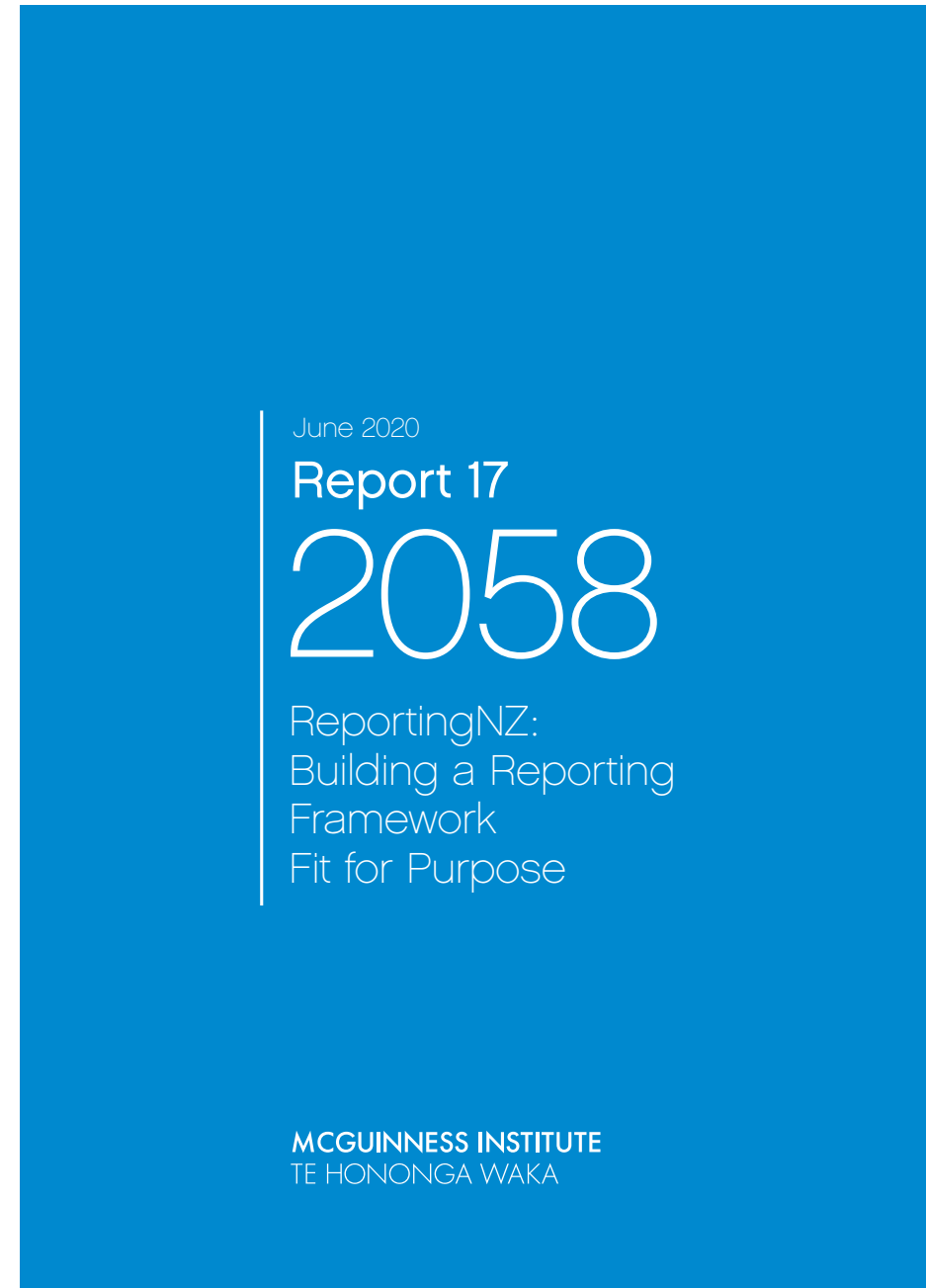


18 June 2020, Wellington

Brief Overview of Report 17

ReportingNZ: Building
a Reporting Framework
Fit for Purpose

PROJECT 2058



Agenda

1. Introduction

Part 1: Describe

2. Hindsight: Evolution of the reporting framework

3. Foresight: Trends and implications

4. Insight: McGuinness Institute research

Part 2: Analyse

5. Analysis of the reporting framework

6. Policy knots shaping the reporting framework

Part 3: Recommend

7. Package of climate-related reporting recommendations

8. Comprehensive list of recommendations

Part 1: Describe

2.0 Hindsight: Evolution of the reporting framework

3.0 Foresight: Trends and implications

4.0 Insight: McGuinness Institute research

Figure 1: Illustrating the links between
McGuinness Institute policy and research projects

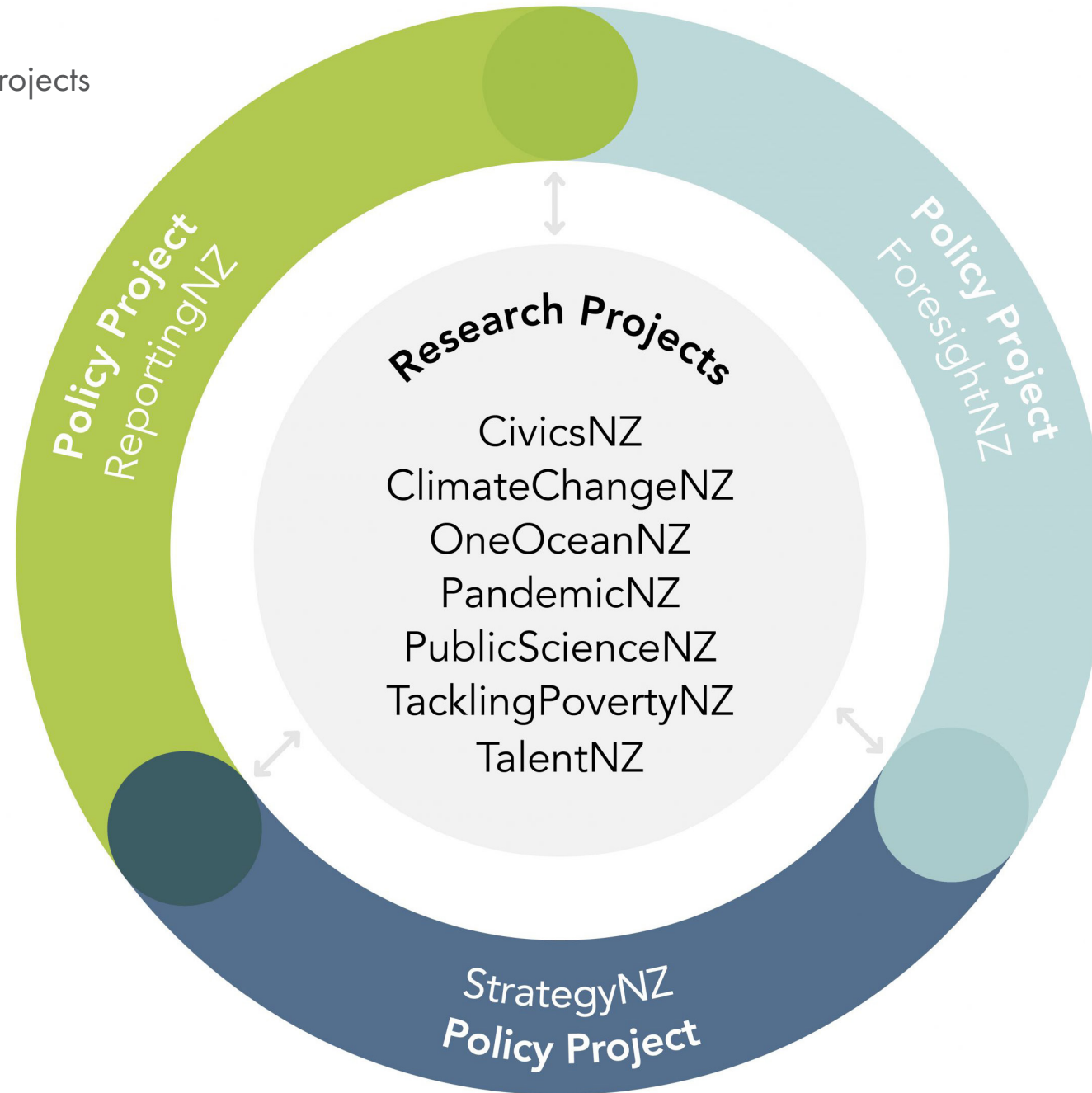


Figure 3: Illustrating the three eras of the reporting framework's recent evolution

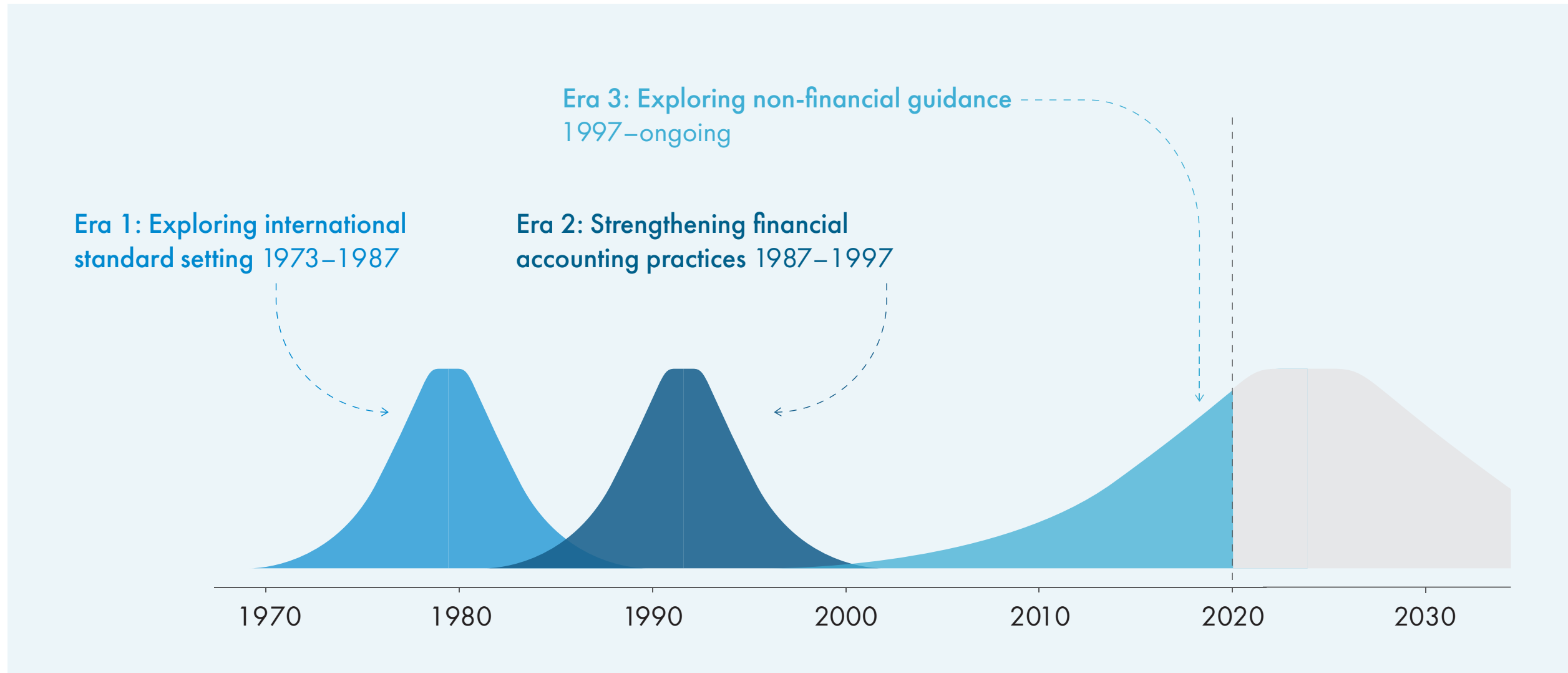


Figure 4: Illustrating the trends and implications shaping the reporting framework

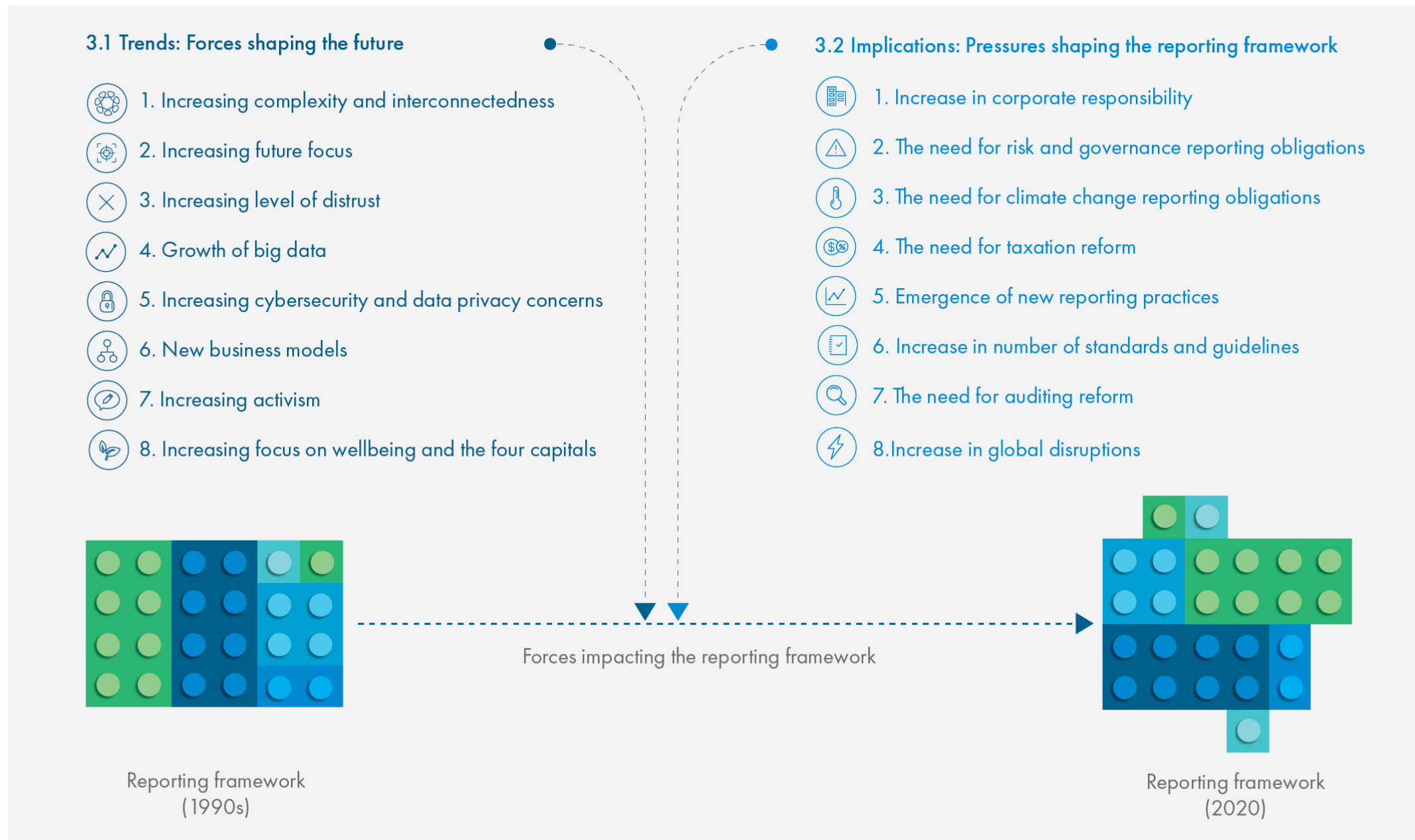
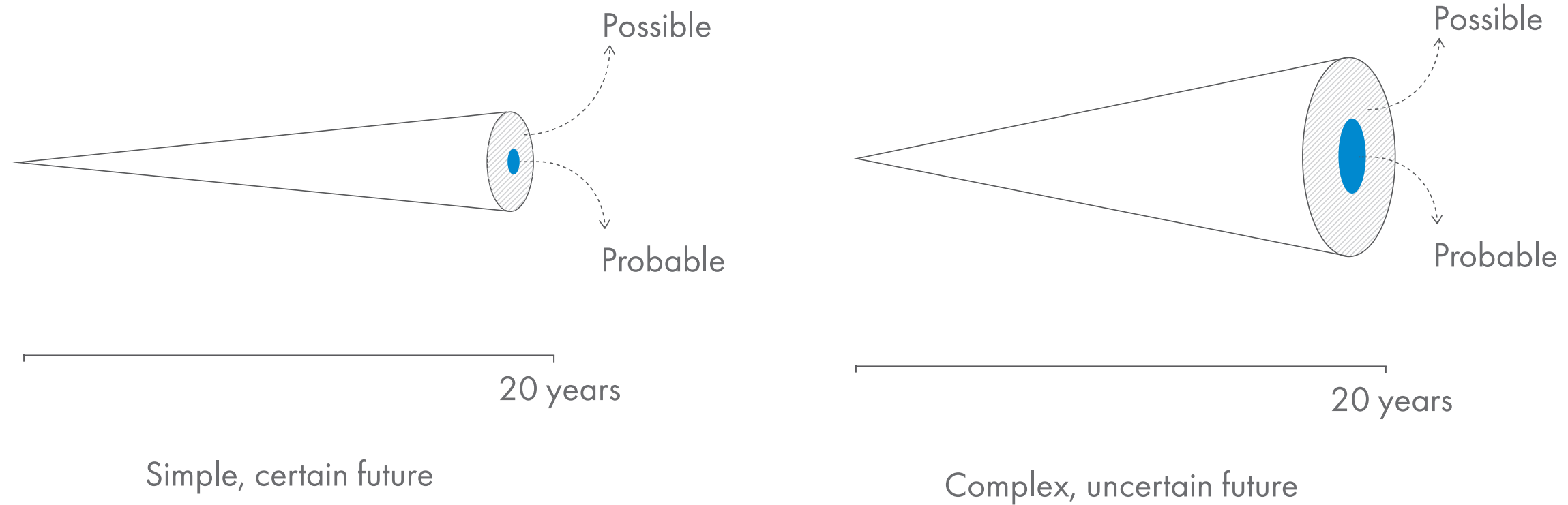


Figure 6: Comparing the possible futures of a simple and certain world with the possible futures of a complex and uncertain world



Implications of COVID-19: More uncertainty over the probable and possible futures

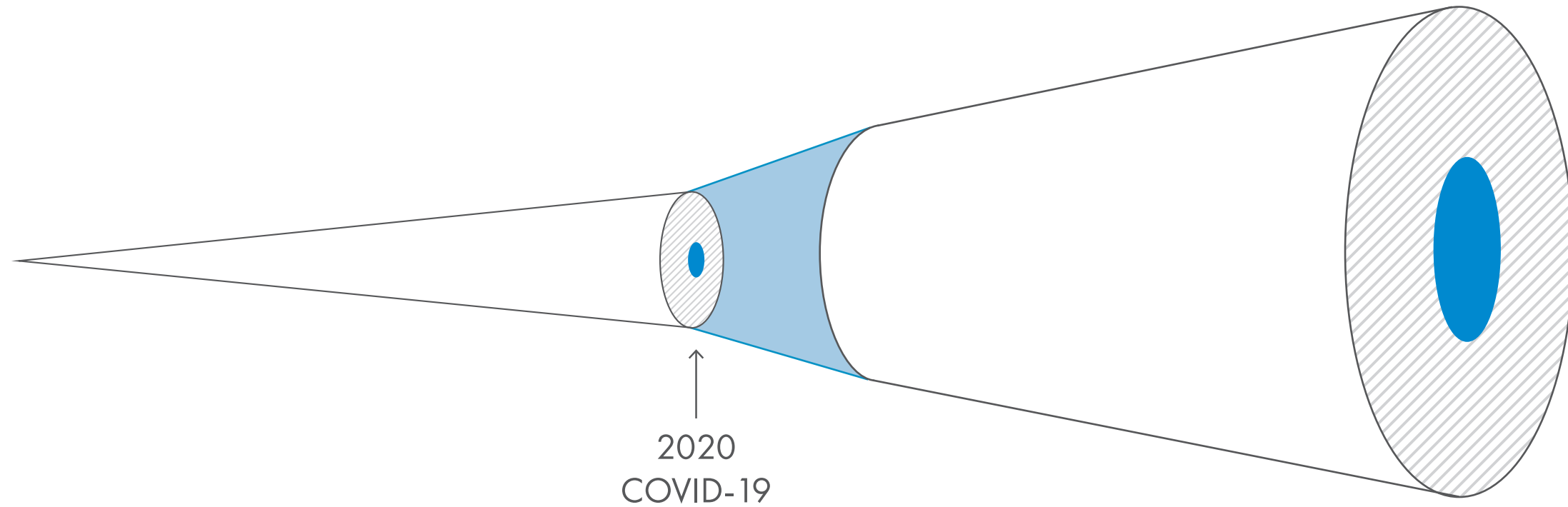


Figure 7: KPMG’s research comparing strategy discussions in UK annual reports with strategy discussions in global annual reports 2016

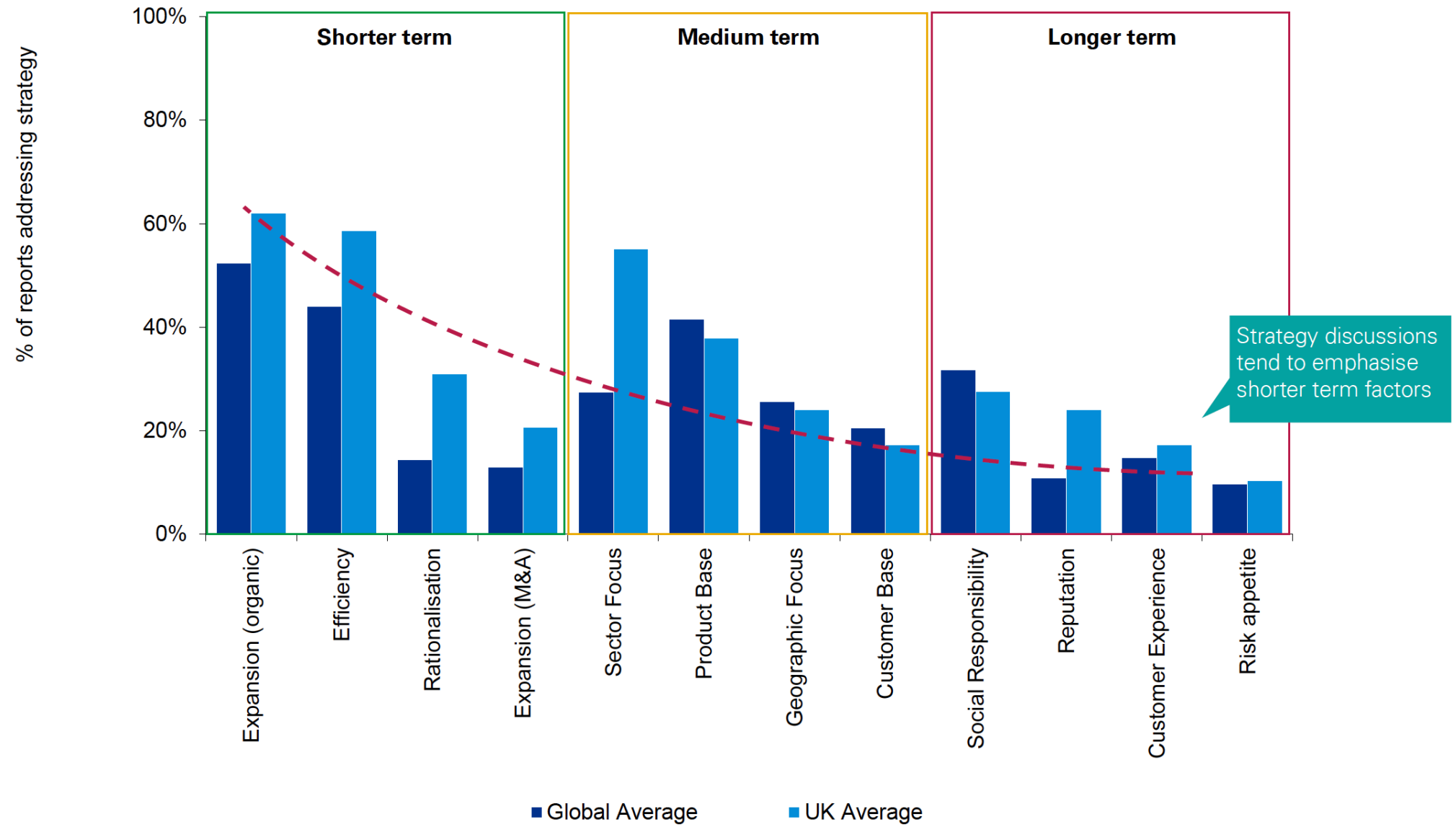


Figure 10: Illustrating the move away from a 'financial capital-only focus' towards a more 'integrated wellbeing focus'

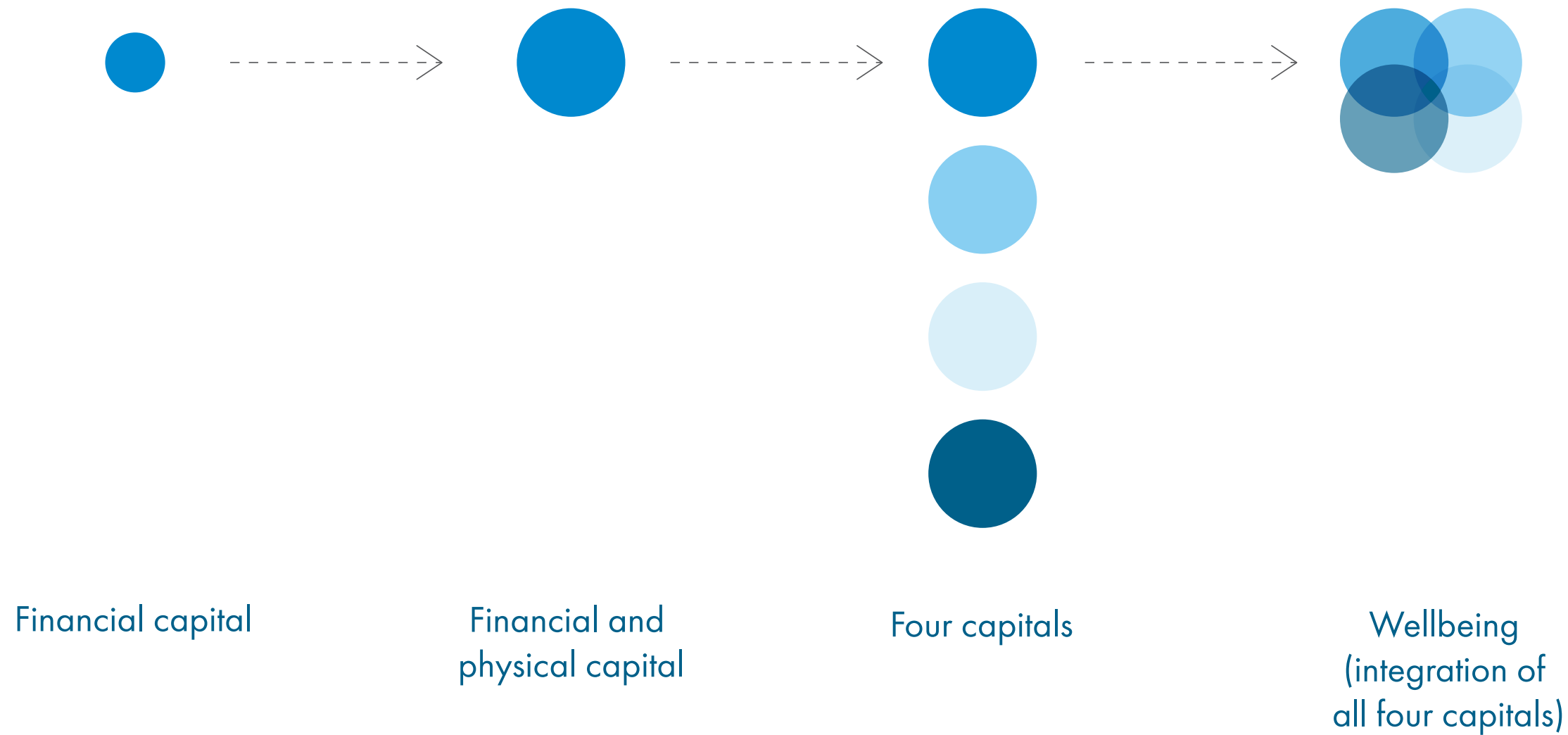
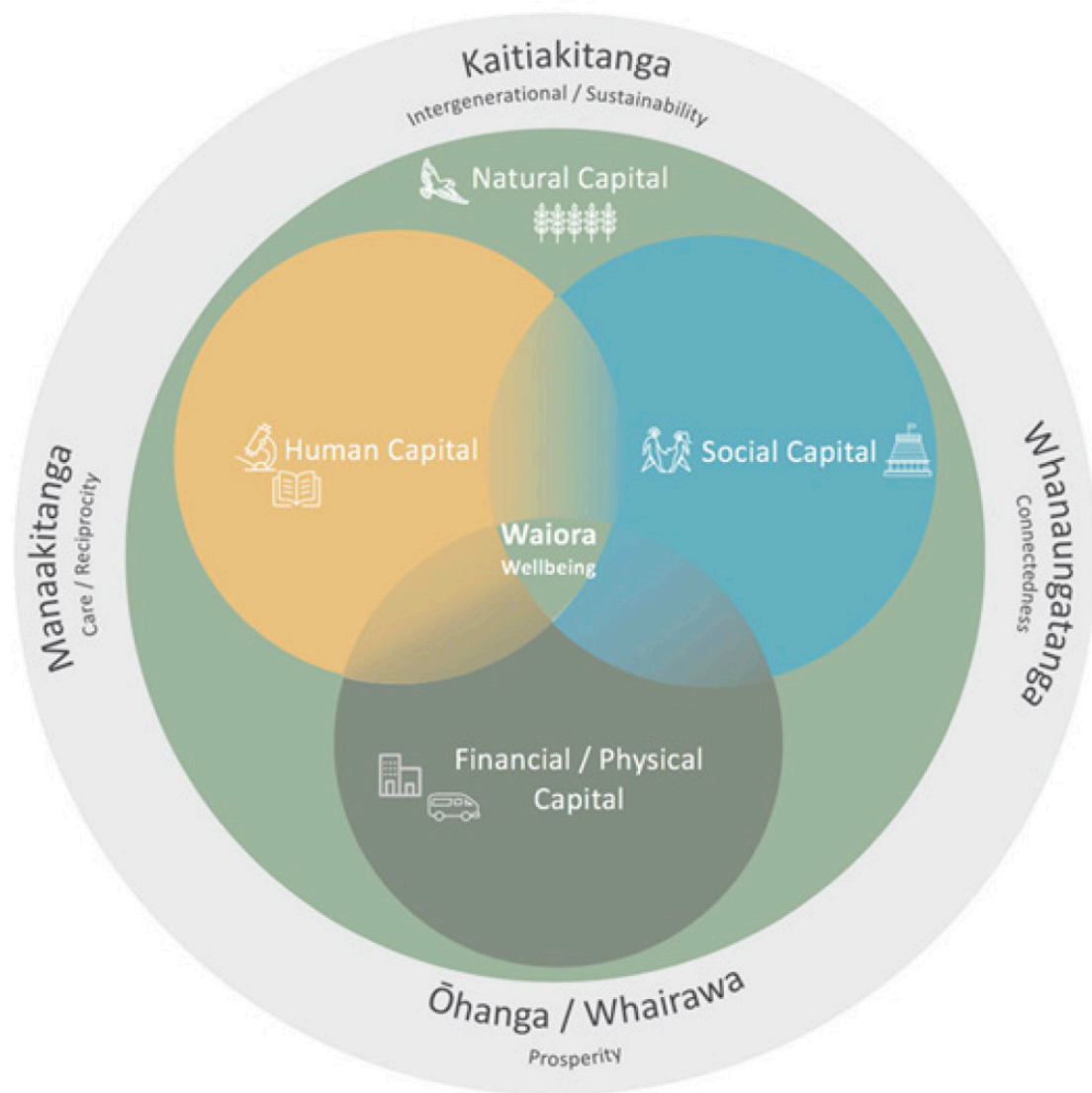


Figure 9: The New Zealand Tax Working Group brings together Te Ao Māori perspectives with Treasury's Living Standards Framework



Natural Capital

This refers to all aspects of the natural environment needed to support life and human activity. It includes land, soil, water, plants and animals, as well as minerals and energy resources.

Human Capital

This encompasses people's skills, knowledge and physical and mental health. These are the things which enable people to participate fully in work, study, recreation and in society more broadly.

Social Capital

This describes the norms and values that underpin society. It includes things like trust, the rule of law, cultural identity, and the connections between people and communities

Financial/Physical Capital

This includes things like houses, roads, buildings, hospitals, factories, equipment and vehicles. These are the things which make up the country's physical and financial assets which have a direct role in supporting incomes and material living conditions.

Section 4 Insight: McGuinness Institute Research

Topic 1: Attitudes (the surveys);

- (1) 2017 Extended External Reporting (EER) surveys and
- (2) 2019 Taskforce on Climate-related Financial Disclosures (TCFD) survey.

Topic 2: Mandatory reporting framework;

Topic 3: Voluntary reporting frameworks;

Topic 4: Outstanding annual report disclosure issues:

- (1) risks,
- (2) climate-related information,
- (3) gender and cultural representation,
- (4) health and safety,
- (5) political donations,
- (6) tax paid in cash to the New Zealand Government,
- (7) penalties and
- (8) intangible assets.

Topic 5: Assurance.

Research highlights of Report 17 – Building a Reporting Framework Fit for Purpose

RESEARCH HIGHLIGHTS:

Results from quantitative research undertaken by the McGuinness Institute looking at the annual reports of New Zealand's most significant organisations.

EXTENDED EXTERNAL REPORTING (EER) SURVEYS (2017)

SECTION 4.1.1

43%

of preparers' believed that their entity did not prepare any EER information in the annual report.

Across all disclosure types of information, users considered the disclosures to be more important than preparers (see Figures 12–15).

Preparers' identified the following four challenges in preparing EER information:

- Generating new information in-house
- Sensitivity of information
- Time constraints
- Gathering available information in-house

63% of users of EER considered this type of information difficult to obtain.

53% of preparers' thought that it should be mandatory for annual reports to be filed on the Companies Office.

Disclosures

Preparers

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) SURVEY (2019)

SECTION 4.1.2

Government departments

56% of all respondents thought that it will become mandatory for government departments to include TCFD disclosures in their annual reports before 2022.

24%

Livestock
24% of all respondents thought that it will become mandatory for livestock organisations to include TCFD disclosures in their annual reports before the financial year of 2022.

Oil, gas, and coal

54% of all respondents thought that it will become mandatory for oil, gas, and coal 'users' (such as airline companies or power stations) to include TCFD disclosures in their annual reports before 2022.

52% of all respondents thought that it will become mandatory for oil, gas, and coal 'companies' (such as extractors, importers or distributors) to include TCFD disclosures in their annual reports before 2022.

49%

of respondents ranked the TCFD disclosure Metrics & Targets c) as 'very difficult' to prepare and report against.*

48% of respondents ranked the TCFD disclosure Strategy c) as 'very difficult' to prepare and report against.*

* See Figure 17 for the list of TCFD disclosure recommendations.

60% of respondents considered 'annual revenue' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

91% of respondents considered 'total emissions' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

56% of respondents considered 'total assets' to be an important characteristic to determine the application of mandatory reporting requirements of the TCFD.

70% of respondents ranked the TCFD disclosure Governance b) as 'not difficult' to prepare and report against.

MANDATORY REPORTING FRAMEWORK

SECTION 4.2

Annual reports

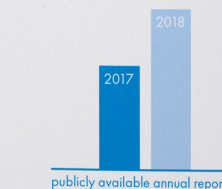
In 2019, 13 of the Top 200 companies applied the concessions available under s 211(3) Companies Act 1993, which enables reduced disclosures in the annual report.

83 of the Top 200 companies applied this concession in their 2016 annual report.

51-100

Between 51–100 pages was the average length of the 2019 annual reports of NZSX-listed companies.

There was a significant jump between 2017 and 2018 in terms of the number of publicly available annual reports of companies listed on the Top 200.



In 2017, 59% of the companies made their annual report publicly available. In 2018, the number increased to 81%.

Accessibility

92% of significant entities made their 2018 annual reports publicly available. In 2019, this dropped by 14% to 78% due to the impact of COVID-19.

In 2019, 51% of the Top 200 companies voluntarily filed their annual report (including financial statements) on the Companies Office.

58% of 2017 Deloitte Top 200 companies filed their annual reports (instead of just their financial statements) on the Companies Register.

VOLUNTARY REPORTING FRAMEWORKS

SECTION 4.3

The Institute has assessed eight types of entities for three consecutive years on the uptake of internationally recognized voluntary reporting frameworks. While the numbers have increased moderately, there are still very few entities who have adopted voluntary reporting frameworks.

Most commonly mentioned frameworks among all entities are:

- GRI (Global Reporting Initiative) [36]
- ISO 14000 family [40]
- UN SDGs (United Nations Sustainable Development Goals) [43]

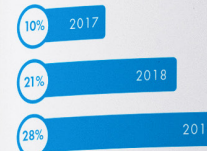
Overall, entities operating in the private sector (NZSX and Top 200 companies) employed significantly more frameworks in their reporting practices than public sector entities. Top 200 entities mentioned more voluntary frameworks than NZSX-listed companies (however, companies listed on the Top 200 who adopted a voluntary framework were likely to also be NZSX-listed companies).

- CEMARS (Certified Emissions Measurement and Reduction Scheme) [37]
- IIRC (International Integrated Reporting Council) [48]

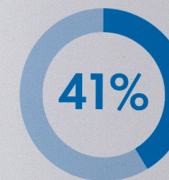
CLIMATE-RELATED INFORMATION

SECTION 4.4.2

There has been a steady increase in disclosures of climate-related risks in annual reports between 2017–2019 (among entities that made any form of climate-related disclosures):



41% of New Zealand's most significant organisations did not disclose any climate-related disclosures.



- In 2017, 10% of entities disclosed risk.
- In 2018, 21% of entities disclosed risk.
- In 2019, 28% of entities disclosed risk.

20 out of 424

New Zealand organisations mentioned the TCFD recommendations in their 2019 annual reports.

7 organisations more than 2018.



Local authorities, as an entity type, appear to be making the most progress in terms of incorporating climate-related information into best reporting practices. See Appendix 8.

GENDER DIVERSITY

SECTION 4.4.3

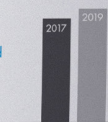
22%

of boards have only male directors (no companies have only female directors) or a female majority.

73% have female directors but a male majority.

6% have an equal number of male and female directors.

There has been little change between 2017 and 2019 in numbers of female executive and board teams. Majority male boards increased by 18% between 2017 and 2019.



HEALTH & SAFETY

SECTION 4.4.4

83%

In 2019, 83% of NZSX-listed companies disclosed health and safety statistics, practices and/or targets.

POLITICAL DONATIONS

SECTION 4.4.5

12

companies specifically disclosed a statement on political donations in 2017.

All 12 companies reported zero political donations (see Figure 42[i]).

INTANGIBLE ASSETS

SECTION 4.4.8

In 2017, the NZSX had an average tangible asset value of 41% and average intangible asset value of 59%.



ASSURANCE

SECTION 4.5

72%

of NZSX-listed companies have engaged the same auditor for five consecutive years (2012–2016).

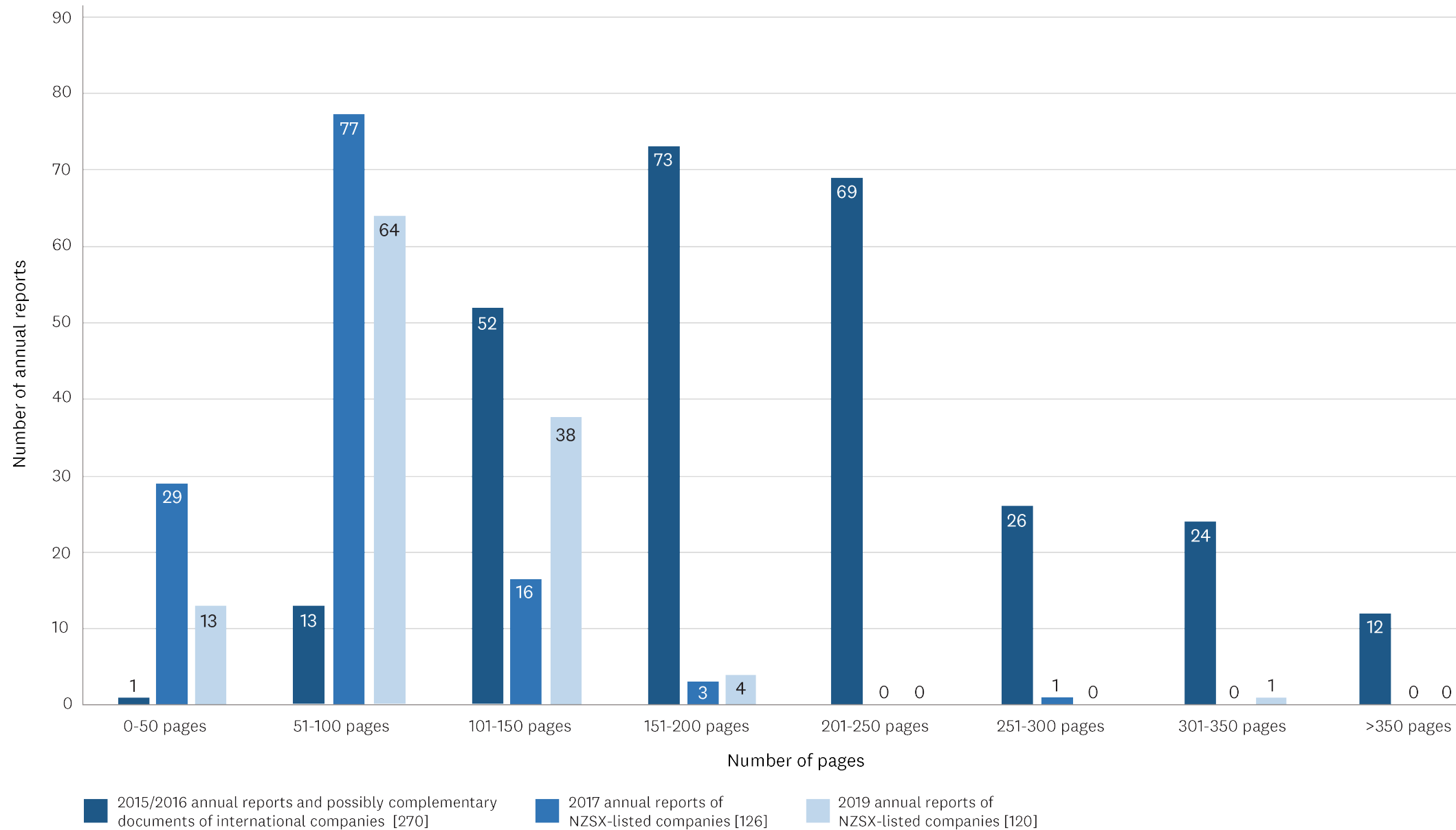
REPORT 17 IS PART OF THE MCGUINNESS INSTITUTE'S PROJECT 2058

The Data Sets

Table 4: Annual reports found and analysed of eight types of entities from 2016–2019

Entity type	2016	2016 (%)	2017	2017 (%)	2018	2018 (%)	2019	2019 (%)
Deloitte Top 200 companies*	N/A	N/A	118 of 200	59%	161 of 200	81%	101 of 200	51%
NZSX-listed companies	126 of 129 ¹	98%	126 of 129	98%	123 of 124	99%	120 of 132	91%
Crown agents and Crown entities	N/A	N/A	63 of 63	100%	63 of 63	100%	57 of 63	91%
Government departments	N/A	N/A	29 of 31	94%	30 of 32	94%	32 of 32	100%
Crown Research Institutes	N/A	N/A	7 of 7	100%	7 of 7	100%	7 of 7	100%
State-owned enterprises	N/A	N/A	13 of 14	93%	12 of 14	86%	9 of 14	64%
Local authorities	N/A	N/A	78 of 78	100%	78 of 78	100%	78 of 78	100%
District health boards	N/A	N/A	20 of 20	100%	20 of 20	100%	20 of 20	100%
Totals	N/A	N/A	454 of 542	84%	494 of 538	92%	424 of 546	78%

Figure 21: Comparing the 'average page length' of the 2017 and 2019 annual reports of NZSX-listed companies with the average page length of 2015/16 annual reports of international companies



Part 2: Analyse

5.0 Analysis of the reporting framework

6.0 Policy knots shaping the reporting framework

Section 5

Analysis of the reporting framework

Table 15: Evidence of the problems that exist in the current framework

Key problems (see Section 8.2)	Section 5 (see the 12 Findings on the next slide)
1. The framework lacks stewardship.	See Finding 1.
2. The framework is fragmented, complex and inefficient.	See Findings 2, 3, 5 and 11.
3. The framework is outdated and is failing to adapt to emerging trends and changes in user needs.	See Findings 3, 4, 5, 7 and 12.
4. The framework fails to provide users with easy access to annual reports.	See Findings 6, 8, 9 and 10.

The 12 Findings:

5.1 Institutions

1. Institutions remain consistent, stable and proactive, but there is no overall stewardship or leadership.
2. The legislation has some built-in flexibility, but ministerial approval is required.

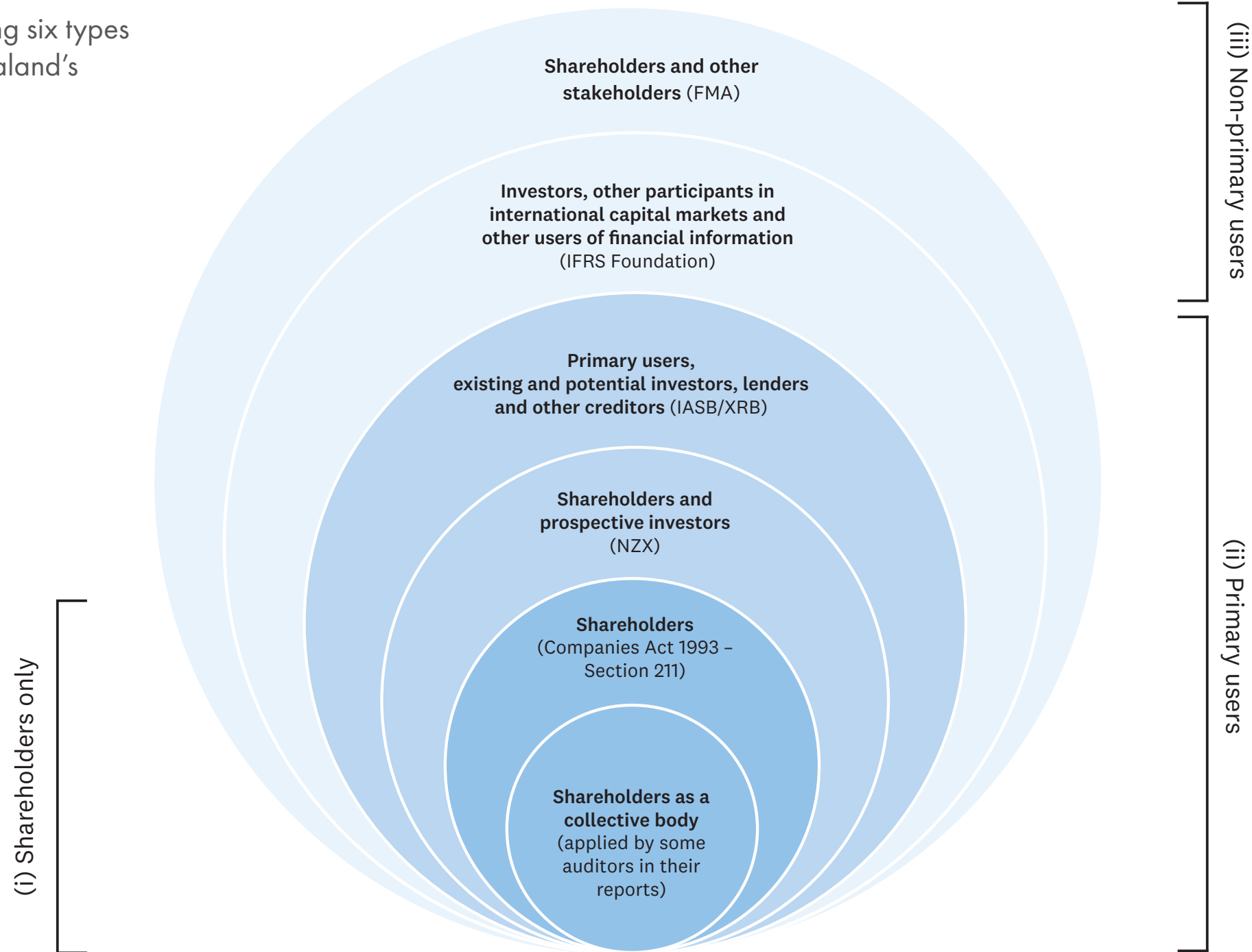
5.2 Instruments

3. Standards for social enterprises is an emerging standards gap.
4. The content of Statement of Cash Flow requires more attention.
5. Political donations require attention.
6. No standardised definition or purpose of annual report.

5.3 Information

7. User demands for reporting disclosures exceed information supplied by preparers.
8. The Companies Register could be better used as a key location for company information.
9. Access to public sector annual reports is problematic.
10. Access to private sector annual reports is problematic.
11. Information collected by institutions is not always aligned or checked for completeness.
12. Assurance mechanisms are not fit for current purposes.

Figure 36: Illustrating six types of users in New Zealand's regulatory regime



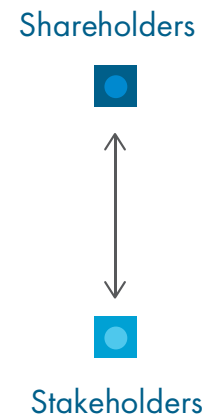
Section 6

Policy knots shaping the reporting framework

1

Who should the reporting framework be designed for: shareholders or stakeholders?

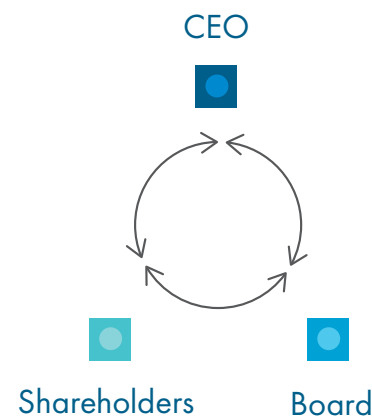
6.1 Tensions between reporting audiences:



2

Who is in control – the CEO, the board or the shareholders – and who are they being held accountable to?

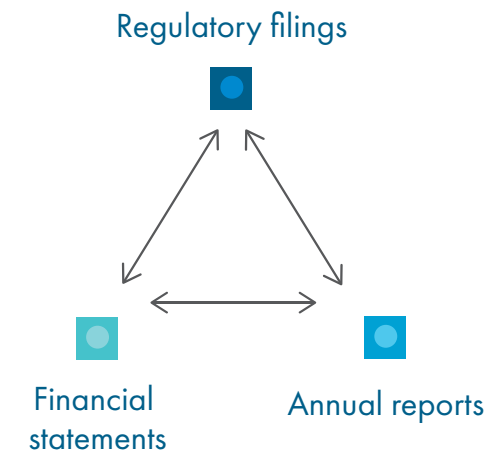
6.2 Tensions over who is in control and who is accountable:



3

Which policy instruments should be used for which type of organisation: financial statements, annual reports and/or regulatory filings?

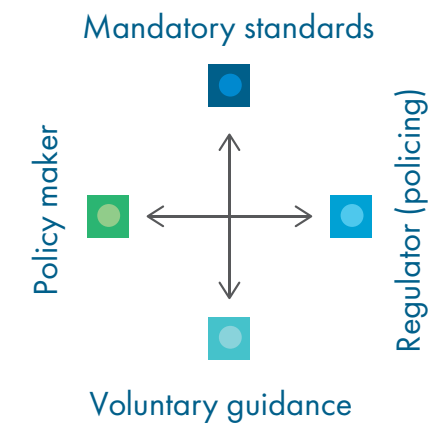
6.3 Tensions between reporting instruments:



4

Who should write and regulate reporting and assurance policy, and which disclosures should be mandatory?

6.4 Tensions over who writes and who regulates

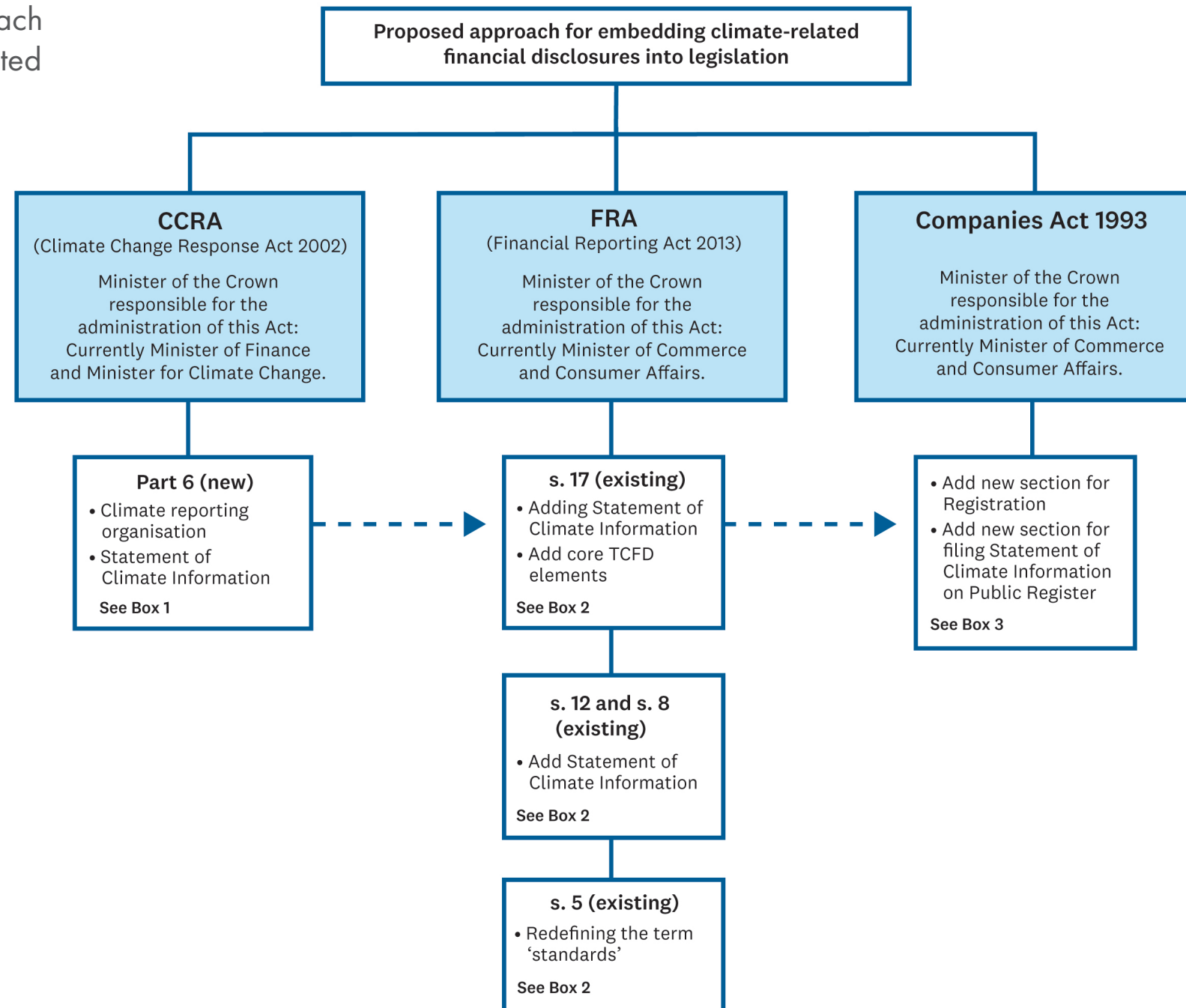


Part 3: Recommend

7.0 Package of climate-related reporting recommendations

8.0 Comprehensive list of recommendations

Figure 37: Proposed approach for embedding climate-related financial disclosures into legislation



Proposed climate-related financial disclosure standards setter

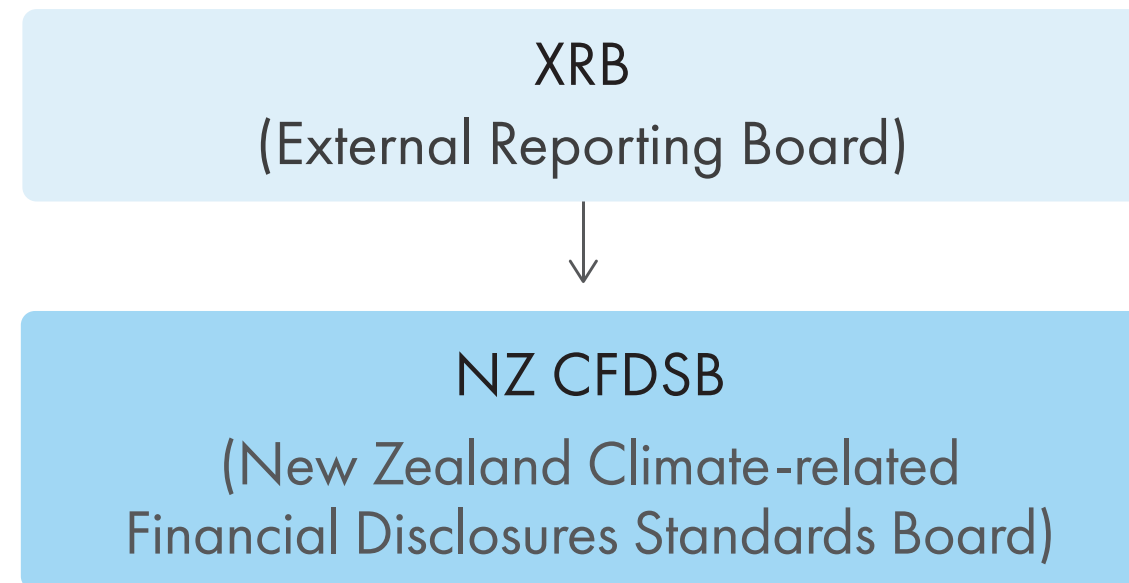


Table 17: Overview of major recommendations

Objectives	Recommendations	Key results
Objective 1: Reclaim the annual report as the key instrument for reporting to stakeholders.	1. Create one central register for all external filing requirements (including for public sector entities and registered charities).	The Registrar would: <ul style="list-style-type: none"> - Manage all external filing on one website (a central register). - Extend existing filings requirements to require annual reports (including a directors' report and a 'Statement of Climate Information' for all climate reporting entities). - Allow voluntary filing for entities that have no mandatory filing obligations.
	2. All organisations that are currently required to make their annual report publicly available, should be required to file their annual report on the central register.	<ul style="list-style-type: none"> - Require local government, who are required to publish an annual report, to file the report on a central public sector register. - Require government departments, who are required to publish an annual report to file the report on a central public sector register. - Require companies that are currently required to publish their annual report publicly (NZX-listed companies), and to file it on the Companies Office.
Objective 2: Ensure disclosures in the annual report are useful, timely and cost-effective.	3. Change legislation to better meet user needs and align with global best practice in relation to the reporting of information to shareholders and external users.	Parliament to amend legislation to: <ul style="list-style-type: none"> - Expand s 211 of the Companies Act 1993 to state what is included in the annual report. - Require a directors' report to be prepared by all entities that are currently required to prepare financial statements (for-profit Tier 1 and Tier 2 entities). - Invoke s 17(2) of the Financial Reporting Act 2013. - Require a 'Statement of Climate Information' for all climate reporting entities.
	4. Review the external financial reporting framework and accounting standards to better meet user needs.	The XRB would: <ul style="list-style-type: none"> - Improve the quality of disclosure requirements to meet the needs of users. - Align public and private sector reporting requirements. - Work with international standard setters. - Ensure annual report content is aligned to accounting and assurance standards.
	5. Require the directors report (the annual report in New Zealand) to report on risks.	<ul style="list-style-type: none"> - MBIE would help facilitate changes to legislation. For example: expanding s 211 and removing the focus on shareholders. - IOD would provide guidance to directors on how to prepare an annual report.

	<p>6. Embed climate-related financial reporting into the New Zealand reporting framework.</p>	<p>From the Institute’s perspective, this should be managed by the XRB as part of their normal business practice of issuing standards for selected entities to report against. The Institute envisages that this would result in a ‘Statement of Climate Information’ prepared and signed by two directors, audited by an external party and published in the entity’s annual report.</p> <p>MBIE would help facilitate changes to legislation:</p> <ul style="list-style-type: none"> - Mechanism 1 (climate reporting organisations) is through expanding the breadth of climate reporting organisations (to include for-profit entities and public benefit entities) and requiring additional information under the Climate Change Response Act 2002 (CCRA) (e.g. including a mandatory reporting regime in addition to the reporting powers already provided under ss 5ZW and 5ZX(1)(c) CCRA. - Mechanism 2 (financial reporting standards) is through making changes to the Financial Reporting Act 2013 (e.g. s 17). - Mechanism 3 (publication and location requirements) is through changes to the Companies Act 1993 (e.g. s 211).
<p>Objective 3: Maintain stewardship across the system.</p>	<p>7. Provide clarity over the overarching principles, parameters and strategy that shape the legislative framework for external reporting.</p>	<p>Appoint a steward to clarify the following:</p> <ul style="list-style-type: none"> - Define the purpose of the annual report. - Ensure that the annual report is the key instrument to report to external users on the performance of an entity. - Ensure that disclosure requirements aim to meet user needs by ensuring information is relevant (useful) and reliable (trustworthy). - Clarify the role of Directors, shareholders and management. - Ensure that the size criteria for mandatory external reporting is appropriate. This requires a review of the size criteria in the legislative framework. - Clarify the parameters of the system (the system includes XRB, FMA, Charities Services, Treasury, OAG, all registrars and other entities such as NZX and IoD). <p>The steward must annually review and publicly report on:</p> <ul style="list-style-type: none"> - The extent compliance and penalty systems align across entities and are sufficient to change behaviour. - External reporting statistics across entities and any failures that exist in the system. - A comparison of the New Zealand system with major trading partners to ensure we are up to date with international best practice.

Thank you

Ngā mihi nui

