ReportingNZ Project

March 2018

ReportingNZ 2018 worksheet: An analysis of the state of play of Extended External Reporting

MCGUINNESS INSTITUTE
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Foreword

Kia ora tātou

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

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

As this research shows, the scope and scale of EER in New Zealand is limited. While we still have a small number of companies publishing excellent reports, meaningful disclosure on matters outside the financial bottom line is, on the whole, hard to find.

Take an issue such as climate change. Reading their reports, it is hard to get an understanding of how some of our best and brightest companies are tackling the risk of a dramatically changing climate.

Why is EER so limited here in NZ?

There are probably many reasons. NZ companies are, on the whole, small, and with limited resources. Many do not see the benefits of producing EER to outweigh the costs. Our regulation has been slow compared to other nations in integrating 'non-financial' aspects into law. And unlike some countries, we haven't seen some of the major disasters that have occurred over the past 40-odd years, although you could say that the current debate around our waterways is leading up to such a moment.

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.

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

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

Ngā mihi nui

Wendy McGuinness
Chief Executive
McGuinness Institute

Seven key insights

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

Overall, EER in New Zealand's largest and leading companies is limited, with just under half providing no or very little public reporting at all.

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.

This is contrary to trends seen internationally, where a combination of regulation, stock exchange and investor pressure is leading to an increase in quantity and quality of reporting across all industries.

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

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

2. **Demand for greater levels of transparency and reporting appears muted**

While the research has revealed a modest gap between the needs of report Users and what is published by Preparers. Overall, the demand for greater information disclosure in EER appears limited.

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

Many report Preparers remarked in their responses that they struggled to see the return on investment in providing more information.

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.

Recent events in New Zealand concerning KiwiSaver investments in firms involved with weapon manufacturing shows that there is appetite at one level to avoid certain investments – when will this concern move into other aspects such as climate change?

3. **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.

As this research shows, only a small minority of NZ companies are including any mention of these global risks, and when they do it is limited at best. This may be due to companies not seeing this content as relevant to their investors and stakeholders in New Zealand.

We are sure many boards of New Zealand companies are considering these risks, yet they are making a decision not to disclose their thinking in their annual reports. We would argue that now more than ever we need to get an understanding of how they are considering these types of risks (and opportunities).

4. **Climate change and greenhouse gas emissions are missing from most company accounts**

As the research indicates, some of our largest companies are excluding their greenhouse gas (GHG) emissions in their EER. Of the Preparers who responded to our survey, only 53% indicated that they believed it was important to disclose total greenhouse gas emissions, with only 9% of Users considering it to be reported on well.

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

Some report providers noted in their response that finding the right skills and experience for the collection and reporting of some data can be hard, and this might be the case for GHG emissions.

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

At board-level, again, we are sure that there are conversations occurring around the current impacts we are feeling in New Zealand from climate change such as the dramatic weather events in recent months and the hottest summer on record. We would encourage boards to provide some insight into how they are managing these risks and include them along with the other risks they detail in their reports, ideally within a subsection of the annual report.

5. **Long shadow of the non-reporters**

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

It is very difficult to gage the total number of companies that choose not to publish EER, with only half (57%) of those CFOs surveyed indicating that their company publishes EER.

Judging from the responses of report Preparers, the cost and skills needed for reporting are two key barriers to greater reporting. It would be safe to assume that these factors are probably linked to the overall lack of reporting.

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

It is not just small and medium-sized companies that are not reporting. Many companies domiciled overseas are also not disclosing data such as tax paid to the New Zealand Government. If international debate is a useful indicator, this is not an issue that will disappear soon and may well quickly extend to other factors such as human rights and climate change.

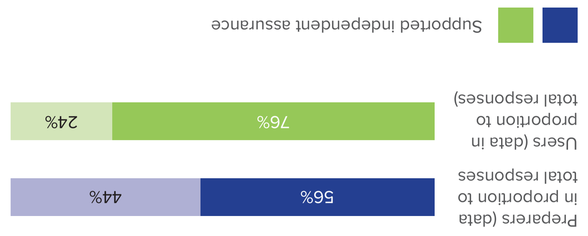
6. **Lack of consistency in format, guidelines and assurance limits usefulness and accessibility**

For those companies that are publishing EER, there is a wide variety of approaches to the type and format of the content used. The research indicated that there is a split between the different guidelines/standards used to shape EER information, with an equal split of companies using the Global Reporting Initiative (GRI) Standards and the International Integrated Reporting Council (IIRC) framework. An equal number of Preparers reported using other approaches such as the Carbon Disclosure Project or Accounting For Sustainability (A4S) frameworks.

Alongside the various approaches, very few companies are choosing to apply any level of assurance to the 'non-financial' information of their reports. Cost and benefit were listed as the main reasons for not providing assurance, as well as a perceived lack of report User demand. However, survey responses indicated that both report Preparers and Users do indeed support independent assurance. This raises the question, if both Users and Preparers want this level of assurance, why aren't Preparers providing it?

Graph 1: Preparers' and Users' views on whether EER should be independently assured

See question 19 (Preparers) vs question 26 (Users)



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.

7. **Lag in New Zealand's response to international developments in reporting**

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.

We note that the New Zealand Stock Exchange has recently updated its requirements for reporting for its listed companies, particularly in areas like gender diversity and that the NZX produced an ESG guidance note in December 2017. This is a timely development, but we think that more is needed for non-listed companies if we are to keep pace internationally and meet the challenges we face as a country in developing a sustainable economy.

Document catalogue

(a) Surveys – prepared in collaboration with External Reporting Board (XRB)

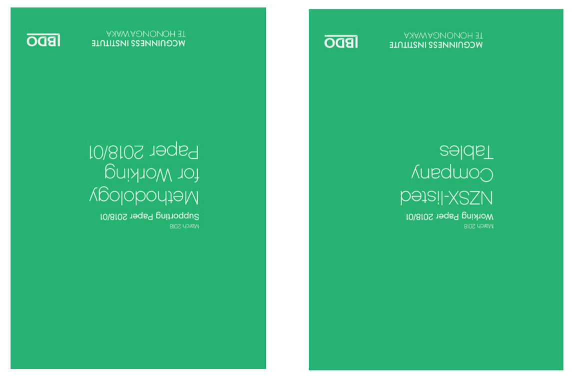
Preparers' Survey and Users' Survey

Aim: To raise awareness about the importance of non-financial information, to learn more about what is and is not working in the current reporting landscape and to understand the barriers to and enablers of EER.

Domain: 92 Preparers of EER information* – the Chief Financial Officers of significant companies*

Domain: 104 Users of EER information*

(b) Research and Analysis – prepared in collaboration with BDO



Aim: To explore the current EER practices and provide context to the *Users' Survey* and *Preparers' Survey*.

Domain: 126 2016 Extended Annual Reports* of the 2017 NZSX-listed companies

(c) Secondary Research

Aim: To contextualise our New Zealand-specific research as it relates to the wider EER environment, particularly regarding global disclosure requirements, practices and issues.

(d) = (a) + (b) + (c): Bringing it all together – Prepared solely by the McGuinness Institute

(This document)

* See Glossary for these terms and definitions.
All *ReportingNZ* publications can be found on the McGuinness Institute website.

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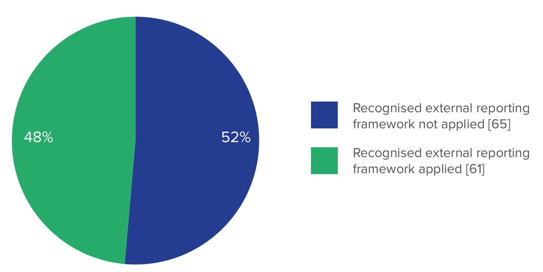
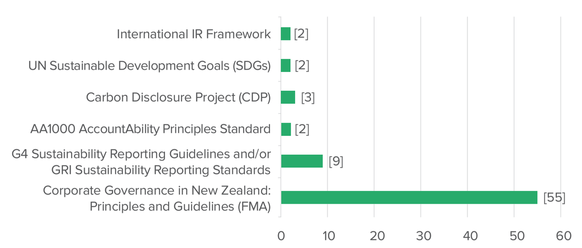
Key graphs

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*.

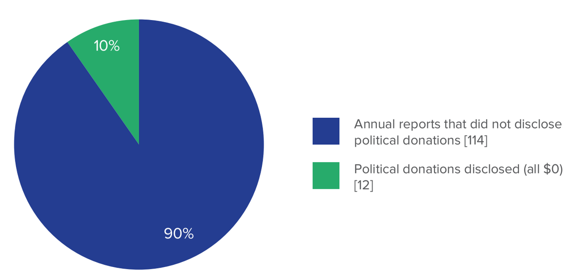
Graph 2: Annual reports that applied a recognised EER framework (Table 3g)



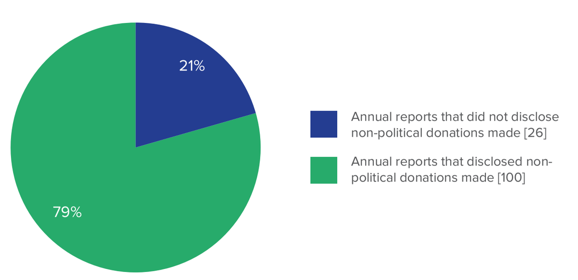
Graph 3: Types of EER frameworks applied in annual reports [61]



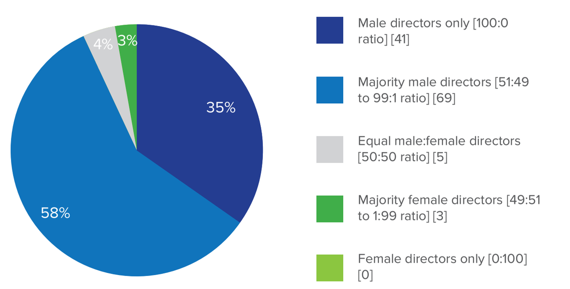
Graph 4: Annual reports that disclosed political donations (Table 4g)



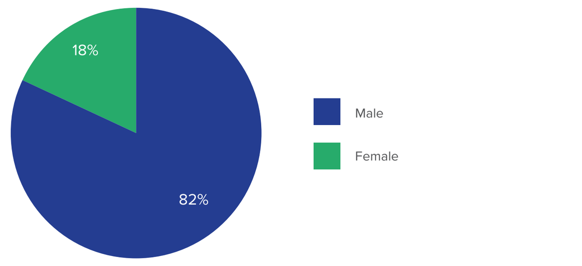
Graph 5: Annual reports that disclosed non-political donations (Table 4h)



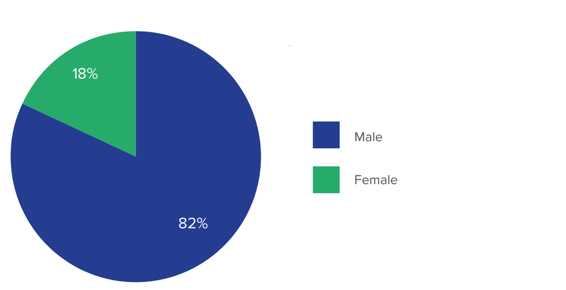
Graph 6: Gender diversity ratios of boards of directors (Table 5b)



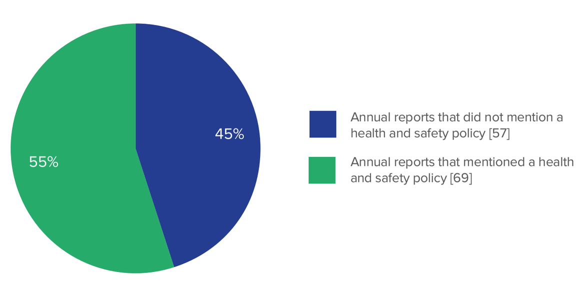
Graph 7: Gender diversity of directors (average) (Table 5b)



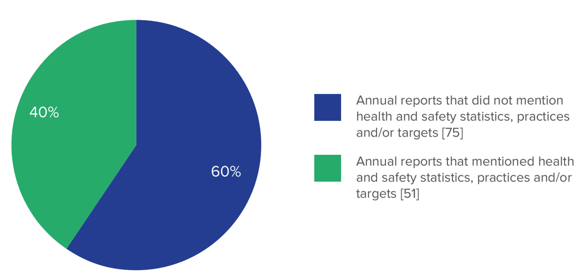
Graph 8: Gender diversity of officers (average) (Table 5b)



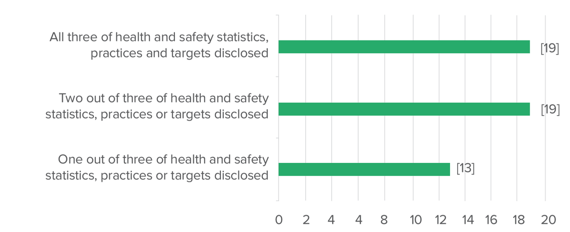
Graph 9: Annual reports that disclosed a health and safety policy (Table 5c)



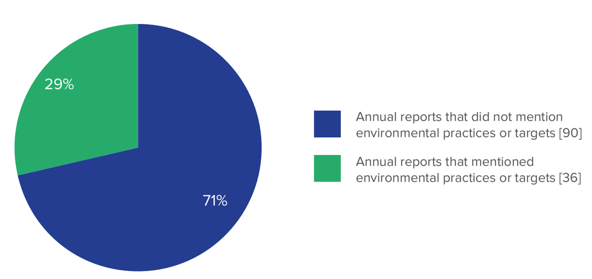
Graph 10: Annual reports that disclosed health and safety information (Table 5d)



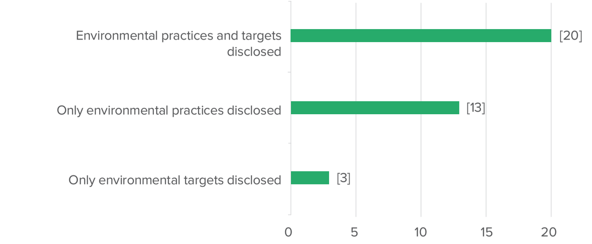
Graph 11: Types of health and safety information disclosed in annual reports [51]



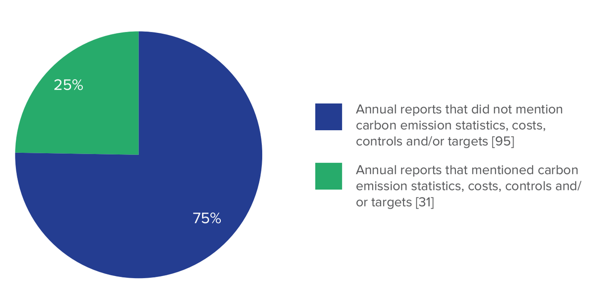
Graph 12: Annual reports that disclosed environmental information (Table 5e)



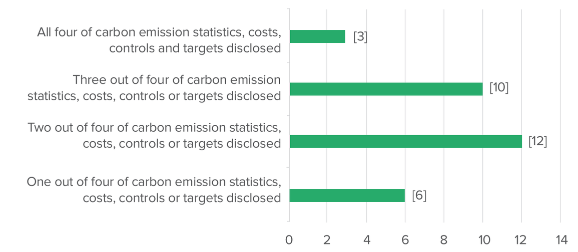
Graph 13: Types of environmental information disclosed in annual reports [36]



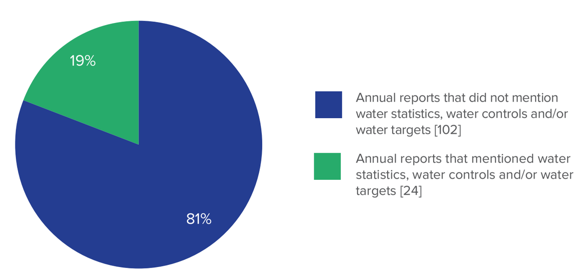
Graph 14: Annual reports that disclosed information on carbon emissions (Table 5f)



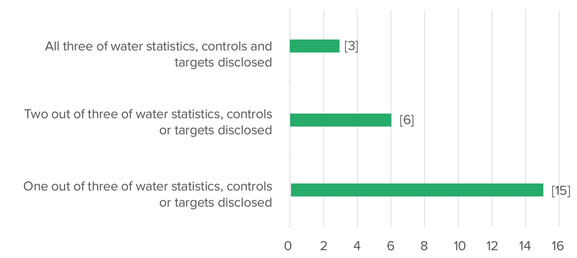
Graph 15: Types of information on carbon emissions disclosed in annual reports [31]



Graph 16: Annual reports that disclosed water information (Table 5g)



Graph 17: Types of water information disclosed in annual reports [24]



Learn more

Sources for secondary research on p. 7

ACCSR (2017). *Annual Review of the State of CSR in Australia and New Zealand 2017*. Retrieved from www.sbc.org.nz/__data/assets/pdf_file/0007/127591/ACCSR-State-of-CSR-Report-2017.pdf.

This research surveyed responses from 1215 'professionals' who completed the online survey between 30 January and 28 February 2017. Of the respondents, 69% were from Australia and 29% were from New Zealand.

EY (2017). *Is your nonfinancial performance revealing the true value of your business to investors?* Retrieved from www.ey.com/Publication/vwLUAssets/EY_-_Nonfinancial_performance_may_influence_investors/$FILE/ey-nonfinancial-performance-may-influence-investors.pdf.

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

FMA (2016). *Review of corporate governance disclosure*. Retrieved from fma.govt.nz/assets/Reports/160804-Review-of-corporate-governance-disclosure.pdf.

This research reviewed the corporate governance disclosures of 45 companies' annual reports and websites in comparison to the disclosures recommended in the FMA handbook *Corporate Governance in New Zealand, Principles and Guidelines* (2004). Note this research is limited to disclosure and does not include the companies' actual behaviour.

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).

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

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

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

The Inclusive Framework on BEPS brings together over 100 countries and jurisdictions to collaborate on addressing tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low- or no-tax locations where there is little or no economic activity.

TCFD (2017). *Recommendations of the Task Force on Climate-related 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/docs/WEF_GRR18_Report.pdf.

Excerpt from TCFD report, *Recommendations of the Task Force on Climate-related Financial Disclosures*[1]

The Task Force's Remit

The FSB called on the Task Force to develop climate-related disclosures that 'could promote more informed investment, credit [or lending], and insurance underwriting decisions' and, in turn, 'would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.'[2,3] The FSB noted that disclosures by the financial sector in particular would 'foster an early assessment of these risks' and 'facilitate market discipline.' Such disclosures would also 'provide a source of data that can be analysed at a systemic level, to facilitate authorities' assessments of the materiality of any risks posed by climate change to the financial sector, and the channels through which this is most likely to be transmitted.'[4]

1 TCFD (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. Retrieved from www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf.

2 FSB (2015). *Proposal for a Disclosure Task Force on Climate-Related Risks*. P. 4. Retrieved from www.fsb.org/wp-content/uploads/Disclosure-task-force-on-climate-related-risks.pdf.

3 The term carbon-related assets is not well defined, but is generally considered to refer to assets or organisations with relatively high direct or indirect GHG emissions. The Task Force believes further work is needed on defining carbon-related assets and potential financial impacts.

4 FSB (2015). *Proposal for a Disclosure Task Force on Climate-Related Risks*. P. 2. Retrieved from www.fsb.org/wp-content/uploads/Disclosure-task-force-on-climate-related-risks.pdf.

5 TCFD (2017). *Recommendations of the Task Force on Climate-related Financial Disclosures*. P. 18. Retrieved from www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf.

Principles for Effective Disclosures

1 Disclosures should represent relevant information
2 Disclosures should be specific and complete
3 Disclosures should be clear, balanced, and understandable
4 Disclosures should be consistent over time
5 Disclosures should be comparable among companies within a sector, industry, or portfolio
6 Disclosures should be reliable, verifiable, and objective
7 Disclosures should be provided on a timely basis

The seven principles for effective disclosures, as developed by TCFD, can apply to any type of disclosure.[5]

Abbreviations

2°C Scenario	Lays out an energy system pathway and a CO_2 emissions trajectory consistent with at least a 50% chance of limiting the average global temperature increase to 2°C by 2100
APM	Alternative Performance Measures
ASX	Australian Stock Exchange
ASX 200	200 largest public companies by market capitalisation listed on the ASX
CA ANZ	Chartered Accountants Australia and New Zealand
CDP	Carbon Disclosure Project
CFO	Chief Financial Officer
COP-21	21st yearly session of the Conference of the Parties
CR	Corporate responsibility
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EER	Extended External Reporting
ESG	Environmental, social and governance
FMA	Financial Markets Authority
FTE	Full-time equivalent
G250	250 largest companies in the world by revenue based on the Fortune 500 ranking of 2016
GAAP	Generally Accepted Accounting Practices
GHG emissions	Greenhouse gas emissions
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IR	Integrated Reporting
N100	The top 100 companies by revenue in 49 countries – 4900 altogether
Non-GAAP	Not complying with GAAP – see above
NZX	New Zealand Stock Exchange
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZSX	NZX Main Board: 'the original equities market and home for New Zealand's best known brands and companies'.
SR/SDR	Sustainability reporting/sustainable development reporting
TCFD	Task Force on Climate-related Financial Disclosures
UN SDG	UN Sustainable Development Goals
XRB	External Reporting Board

Glossary

Annual report is a report prepared under s 208 of the Companies Act 1993 and other legislative requirements.

Alternative Performance Measures are measures other than those reported in a company's financial statements. Examples of APMs include 'underlying profits', 'normalised profits', 'EBIT' and 'EBITDA'.[1]

'Comply or explain' is a regulatory approach requiring compliance with a set of standards. However, where a company does not comply, a public explanation of why they do not is required.

Financial statements is defined in the Financial Reporting Act 2013, s 6: 'the statements for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the entity by an applicable financial reporting standard or a non-GAAP standard; and … any notes giving information relating to those statements that are required by an applicable financial reporting standard or a non-GAAP standard.'

Extended External Reporting includes all information above and beyond what a company is required to provide under the Companies Act 1993 and the Financial Reporting Act 2013. EER can include information on a company's outcomes, governance, business model, risks, prospects, strategies and its economic, environmental, social and cultural impacts.

Greenhouse gas emissions are 'gases that trap heat in the atmosphere'. Greenhouse gases can include carbon dioxide, methane, nitrous oxide, and sulphur hexafluoride, hydro fluorocarbon, perfluorocarbon.[2]

Integrated reporting, as defined in the 2011 *Preparers' Survey*, refers to the integrated representation of a company's performance in terms of both financial and non-financial results. This was presumed to be included as an extended version of an annual report, in a specific document.

Preparers are CFOs of significant companies in New Zealand. The survey focuses on significant companies in New Zealand because of their impact on our economy and because we see them as potential drivers of change in EER practices.

Significant companies are the 129 companies listed on the NZSX Board (as at 30 June 2017) and the 200 companies listed on the 2016 Deloitte Top 200 (as at December 2016). Please note that 53 companies are on both these lists. We are also aware that five of the 2016 Deloitte Top 200 are public benefit entities. Despite this, we continue to refer to companies, as our interest is primarily in the reporting practices of for-profit entities.

Stakeholders are groups or individuals who have an interest in an organisation and can be affected by their actions. Examples include shareholders, employees, suppliers, consumers, neighbours and the general public.

Users are any interested parties who use the reports of companies to learn more about their operations.

1 External Reporting Board (XRB) (2017). *Alternative Performance Measures: A New Zealand user-needs survey*. Retrieved 21 February 2018 from www.xrb.govt.nz/information-hub/current-research-reports

2 United States Environmental Protection Agency (EPA). (n.d.). *Overview of Greenhouse Gases*. Retrieved 10 September 2017 from www.epa.gov/ghgemissions/overview-greenhouse-gases

A. ACCESSIBILITY | *Ability to find EER information*

(a) Preparers' survey

43% of CFOs did not consider their companies to have prepared EER information (Q6).

CFOs identified the following key challenges in preparing EER (Q15):

- **63%** generating new information in-house
- **61%** sensitivity of information
- **60%** time constraints
- **56%** gathering available information in-house

27% indicated they applied concessions under s 211(3) of the Companies Act and therefore did not disclose information on the company's state of affairs or governance (Q22). The main reason listed was to prevent competitors from having that information (Q23).

53% indicated they would support mandatory filing of both listed and non-listed company annual reports on the Companies Office website (Q29).

(a) Users' survey

63% of Users did not consider EER information to be easily accessible (Q14). **95%** of Users indicated they primarily access EER in an annual report (Q15).

'NZ is quite a few years behind best practice.'– User comment (Q14)

'[If] disclosed on a central depository, it would be easily accessible for all companies. However, it is primarily the company's information, and they demonstrate ownership by having it on their website.' – User comment (Q20)

85% indicated they access annual reports on the for-profit entity's website, while 23% indicated they access annual reports on the Companies Office website (Q16).

1. Both Preparers and Users welcome mandatory filing of annual reports.
It is a simple way to improve access to EER information disclosed in annual reports.

(b) NZSX-listed company tables

73% of companies filed their 2016 annual report on both the Companies Office and the company's own website (Table 3e).

- **2** annual reports could not be found on the company's own website (Table 3a).
- **32** annual reports could not be found on the Companies Office (Table 3e).
- **22%** of NZSX-listed companies uploaded financial statements only on the Companies Register (Table 3a).
- **4** NZSX-listed companies are not registered on the Companies Office (Table 3a).
- **76** pages was the average length. **16** pages was the length of the shortest annual report and **274** pages was the length of the longest annual report prepared by NZSX-listed companies in 2016 (Appendix 1).

12% of NZSX-listed companies directed the reader to an additional report for more information outside of the annual report (Table 3h).

- **6** of these documents were sustainability reports (Table 3h).

(c) Secondary research

General:

- 'In addition to the annual report, many organisations also produce a number of voluntary and regulatory reports targeted at different stakeholder groups, such as sustainability/ESG reports, investor presentations, annual reviews and reports required by industry-based regulators. This can result in complex reporting portfolios, with reports being prepared by different teams across the organisation and released at different times throughout the year'.
(KPMG Aus, 2016: 16)
- 'Surveyed investors reported that the most useful source of nonfinancial information for making investment decisions was a company's own annual report – deemed "essential" by 31% of survey respondents and "very useful" by 32%. The second-most-useful source was an integrated report – "essential" for 18% and "very useful" for 39%.'
- 'This year's responses raise questions as to whether sustainability reports are too highly curated and too solution-orientated for investors.'
(EY, 2017: 18)

Website access to certain information:

- 'Most ... now present their Corporate Governance Statement on their website. Making this change has however left many companies with a gap in their primary report to their shareholders, the annual report.'
(KPMG Aus, 2016: 2)

B. ENGAGEMENT | *Communication with stakeholders*

(a) Preparers' survey

87% indicated that the biggest opportunity in preparing an annual report was to communicate with shareholders (Q8).

74% thought their company should engage with shareholders every 12 months or less (Q17).

21% thought their company should contact members of civil society every 6–12 months (Q17).

(a) Users' survey

71% said they had never been contacted about their information needs (Q17), BUT **33%** said they would like to be contacted 'as needed' by a company (Q22).

2. Preparers and Users have different views over whether the audience should remain the shareholders or be extended to stakeholders.
Wider engagement ensures all stakeholders can obtain relevant EER information.

(b) NZSX-listed company tables

34% of NZSX-listed companies are also on the ASX (Table 1c).

19% of NZSX-listed companies have an overseas registered office (Table 2a).

60% of NZSX-listed companies have a registered office in Auckland (Table 2a).

(c) Secondary research

General:

- 'Just as global risks are increasingly complex, systemic and cascading, so our responses must be increasingly interconnected across the numerous global systems that make up our world. Multistakeholder dialogue remains the keystone of the strategies that will enable us to build a better world.'
(World Economic Forum, 2018: 5)
- 'Of the nine principles outlined in the [FMA *Corporate Governance in New Zealand, Principles and Guidelines*] handbook, stakeholder interests had the lowest reporting (19%), followed by reporting on remuneration (37%). We encourage companies to improve their corporate governance reporting in these areas, and we have provided examples of good reporting.'
(FMA, 2016: 5)

C. CONTENT | *Elements of EER disclosure*

(a) Preparers' survey / (a) Users' survey

90% (Preparers) considered governance to be an important/very important disclosure in an annual report (Q12).

97% (Users) thought governance information was important/very important to disclose (Q6), BUT only **68%** considered it to be reported on well (Q9).

Q: Do you think it is important/very important to disclose information on the following four capitals in EER?

Preparers	Users
56% Natural capital (Q12)	87% Natural capital (Q6), BUT only 33% considered it to be reported on well (Q9)
53% Human capital (Q12)	86% Human capital (Q6), BUT only 33% considered it to be reported on well (Q9)
46% Economic capital (Q12)	84% Economic capital (Q6), BUT only 31% considered it to be reported on well (Q9)
42% Social capital (Q12)	75% Social capital (Q6), BUT only 24% considered it to be reported on well (Q9)

Q: Do you think it is important/very important to disclose the following performance details in EER?

Preparers	Users
69% Reporting back on goals/performance (Q13)	94% Reporting back on goals/performance (Q7), BUT only 45% considered it to be reported on well (Q10)
66% Reporting on goals/targets (Q13)	95% Reporting on goals/targets (Q7), BUT only 54% considered it to be reported on well (Q10)
63% Strategies to achieve goals (Q13)	95% Strategies to achieve goals (Q7), BUT only 42% considered it to be reported on well (Q10)

3. Both Preparers and Users welcome reporting on goals, strategies and targets, but Users want more information than Preparers provide.
Users do not think this information is reported on well.

4. Industry statistics are increasingly seen as a key requirement.
They enable comparability between companies/industries and contribute to a deeper understanding of risks and trends over time.

Q: Do you think it is important/very important to disclose the following statistics in EER?

Preparers	Users
77% Total deaths as a result of work (Q14)	93% Total deaths as a result of work (Q8), BUT only 37% considered it to be reported on well (Q11)
76% Total company income tax paid (Q14)	88% Total company income tax paid (Q8), BUT only 59% considered it to be reported on well (Q11)
68% Total injuries/illnesses as a result of work (Q14)	87% Total injuries/illnesses as a result of work (Q8), BUT only 36% considered it to be reported on well (Q11)
68% Number of full-time equivalents (FTEs) (Q14)	85% Number of full-time equivalents (FTEs) (Q8), BUT only 53% considered it to be reported on well (Q11)
61% Breaches of air pollution standards (Q14)	84% Breaches of air pollution standards (Q8), BUT only 8% considered it to be reported on well (Q11)
60% Breaches of water quality standards (Q14)	86% Breaches of water quality standards (Q8), BUT only 12% considered it to be reported on well (Q11)
54% Number of employees by gender (Q14)	70% Number of employees by gender (Q8), BUT only 37% considered it to be reported on well (Q11)
53% Total greenhouse gas emissions (Q14)	79% Total greenhouse gas emissions (Q8), BUT only 18% considered it to be reported on well (Q11)
42% Number of stakeholders engaged (Q14)	69% Number of stakeholders engaged (Q8), BUT only 23% considered it to be reported on well (Q11)
36% Number of cyber security breaches (Q14)	77% Number of cyber security breaches (Q8), BUT only 9% considered it to be reported on well (Q11)
31% Amount of nitrogen used (Q14)	66% Amount of nitrogen used (Q8), BUT only 8% considered it to be reported on well (Q11)
18% Average payment period in days (Q14)	50% Average payment period in days (Q8), BUT only 14% considered it to be reported on well (Q11)
17% Types and numbers of animals in care (Q14)	49% Types and numbers of animals in care (Q8), BUT only 10% considered it to be reported on well (Q11)

Preparers

85% indicated future orientation was an important/very important disclosure (Q12).

Other comments: 'As a subsidiary of a foreign-listed company, we report to external stakeholders under our group-wide approach rather than a market-specific [approach] and therefore provide limited information at a local market level.' – Preparer comment (Q12)

Other comments: 'Key stakeholders [are] viewed as owners. Other mechanisms [are] in place to report to these stakeholder groups [these statistics] that sit outside of the financial reporting frameworks.' – Preparer comment (Q12)

Other comments: 'My experience of reporting risks has been that whenever government organisations get involved, the usefulness tends to get diluted and generalised.' – Preparer comment (Q12)

5. Future orientation information is an emerging key requirement.
It delivers better decision making for existing and potential investors, government and other stakeholders.

Users

96% indicated future orientation was an important/very important disclosure (Q6), BUT only **56%** thought future orientation was being reported on well (Q9).

Yes: 'For understanding the longer-term health and prospects of the for-profit entity.' –User comment (Q5)

92% accessed EER information to understand the company's business model (Q5).

92% accessed EER information to understand the company's strategies and future prospects (Q5).

90% accessed EER information to make judgments about the operations and wider impacts of the company (Q5).

Users indicated that over the next five years they expected to use EER for:

- **33%** making investment decisions (Q21)
- **26%** making informed judgments about the operations and wider impacts of the company (Q21)

Other comments: 'Assess the sustainability, integrity, ethics and reliability of an entity based on all of the above for the purpose of building and establishing partnerships or relationships and responding to needs for development and improvement including research and development activities and opportunities.' – User comment (Q21)

(b) NZSX-listed company tables

Donations – see graphs 4 and 5 overleaf

- **10%** of companies disclosed a statement of political donations (all amounting to $0) (Table 4g)
- **79%** of companies disclosed non-political donations, **64%** of which were over $500 (Table 4h)

Corporate governance information

- **98%** of NZSX-listed companies disclosed a corporate governance statement. **75%** directed the reader to a full statement on the company's own website (Table 5a)
- **1** page was the length of the shortest corporate governance statement and **27** pages was the length of the longest corporate governance statement (Appendix 1)

Health and safety – see graphs 9, 10 and 11 overleaf

- **55%** of NZSX-listed companies indicated they have a health and safety policy (Table 5c)
- **40%** of NZSX-listed companies disclosed information on health and safety statistics, practices and/or targets (Table 5d)
  - **37%** of these companies disclosed all three of health and safety statistics, practices and targets (Table 5d)
  - **37%** of these companies disclosed two out of three of health and safety statistics, practices and/or targets (Table 5d)
  - **25%** of these companies disclosed one out of three of health and safety statistics, practices or targets (Table 5d)

Environment – see graphs 12 and 13 overleaf

- **29%** of NZSX-listed companies disclosed information on environmental practices and/or targets (Table 5e)
  - **56%** of these companies disclosed both environmental practices and targets (Table 5e)
  - **36%** of these companies disclosed environmental practices only (Table 5e)
  - **8%** of these companies disclosed environmental targets only (Table 5e)

Carbon emissions – see graphs 14 and 15 overleaf

- **25%** of NZSX-listed companies disclosed information on carbon emission statistics, costs, controls and targets (Table 5f)
  - **10%** of these companies disclosed all four of carbon emission statistics, costs, controls and targets (Table 5f)
  - **32%** of these companies disclosed three out of four of carbon emission statistics, costs, controls and targets (Table 5f)
  - **39%** of these companies disclosed two out of four of carbon emission statistics, costs, controls and targets (Table 5f)
  - **19%** of these companies disclosed one out of four of carbon emission statistics, costs, controls and targets (Table 5f)

Water – see graphs 16 and 17 overleaf

- **19%** of NZSX-listed companies disclosed information on water statistics, controls and/or targets (Table 5g)
  - **13%** of these companies disclosed all three of water statistics, controls and targets (Table 5g)
  - **25%** of these companies disclosed two out of three of water statistics, controls and targets (Table 5g)
  - **63%** of these companies disclosed one out of three of water statistics, controls and targets (Table 5g)

s 211(3) of the Companies Act 1993 concessions

- **2%** of NZSX-listed companies applied the concessions of s 211(3) of the Companies Act 1993 (Table 3f)
- **43%** of the 2016 Deloitte Top 200 companies applied the concessions of s 211(3) of the Companies Act 1993 in preparing their 2016 annual report (Table 2e – Note 4)

Ownership and Directorship

- **21%** of NZSX-listed companies disclosed a controlling party [17] or a significant shareholding [9] in the company's 2016 annual report. **6** of these were government-related (Table 2c)
- **10%** of NZSX-listed companies disclosed an ultimate holding company on the Companies Register (Table 2d)*
- **82%** of directors on the boards of all NZSX-listed companies were male (Table 5b)
- **82%** of officers from all NZSX-listed companies were male (Table 5b)

(c) Secondary research

General:

- 'When asked about their major areas of concern on implementation of the principles outlined in the [FMA *Corporate Governance in New Zealand, Principles and Guidelines*] handbook, the three most cited concerns were: board composition and performance, reporting and disclosure, and remuneration.'
(FMA, 2016: 5)

Corporate responsibility (CR) reporting:

- 'The vast majority (78 percent) of the world's 250 largest companies (G250) [by revenue] now [include CR information in their annual financial reports], indicating that they believe CR data is relevant for their investors.'
- 'In KPMG's 2011 survey only a minority 44 percent of G250 companies included CR data in their annual reports.'
- 'Among the N100 [the top 100 companies by revenue in each of the 49 countries studied], the underlying trend is also one of growth, with the rate of companies including CR data in their annual reports up to 60 percent in 2017.'
(KPMG, 2017: 21)
- 'This year the survey spotlights four major emerging trends within CR reporting:
  - Reporting on climate-related financial risk
  - Reporting on UN Sustainable Development Goals (SDGs)
  - Reporting on human rights
  - Reporting on carbon reduction targets'.
(KPMG, 2017: 2)

CR reporting rates by sector:

- Four leading sectors: Oil & Gas (81%), Chemicals (81%), Mining (80%) and Automotive (79%)
- Four lagging sectors: Retail (63%), Industrials, Manufacturing & Metals (68%), Construction & Materials (69%) and Personal & Household Goods (70%).
- '...sectors with high environmental and social impacts – such as Oil & Gas and Mining – typically have high CR reporting rates.'
(KPMG, 2017: 20)
- 'More investors said that company reports with "sector or industry-specific reporting criteria and key performance indicators" were "very beneficial," more than with any other category of reporting.'
(EY, 2017: 8)

National rates of CR reporting in 4900 N100 companies:

- Top four countries in 2017: UK (99%), Japan (99%), India (99%) and Malaysia (97%).
- New Zealand (69%) has a 'CR reporting rate lower than the global average (less than 72%)'.
- But New Zealand has also had the second highest increase in reporting since 2015 (+ 17 percentage points from 52%).
(KPMG, 2017: 15–16)

Climate change/sustainability:

- '53% [of respondents to ACCSR] say sustainability reporting should be mandatory.'
(ACCSR, 2017: 5)
- '...only 28 percent of these companies currently acknowledge the financial risk of climate change in their annual reports.'
(KPMG, 2017: 30)
- '...deeper analysis reveals significant differences between companies according to where they are headquartered. For example, in France, Germany and the UK, a majority of G250 companies do acknowledge the financial risks of climate change in their reporting. Just under half the G250 companies based in the US and Japan do so. Lower rates of climate risk acknowledgment in other countries and regions reduce the overall global rate.'
(KPMG, 2017: 34)
- 'Very few companies quantify climate risks or model their financial impacts. Of those companies that do acknowledge climate change as a financial risk in their financial reporting, a relatively high proportion of both the N100 (63 percent) and G250 (76 percent) provide some narrative description of the potential impacts. Very few, however, are currently quantifying the potential impact of those risks in financial terms [2% N100, 2% G250] or modelling it using scenario analysis or other methodologies as the TCFD recommends [2% N100, 3% G250].'
(KPMG, 2017: 31)
- 'At the crux of our discussion this year is a simple question: is investor appetite for more integrated, predictable and strategic ESG disclosure being met by businesses? ... This year, 60% of respondents said "no" when asked if companies adequately disclose their ESG risks. That's an increase of more than 20 percentage points over last year.'
(EY, 2017: 1)
- 'Most investors believe that companies don't disclose ESG risks that could affect their business.'
(EY, 2017: 2)

Corporate governance information:

- '113 organisations have removed the Corporate Governance Statement from the annual report.'
- 'However for many, the annual report no longer contains any information on how the organisation is governed or the areas of focus of the Board for the year and going forward.'
- 'Leading reporters in this space have recognised the need to continue to inform their readers about governance and started to include an "Active Governance" summary focusing on how the Board has supported value creation during the year, including:
  - explaining how the Board actively oversees management's delivery against strategy, within the risk appetite of the group
  - key areas of concern, activities and actions taken by the board during the year
  - how the governance structures have adapted to changes in business practices, including changes in the governance structure and frameworks.'
(KPMG Aus, 2016: 10)

Australia improving at slower pace than other countries:

- 'KPMG's third survey of ASX 200 Corporate Reporting ... demonstrates further improvements in Australian corporate reporting in 2016, but at a slower pace than many other countries. ... In the UK, companies are required to prepare a Strategic Report as part of their Annual Report. The European Commission has introduced a non-financial reporting directive and in Japan, Brazil and South Africa integrated reporting is being driven by principles of good corporate governance.'
— Duncan McLennan, National Managing Partner – Audit & Advisory, KPMG Australia
(KPMG Aus, 2016: Key Message)

D. FRAMEWORKS | *Legislation, rules and guidance*

(a) Preparers' survey

23% of CFOs' survey results suggested that they used an external reporting framework when preparing EER (Q9).*

Preparers' Survey results suggested that they were not aware of the following frameworks (Q11):*

- **84%** Global Reporting Initiative (GRI)
- **96%** AccountAbility
- **83%** Accounting for Sustainability (A4S)
- **91%** International Integrated Reporting Council (IIRC)

*Please note: Respondents who skipped these questions were assumed to be unaware of the listed frameworks. See *Survey Insights* for further information.

(a) Users' survey

6. Preparers are not aware of the range of EER frameworks available.
While some are very proactive in seeking out alternative ways to provide EER, others are not interested.

7. Preparers and Users have different views over whether EER should remain voluntary or move towards a more mandatory approach.
In an increasingly complex world, Users want to make decisions based on timely, reliable, relevant and comparable EER information.

8. XRB is the favoured standard-setter.
Both Preparers and Users look to the XRB for EER guidance or mandatory requirements.

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

Preparers	Users
51% FMA (Q18)	31% FMA (Q23)
47% XRB (Q18)	57% XRB (Q23)
44% CAANZ (Q18)	28% CAANZ (Q23)
21% NZX (Q18)	23% NZX (Q23)

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

Preparers	Users
45% XRB (Q21)	41% XRB (Q25)
20% FMA (Q21)	12% FMA (Q25)
18% Legislation (Q21)	27% Legislation (Q25)
11% NZX (Q21)	11% NZX (Q25)

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

Preparers	Users
68% Voluntary (Q20)	20% Voluntary (Q24)
20% Comply or explain (Q20)	41% Comply or explain (Q24)
13% Mandatory (Q20)	39% Mandatory (Q24)

(b) NZSX-listed company tables

48% of NZSX-listed companies applied a recognized external framework (Table 3g).

- **90%** of these companies applied FMA Corporate Governance Principles and Guidelines (Table 3g).
- **15%** of these companies applied G4/Global Reporting Initiative (GRI) standards (Table 3g).
- **5%** of these companies applied Carbon Disclosure Project (CDP) (Table 3g).
- **3%** of these companies applied UN Sustainable Development Programme (Table 3g).
- **3%** of these companies applied AA1000 AccountAbility (Table 3g).

93% of NZSX-listed companies follow NZ IFRS accounting standards (Table 3c).

42% of companies were difficult to classify in terms of their nature of business, even though it is required by s 211(1)(a)(i) of the Companies Act 1993 (Table 2b).

147 companies are listed on the 2016 Deloitte Top 200 but not on the NZSX (Table 2e).

(c) Secondary research

General:

- 'The majority of N100 (74 percent) and G250 companies (89 percent) are using some kind of guidance or framework for their reporting.'
(KPMG, 2017: 28)
- 'Institutional investors report that on the ESG reporting side, companies with operations in countries that already impose strict environmental regulations tend to be more advanced in their ESG practices and reporting. These companies are also a little farther ahead than their peers in implementing COP21-based goals.'
(EY, 2017: 13)

Framework users:

- 'The number of companies that specifically label their reports as "Integrated" is growing slowly but steadily. In 2017, 14% of reporting companies in both the G250 and N100 groups do this. In 2015, the rates were: 11% of N100 reporting companies [and] 15% of G250 reporting companies. Around two thirds of these also reference the International Integrated Reporting Council (IIRC) framework for integrated reporting.'
(KPMG, 2017: 24)
- 'The GRI framework is the most commonly used, with 63 percent of N100 and 75 percent of the G250 reports applying it.'
(KPMG, 2017: 28)

Regulation, stock exchange requirements and investor pressure:

- New Zealand has had the second highest increase in reporting since 2015 (+ 17 percentage points).
- '...a mix of new regulation, stock exchange requirements and investor pressure have been instrumental in increasing reporting.'
(KPMG, 2017: 15)
- 'The growth of CR reporting in New Zealand over the last two years can be attributed to increased consumer awareness and investor pressure, as well as a broader appreciation among businesses that non-financial risk management is key to long-term value protection and creation. For the moment, the quality of CR reporting by New Zealand businesses is often lacking in balance, objectivity and transparency. Over the next two years, the Corporate Governance Code recently introduced by the New Zealand Exchange (NZX) will likely act as a catalyst 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.'
(KPMG, 2017: 28)

Tax:

- '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.'
(EY, 2017: 23–24)

E. ASSURANCE | *Verification, reliability and trust*

(a) Preparers' survey

56% thought that EER should be independently assured (Q19).

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

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

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

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 and CEO.' – Preparer comment (Q27)

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.

(a) Users' survey

76% 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)

(b) NZSX-listed company tables

72% of NZSX-listed companies have used the same auditor over the past five years (2012–2016) (Table 3d).

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

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

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.

(c) Secondary research

General:

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