward for mediocre performance or failure. Termination benefits awarded must be consistent with those previously disclosed by the company.

- ACSI does not support guaranteed termination payments that exceed 12 months' fixed pay.
- ACSI will consider the terms of all termination benefits or long-term incentives, which exceed the statutory threshold of 12 months' fixed pay, on a case-by-case basis.
- ACSI will generally oppose termination payment resolutions if approval is not limited to a specific period (typically 3-4 years).
- Where approval is sought for the continuation of long-term incentives for 'good leavers' on termination or genuine retirement, ACSI's general expectation is that incentives will be tested on a pro-rata basis, with the board maintaining discretion to reduce or cancel incentives, depending on the circumstance.

Box 3.2: Remuneration practices ACSI opposes

ACSI generally opposes the following practices:

- incentive pay, including options, for non- executive directors
- the payment of incentives for making acquisitions, rather than as a measure of the value delivered to shareholders over time
- fixed pay increases which simply represent a 'catch up' for executives where a pay freeze has been applied
- the use of normalised, or adjusted, earnings figures in incentive plans which shield executives from costs incurred by the company. ACSI will assess the board's rationale for adjustment on a case-by-case basis, including whether adjustments are transparently disclosed and applied consistently over time
- the payment of dividends to executives on unvested (and therefore unearned) incentive shares
- retention payments made without a clear and robust rationale
- waiving of performance requirements and time conditions on a change of control. ACSI is, however, prepared to support, where appropriate, pro-rata vesting pro-rata considering performance and proportion of the performance period completed
- equity grants that permit significant re-testing, or the use of multiple testing periods
- long-term incentives without performance hurdles (tenure is not considered an appropriate hurdle), even where the grant includes options with a premium exercise price. These will be assessed on a case-by- case basis, considering the company's particular circumstances, the adoption of measures (such as relative TSR) where vesting commences when performance is below the median percentile of the company's peers, and
- long-term incentives where more than half of the award is subject to undisclosed performance metrics.

Voting on remuneration

ACSI supports the two strikes rule, which has led to greater levels of board accountability and promoted engagement with investors to address issues that lead to substantial 'against' votes on remuneration reports.

ACSI supports this level of engagement and accountability. As such, where an ASX-listed company is domiciled outside of Australia, ACSI expects boards to:

- voluntarily submit remuneration reports for an advisory shareholder vote in alignment with the requirements for Australian domiciled companies, and
- put the CEO's equity grant to an annual shareholder vote.

International norms

Where companies are listed on the ASX but have executive teams in other markets, ACSI expects boards to ensure remuneration incentives are aligned to shareholder outcomes over the long-term. ACSI acknowledges the potential competition for talent within the markets in which the company operates and the challenges this raises.

Box 3.3: Assessing board spill resolutions

ACSI considers board spill resolution on a case-by-case basis. Each recommendation will be based on ACSI's assessment of what will provide the best outcome for shareholders, taking into account all known circumstances at the company. ACSI assesses board spill resolutions with regards to:

- company performance and the performance of the board and management
- shareholder engagement and changes made by the board to address investor concerns, and
- the materiality of underlying remuneration issues at the company.

3.3 Non-executive director remuneration

Non-executives, as shareholder representatives, are called on to guide and question management. Independent judgment is required, and remuneration needs to be structured appropriately to ensure that independence is retained.

ACSI expects boards to:

- have a policy on the approach to non-executive director remuneration. ACSI's preference is for non-executive directors to be remunerated by way of reasonable fixed fees. Remuneration in shares is acceptable, but ACSI does not support the payment of share options and other incentives which introduce leverage into non-executive remuneration, because of the potential for perverse incentives, and
- require non-executive directors to hold a significant amount of company shares, noting that holdings may vary based on individual circumstances. Such policies should also require that, where they choose to participate in capital raisings, directors do so on a pro-rata basis only.

Box 3.4: Better practice disclosure of remuneration

Remuneration goes to the core of the activity, actions and objectives the company is incentivising and is central to an investors' view of long-term value creation. If incentives are not clearly explained, it is difficult for investors to assess if they are sufficiently demanding and aligned with their interests. In cases where commercial sensitivities make disclosure in advance difficult, retrospective disclosure is essential.

To understand the board's consideration and analysis of the appropriate incentives and assessment of performance, it can be helpful for boards to explain:

- how financial, strategic and sustainability inventive measures are clearly linked to the delivery of long-term performance
- when using variable remuneration:
    - the purpose of the variable component(s)
    - the relevant performance indicators or hurdles, including the use of gateways where applicable
    - the rationale and expectations for payment at the relevant levels of performance (such as threshold, target, and exceptional performance or their equivalent measures)
    - the proportion of the variable component that is genuinely at risk (for example where 'at target' performance achieves an 80% pay out of maximum variable opportunity, that would suggest that only the remainder of the opportunity is a true 'bonus' component for outperformance and only that 'bonus' component is genuinely at risk)
    - Any adjustments made to incentive targets – whether these targets are based on earnings, revenue or non-financial measures such as safety or emissions performance.
    - the minimum and maximum payment amounts
    - how the variable pay component(s) align with the company's strategy and values and the interests of long-term investors, and
    - disclose any malus and claw-back mechanisms in place.
- why fixed remuneration amounts are appropriate, including a clear rationale for any material increase in fixed remuneration, and
- policies on non-executive director remuneration, and compliance by directors.

4. Oversight of material sustainability risks and opportunities

4.1 Investment rationale and expectations

ACSI's view is that companies that can effectively identify, manage and mitigate their environmental and social risks and opportunities are generally more successful over the long term. Board oversight is essential to ensuring the consideration of such risks and opportunities in the company's strategy and long-term ambitions.

Not all sustainability issues will be material for all companies. Below is an outline of how some of the more common environmental and social issues can be financially material, alongside ACSI's expectations of how they are governed and disclosed. Ultimately, it is for each board to consider which issues are most material and explain the process and outcomes of that assessment, along with its approach to managing the issues[3].

ACSI expects boards to:

- have a process to receive information on, and impartially identify and assess, environmental and social risks and opportunities to determine which are material to the company
- maintain robust oversight of sustainability issues that materially affect the business. This includes ensuring sustainability risks and opportunities are integrated into the company's governance and risk frameworks, risk appetite, strategy, audit and performance assessment systems and, where appropriate, remuneration structures
- understand the potential implications of those risks or opportunities crystallising. To act in the best interests of the company over the long term requires considering a range of risks and opportunities, including those related to reputation and social license, and
- regularly assess the significance of current or emerging social and environmental issues relevant to the business and ensure there is adequate time to discuss sustainability risks and opportunities at board meetings.

Disclosing information on material sustainability issues is an opportunity for the board and management to demonstrate strategic thinking in relation to long-term financial sustainability. The following principles outline elements of better practice reporting on material sustainability issues.

ACSI expects disclosures to:

- identify the sustainability issues that may have a material impact on the company's value over the short, medium and long term and where the impact may occur. Disclosure will in some cases be mandatory, but regardless of its status disclosure should demonstrate how the issue is integrated into strategy, governance and risk processes and disclose any targets in place to address identified issues, including progress against those targets
- be accessible, consistent and provide accurate, comparable and, where possible, verified data. As appropriate, companies should disclose the degree of reliability of their sustainability data (for example, audited, verified, estimated) as well as any limitations and underlying assumptions, and
- describe policies and procedures for managing environmental or social issues over the short, medium and long term and demonstrate how policies and procedures are implemented. This should include information about how the company evaluates whether its sustainability management systems are effective.

[3] There are also frameworks that can help guide companies in the identification of material ESG issues for management and reporting, including frameworks such as the Task Force on Nature-related Financial Disclosures, Global Reporting Initiative's Sustainability Reporting Standards and the Sustainable Development Goals.

4.2 Environmental factors: climate change, the circular economy and nature

Climate change, the circular economy and nature-related issues can materially impact investment value through physical, transition and systemic risks. These can alter asset valuations, cost structures, supply chains and long-term growth and profitability, while also creating opportunities in renewable energy, green technologies and sustainable solutions.

Climate change

Unmitigated climate change would have catastrophic impacts across the globe, including impacts on human health, water availability and disruption of ecosystems. Climate change, therefore, also presents significant financial risk to the global economy.[4]

Box 4.1: Assessing climate risk management

This table outlines expectations that companies should meet or demonstrating progress towards meeting. The phased introduction of mandatory climate reporting in Australia means that many of these expectations will also be regulatory requirements for some companies. ACSI's expectations outlined below are not intended to create compliance hurdles in addition to AASB S2 disclosure requirements. Rather they highlight the areas ACSI will focus on when assessing a company's climate risk management. Some of these areas will overlap with AASB S2. Beyond meeting AASB S2 disclosure requirements, ACSI expects companies to integrate material climate risks into their business planning and strategy processes.

ACSI analyses company disclosures on its identification and management of climate change risks and opportunities, materiality is considered in the context of that specific company, particularly its risk and opportunity profile.

Where companies face material climate-related risks, ACSI expects boards to oversee:

- a strategy underpinned by a range of different plausible climate futures, including at least one scenario aligned with the Paris Agreement and one scenario aligned with projected temperature increases. Diverse companies and sectors will need differentiated approaches to managing climate risk, and ACSI does not specify pathways for company responses. Instead, ACSI focuses on how a company demonstrates to investors that its pathway is credible and Paris-aligned[5]
- corporate strategy aligned to the Paris Agreement and the objective of net zero emissions by 2050. These standards should be integrated into capital-allocation decisions, financial reporting and, where appropriate, remuneration practices
- robust scenario analysis stress testing the company's resilience, including both high and low temperature increase scenarios
- Paris-aligned emissions targets informed by credible national and international pathways and including Scope 3 emissions where these form a material share of the company's emissions
- physical risk analysis and management, including assessing enabling assets and infrastructure
- policy and advocacy activity to ensure consistency between the company and its industry associations, including disclosing any material policy differences between the two
- planning for equitable transitions, incorporating these considerations into transition planning and strategy, and
- effective governance, including ensuring appropriate board consideration of the challenges posed by climate change, and appropriate board-level skills, experience and subject-matter expertise.

[4] For more information on climate-related financial risk, see the Explanatory Memorandum to the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*, and the APRA Prudential Practice Guide CPG 229 Climate Change Financial Risks November 2021.

[5] For more information on credible transition plans and target setting, see the AICD and ACSI joint report: Governing for Net Zero: The Board's Role in Organisational Transition Planning and ACSI's research paper 'Chasing 1.5°C The ASX200 – on the right trajectory? November 2022.

'Say on Climate' votes for materially exposed companies

ACSI supports the provision of a 'Say on Climate' vote, particularly where companies are materially exposed to climate risk. A 'Say on Climate' vote facilitates transparency, accountability and a focus on material climate change risks and opportunities. Under the government's mandatory reporting regime, companies will submit their sustainability reports as part of the notice of meeting for the AGM. Where a company has adopted a 'Say on Climate', this vote and the company's climate strategy will be the primary focus for ACSI's company engagement and analysis.

If materially exposed, ACSI expects boards to:

- hold a 'Say on Climate' vote on its climate strategy every three years. Where a three-year cycle is adopted, companies should come back to shareholders sooner if a company's climate strategy, or assets, change materially or if there is a substantial shareholder vote against the company's climate strategy.

Box 4.2: Assessment of climate reports and votes

ACSI's voting recommendations on climate-related risk take into account qualitative and quantitative factors. ACSI integrates the progress a company has made, and compares a company's performance against peers, the sector and best-in-class examples. When determining voting recommendations, ACSI considers how a company has responded to the outcome of previous 'Say on Climate' votes or other climate-related resolutions the company or shareholders have put forward.

ACSI acknowledges that progress will not always be linear. Resolutions are assessed on a case-by-case basis, considering a company's strategic plans and outcomes holistically.

Nature and Biodiversity

Nature and biodiversity-related issues affect each company differently, depending on location, sector and business model and its reliance on nature's inputs.

Where the company's impacts and dependencies on nature are material, ACSI expects boards to:

- have oversight over a system for identifying nature-related impacts and dependencies, assessing different locations, assets and products in detail, and how the company is managing the associated risks and opportunities.

Circular Economy

A circular economy is aimed at eliminating waste. It proposes a solution to the negative impacts of economic activity that damage human health and natural systems and, therefore, may carry long-term financial risks. The risks of continuing 'business as usual' can be destructive and misaligned with the transition to a low carbon, resource-constrained world.[6]

Where risks and opportunities are material, ACSI expects boards to:

- integrate circular principles into the design of products and services, implementing plans to use resources more efficiently and reduce waste.

[6] For example, see Australian Trade and Investment Commission Circular Economy, Ellen MacArthur Foundation, Financing the Circular Economy- Capturing the opportunity 2020.

Just transitions

The movement to a low-carbon economy is linked with significant economic change. Some areas, communities and industries will be more highly exposed to these changes.

Where the company is facing a major workforce transition, ACSI expects boards to:

- identify the locations in which transitions will be made in the short and medium term, and
- manage the transition, offering options and solutions for the workforce.

Box 4.3: Better practice disclosure on environmental factors

Where a specific sustainability issue is material for a company, it is helpful to investors for boards to explain their approach to managing it. Common better practice disclosures, drawing on the principles outlined in this chapter, are outlined below.

Better practice disclosure on climate-related issues includes reporting on:

- its approach to managing climate-related risks, including a credible transition plan showing how the company intends to manage its processes, supply chains and interactions with stakeholders in line with climate-related targets, to mitigate physical and transition risks. Better practice disclosures will include information on how its business model, capital allocation and/or technology investment support its transition plan and emission reduction targets
- the processes by which the board monitors this transition and how the company is supporting a just transition for affected workers and communities
- the role of offsets in the company's transition to a low-emission economy, including the level of board oversight of offset use, their integrity and the approach to real world emissions reductions
- how a company uses climate scenarios to inform business strategy, and
- where a company will face workforce transitions issues, how these are being managed, including timeframes and the provision of retraining and other support.

Better practice disclosure on nature-related issues includes reporting on:

- whether or not the organisation's approach is aligned to the Global Biodiversity Framework, and
- the company's approach to the TNFD framework, with a timeline for increasing implementation of the framework.

Better practice disclosure on circular economy-related issues includes reporting on:

- how it is incorporating circular economic models into strategy and risk management processes. This could include how waste management and reduction is incorporated into corporate strategy, actions and targets around the reduction and management of waste, capital is allocated to effectively manage the use of resources, reduce waste and develop circular practices.

4.3 Workforce and communities: human rights, workforce-related issues and digitalisation

Workforce and communities factors encompass a wide range of issues, such as safety, workforce, diversity, human rights, and digitalisation. Mismanagement of these risks can expose companies to significant reputational, operational and financial risk, alongside the terrible risk to individuals and for cultural heritage.

Human rights

It is widely accepted that companies have a responsibility to recognise and uphold the human rights of any people they impact, including communities, customers and end-users. In addition to the potential for tragic outcomes, poor management of human rights, both directly and via supply-chains, impacts upon the commercial success, stability and longevity of a company.[7]

Modern slavery

Modern slavery represents a material investment risk because of its potential to undermine shareholder value through reputational damage, legal penalties, and financial risk. Modern slavery can cause supply chain disruptions, affecting production and profitability. Supply chains that rely on exploited labour are unlikely to support sustainable, long-term value creation.

ACSI expects boards to:

- oversee processes to ensure the company avoids causing and contributing to adverse human rights impacts and mitigate the company's modern slavery risks. This should apply in relation to all permanent and casual workforces and throughout the supply chain, regardless of the sector, operational context or structure of the company, and
- engage with the issue of modern slavery, and work with suppliers, contractors and partners along the supply chain to identify and respond to modern slavery risk and address incidents where they occur. This should involve appropriate due diligence, grievance mechanisms, including through the supply chain, and remediation where appropriate.

Engagement with First Nations people and the protection of cultural heritage

Harm caused to the lands, culture and heritage of First Nations has a deep and often irreversible impact on communities and represents a loss for the world's heritage. Significant financial costs can also arise from production implications, project cancellations or delays, legal fees and reputational damage.

ACSI expects boards to:

- effectively assess and manage risks related to cultural heritage and First Nations issues
- establish policies that commit the company to respect First Nations people's rights and cultural heritage, in line with international standards, as set out in the UN Declaration on the Rights of Indigenous Peoples, and
- drive and incentivise good faith engagements and constructive, fair and long-term relationships with First Nations people. Boards should ensure the provision of free, prior and informed consent, where this is relevant to operations.

ACSI has clear expectations for engagement with First Nations people, set out in ACSI's Policy on Company Engagement with First Nations People.

[7] We refer companies to the internationally recognised International Bill of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work and the UN Guiding Principles on Business and Human Rights, which clarify how companies should carry out their responsibility to respect human rights. For extractive sector companies, the Voluntary Principles on Security and Human Rights are also relevant.

Workforce-related issues

Determining whether a company's workforce is managed well or poorly is difficult. A healthy corporate culture and safe workplace can contribute to brand value, attract talent and promote performance and productivity.[8] Long-term investors have an interest in ensuring that the companies they invest in are well run, safe for their employees, and have cultures that prevent and address safety-related issues in all forms. This section outlines expectations on workforce-related issues that are material for investors, including culture, diversity and safety.

Corporate culture

Corporate culture plays a key role in driving good performance.[9] Poor corporate culture can facilitate misconduct, while robust cultures can support attraction and retention of talent, maintain and develop reputation and trust and support the effectiveness and efficiency of operations.[10] Boards are equally as responsible for oversight of corporate culture as they are for financial performance.

ACSI expects boards to:

- articulate the desired corporate culture. The board should articulate the company's purpose and values through the creation and enforcement of codes of conduct tailored to the risks faced by the business, including a whistleblowing policy and a bribery and corruption policy. Policies should be regularly reviewed and adjusted as needed
- set the tone from the top. The board should lead by example in displaying the cultural behaviours they want to encourage
- encourage a 'speak-up' culture where concerns can safely be raised (e.g., through a confidential mechanism) and ensure there is robust investigation, internal reporting and any disciplinary action as necessary. Racism, other forms of discrimination, and harassment impact employee health, wellbeing and job satisfaction. It is crucial to establish a safe and inclusive working environment for all people. Directors must prioritise and embed good company culture within their organisations, and act immediately where there are instances of misconduct, unethical behaviour, discrimination or harassment.[11] Boards should establish effective and accessible grievance mechanisms and respond to complaints. Boards should ensure the company adopts a victim-centred approach to investigations
- ensure that they receive the information needed to prevent and appropriately respond to sexual harassment. The *Anti-Discrimination and Human Rights Legislation Amendment (Respect at Work) Act 2022* places a positive duty on businesses and employers "to take reasonable and proportionate measures to eliminate unlawful sex discrimination, including sexual harassment, as far as possible." Consequently, companies must make all reasonable efforts to proactively prevent sexual harassment – it is not sufficient to respond on a reactive basis.
- understand the company's existing culture and explain the desired culture. The board should oversee regular assessments of corporate culture, and ensure processes or mechanisms are established to monitor and understand employee views, as well as their morale and engagement, and
- monitor non-disclosure agreements (NDAs). Directors should ensure that they have oversight of the NDAs signed by the company, the reasons for them, and which party requested it. Directors should be especially sensitive to the risks involved in establishing NDAs related to breaches of conduct, including the potential for NDAs to be used to silence victims.[12]

[8] Railpen, 2022, Worthwhile Workforce Reporting and UN Global Compact, 'Realization of Decent Work for All'.
[9] IFRS Sustainability, 2024, Human Capital – Preliminary assessment of evidence of effects on an entity's prospects.
[10] The Culture Dividend, Business Gains and Cost Savings Enabled by Great Place to Work.
[11] Expectations in this area are outlined in the International law and standards, including the International Covenant on Civil and Political Rights; the Convention on the Elimination of All Forms of Discrimination against Women; International Labour Organisation Convention (No. 111) Concerning Discrimination in Respect of Employment and Occupation, and the International Convention on the Elimination of All Forms of Racial Discrimination.
[12] Best practice guidance on NDAs exists, for example that issued by the Australian Human Rights Commission.

Safety

Transparency on safety and related issues helps investors assess company culture, board oversight and accountability. When poorly managed, safety can have serious financial and reputational ramifications and result in significant operational disruption.

ACSI expects boards to:

- oversee workforce safety and an appropriate safety culture. This relates not only to workers' physical safety but also their mental health
- encourage a culture where people feel empowered to report safety incidents and the organisation is quick to learn from mistakes and change practices, and
- oversee remedial actions where safety issues are identified.

Inclusive and diverse workforce cultures

Extensive research links diversity to better financial outcomes. In general, organisations that successfully encourage inclusive and diverse workforce cultures achieve better performance, are more innovative, more productive staff and incur less incidence of harassment.[13] At the same time, access to broader talent pools can enable better job-matching and drives economic growth.[14]

Cognitive diversity results from having a workforce or team with diverse backgrounds, experiences, education and perspectives. Inclusive attitudes and behaviours within the company will be key to deriving value from diverse teams.

ACSI expects boards to carefully consider:

- how a diverse workforce may support the company's strategy. For example, a diverse workforce may better reflect the customer base and wider society, and
- how to support an inclusive culture. This includes proactively identifying and mitigating any form of discrimination, such as racism, and harassment in the workplace. Boards should ensure that there is engagement with employees and key stakeholders to identify discriminatory practices and areas of risk, as well as opportunities to enhance inclusion.

The workforce

Depending on the industry, workforce structure may result in high turnover levels. High turnover may negatively affect workforce stability, commitment and training, as well as increase safety risks. The rise of precarious and casual employment, as well as an increasingly globalised workforces, pose potential reputational issues and may risk operational resilience and consistency.

ACSI expects boards to:

- ensure processes and systems are in place to mitigate risks related to labour rights and precarious workforces
- support the right to freedom of association, engage appropriately with the workforce, including workforce representatives such as unions to verify workplace culture and other insights
- have processes in place to enable the board to understand the workforce's perceived level of job security and control over their jobs
- have a proactive strategy in place to manage turnover and achieve the desired workforce composition (permanent/temporary) to support company goals, and
- have policies in place to support investment in adequate training for staff.

[13] Scott Page, 2018, *The Diversity Bonus* and and Boston Consulting Group, 2018, How diverse leadership boosts innovation.
[14] Ostry et. al., 2018, Economic Gains from Gender Inclusion: New Mechanisms, New Evidence, IMF.

4.4 Digitalisation

Digitalisation raises several challenges for companies. The deployment of Artificial Intelligence (AI) is expected to contribute an estimated AU$22.17 trillion to the global economy by 2030.[15] Data governance underpins the design and operation of AI systems and is a focus of cyber security risks, which can cause significant reputational and financial loss.

ACSI expects boards to:

- have appropriate governance structures that reflect the scale of the risks and opportunities associated with digitalisation
- establish relevant policies, and processes to guide the companies' use of AI and manage its cybersecurity threats. These should reflect the sensitivity of the data it collects, uses and/or stores. Where appropriate, this may include publicly adopting the Australian AI Ethics Principles or an equivalent and establishing processes to respond to a cyber security threat
- consider instituting policies and principles to manage potential workforce dislocation driven by AI, including taking a long-term view of the risks and opportunities of such changes, and
- support a culture of responsible AI practices, data governance and cybersecurity. This should include establishing appropriate guardrails, training, upskilling, and redeployment programs for the workforce, as well as mechanisms to understand workforce perspectives on opportunities and risks associated with AI.

[15] CSIRO, 2025, Artificial Intelligence Roadmap.

Box 4.4: Better practice disclosure on social factors

Where a specific sustainability issue is material for a company, it is helpful to investors for boards to explain their approach to managing it. Common better practice disclosures, drawing on the principles outlined in this chapter, are outlined below.

Human rights

Better practice disclosure on human rights-related issues includes reporting on:

- information on its approach to human rights due diligence and whether and how the company uses and expands its existing leverage with suppliers and other business partners to address human rights risk, and
- information on the outcomes of its human rights due diligence approach such as identified risks, mitigation and preventative actions taken, and progress over time.

Better practice disclosure on modern slavery-related issues includes reporting on:

- how the company may potentially be involved in modern slavery by using the 'cause', 'contribute', 'directly linked' continuum set out in the UN Guiding Principles on Business and Human Rights, and
- where an example of modern slavery is identified, the case of modern slavery or adverse human rights impacts discovered in its operations or supply chains (including both direct and indirect suppliers) and how the board is addressing it and any related changes to structures and processes. These incidents should be reported in a way that does not put survivors or other relevant people at risk.

Better practice disclosure on First Nations-related issues includes reporting on:

- the approach to allow investors to assess the quality of engagement with First Nations people. Disclosure should provide a genuine explanation of a company's risks and approach and how its policies are implemented in practice.

Workforce-related issues

Better practice disclosure on workforce-related issues includes reporting on:

- policies related to workforce management, including freedom of association and collective bargaining, remuneration and contract terms, as well employee entitlements including leave and flexible working arrangements
- relevant metrics to reflect its workforce. Like financial statements, workforce reporting should provide investors with information that is material to investment decisions. Material workforce indicators may include number and location of employees; employee composition (e.g., permanent, temporary or casual); training and development; turnover; absenteeism; and remuneration
- any underpayments discovered, their remediation, and the systems the company has in place to avoid underpayments, and
- any labour hire practices, including identification of labour hire suppliers and the grievance mechanisms in place for labour hire workers and contracted employees.

Better practice disclosure on corporate culture-related issues includes reporting on:

- relevant policies, how culture is assessed, and action taken to promote compliance with corporate values and policies. In particular, boards should consider disclosing:
    - the methodology of, results from, and company responses to employee engagement and customer satisfaction levels
    - whistleblowing and grievance cases by type and the number resolved
- the number and types of breaches of the code of conduct and the related consequences, including terminations and remuneration consequences, and
- whether the board has an oversight process in place regarding NDAs.

Box 4.4: Better Practice Disclosure on Social Factors

Better practice disclosure on workforce diversity-related issues includes reporting on:

- an outline of whether a workforce inclusion and diversity strategy is in place, including any objectives, progress or outcomes. This should include disclosing policies, programs and initiatives related to promoting inclusion and diversity within their workforce.

ACSI encourages companies to consider disclosing:

- the presence of a range of diversity within the workforce. Any information collection should be carefully designed, with personal disclosures only made on a self-identified, voluntary basis and giving all individuals the option to respond with 'not disclosed', and
- employees' perception of the inclusivity of the organisational culture.

Better practice disclosure on safety-related issues, and what we expect of those working in high-risk industries includes reporting on:

- metrics on its entire workforce, covering both contractors and employees and distinguishing between the two groups
- any fatal incidents involving employees, contractors, or members of the public, preferably via the ASX Announcements platform. It is also important to provide information on consequence management and improvements that a company has made to its safety culture and framework following a fatal incident
- the status and findings of any internal and external investigations, as well as the provision of support to immediate families
- at a minimum, lagging safety indicators such as lost-time injury frequency rate (LTIFR) and total-recordable injury frequency rate (TRIFR). Better practice is also to report on leading safety indicators relating to the severity of incidents and the potential of incidents (near-misses), as this provides information on harm prevention and safety management
- when a company uses a safety metric in its variable remuneration structure, it should disclose the safety performance data used for assessing that metric, and
- how the company is working to support and improve the psychosocial safety of its workforce.

Digitalisation

Better practice disclosure of AI, data governance and cyber security-related issues includes reporting on:

- governance structures in place for AI, data governance and cyber security, including how regularly the board is updated on these issues and how it holds or accesses relevant expertise, and
- the types of AI use cases employed.

ACSI encourages companies to consider disclosing:

- risk management processes in place for AI, data governance and cyber security. This disclosure should include risks identified, how they are mitigated and reference any standards or frameworks used, such as the International Organisation for Standardization (ISO) Standards or the National Institute of Standards and Technology (NIST) Risk Management Framework
- Responsible AI (or equivalent), data governance (including privacy) and cybersecurity policies.

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