

TCFD (2017), Recommendations of the Task Force on Climaterelated Financial Disclosures. Retrieved from www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf.
World Economic Forum (2018). The Global Risks Report 2018. Retrieved from www3.weforum.org/doceMME

Principles for Effective Disclosures

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3 Disclo

4 Disc ove

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Graph 17: Types of w reports [24]

Graph 16: Annı (Table 5g)

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oh 8: Ger

Excerpt from TCFD report, Recommendations of the Task Force on Climate-related Financial Disclosures<sup>1</sup>

The Task Force's Re

Graph 15: Types of inf in annual reports [31]

Graph 14: Annual repo emissions (Table 5f)

aph 7: Ge

ds of dir

Graph 6: Gen (Table 5b)

work on BEPS brings together over 10 ctions to collaborate on addressing ta hat exploit gaps and mismatches in shift profits to low- or no-tax locatior

Document catalogue

KPMG (2017). The road ahead: The KPMG Survey of Corpor Responsibility Reporting 2017. Retrieved from assets.kpmg.content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporat responsibility-reporting-2017.pdf.

ormance revealing the true s? Retrieved from www.ey.co

This research reviewed reports from 4900 companies 49 countries and regions.

OECD (2017). *Inclusive Framework on BEPS*. Retrieved frowww.oecd.org/tax/beps/beps-about.htm.

This research surveyed responses from over 320 inverparticipants from around the world, of which one-third manage more than US\$10 billion assets.

One out of three of health stistics, practices or target

Graph 13: Types of e annual reports [36]

Graph 12: Annual reports th information (Table 5e)

KPMG Aus (2016). Corporate reporting – evolution and integration: A review of corporate reporting trends in the year to 30 June 2016 across the ASX 200 and beyond. Retrieved from assets.kpmg.com/content/dam/kpmg/au/pdf/2016/corporate-reporting-asx-200-evolution-integration.pdf.

This research reviewed reports from the top 200 ASX-listed companies by way of float-adjusted market capitalisation (ASX200).

nses from 1215 'professionals' vey between 30 January respondents, 69% were from New Zealand.

ndary research on p. 7

Learn more

Graph 11: Types of hy annual reports [51]

Graph 10: Annual I information (Table

Graph 3: Types of EER frar [61] Graph 2: Annual repor framework (Table 3g)

These graphs are concerned with the 2016 annual reports of 126 NZSX-listed Companies, listed in 2017. The data supporting these graphs can be found in *Working Paper 2018/01 – NZSX-listed Company Tables*.

Key graphs

ReportingNZ Overview Worksheet: **External Reporting** An analysis of the state of play of Extended

Foreword

Seven key insights

New Zealand is not keeping pace with global trends in Extended External Reporting

rall, EER in New Zealand's largest and leading companies nited, with just under half providing no or very little public rting at all.

ora tātou

's been nearly 20 years since I first began engaging in the pace of financial and sustainability reporting. In that time, I've een many examples of New Zealand organisations taking ne lead. Pioneers such as Landcare Research, KiwiBank and Sanford were seen as best-practice reporters both in lew Zealand and globally. Today the names we use to describe nese reports have changed; we now hear about corporate eporting and Integrated Reporting (IR). We also have new eporting frameworks such as the International Integrated (GRI).

could be a result of NZ having a relatively small pool of listed banies, a number of companies operating in NZ but domiciled de of NZ (e.g. Australia), and an economy of mostly small to um-sized enterprises that are not required to meet certain latory requirements.

s contrary to trends seen internationally, where a ination of regulation, stock exchange and investor pressure ling to an increase in quantity and quality of reporting acros ustries.

Of those that do report, only a small number are providing reports that cover a wide range of the 'non-financial' risks that they are managing and much of that material is not assured for balance or accuracy.

Inile many companies continue to prepare timely, relevant, sliable and comprehensive information beyond financial data s.g. Auckland International Airport Limited, Contact Energy imited, Meridian Energy Limited, Sanford Limited and Z Energy imited, a large number do not. Based on our latest research, xtended External Reporting (EER) in New Zealand has slipped ehind what would internationally be considered good practice.

nis research shows, the scope and scale of EER in Zealand is limited. While we still have a small number of panies publishing excellent reports, meaningful disclosure natters outside the financial bottom line is, on the whole, to find.

non-financial' e listed as the Il as a perceived

en the lack of reporting, it is difficult for Users of reports to derstand what companies are committing to and achieving in ir efforts to lower their emissions.

r response that finding the silection and reporting of somethe case for GHG emissions.

Preparers (data in proportion to total responses
Users (data in proportion to total responses) Graph 1: Preparers' and Users' views on whet be independently assured See question 19 (Preparers) vs question 26 (Us stion 26 (Users) 44%

ain: 92 Preparers of EER mation\* — the Chief Financial ers of significant companies\*

Domain: 104 Users of EER information\*

ortance of non-financial s and is not working in the lerstand the barriers to and

New Zealand is to achieve both its international commitments on HG reductions and the current government's goal of a Net Zero dissions Economy by 2050, then we believe that the reporting of HG emissions in EER has to dramatically improve at a basic level.

leling our research's findings on what is not being reported the number of companies choosing to not publish an annuart at all, let alone EER.

ery difficult to gauge the total number of companies that se not to publish EER, with only half (57%) of those CFOs yed indicating that their company publishes EER.

It is also difficult for report Users to access all but the biggest listed company reports in one central repository. For Users this appears to be reducing the usefulness and accessibility of the reports, with those surveyed indicating that it is difficult to compare and contrast performance on some EER factors. A cost-effective part of the solution would be to require all large companies to file their annual reports on the Companies Register.

\(\)\text{im: To contextualise our New Zealand-specific research as it relates of the wider EER environment, particularly regarding global disclosure equirements, practices and issues.

im: To explore the current EER practices and provide context to the 'sers' Survey and Preparers' Survey.

omain: 126 2016 Extended Annual Reports\* of the 2017 NZSX-listed

Lag in New Zealand's response to international developments in reporting

(d) = (a) + (b) + (c): Bringing it all to

ing from the responses of report Preparers, the cost and skills ed for reporting are two key barriers to greater reporting. It is be safe to assume that these factors are probably linked to verall lack of reporting.

that New Zealand is home to Xero and other innovative businesses that have quickly adopted cloud-based uting systems, perhaps we can similarly create a lower-cost asier way for small companies to begin to account for some ir non-financial inputs and outputs.

As part of this research we also looked over international surveys of reporting and different reporting requirements of other countries similar to New Zealand. A common theme across this research was an increase in the requirements for company reporting — both from regulators and stock exchanges.

Countries such as the UK and US, and international bodies like the EU have increased reporting requirements to include what has been considered 'non-financial' information. This has not only resulted in an increase in the numbers of companies reporting but also in the types of industries previously not producing EER.

ot just small and medium-sized companies that are not riing EER. Many companies domiciled overseas are also not osing data such as tax paid to the New Zealand Government. In the structure of th

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However, the biggest reason is most likely a lack of demand. While the results of our survey indicate a modest gap between the expectations of report Users and what report Preparers publish, on the whole we have not seen the type of pressure for EER from investors and civil society that has been exerted in other countries.

Again, New Zealand appears to be bucking international trends where 'non-financial' material in reports is increasingly produced on the back of significant investor and civil society demand for greater transparency on key business risks.

Many report Preparers remarked in their struggled to see the return on investmer

eir responses that they nent in providing more

port Preparers indicated that they receive very few requests further information in their reports — this is supported by 81% Users indicating that over the past two years they had not quested EER information from a for-profit entity.

here are probably many reasons. NZ companies are, on the hole, small, and with limited resources. Many do not see the enefits of producing EER to outweigh the costs. Our regulation as been slow compared to other nations in integrating 'nonnancial' aspects into law. And unlike some countries, we aven't seen some of the major disasters that have occurred ver the past 40-odd years, although you could say that the urrent debate around our waterways is leading up to such a

is EER so limited here in NZ?

n issue such as climate change. Reading their reports, rd to get an understanding of how some of our best ghtest companies are tackling the risk of a dramatically

Demand for greater levels of transparency and reporting appears muted

une research has revealed a mod Is of report Users and what is publi lemand for greater information disc

est gap between the shed by Preparers. Ov losure in EER appears

atever the drivers, it is clear that effort is required on behalf of my parties to improve the state of EER in New Zealand if we are eep pace with global trends.





'd like to thank those people who took the time to respond to our survey, the External Reporting Board and BDO (our partners n this research) and, of course, our researchers, who have spent many hours collating and analysing all the reports and data.

er the reason, we hope this research provides a useful ark which can be used as we work towards a more ble economy in the years to come.

Reporting on global risks is weak or missing

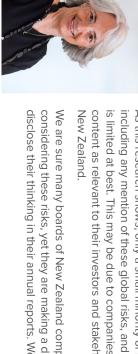
In an environment where global issues such as climate change, human rights and tax are creating a volatile trading environment for many New Zealand companies, it seems odd that companies are not sharing with their investors and stakeholders how they see those issues impacting their operations and strategy in New Zealand and abroad. this research shows, only a small minority of NZ companies ar sluding any mention of these global risks, and when they do it imited at best. This may be due to companies not seeing this ntent as relevant to their investors and stakeholders in value was Zealand.











(b) NZSX-listed company tables

(a) Users' survey

### **D. FRAMEWORKS** | Legislation, rules and guidance

 $23\% \ \ \, \text{of CFOs' survey results suggested that they used an external reporting framework when preparing EER (Q9).*}$ 

(a) Preparers' survey

## Q: If EER became expected practice, who should set guidance?

**51%** FMA (Q18) 47% XRB (Q18) ---> **57%** XRB (Q23) ---> **28**% CAANZ (Q23) 44% CAANZ (Q18) ----> **23**% NZX (Q23) **21**% NZX (Q18)

### Q: If EER became mandatory, who should set the requirements?

**45**% XRB (Q21) ----> **41**% XRB (Q25) 20% FMA (Q21) ....> 12% FMA (Q25) **18%** Legislation (Q21)

---> 27% Legislation (Q25) .... 11% NZX (Q25) **11%** NZX (Q21)

### Q: Should EER be mandatory, 'comply or explain' or voluntary?

E. ASSURANCE | Verification, reliability and trust

Yes: 'Must be reliable to avoid temptation to fluff.' – Preparer comment (Q19)

56%

and CEO.' - Preparer comment (Q27)

thought that EER should be independently assured (Q19).

36% thought they [the CFO] should sign off the financial statements (Q27).

No: 'Compliance cost would be an unnecessary burden and barrier to completion.' - Preparer comment (Q19)

Yes: 'I believe it is a reasonable stance to take. It feels like common sense.' – Preparer comment (Q27)

No: 'Directors should sign. I would expect that they would seek their own representation from the CFO

9. Independent assurance is an emerging key requirement for EER information.

It inspires trust which enables companies to build good relationships with stakeholders, including suppliers, consumers and the wider public.

**68**% Voluntary (Q20) ----> **20%** Voluntary (Q24) --> 41% Comply or explain (Q24) 20% Comply or explain (Q20) --> 39% Mandatory (Q24) 13% Mandatory (Q20)

# thought that EER should be independently assured (Q26).

Yes, for credibility and assurance: 'In my experience, company systems for reporting this information are not mature and they are more prone to error. I have assured a number of sustainability reports and have identified contextual errors, issues of balance that need to be addressed and potential bias towards a more positive story. The board is responsible for the content of such a report and needs to have independent assurance (as do the users) that the data is faithfully represented and reporting principles have been applied. - User comment (Q26)

Other comments: 'The extended reporting will be varied across entities and industries and will be very difficult to standardise and assure. Any assurance process will add time, cost and complexity to an organisation. Emphasis should be placed on improving and standardising disclosures.' – User comment (Q26)

Other comments: 'The extent to which an entity is transparent is evidence of itself from my perspective –

tells you a lot about an organisation's culture and commitment.' – User comment (Q26)

of NZSX-listed companies have used the same auditor over the past five

of these companies contracted PwC (Table 3d). 36%

years (2012–2016) (Table 3d).

of these companies contracted KPMG (Table 3d). 24%

for better business reporting by raising the bar on what is expected. The onset of this more holistic approach will hopefully see box-ticking compliance consigned to the side lines and frameworks such as Integrated Reporting and GRI being used as critical business tools to understand, define and enhance corporate value.' Erica Miles, Director, Sustainability Services, KPMG in New Zealand (KPMG, 2017: 17) "... 13 percent of N100 and 12 percent of G250 companies are using stock exchange guidelines."

(c) Secondary research

 $\hbox{`Obligations on multinational enterprises to provide country-by-country reporting to their parent entity's } \\ tax$ administration are already in place for more than 95% of the multinational enterprises that will be affected. For the first time, tax administrations will have the big picture about the MNE's global operations, and be better placed to make an assessment of the tax risks involved, allowing more targeted, effective use of their resources.' (OECD, 2017: 2) Comparability:

'When asked why they don't consider nonfinancial issues in their investment decision-making, 42% of the surveyed investors answering the question said that nonfinancial measurements are seldom available for comparison with other companies, and the same number said the information is often inconsistent, unavailable or not verified ... only 16% said that nonfinancial disclosures seldom have a financial impact or are material.'

'Assurance of CR data is now accepted standard practice among G250 companies with more than two thirds (67 percent) of these companies seeking assurance. While assurance rates among the N100 are lower (currently 45 percent), KPMG expects a majority of N100 companies to have their CR data assured within the next two to five years if recent trends continue. The data suggests that assurance rates increase most rapidly in countries where high rates of CR reporting have been achieved. (KPMG, 2017: 26) 'Leading Japanese companies have set a trend for investing in assurance of CR data in recent years and their

example has encouraged others to follow suit. Other drivers for assurance include pressure to demonstrate that

GHG emissions data is reliable and accurate. The Paris Agreement has had a significant effect in Japan, with many companies seeking to prove they have reduced GHG emissions and are on a pathway consistent with the 2°C scenario outlined in the agreement. - Kazuhiko Saito, Managing Partner, Sustainability Services, KPMG in Japan  $\,$ (KPMG, 2017: 27)

'The number of companies investing in third-party assurance has grown steadily since 2005.'

Note: Data for sections A and B of this column were calculated from the 129 NZSX-listed companies. Data for sections C, D and E were calculated from the 126 companies that prepared 2016 annual reports. \* This data was calculated from the 129 NZSX-listed companies.