

## **Subject: Review of the ASX Corporate Governance Council Principles and Recommendations: Draft 5th edition**

The [Race and Culture Coalition](#) (the Coalition) is an independent, dynamic association of racially and culturally diverse senior leaders from across Corporate Australia who have come together to elevate and strengthen diversity in all its forms (albeit with a key focus on race and culture) in Boardrooms and senior leadership across all sectors of Corporate Australia.

Our vision is simple – a future where **“Boardrooms and senior leadership across Corporate Australia better reflects diversity in all its forms.”**

To realise this vision, we have a strong desire to work with others in the eco-system to drive meaningful change through a greater shared understanding of the benefits of culturally and linguistically diverse (CALD) leadership and to address and remove the barriers preventing this from occurring.

Whilst the Coalition is optimistic about the future, we believe that without proactive leadership and transparent monitoring and reporting, the pace of change on this agenda will be glacial. We see the opportunity to make a submission on the Corporate Governance Principles and Recommendations (*Principles and Recommendations*) as a timely opportunity to ensure Corporate Australia harnesses the power of diversity in Boardrooms and senior leadership to better compete in an increasingly complex and globalised world. Members of our Coalition bring a ‘lived experience’ to some of the governance and cultural challenges that arise from how entities both understand and have implemented the *Principles and Recommendations*, particularly as it pertains to diversity.

We recognise the important role that the *Principles and Recommendations* play in improving and strengthening corporate governance across all Australian listed companies and its continued positive impact on the culture of these organisations. Thus, we see the opportunity to provide feedback on the draft recommendations as both timely and important for two key reasons:

### **1) It is critical that the changing make-up and diversity of Australia is better reflected in the corporate governance of Corporate Australia**

Coalition Members note that both in Australia and overseas, there are stronger corporate governance expectations among stakeholders that organisations have diverse boards and workplaces that reflect the communities they serve. According to the UK Prudential Regulation Authority (PRA), for example, diverse boards and workplaces provide improved returns for shareholders, reduces ‘groupthink’ and support more effective decision-making.

Similar views have been expressed by the UK Financial Conduct Authority (FCA) in their *Diversity and inclusion in the financial sector – working together to drive change* consultation paper (2023), which are also reflected in current regulatory guidance, including:

- the existing FCA’s Listing Rules, which included in 2022 an updated Listing Rule referencing a target of at least 1 individual from a “minority ethnic background”,
- the joint guidelines issued from the European Securities and Markets Authority (ESMA) and European Banking Authority (EBA) which emphasises diversity when selecting and assessing board members under the Capital Requirements Directive (CRD) IV and Markets in Financial Instruments Directive II (MiFID II), and
- the National Association of Securities Dealers Automated Quotation’s (NASDAQ’s) rules which introduced a board diversity rule in 2023 which incorporates a board diversity matrix and targets around “diverse directors”.

Additionally, we note the Australian Council of Superannuation Investors (ACSI) have now established a working group looking at diversity beyond gender; the NSW Public Sector Commission have launched the ‘Elevate and Advocate’ sponsorship program to remove barriers and improve pathways into senior leadership for CALD employees; and Woodside Energy now publicly and extensively discloses its board diversity including gender, First Nations, LGBTQI+, cultural background and racial diversity.

## 2) The time is now to broaden the focus from gender diversity to ‘diversity in all its forms’

Coalition Members recognise and are encouraged by the improvements that have been achieved by ASX listed entities as a result of the inclusion of policy and reporting mandates in the *Principles and Recommendations* with respect to gender diversity.

Our members believe that this approach is required to be extended to diversity in all its forms.

As an example, 24% of Australians identify as non-Europeans, this diversity, however, is not reflected in leadership across Corporate Australia. As noted in the [2024 Board Diversity Index](#), published by Watermark Search International in partnership with Governance Institute of Australia, there has been “considerable progress in some areas of board inclusiveness – mainly the rise of women on boards – though very little progress in other areas, such as CALD and representation of LGBTQ+ or people with disability,” with:

- just under 9% of Board Directors of ASX300 companies being from non Anglo-Celtic backgrounds, and
- 5% of CEOs identifying as culturally and racially diverse.

Similarly, the representation of people from the LGBTQ+ community, disability and neuro-divergent community, and First Nations populations remains significantly below their proportion of the Australian population.

### Conclusion

Corporate Australia is missing the opportunity to harness the power of diversity in Boardrooms and senior leadership, where strategic, long-term decisions are made. By not embracing ‘diversity in all its forms’ we are at risk of inhibiting our organisation’s (and Australia’s) ability to grow and successfully compete in an increasingly complex and globalised world.

As the evidence of multiple studies conclude, diverse leadership teams enable organisations to better serve and meet the needs of diverse customers, employees, communities and stakeholders. Diverse leadership teams also challenge ‘groupthink’ and blind spots in an organisation’s performance, thereby stewarding an organisation to be more innovative, relevant and resilient in an increasingly complex and globalised world.

Also as a society, Australia values inclusivity and fairness, and diverse leadership demonstrates a commitment to these values, signalling an inclusive culture for employees and enhancing an organisation’s reputation and its social license to operate with broader stakeholders. Without meaningful change, ASX listed entities risk disenfranchising stakeholders, who will increasingly start to hold ASX entities to account for the lack of diversity and meaningful representation in the Boardroom. For example, a study by the Australian LGBTQ+ Board and Executive Inclusion (ALBEI) Forum has revealed that 67 companies in the ASX 200 have a fully inclusive definitions of diversity for their workforce, but have not translated these expectations to their own Board.

Therefore, to realise the benefits of ‘diversity in all its forms’ in the governance of ASX listed entities, we recommend the following changes (which are supported in detail in the subsequent table):

1. **Recommendation 2.3** needs to be more definitive and directive such that board diversity beyond gender is not seen as a convenience but rather as a fundamental requirement of good governance and effective board structure and values; and
2. **Recommendation 3.4** needs to drive the effectiveness of workforce diversity and inclusion practices through the setting of measurable and reportable objectives for diversity in all its forms.

The Coalition’s recommendations on Consultation Draft of the Principles and Recommendations (changes highlighted in red)

| Current Draft  | Practical issues / comments   | Proposed amendment  |
|--|---|---|
| <p><b>Recommendation 2.3</b></p> <p>The board of a listed entity should:</p> <ul style="list-style-type: none"> <li>(a) have and disclose a measurable objective and timeframe for achieving gender diversity in the composition of its board;</li> <li>(b) disclose the entity’s progress in achieving the measurable objective in the reporting period; and</li> <li>(c) if it is considering any other relevant diversity characteristics for its board membership, disclose those diversity characteristics.</li> </ul> <p>If the entity was in the S&amp;P/ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have a gender balanced board (at least 40% women/ at least 40% men / up to 20% any gender)</p> | <p>Members of the Coalition consider that Part (c) of Recommendation 2.3 needs to be more definitive and direct.</p> <p>The current wording presents the following challenges:</p> <ul style="list-style-type: none"> <li>• misalignment between entities and their boards where diversity characteristics are not consistently identified and disclosed, and</li> <li>• failure to set and translate an appropriate tone within an entity, for example where different sets of diversity characteristics are considered ‘relevant’ to the board but not the entity or vice versa.</li> </ul> <p>As the accompanying Commentary explains in Principle 2.3, diversity of thinking and perspectives is invaluable to an entity because it helps to prevent “groupthink” or other cognitive biases in decision-making.</p> <p>However, the Commentary also suggests that diverse thinking is situational only, that is, in different circumstances different types of ‘diversity’ are appropriate.</p> <p>Unfortunately, our members note that entities default to only implementing the minimum ‘requirements’ of the Principles and Recommendations. This is particularly the case where the accountability for action is unclear or</p> | <p><b>Recommendation 2.3</b></p> <p>The board of a listed entity should:</p> <ul style="list-style-type: none"> <li>(a) have and disclose a measurable objective and timeframe for achieving gender diversity in the composition of its board;</li> <li>(b) <del>(e) if it is considering</del> have and disclose any measurable objectives and timeframes for <del>relevant</del> diversity characteristics for its board membership consistent with the entity’s diversity and inclusion policy (as set out in Recommendation 3.4); and <del>disclose these diversity characteristics.</del></li> <li>(c) <del>(b)</del> disclose the entity’s progress in achieving the measurable objectives outlined in parts (a) and (b) in the reporting period.</li> </ul> <p>If the entity was in the S&amp;P/ASX 300 Index at the commencement of the reporting period, the measurable objective for achieving gender diversity in the composition of its board should be to have a gender balanced board (at least 40% women/ at least 40% men / up to 20% any gender)</p> |

|   |  |  |
|---|--|--|
|   | <p>predicated on vague notions of relevance or consideration.</p> <p>This is also borne out by the statistics in relation to gender diversity that show that while there has been a significant improvement in gender diversity, the increase in women has not resulted in an increase in other types of diversity. For example, only 9% of Board Directors of ASX300 companies currently are from non Anglo-Celtic backgrounds despite having now more than 30% women on boards.</p> <p>In short, while entities have successfully integrated more women onto boards, they are all from a similar demographic and background to the men who also sit on those same boards.</p> <p>Our <b>recommendation</b> is to remove reference to 'situational' or 'relevant' factors to ensure that diversity is not seen as a convenience but rather as a fundamental element of good governance and effective board structure and value.</p> |  |
| <p><b>Recommendation 2.3</b></p> <p><b>Commentary</b></p> <p>An entity's board benefits from a diversity of thinking and perspectives, in addition to skills such as knowledge of the sector in which the listed entity operates. In particular, having directors of different ages, race, backgrounds and personal circumstances can help bring different perspectives and experiences to bear and avoid "groupthink" or other cognitive biases in decision-making...</p> <p>...Different entities will have different diversity priorities for their boards. Disclosures for the purposes of paragraph (c) of this Recommendation</p> | <p>Consistent with the feedback provided above, our members also <b>recommend</b> that the Commentary should be amended to modify the sentence that differentiates diversity characteristics of the entity from those required by the entity's board.</p> <p>In our view the current framing perpetuates the idea that diversity is 'situational' and only applies in limited circumstances. As experience with targets and mandates for gender diversity has demonstrated, this is not the case. In fact, ensuring diversity on boards is essential for anticipating and meeting the needs of stakeholders and entities, but also for driving innovation and providing unique perspectives especially during volatile times.</p>  | <p><b>Recommendation 2.3</b></p> <p><b>Commentary</b></p> <p>An entity's board benefits from a diversity of thinking and perspectives, in addition to skills such as knowledge of the sector in which the listed entity operates. In particular, having directors of different ages, race, backgrounds, disability and personal circumstances can help bring different perspectives and experiences to bear and avoid "groupthink" or other cognitive biases in decision-making...</p> <p>...Different entities <del>will</del> <b>may</b> have different diversity priorities for their boards <b>at different points in their journey</b>. Disclosures for the purposes of paragraph</p> |

|   |  |  |
|---|--|--|
| <p>should refer to the relevant diversity characteristics which may be considered rather than referencing general diversity characteristics sought across the entity's workforce under its diversity and inclusion policy. Disclosure of these priorities can assist security holders' understanding of how a board is seeking to develop its range of perspectives...</p> <p>...Diversity characteristics present within a board may also model diversity for the organisation. Diversity and inclusion is discussed further at Recommendation 3.4. An entity may combine its disclosures under this Recommendation with disclosures under Recommendation 3.4.</p> | <p>Our members recognise that boards ordinarily consist of between 6 and 12 members, and we note that entities and boards will not be able to represent all aspects of diversity all the time. However, entities and their boards need to have the systems and processes in place to ensure that all candidates are considered equally regardless of their characteristics, and to ensure that diversity on boards are properly represented.</p>   | <p>(c) of this Recommendation should refer to specific diversity characteristics, such as race and culture, age, gender identity, sexual orientation, social class, Aboriginal and Torres Strait Islander, disability and neuro divergence, <del>refer to the relevant diversity characteristics which may be considered rather than referencing general</del> and these should be aligned to the diversity characteristics sought across the entity's workforce under its diversity and inclusion policy. This both reinforces the value of diversity in the entity and recognises how diversity is also integral to its leadership and board functions. Disclosure of these priorities can assist security holders' understanding of how a board is seeking to develop its range of perspectives...</p> <p>...Diversity characteristics present within a board <del>may also</del> should model diversity for the organisation. Diversity and inclusion is discussed further at Recommendation 3.4. An entity may combine its disclosures under this Recommendation with disclosures under Recommendation 3.4.</p> |
| <p><b>Recommendation 3.4</b></p> <p>A listed entity should:</p> <ul style="list-style-type: none"> <li>(a) have and disclose a diversity and inclusion policy;</li> <li>(b) through its board or a board committee set measurable objectives for achieving gender diversity in the composition of its workforce (including in its senior executive team); and</li> <li>(c) disclose in relation to each reporting period the effectiveness of its diversity and inclusion practices, including:</li> </ul>  | <p>Entities have a moral responsibility to create equitable environments where everyone feels respected and valued. The entities' diversity and inclusion policy is a foundational component of this responsibility because it emphasises and codifies diversity characteristics and explains how they are respected as part of the entity.</p> <p>Our members believe that diversity and inclusion policies should now be wholly inclusive, that is, they should include diversity in all its forms.</p> <p>We are respectful of the continuing work in relation to gender diversity, and recognise the need for this</p> | <p><b>Recommendation 3.4</b></p> <p>A listed entity should:</p> <ul style="list-style-type: none"> <li>(a) have and disclose a diversity and inclusion policy;</li> <li>(b) through its board or a board committee set measurable objectives for achieving: <ul style="list-style-type: none"> <li>1. gender diversity in the composition of its workforce (including in its senior executive team); and</li> <li>2. diversity characteristics (some examples of which, include race and culture, age, gender</li> </ul> </li> </ul>   |

|  |  |   |
|--|--|---|
| <ol style="list-style-type: none"> <li>1. the measurable objectives set for that period to achieve gender diversity.</li> <li>2. the entity’s progress towards achieving those objectives; and</li> <li>3. either: <ol style="list-style-type: none"> <li>A. the retrospective proportions (by gender) of members of the board, in senior executive positions and across the whole workforce (including how the entity has defined “senior executive” for these purposes); or</li> <li>B. if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act</li> </ol> </li> </ol> | <p>to be called out separately, however, we also <b>strongly recommend</b> that a more definitive and directive recommendation should be included for entities to drive the effectiveness of workplace diversity and inclusion practices through the setting of measurable objectives for other forms of diversity, beyond gender.</p> <p>In particular, our Members recognise that customers, shareholders and the broader community expect entities to demonstrate commitment to diversity and inclusion, and that entities that fail to do so risk reputational damage and loss of business. Stakeholders also want transparency regarding diversity metrics and progress. Reporting targets hold entities accountable.</p> | <p>identity, sexual orientation, social class, Aboriginal and Torres Strait Islander, disability and neuro divergence) in the composition of its workforce (including in its senior executive team); and</p> <p>(c) disclose in relation to each reporting period the effectiveness of its diversity and inclusion practices, including:</p> <ol style="list-style-type: none"> <li>1. the measurable objectives set for that period to achieve both gender diversity and diversity characteristics</li> <li>2. the entity’s progress towards achieving those objectives; and</li> <li>3. either: <ol style="list-style-type: none"> <li>A. the retrospective proportions (by gender) of members of the board, in senior executive positions and across the whole workforce (including how the entity has defined “senior executive” for these purposes); or</li> <li>B. if the entity is a “relevant employer” under the Workplace Gender Equality Act, the entity’s most recent “Gender Equality Indicators”, as defined in and published under that Act</li> </ol> </li> </ol> |
|--|--|---|