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ReportingNZ
Building a Reporting Framework
Fit for Purpose

This report forms part of Project 2058, the Institute’s flagship project.
Title

ReportingNZ: Building a Reporting Framework Fit for Purpose

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Supporting Publications

Submission on the International Integrated Reporting Committee Discussion Paper (December 2011)
Submission to the International Integrated Reporting Councils’ (IIRC) Consultation Draft of the International Framework (July 2013)
Submission on the Public Finance (Fiscal Responsibility) Amendment Bill 2012 (February 2013)
Submission on the Environmental Reporting Bill (April 2014)
Submission on the NZX Corporate Governance Best Practice Code (October 2016)
Submission on disclosing non-GAAP financial information (April 2017)
Submission on NZX Listing Rule Review (December 2017)
Users’ Survey: Attitudes of interested parties towards Extended External Reporting (a collaboration between the External Reporting Board and the McGuinness Institute) (March 2018)
Preparers’ Survey: Attitudes of the CFOs of significant companies towards Extended External Reporting (a collaboration between the External Reporting Board and the McGuinness Institute) (March 2018)
Survey Highlights: A summary of the 2017 Extended External Reporting Surveys (a collaboration between the External Reporting Board and the McGuinness Institute) (March 2018)
ReportingNZ Overview Worksheet: An analysis of the state of play of EER (March 2018)
Submission to the Tax Working Group on the Future of Tax (May 2018)
Submission to Productivity Commission on a Low-emissions Economy (July 2018)
Submission to Ministry for the Environment on the Zero Carbon Bill (July 2018)
Overview of Report 17 – Building a Reporting Framework Fit for Purpose

### Why are we doing this?
To improve the long-term future of New Zealand. Reporting shapes strategy, which is driven by foresight. We need to improve New Zealand’s information infrastructure – the evidence upon which investors, policy-makers and other stakeholders base their decisions.

### Key reflections
- The external reporting framework lacks stewardship.
- The framework is fragmented, complex and inefficient.
- The framework is outdated and not adapting to current trends.
- The framework is inconsistent across entity types.
- The private sector system focuses on shareholders.
- Financial statements retain a lot of weight, particularly in the private sector, but do not reflect the increasing importance of intangible asset market value.
- Annual reports are not being used to their full potential and are at risk of being misused as marketing documents.

### Key recommendations
1. Undertake a review of the reporting framework with the aim of establishing a clear purpose and set of guiding principles in legislation.
2. Aggregate legislation under one act called the Reporting Act, which will cover both financial and non-financial information across the public and private sectors.
3. Develop a central register for all regulatory filings in the public and private sectors and prepare a regular operational report.
4. Increase penalties for non-compliance and ensure monitoring.
5. Remove the requirement for NZX-listed companies to produce half-year reports and improve the quality and policing of NZX announcements instead.
6. Re-evaluate the thresholds and criteria for company reporting requirements (e.g. definition of ‘large’) with a view to simplifying the system.
7. Use a two-stage approach to add a Statement of Climate Change Information to regulatory filings:
   - (i) introduce a requirement to the Zero Carbon Bill,
   - (ii) authorise the XRB to prepare a standard for non-financial information.
8. Enable the XRB to produce reporting standards not only for:
   - (i) content and presentation of financial statements, but also for
   - (ii) content and presentation of annual reports and
   - (iii) disclosure of climate change information.
9. Consider adding a Statement of Wellbeing as part of regulatory filings, along the lines of Treasury’s Living Standards Framework.

### Policy institutions
- DIA
- FMA
- MBIE
- NZX
- OAG
- Stats NZ
- Treasury
- XRB

### Policy instruments
- Financial statements
- Annual reports (which include financial and non-financial information)
- Regulatory filings (being mandatory registers available to the public)

### Policy knots
- Who should the reporting framework be designed for: shareholders or stakeholders?
- Who is in control: CEOs, boards, councils or shareholders, and are they held accountable?
- Which policy instruments should be used for which type of organisations: financial statements, annual reports or regulatory filings?
- Which institutions should write and regulate the policy, and which disclosures should be mandatory?
Executive summary

This report aims to lay the groundwork for a comprehensive review of New Zealand’s reporting framework. The McGuinness Institute believes this review is important because the reporting framework provides the evidence base from which investors, policy-makers, researchers and other stakeholders make their decisions. In order to achieve the Institute’s long-term goal of improving the future of New Zealanders, we must first improve New Zealand’s information infrastructure, making information useful, accessible, accurate, timely, cost-effective and comparable. There is a real risk of New Zealand adding more requirements (e.g. around non-financial information and wellbeing), and overloading both preparers and users with information, without clarifying what users of those reports might need. This is why we identify a number of specific areas to be considered as part of a broader review in Section 8.

In New Zealand, the three reporting policy instruments set out in law are financial statements, annual reports and regulatory filings. This report explores how well these three instruments work together to create an informed society, and makes a number of observations and recommendations for policy-makers and other interested parties. The diagram on the left gives an overview of the report and its key reflections. Nine key recommendations, which aim to strengthen the reporting framework across both the public and private sectors, are made. Our recommendations, set out in detail in Section 8, would lead to more reporting on the system and how it is operating, less reporting for NZSX-listed companies and more extended reporting with the filing requirement of a Statement of Climate Change Information across all sectors (but not mandatory for SMEs) to also be included in the annual report. This is based on the premise that in changing times, it is important to know what is happening so informed decisions can be made. In this way, data combined creates information and information combined creates knowledge.

How we ensure that New Zealand’s reporting framework is fit for purpose and, more importantly, fit for the future, is a challenge we cannot afford to ignore. Since the reporting framework was last reviewed there have been significant pressures directly impacting report preparers and report users.

These pressures include:

- The need to combat and adapt to climate change, which is leading to the urgent demand by investors and other stakeholders for climate change reporting. This has led to an increasing demand from investors and wider stakeholders to move to a long-term focus in reporting.
- Changing business models. Examples include increases in intangible asset market value (making asset values on balance sheets less relevant) and the introduction of social enterprises (creating a blurring between for-profit and not-for-profit entities). These both challenge the accounting standards that have standards for one or the other, but not for those that want to operate in between.
- Increasing demand from investors and wider stakeholders for transparency on governance, diversity, operations and impacts.
- Increased concerns over how technological advances will impact on jobs. Examples include AI, automation and the emergence of digital currencies.
- Wider stakeholders are trying to learn more about how organisations operate (i.e. stakeholders such as employees, consumers, suppliers, creditors, neighbours, policy analysts).
- A merging of public sector and private sector operations, such as the emergence of public–private partnership, public infrastructure being built by the private sector and the private sector providing services to the public sector.
- A move away from solely reporting on numbers (such as financials and GDP) to narrative and non-financial information (such as data on wellbeing and capitals). This is also evidenced by the increase in the size of notes included at the end of financial statements.

This report is the first in a series of three. The other two will explore New Zealand’s strategy framework and New Zealand’s foresight framework. The assumption underlying these three reports is that reporting
EXECUTIVE SUMMARY

informs foresight, foresight shapes strategy and strategy requires reporting. If all three capabilities are aligned and given equal weight then the system should deliver durable outcomes for all New Zealanders. The reverse is also true: if New Zealand has the skills to develop good strategy and the ability to obtain quality foresight but fails to report against strategy or report on changes in foresight, we will not know where we are, where we want to be and how we might get there.

This report draws firstly on the Institute’s Project ReportingNZ work, which we began scoping in early 2016. The introduction sets out the report’s purpose, a set of characteristics that underpin the Institute’s understanding of what a successful framework looks like and lists the underlying assumptions which contribute to this understanding.

The 2017 surveys were undertaken in collaboration with the External Reporting Board (the XRB) and raised a number of broader questions that have shaped this report: what is the overarching purpose of reporting, what information do users need and what principles should drive reporting going forward? The Institute’s Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors raised a further research question: should climate change reporting be included in the existing framework or should it operate as a separate component?

The existing framework’s design is based on an archaic set of assumptions. The framework delineates between for-profit and not-for-profit entities (which is how the accounting standards are arranged), between public and private sector entities and between SME’s and ‘large’ companies. It is questionable whether this delineation reflects the current operations of contemporary entities. For example, the current definition of ‘large’ centring on revenue and assets seems less relevant today. Two obstacles challenged the research process. The first was the absence of a detailed narrative or map of how the framework operates in practice. To resolve this the Institute engaged in frequent correspondence with officials to clarify points of contention and inconsistency.

It also became clear early in the research process that instead of there being one institution that provided oversight of the reporting framework there were many isolated and independent silos. Thus, the second obstacle was the absence of metrics on the reporting framework, particularly regulatory metrics, on each subsystem of the framework. This meant the Institute had to do a great deal of preparatory work to meet the overall purpose of this report – that is, to determine how to build a reporting framework fit for purpose.

Navigating these obstacles led to the development of the extensive glossary at the end of this report. Similarly, the appendices are designed to further supplement and contextualise obstacles and the report as a whole.

The Institute would like to thank the staff from key institutions that helped inform our understanding of the reporting framework. Without their interest and support, this report would not have been possible. Tables 4 and 5 in Section 4 were the most difficult to prepare and required a great deal of perseverance and patience by the team at the Institute. We would like to acknowledge the support of BDO (Wellington) and Kensington Swan (Wellington) who answered our questions and ensured that these tables were accurate. However, any errors remain our responsibility. We had numerous conversations with individuals across multiple organisations, which helped us greatly in providing information and guidance, thereby increasing our understanding of New Zealand’s reporting framework. Lastly, this report has been built on the knowledge and experiences of a wide range of people, to this end it has been invaluable to learn and share the observations of report users and report preparers. To all of you: Thank you for challenging our thinking and sharing your wisdom.
1. Introduction

ReportingNZ: Building a reporting framework fit for purpose forms part of Project 2058, the McGuinness Institute’s flagship project that focuses on New Zealand’s long-term future. All of the Institute’s projects fit within Project 2058. The year 2058 was selected in 2008 as a year distant enough in the future to avoid self-interest but close enough to realistically drive the Institute’s work programme.

1.1 Purpose of Project ReportingNZ

This report brings together what the Institute has learned from researching and analysing New Zealand’s reporting framework. Project ReportingNZ was developed as one of three policy projects following the observation that foresight shapes strategy, strategy determines reporting and reporting drives foresight. This interconnected relationship is illustrated in Figure 1 below.

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

A successful reporting framework for a country is one that enables its citizens to make informed decisions. This can be understood very broadly; for example, the framework might provide information that helps citizens make decisions about what goods and services they wish to purchase, where they want to work, who they want to invest in. It also enables them to consider the type of society, culture and environment they wish to live in and/or protect for future generations. Thought of in this way, reporting helps New Zealand as a whole to make progress in terms of how New Zealanders want to live.

A successful reporting framework for users and preparers is one that provides information in a cost-effective, relevant and timely manner. In doing so, the framework enables preparers to know what information to provide and when, and enables New Zealand companies to participate in global capital markets and seek international investment. The framework also improves accessibility and readability of information for users and gives them confidence that the information provided is reliable. This assumes first that users know what information they need to know and second that preparers will work hard to meet user needs. A successful framework is one where standard-setters and guidance providers make their rules and guidance simple, clear and relevant, ensuring that the gap between the needs of users and preparers is minimal and the system is future-focused, durable and flexible. The system needs to be future-focused to be able to solve future problems.

In order to analyse the reporting framework, it is necessary to know what the current reporting framework is and what outcomes a successful reporting framework would deliver New Zealand.

- For the purposes of this report, a reporting framework is understood to be made up of policy instruments that, when used together, create a more informed society. In New Zealand these instruments are financial statements, annual reports and regulatory filing systems.
In this report the Institute is using ‘stewardship’ in the sense set out in the State Sector Act 1988. In this sense, stewardship means active planning and management of medium- and long-term interests, along with associated advice. Please note this differs from the accounting sense of the term.

Conversely, symptoms of an under-performing reporting framework can include the following:

- **Uninformed citizens**
  This manifests as an ineffective democracy. Political parties fail to get traction on solving complex longitudinal problems, often referred to as ‘the tragedy of the commons’. This may be due to the public not fully understanding the nature or urgency of an issue. This is particularly difficult when those who gain and lose from trade-offs differ.

- **Uninformed governing bodies and entities**
  This manifests through global challenges such as climate change, aging population, poverty reduction and the changing nature of work which require coordinated long-term risk management strategies from both the public and private sectors. Risks that have high magnitude but low probability (such as elements of the threat of climate change) can be easy to dismiss as immaterial and therefore be neglected by some policy-makers and the operations of those in the private sector. For example, as in the case of climate change, future generations are disadvantaged because ministers and policy-makers are unable to achieve consensus to make informed decisions in the present. This opens up the wider economy to fragility and does not prepare society for resilient responses to risks. There are two different perspectives that play out in this narrative: (i) when the entity is at the centre the question becomes how external risks might impact the entity and (ii) when the community and the environment are at the centre the question becomes how can the entity impact on or contribute to reducing the risks faced by the country. Some preparers maybe unaware of the impact of external environmental risks on them (e.g. sea level rise impacting business operations). Alternatively, other preparers maybe unaware of the impact they have on the wider environment or on other stakeholders (e.g. their impact on labour market trends).

- **Inefficient markets**
  This results from incomplete or incorrect information. Preparers of reports may be aware of a risk but fail to describe it in sufficient detail or in a reasonably accessible manner for the user; a shareholder may be unaware of a climate change risk and only retrospectively discover what the company’s staff and board already knew.

- **Dissatisfied preparers and users**
  This manifests as disgruntled individuals or organisations. Dissatisfaction among preparers may be due to the cost and time required to prepare data, or competitors benefiting from their transparency. Results of the XRB and McGuinness Institute’s 2017 ReportingNZ surveys reveal that users are dissatisfied because they do not have the timely, relevant, accessible information they need (see Section 4 of this report).

### 1.2 Purpose of this report

The aim of this report is twofold: firstly to provide an overview of the Institute’s research findings to date, and secondly to provide observations and recommendations to Members of Parliament, standard-setters and regulators, policy-analysts, investors, consumers, shareholders, employees, unions, for-profits, not-for-profits, environmentalists and other stakeholder groups interested in creating a more informed society.

The report looks specifically at how three policy instruments could be improved and better integrated – financial statements, annual reports and regulatory filings – to shape and chronicle New Zealand’s progress. To do this it was essential to develop clarity over the different ways the reporting framework
could be reviewed. For the Institute, this meant drawing distinctions between a legal perspective, a preparation perspective, a public policy perspective and an information perspective.

Unfortunately the four perspectives do not align. Below is a brief explanation of how the Institute has treated each perspective:

- **A legal perspective**
  The legislation makes a clear distinction between entities that are required to ‘prepare’ financial statements and those that are not (although the law is not consistent). Importantly, there is a large group of entities that are not required to prepare financial statements.
  
  (i) Of those entities that are required to prepare financial statements, only a small portion of those are required to ‘file financial statements’. Importantly, there is a large group of entities that are not required to file financial statements.
  
  (ii) Of those that are required to file financial statements, only a small proportion of those are required to ‘file or make public an annual report’. These are either public sector entities or NZX-listed companies.

- **An accounting perspective**
  All entities that are required to prepare, file and obtain assurance over financial statements must self-classify as a public benefit entity (PBE). If a PBE, they can then be classified as a not-for-profit PBE (NFP PBE) or a public sector PBE (PS PBE).
  
  If an entity does not classify itself as a PBE, they are automatically classified as a for-profit entity. This may seem confusing as not all for-profit entities focus on making a profit. The emergence of social enterprises is a case in point. Further, many companies are not solely focused on making a profit, meaning there are no mandatory reporting standards that require for-profit entities to report to shareholders and wider stakeholders on, for example, the social values that are driving their behaviour.

- **A public policy perspective**
  All entities can be divided into either the ‘public sector’ or the ‘private sector’. This classification is based on whether the entity is funded from public funds (e.g. central or local government funds) or private funds. This means registered charities are treated as part of the private sector. This seems confusing when considering that registered charities are treated as PBEs operating in the private sector. Further, in this report the Institute is using ‘stewardship’ in the sense set out in the State Sector Act 1988. In this sense, stewardship means active planning and management of medium- and long-term interests, along with associated advice. Please note this differs from the accounting sense of the term.

- **An information perspective**
  All information can be divided into financial and non-financial information. The difficulty is that, in practice, financial statements contain both ‘financial and non-financial information. For the purpose of the report the Institute has referred to ‘financial statements (including notes)’ as financial information only. This view is becoming difficult to support given the extensive number of notes being included in the financial statements.

### 1.2.1 Structure of this report

This report follows the hindsight, insight and foresight structure frequently adopted by the Institute. Section 2 (Hindsight) describes the evolution of reporting leading up to the current system.

Section 3 (Foresight) describes emerging issues that might shape and drive the reporting framework. Section 4 (Insight) draws on primary and secondary research to learn how the current framework works in practice. Sections 5 and 6 are connected as the former analyses the strengths and weaknesses of the current system to establish what is working and what is not, while the latter identifies policy knots – areas of policy that are
1. INTRODUCTION

unclear and create confusion. Sections 7 and 8 set out the Institute’s recommendations. Section 7 puts forward a package of climate change reporting recommendations while Section 8 lists 26 recommendations that aim to ‘undo the knots’ and make the framework more responsive to the needs of society.

This report also includes a list of abbreviations and glossary on pp. 156 and 159 respectively. These are included to clarify specific terms as they are used in the context of Project ReportingNZ; for example, Extended External Reporting (EER), significant companies, significant organisations, opaque companies, preparers (report preparers) and users (report users).

Furthermore, a number of supplementary materials are included as appendices. Appendices 1–3 illustrate how the current framework operates: Appendix 1 outlines a timeline of the reporting framework. Appendix 2 outlines key institutions and their instruments and Appendix 3 outlines key information about the reporting landscape. Appendices 4–7 illustrate how the reporting requirements operate in practice: Appendix 4 provides an overview of financial statement filing requirements for companies, Appendix 5 provides an overview of annual report and financial statement filing requirements for major types of organisations, Appendix 6 contains a list of relevant New Zealand legislation and Appendix 7 lists relevant international legislation. Excerpts of key legislation is contained in Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation. Appendix 8 explores an alternative idea, outlining proposed amendments to s 211 of the Companies Act 1993 to require a Statement of Wellbeing on the four capitals.

1.3 Seven characteristics of a successful framework

Seven characteristics were considered during the analysis of the current reporting framework (Section 5) and recommending ways to strengthen the framework (Sections 7 and 8). They are described briefly below:

1. **Accessibility** refers to the ease with which annual reports and financial statements can be found. This includes the platforms on which company documents are available (e.g. a company’s own website or the Companies Register, depending on filing requirements) and what issues hinder the generation or presentation of information.

2. **Content** refers to mandatory and voluntary disclosures and includes all information disclosed in a report. The information can be strategic or operational (e.g. goals, strategies and risks), or it can be information on financial/physical, social, human and natural capitals. Content also refers to the way information is presented (e.g. as financial figures, statistics, timelines or notes).

3. **Timeliness** refers to when information is received and may vary for different users. For example, timeliness is more important to investors in listed companies because regular disclosures ensure all investors are informed to the same level, thereby mitigating the risk of some investors using non-published information. This is why NZSX-listed companies are required under NZX Rules (10.4.2) to prepare both yearly annual reports and half-yearly reports (NZX, 2017a, p. 140).

4. **Cost-effectiveness** refers to compliance costs not exceeding the benefits. Achieving cost-effectiveness can be challenging as those who pay the costs are not necessarily those who benefit from the information.
1. INTRODUCTION

5. **Assurance** refers to the extent to which information is verified (when, how and by whom) and can be relied on (by whom and to what degree). This can be in the form of audits or reviews.

6. **Protocols** refers to the legislation, standards, rules and guidance that shape reporting practices. This includes recognised international frameworks that set recommended guidelines and best practice for preparing reports.

7. **Engagement** refers to the communication and broader relationships organisations have with their various stakeholders. This can include direct information requests from stakeholders such as investors or government.

1.4 Assumptions underlying this report

The overarching assumption of this report is that reporting informs foresight, foresight shapes strategy and strategy requires reporting. In an increasingly complex and integrated world, access to trustworthy and timely information is a key public good. This means that costs to private companies (in terms of preparation costs and the risks of transparency), need to be weighed against the benefits to society of making certain information public. How this plays out in this report is illustrated by the following examples:

- The market operates more efficiently when information is easily accessible to all stakeholders.
- Stakeholders have a right to access some private sector information even if they are not directly financially invested (as shareholders are). The right to information is not just one that comes from a direct financial interest but from a deeper understanding that a social license exists and is constantly being negotiated in the public arena.
- For some policy areas, central regulation (i.e. legislation policed by agencies) is the most effective means of ensuring compliance.
- It is important for businesses to report on information beyond financial information alone. Examples include information on water quality, plastics, phosphate use and electricity use, and other resources linked to the UN Sustainable Development Goals.
- Climate-related vulnerability, impacts (direct and indirect) and adaptation measures should be reported on by businesses in their annual reports. There is a civic element to business practice here – businesses should, in their ordinary operations, take into account climate change risks, opportunities, actions and impacts.
- Gender, ethnic, cultural and age diversity in private and public organisations not only generates greater creativity but also ensures a wider range of voices are heard when key decisions are made about a company, council, registered charity or other entity.
- Good information is essential to developing good strategy.
- Regulators must invest time and money to ensure information is easily accessible to the public.
- The public has a right to know about political donations, in particular which political parties are being funded by whom.
- External reporting is primarily found in the annual report. This is why we have excluded separate reports such as sustainability reports from our research.
2. Hindsight: Evolution of the reporting framework

Highlights

1. The last major comprehensive review of the reporting framework was carried out in the 1980s, which led to the financial reforms in the late 1980s. A more specific review of the financial reporting framework was undertaken in 2011, leading to legislative changes up to 2013.

2. New Zealand can be a world leader in reporting. In 1989 New Zealand was the first country to implement accrual accounting in the public sector.

3. Mandatory standards deliver comparable, comprehensive and timely information, but voluntary guidelines may not because they do not have the same associated pressure and necessity to incentivise organisations to follow them entirely. This is why New Zealand adopted mandatory standards for financial reporting.

4. Financial statements are the domain of accountants (in contrast to annual reports). New Zealand adopted international financial reporting standards to ensure that financial statements were consistently prepared and internationally comparable.

5. Annual reports tend to be the domain of an organisation’s marketing arm. There are no common international standards for annual reporting. New Zealand has set out specific reporting requirements in legislation for annual reports, but has not optimised the opportunity to align the content, timing and accessibility of annual reports.

6. The move towards more developed forms of non-financial reporting has been ongoing, but the need for reporting on climate change has added further momentum.

7. The merger of the professional body New Zealand Institute of Chartered Accountants (NZICA) in 2014 with its Australian equivalent decreased the governance of reporting policy and practice specific to New Zealand’s needs.

8. The purpose of the reporting framework in legislation is to inform the shareholder. However, the range of users interested in information about organisations is much broader (extending to employees, suppliers, consumers, neighbours, creditors, insurance companies etc.).

This section contains background information on the evolution of the reporting framework in order to set the context for the remainder of the report. A more extensive timeline is provided in Appendix 1.

2.1 Historical context

2. HINDSIGHT: EVOLUTION OF THE REPORTING FRAMEWORK

2.1 Era 1: Exploring international standard setting 1973–1987

The formation of the International Accounting Standards Committee (IASC) in 1973 saw the professional accounting bodies of ten countries (Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United Kingdom, Ireland and the United States) agree to adopt common International Accounting Standards (IFRS, n.d.[a]). Following this international trend, in 1973, the New Zealand Society of Accountants began formalising ‘the rules or Principles used for certain transactions’ into a single set of accounting practices (Colquhoun, 2010).

At the same time, pressures were growing to create a national stock exchange to complement the centralised system already in place with national rules and governance (Grant, 2010). In 1983 most regional exchanges were merged to establish the New Zealand Stock Exchange (NZSE) (Grant, 2010). The free-market reforms of the Fourth Labour Government (in office 1984–1990), known as ‘Rogernomics’, saw fiscal deregulation, a newly floated NZ Dollar (NZD) and the internationalisation of securities trading (Grant, 2010). This led to the rapid growth of the NZSE (Te Papa, n.d.). Between 1982 and 1987 NZSE grew by 600%, with 309 listed companies in September 1987. By July 1987 more than 40% of New Zealand’s adult population owned shares (Grant, 2010).


The international stock market crash, known as Black Tuesday, hit the NZSE on 20 October 1987. To survive the crash, many New Zealand companies were taken over by or merged with overseas companies (Grant, 2010). By 1993 there were only 140 listed companies (Grant, 2010). This brought the deficiencies of the stock market to people’s attention. The Securities Amendment Act 1988 was passed and NZSE expanded listed company rules. The Market Surveillance Panel was established as an independent body to monitor listed companies compliance (Grant, 2010).

New Zealand became a global leader in reporting with the passing of the Public Finance Act 1989, which required government departments to report using accrual accounting (rather than cash accounting, which was the global norm).1 Four years later, the Financial Reporting Act 1993 moved the control of standards from Treasury to the newly established independent Accounting Standards

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Review Board (ASRB) (Colquhoun, 2010). The Act also sought to strengthen New Zealand’s accounting practices more generally by enabling the ASRB to approve and give legal authority to accounting standards prepared by the New Zealand Institute of Chartered Accountants (NZICA) (Colquhoun, 2010; XRB, 2017a). Prior to this, the New Zealand Institute of Chartered Accountants created and approved the standards for companies to follow (XRB, 2017a).

In the same year, the Companies Act 1993 replaced the Companies Act 1955, codifying and clarifying directors’ powers and duties. Paralleling the legal review, the Fourth National Government (in office 1990–1999) continued to pursue policies reducing welfare payments and privatising state assets (Te Papa, n.d.).

While New Zealand established a new regulatory framework, international leaders were developing best practice guidance for corporate reporting. For example, South Africa published King Report I in 1994; it was recognised at the time as ‘the most comprehensive publication on the subject embracing the inclusive approach to corporate governance’ (IoDSA, n.d.).

2.1.3 Era 3: Exploring non-financial guidance 1997–ongoing

In 1997 the Global Reporting Initiative (GRI) was established (GRI, n.d.[a]). This saw the beginning of an explorative period for non-financial reporting. Companies and their stakeholders were beginning to acknowledge that reporting should include more than financial information. Support increased for the idea that environmental, social and governance (ESG) issues should be addressed in corporate reporting. Alongside developments in non-financial reporting, the International Financial Reporting Standards (IFRS) Foundation was established in 2001 to ‘develop a single set of high-quality, globally accepted accounting standards’ (IFRS, n.d.[a]; n.d.[b]).

In 2002 the Institute of Chartered Accounting of New Zealand (ICANZ) established the Taskforce on Sustainable Development Reporting New Zealand. As a result of the report that they prepared, a National Sustainable Development Reporting Committee 2003–2004 was formed (Milne et al., 2003, pp. 4–5).

In 2003 the IFRS Foundation issued the standard IFRS 1 under its name (IFRS, n.d.[a]). Four years later ASRB adopted IFRS to establish NZ IFRS with three additional New Zealand-specific standards (IFRS, 2016, p. 2). As more and more companies operated across national borders, the need to streamline reporting requirements became apparent for comparability.

In 2004 the Prince’s Accounting for Sustainability Project (A4S) was established by HRH the Prince of Wales ‘to help ensure that we are not battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems’ (A4S, n.d.[a]).

In 2006 ICANZ was rebranded as the NZICA (Colquhoun, 2010). At this time the consensus amongst experts was that non-financial reporting should remain voluntary but companies should be encouraged to follow international best practice of including non-financial information. The rationale behind this was that mandatory reporting would stifle innovation. Proponents of this view argued that companies would learn the intrinsic benefits of comprehensive reporting without regulation (KPMG et al., 2010, p. 8). Later, NZICA became an initial member of the Accounting Bodies Network (ABN) of A4S (along with ICAA) and CA ANZ remains a member 10 years later, supporting their work and the ABN principles (A4S, n.d.[b]).

The global financial crisis of 2008 brought the lack of regulation of corporate behaviour to the public’s attention. Individuals were not accountable for their actions and therefore acted in their own self-interest, adverse to the public interest. While New Zealand was not at the centre of the crisis, it entered a recession in early 2008 (Treasury, 2010). Business and consumer confidence plummeted, investments decreased and exports declined (Treasury 2010).
In light of the crisis there has not been a distinct shift in corporate behaviour, although the general sense that companies have a duty and responsibility to be good corporate citizens has grown. There have been continuous developments to accounting practices (IFRS, n.d.[a]; XRB, 2015a).

In 2010 GRI and A4S together established the International Integrated Reporting Committee (IIRC), which has contributed to an international movement towards Integrated Reporting (IR) (A4S & GRI, 2010). There are only three companies from the 2016 Deloitte Top 200 that are on the IIRC examples database (KiwiRail, New Zealand Post and Sanford Limited) (IIRC, n.d.).

There were also structural changes in play for the NZICA. In 2014 the NZICA amalgamated with the Institute of Chartered Accountants in Australia (ICAA) to become Chartered Accountants Australia and New Zealand (CA ANZ) (CA ANZ, 2015, p. 80).

A review of the financial reporting framework undertaken in 2011 can be followed through a series of Cabinet papers and regulatory impact statements (MBIE, 2017). The financial reporting review resulted in a number of legislative changes, beginning with the Financial Reporting Amendment Act 2011, which amended the Financial Reporting Act 1993.

The 2011 Amendment Act made significant changes to the institutions involved in the reporting framework. The Act merged the ASRB into the independent Crown entity the XRB and gave the XRB a new statutory power to develop and maintain a financial reporting strategy. The Act also transferred responsibility for standard-setting in relation to accounting, auditing, assurance and some professional and ethical matters from NZICA to XRB.

As part of the 2011 financial reporting review, the purpose of the reporting framework was solidified as relating exclusively to financial information:

The reason for imposing statutory financial reporting obligations is to provide information to external users who have a need for an entity’s financial statements but are unable to demand them. Decisions about who should have to report and, if so, what they should report predominantly involve tradeoffs between the benefits of transparency and accountability to users and the compliance costs associated with financial reporting. The overall objective is to obtain an appropriate balance between the benefits and costs. (MED, 2011, p. 5)

The same regulatory impact statement outlined three indicators of financial reporting, including public accountability and economic significance, which were used to determine the reporting requirements for various classes of entity (MED, 2011, p. 5). The three indicators were threaded through other Acts with the Financial Reporting (Amendments to Other Enactments) Act 2013, which was intended to improve consistency throughout the reporting framework by making substantive changes to 23 other Acts and consequential amendments to another 55 Acts.

The idea of public accountability (see glossary) was embedded into the reporting framework with the 2009 International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs). This was intended to ‘ensure consistency with IASB requirements’ and provide a system for establishing entities’ tiers and corresponding reporting requirements (ASRB, 2009, p. 26). The 2009 discussion document also established that ‘all entities ultimately owned by taxpayers or ratepayers are publicly accountable in some way or other’ (ASRB, 2009, p. 33). This was among discussion about taxpayer and ratepayer interest in ‘the service delivery and ownership performance of government entities funded by that coercive revenue’ – their taxes and rates (ASRB, 2009, p. 33).

The 2011 financial reporting review ultimately also resulted in the Financial Reporting Act 2013, which repealed and replaced the 1993 Act and became the legislation at the centre of the reporting framework. The 2013 legislative changes had three key effects:

- Consolidation of reporting requirements for companies and issuers in the Companies Act 1993 and Financial Markets Conduct Act 2013 respectively.
- Modernisation of the definition of GAAP.
2. HINDSIGHT: EVOLUTION OF THE REPORTING FRAMEWORK

- Addition of standard provisions to be cross-referred to in other enactments, including definitions of ‘large’, ‘specified not-for-profit entity’ and ‘non-GAAP standard’, and standard auditor qualification requirements to apply to all general purpose financial statement statutory audits (other than audits of FMC reporting entities and public entities).
3. Foresight: Trends and implications

**Highlights**

1. Many organisations will continue to report in an incomplete way. This could be intentional, but could also be due to a failure to cope with increasing complexity and the pace of change.

2. The future skills and capabilities required by report preparers will be different to those required today.

3. The expectations of investors will continue to rise as they try to navigate the risks and rewards inherent in this complex and fast-paced environment.

4. Other users of reports (such as employees, suppliers, consumers, neighbours, creditors, insurance companies and policy analysts) will continue to seek more timely and relevant information in order to become more informed.

5. Stakeholders will be interested in an increasingly broad range of information ranging from strategic information (e.g. purpose of the organisation, its values and possible risks/disrupters) to operational information (e.g. goals, practices and actions). Developing reporting frameworks for the varied needs of users will be challenging given compliance costs and the risk of over-saturation of information; the right information will be comparable within sectors and over the long term, linked to a company’s value creation and important to the business model. Such an approach will be critical to strengthen public trust and preserve organisations’ reputations and social licences to operate.

6. Public policy benefits from early engagement with emerging issues; these issues are new or not well understood in the public arena.

7. Many of the pressures shaping the reporting framework are volatile, uncertain, complex and ambiguous (VUCA), and are therefore not well known or understood. Because of this, reviewing and monitoring the reporting system for emerging issues and the impact of existing trends will be critical.

8. The focus on wellbeing and the four capitals is no longer an emerging issue but an established trend. Reporting on wellbeing will drive climate change reporting obligations.

9. The purpose of the reporting framework in practice is to inform the stakeholder (including investors, employees, suppliers, consumers, neighbours, creditors, insurance companies, etc.), providing useful and relevant information that can be used for decision-making.

The World Economic Forum (WEF) defines a trend as ‘a long-term pattern that is currently evolving and that could contribute to amplifying global risks and/or altering the relationship between them’ (WEF, 2018, p. 62). This section outlines trends that are likely to shape the nature and quality of information that report preparers will supply and/or report users will demand in the future.

The eight trends and seven implications shaping the reporting framework, both globally and in New Zealand, are illustrated in Figure 4. They are presented in two separate but interconnected groups: trends that are shaping the overall system and the implications of these trends for the reporting framework.
3. FORESIGHT: TRENDS AND IMPLICATIONS

3.1 Trends

1. Increasing complexity and interconnectedness

Humanity faces a complex mix of existing and emerging issues that will put pressure on the current global reporting system. As global and national problems become increasingly complex, new approaches are required to manage them. As *The Global Risks Report 2018*, published by WEF, makes an interesting observation:

> Humanity has become remarkably adept at understanding how to mitigate countless conventional risks that can be relatively easily isolated and managed with standard risk management approaches. But we are much less competent when it comes to dealing with complex risks in systems characterized by feedback loops, tipping points and opaque cause-and-effect relationships that can make intervention problematic. (WEF, 2018, p. 15)

Trends such as environmental degradation and climate change, rising inequality, increasing technological dependency and rapid urbanisation need to be recognised as interrelated factors increasing the risks faced by the world as a whole. The adverse impacts of these changes are becoming increasingly visible and include rising sea levels, new diseases, wildlife extinctions, housing crises and job losses. These stresses and shocks spread across systems in ways that cannot be forecast, as isolated incidents can catalyse domino effects across the globe.

These, in turn, can have negative flow-on effects for infrastructure, business and society. For example, *The Global Risks Report 2018* notes that climate change is broadly linked to the Syrian Civil War, which is connected to heightened concern over immigration, which, in turn, precipitated Brexit. Similarly, the report notes how ‘Lehman Brothers was an investable company, until suddenly it wasn’t’, which catalysed a global financial crisis (WEF, 2018, p. 54). As another example, Stockholm’s ‘booming tech scene’ has earned it the nickname ‘the unicorn factory’ for the speed with which it has turned out the mythically named tech start-ups valued at $1bn or more’ (Cox, 2018). Property agents in the Swedish capital are looking to the unicorn companies to ‘mint new super-rich, who in return remain keen to shop for Stockholm’s finest homes’ to save the city from ‘a crisis of affordability following years of climbing prices’ (Cox, 2018). *None of these links are causal in a strict sense, nor could they reasonably be assigned*
a probability, but they nevertheless clearly form a web of cascading events’ (WEF, 2018, p. 54). A key role for business, government and civil society to play in the management of these issues is to record, review and assess available information.

The map in Figure 5 overleaf, generated by WEF for The 2018 Global Risks Report, highlights how risks and trends need to be observed as part of an interconnected web of events that affect each other and emerge out of complex and cumulative factors. Such risks and trends cannot be isolated and managed alone.

Figure 5: The WEF’s Risks-Trends Interconnections Map 2018
Source: (WEF, 2018, ‘Figure 11’)

The inter-connectedness of risks and trends is also illustrated by the McGuinness Institute in Figure 6, which highlights how risks and trends need to be observed as part of an interconnected web of events that affect each other and emerge out of complex and cumulative factors. Such risks and trends cannot be isolated and managed alone.
3.  FORESIGHT: TRENDS AND IMPLICATIONS

Rick Boven in the report *Lessons From the West African Ebola Outbreak in Relation to New Zealand’s Supply Chain Resilience*. New Zealand is particularly vulnerable to supply chain risk, given our distance from the northern hemisphere.

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

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**2. Increasing future focus**

Along with increased complexity and inter-connectedness of risks and trends comes an increased interest in the long-term. Internationally this is playing out in a number of ways. In 2006 the United Kingdom passed regulations requiring large and medium-sized companies to prepare a strategic report (see Appendix 7, Part A). The content requirements for these reports are more extensive than the content of New Zealand annual reports (as set out in s 211 of the Companies Act 1993). For example, quoted companies are required to include information on the main trends and factors likely to affect the future development, performance or position of the company’s business. This is in addition to the inclusion of information about environmental matters including the impact of the company’s business on the environment; the company’s employees; and social, community and human rights issues (see Appendix 7, s 414C(7) of the Companies Act 2006). In the UK all companies, other than those covered by the small companies regime, are required to produce a strategic report (see Appendix 7, ss 444–447 of the Companies Act 2006) but the content is determined by each regime.

The IIRC’s framework also adopted a ‘strategic focus and future orientation’ as a core guiding principle, stating that ‘an integrated report should provide insight into the organization’s strategy, and how it relates to the organization’s ability to create value in the short, medium and long term, and to its use of and effects on the capitals’ (IIRC, 2013, p. 5).

Following an inquiry initiated due to concerns that ‘companies were not adequately considering their long-term viability’, the UK also introduced the ‘viability statement’ to their Corporate Governance Code in 2014 as a means of requiring directors to report on this (FRC, 2017, p. 4). The FRC found in their research that investors are concerned about boards focusing on their current tenure, rather than demonstrating consideration for stewardship and the future of the company beyond three to five years (FRC, 2017, p. 23).

KPMG’s analysis of annual reports, outlined in *Room for improvement*, is an interesting example of future-focused research. Figure 7 below compares UK averages of strategy discussion in annual reports to the global average, highlighting that ‘strategy discussions tend to emphasise shorter term factors’. The research results illustrate not just the extent to which strategy discussions tend to emphasise shorter-term factors rather than longer-term factors, but also that UK preparers tend to focus on the longer-term slightly more than their global counterparts. It would be interesting to know whether this is a direct result of the UK requiring companies to produce the strategic report (see Appendix 7, Part A) or viability statement.
In New Zealand, the future focus is only included in legislation indirectly through the ‘sustainable development’ approach. For example, the Local Government (Community Well-being) Amendment Bill (currently before Parliament) will reinstate the purpose of the Local Government Act 2002 as providing ‘for local authorities to play a broad role in promoting the social, economic, environmental, and cultural well-being of their communities, taking a sustainable development approach’ (see Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation, Part D).

Local authorities are required to publish ten-year plans under law (New Zealand Government, 2017, p. 27) whereas central government is only required to publish four-year plans, with no legislative requirement for these to be published (New Zealand Government, 2017, p. 7; New Zealand Government, 2016, p. 8). This means in central government there is no requirement for a longer-term focus. The purpose of a four-year plan is for Ministry leaders, in consultation with Ministers and the Corporate Centre, to shape and set out the medium-term view for a department. Although the four-year plan is considered a key strategic planning document (giving assurance that departments are fulfilling their stewardship obligations as stipulated in the State Sector Act 1988 and focussed on sustainability as required by the Public Finance Act 1989), it only looks ahead four years in the future (New Zealand Government, 2017, p. 27).

New Zealand appears to lag behind in embracing a long-term focus in both public and private sector strategic documents.

3. Increasing level of distrust

Over the last 18 years the Edelman Trust Barometer has annually asked respondents ‘How much do you trust an institution to do what is right?’. The 2018 Edelman Trust Barometer surveyed trust in 28 countries and found that the significant decrease in global trust that occurred in the 2017 Edelman Trust Barometer has continued into 2018:

Volatility brews beneath a stagnant surface. If a single theme captures the state of the world’s trust in 2018, it is this. Even as people’s trust in business, government, NGOs and media across 28 markets remained largely unchanged, experiencing virtually no recovery from 2017, dramatic shifts are taking place at the market level and within the institution of media.

(Edelman, 2018, p. 4)

The 2018 Edelman Trust Barometer also asked respondents what their expectations are for the roles that each institution (such as business, media, government and NGOs) must fill in society, the results of which are summarised in Figure 8 below. They found that the overlap of mandates indicates ‘a belief that
institutions must work singularly as well as in partnership to restore trust and create a stronger social fabric’ (Edelman, 2018, p. 12).

Figure 8: The Edelman Trust Barometer illustrating expectations placed by society on institutions
Source: (Edelman, 2018, p. 13)

A recent study commissioned by the Institute for Governance and Policy Studies similarly asked New Zealanders whether they trust a specific institution to do the right thing for New Zealand (VUW, 2018, pp. 8–9). The results found that 10% of respondents were trusting (either had complete trust or lots of trust) of corporations and large businesses (compared to 11% in 2016) (VUW, 2018, p. 9). The results also showed that 41% were distrusting of large businesses (compared with 43% in 2016), while 50% had some trust (VUW, 2018, p. 9). Respondents were more trusting of small businesses than corporations and large businesses; 29% were trusting of small businesses in 2018 with only 10% distrusting them (VUW, 2018, p. 8).

The Edelman Trust Barometer closes by noting that ‘pervasive distrust and growing concern about disinformation will be combatted only through informed, responsible education on the issues and through the four institutions’ willingness to collaborate – with one another and with the people they collectively serve’ (Edelman, 2018, p. 12). It is clear that reporting quality information in a timely and trusted manner is becoming an increasingly important issue.

4. Growth of big data and information explosion

As information technology continues to develop rapidly and spread across the globe with a corresponding expansion in computing power and number of users, ever-increasing amounts of data are becoming available more easily. Effective data management is of critical importance to inform public policy and decision-making. Current reporting practices must adapt to operate in a world where the amount of data generated, shared and stored is expected to rise exponentially in the coming years. In 2013 the Australian Government produced a document about big data strategy, stating

Data is being produced at an even increasing rate. This growth in data production is being driven by: individuals and their increased use of media; organisations; the switch from analogue to digital technologies; and the proliferation of internet connected devices and systems.

There has also been an acceleration in the proportion of machine-generated and unstructured data (photos, videos, social media feeds and so on) compared to structured data such that 80% or more of all data holdings are now unstructured and new approaches and technologies are required to access, link, manage and gain insight from these data sets.
The commonly accepted definition of big data comes from Gartner who define it as high-volume, high-velocity and/or high-variety information assets that demand cost-effective, innovative forms of information processing for enhanced insight, decision making, and process optimization. These are known as the “three Vs”. Some analysts also discuss big data in terms of value (the economic or political worth of data) and veracity (uncertainty introduced through data quality issues).
(Australian Government, 2013, p. 3)

As the Victoria University of Wellington School of Government researchers noted in 2016:

For some, this trajectory is not only a revolution for delivering services to the public, but also entails a real asset for the public sector which can be shared, or even sold to commercial interests, contributing to innovation and economic growth in the country. (Eichbaum & Lofgren, 2016)

Alongside the growth in big data is the development of predictive analytic models. These so-called ‘learning machines’ are designed to be capable of both inferring insights and drawing conclusions from available data volumes. Such predictive analytic models, based on making assumptions regarding future developments, are already being integrated into some government services. Furthermore, predictive analytics will increasingly be used in the delivery of government services in the future. These have real potential to disrupt former business models, as privacy issues become increasingly critical due to uncontrollable data agglomerations.

As the Victoria University of Wellington School of Government researchers observe, the ‘future holds out real possibilities in terms of bringing the traditional “craft” of public administration and public service to new digital realities and new possibilities for governance’ (Eichbaum & Lofgren, 2016).

Specifically in terms of reporting practices, digital reporting technology is ‘changing how corporate data is collected, accessed and analysed’ (FRC, 2017, p. 43). However, this presents problems when the volume of data is increasing faster than it can be ‘presented and communicated [usefully] to stakeholders’ (FRC, 2017, p. 43). For example, ‘In 2015 the Lab reported that investors preferred the annual report in a PDF format as it combined the best elements of hard copy annual reports with the benefits of digital searchability’ (FRC, 2017, p. 43).

A special report in Financial Management magazine discusses multimedia reporting opportunities in terms of ‘report visualisation’, asserting that it ‘will remain a core skill for the management accountant to develop’ (CIMA, 2017, p. 50). There are five key principles to consider for report visualisation: optimisation of data, application of visualisation tools, application of appropriate report layout, optimisation of reader experience and optimisation of visualisation for appropriate delivery channels (CIMA, 2017, p. 50).

5. Increasing cybersecurity and data privacy concerns

Public policy and reporting practices must face the challenge of remaining robust in the face of intense technological change. The World Economic Forum’s 2018 Global Risks Report indicated that cyberattacks and data infiltration are among the ‘top five global risks by perceived likelihood’ (WEF, 2018, p. 14). Additionally, the Marsh & McLennan Companies’ Directors Risk Survey Report 2016 found that cybersecurity breaches were considered to be the greatest risk to companies (Marsh & McLennan Companies, 2017, p. 4). Cybersecurity breaches are becoming a considerable threat to the way companies operate. Despite an estimated annual loss of $300 to $400 million as a result of cyberattacks, the Directors Risk Survey Report 2016 found that 32% of directors did not have a framework in place to manage the risk of a cyberattack (Marsh & McLennan Companies, 2017, p. 4).

Results from the 2017 ReportingNZ surveys indicated that only 36% of preparers considered disclosure of the number of cybersecurity breaches in an annual report to be important/very important, while 77% of users deemed this information to be important/very important (McGuinness Institute, 2018a, p. 15). In addition, only 9% of users felt that information on cyberattacks was reported on well (McGuinness Institute, 2018a, p. 15). Collectively, these survey results highlight a considerable disparity between what directors view as the greatest risks to a company, what CFOs view as important information disclosures, and what information users seek in annual reports.
6. New business models

Recent years have seen immense growth in the variety of business models that seek to promote wellbeing rather than the pure expansion of capital or profit. While this is a positive movement, the current reporting system is not equipped to manage the obligations of these kinds of new businesses.

There has been a significant increase in the number of social enterprises operating in New Zealand. These sometimes operate under a charitable status, using a different business model and with different regulations than traditional for-profit entities. Social enterprises operate differently from corporations in that their primary purpose is to achieve a social or environmental mission, rather than to maximise profits. Social enterprises have been ‘recognised as ‘the “third sector” outside of the private and public’ due to their charitable status and profitability (Day, 2017).

At present, social enterprises can be registered as either a charitable trust (unable to have investors), or as a limited liability company (not eligible for public sector funding) (Moe, 2017). One such example is health food giant Sanitarium, which is wholly owned by the Seventh Day Adventist Church charity and therefore does not pay company income tax, but competes with other cereal providers at a lower price point (Sanitarium, 2018). According to Tricia Fitzgerald, Chair of Social Enterprise Auckland, an estimated 80,000 social enterprises are operating in the UK, contributing $50 billion to the economy compared to only an estimated 2000–2500 operating in New Zealand (Cropp, 2017). There are significant enough numbers of emerging enterprises for New Zealand to look into ways of managing this new business model. For example, the business Eat My Lunch makes lunches for business people but also donates a lunch to a school child in need for every lunch they sell. The business ‘succeeds because of the recognition of the greater good’ (University of Auckland Business School, 2018). In regulating these new business models, it is important to accommodate the innovation of the sector; deal with how to appropriately fund them and impose taxes; and produce an environment that fosters social enterprises and their social and environmental goals. This affects how these organisations report.

7. Increasing activism

There has been an increase internationally in both ‘whistle-blowing’ and shareholder activism. For example, the Australian Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ‘was established in late December, after years of public pressure from whistle-blowers, consumer groups, the Greens, Labour, and some Nationals MPs’ (Hutchens, 2018). This increase reflects a corresponding increase in demand for non-financial capital recognition in corporate practice and reporting. There are two types of shareholder action:

1. More organised hedge fund style action such as Elliott Management Corporation, which targets companies with the aim of disrupting the board to get board seats and change strategy: ‘They may start public campaigns to increase pressure on the board and management’ (Niesche, 2017).

2. Action targeting annual general meetings with an environmental or social bias. This form is starting to get traction, particularly from asset owners. These shareholders want to change companies’ behaviour as corporate citizens and believe that addressing ESG issues will provide societal value, benefitting both the companies and all their stakeholders (Cloyd, 2015).

Given the current broader climate of protest and activism evident in movements such as #MeToo, there is an argument to be made for executives to build their capability for lateral vision (Tett, 2018). Companies are now also being compared and evaluated based on their ESG reporting and performance by third party providers of reports and ratings. Third-party data providers such as Bloomberg ESG Data Service, Corporate Knights Global 100 and Dow Jones Sustainability Index use a number of methods and indicators to assess the performance and levels of reporting of companies. For example, Bloomberg ESG Data Service evaluates companies based on their sustainability reports, annual reports, websites and other resources that are open to the public. The data covers 120 ESG indicators that are then checked
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and standardised. Examples include ‘carbon emissions, climate change effect, pollution, waste disposal, renewable energy, resource depletion, supply chain, political contributions, discrimination, diversity, community relations, human rights, cumulative voting, executive compensation, shareholders’ rights, takeover defence, staggered boards, and independent directors’ (Comstock & Huber, 2017). This data is increasingly being used by the world’s largest asset managers, who base their resource allocation on these reports and ratings. ‘This assessment and measurement often forms the basis of informal and shareholder proposal-related investor engagement with companies on ESG matters’ (Comstock & Huber, 2017). This kind of benchmarking enables greater insights into how well different industries manage their external impacts, and does so in a way that does not disadvantage companies.

The number of shareholder activism proposals filed has doubled between 1999 and 2013 (Grewal, Serafeim & Yoon, 2016). In August 2017, two shareholders of the Australian Commonwealth Bank took the bank to court over claiming ‘it failed to properly disclose investment risks associated with the environmental problem’ (BBC, 2017). The case is considered to be the first attempt globally to encourage financial institutions to keep shareholders informed about how exposed the company is to climate-related risks. The lawsuit arose when Geoffrey Summerhayes, of Australia’s financial regulator Australian Prudential Regulation Authority (APRA), stated it was ‘unsafe for companies to ignore the risks of climate change just because there is some uncertainty, or “even some controversy”, about the policy outlook’ (Hutchens, 2017). APRA is encouraging companies to ‘start incorporating scenario-based analysis of climate risks into their business outlooks’ (Hutchens, 2017).

BlackRock, the world’s largest asset manager (with $5.1 trillion in Assets Under Management), indicated in a 2016 report that they believe climate factors have been ‘under appreciated and underpriced’ (BlackRock Investment Institute, 2016, p. 3). Early in 2017 BlackRock and major financial advisory firm Vanguard, which together own 13% of ExxonMobil’s stock, voted for the oil company to make more comprehensive climate change disclosures. In total, holders of 62.3% of ExxonMobil shares voted to instruct the company to report on the impact of climate change measures designed to keep global temperature increases within 2°C (Mufson, 2017).

Shareholder activism comes from both passive investors such as hedge funds, as well as individual investors (Cloyd, 2015). It is common for shareholder activism to arise in response to remuneration issues. For example, in a WPP AGM, ‘17 per cent of shareholders voting by proxy went against’ the reappointment of a chairman after nearly 30% voted against a pay report due to the ‘hefty remuneration package’ a former boss received on departure from the company following questionable conduct towards staff (Mines, 2018).

8. Increasing focus on the four capitals and wellbeing

The Boston Consulting Group (BCG) published the report Total Social Impact: A new lens for strategy in October 2017. It aims to help companies capture the broader societal impact of their core business and manage the challenges they face in terms of economic, financial and social inclusion. The report notes:

For decades, most companies have oriented their strategies toward maximizing total shareholder return (TSR). This focus, the thinking has been, creates high-performing companies that produce the goods and services society needs and that power economic growth around the world. According to this view, explicit efforts to address societal challenges, including those created by corporate activity, are best left to government and NGOs. […] First, stakeholders, including employees, customers, and governments, are pressuring companies to play a more prominent role in addressing critical challenges such as economic inclusion and climate change. In particular, there is recognition that meeting the UN’s Sustainable Development Goals (SDGs) will not be possible without the private sector’s involvement. Second, investors are increasingly focusing on companies’ social and environmental practices as evidence mounts that performance in these areas affects returns over the long term. Third, standards are being developed for which environmental, social, and governance (commonly referred to as ESG) topics are financially material by industry, and data on company performance in these areas is becoming more available and reliable, increasing transparency and drawing more scrutiny from investors and others. (BCG, 2017, p. 10)

This reflects an increasing international interest in wellbeing and the four capitals (see Figure 9). Furthermore, the European Union disclosure requirements for non-financial and diversity information
in the annual reports of large companies set out in Directive 2014/95/EU came into effect in 2018. Information to be disclosed includes ‘environmental protection, social responsibility and treatment of employees, respect for human rights, anti-corruption and bribery [and] diversity on company boards (in terms of age, gender, educational and professional background)’ (EC, n.d.). The rules ‘apply to large public-interest companies with more than 500 employees. This covers approximately 6,000 large companies and groups across the EU, including listed companies, banks, insurance companies [and] other companies designated by national authorities as public-interest entities’ (EC, n.d.).

In New Zealand, concerns surrounding social capital resulted in a consultation on the NZX Rules. Following the consultation, on 31 December 2012, the NZX introduced a diversity listing rule requiring ‘a quantitative breakdown, as to the gender composition of the Issuer’s Directors and Officers as at the Issuer’s balance date and including comparative figures for the prior balance date of the Issuer’ (NZX Rules, 10.4.5(j)) (NZX, 2017a, p. 143). The rule, according to Kim Ngarimu, then acting Chief Executive of the Ministry of Women’s Affairs, was ‘a ground breaking step in New Zealand […] this initiative reflects the value of building greater diversity on boards, starting with gender diversity that is fast gathering momentum across the senior echelons of our private sector’ (MfW, 2012). NZX Chief Executive Tim Bennett stated that ‘there is credible research based evidence which suggests that diversity – and gender diversity, in particular – at both board and senior management level contributes to improved performance’ (Bond, 2012). Following an NZX Listing Rules review, the draft amendments to the rule have specified that the quantitative breakdown must include ‘the number of male and female Directors’, and ‘the number of male and female Officers’ (NZX, 2018a, p. 24). The rule has not been put into practice consistently, with the quantitative breakdown varyingly disclosed as numbers, percentages, or both, making comparability difficult.

The increasing focus on wellbeing is reflected in the New Zealand Government, as outlined in a speech Prime Minister Jacinda Ardern made about the ‘Cabinet mandated Coalition Government work plan’ in which she asserted their intention to improve ‘the wellbeing of New Zealanders and their families’ (Ardern, 2018). This is further echoed by the Government’s intention to publish a Wellbeing Budget in 2019. New Zealand Treasury presented on the budget, which will be a world first, at the 2018 OECD Forum in Paris:

> Budget 2019: The Wellbeing Budget, will broaden the Budget’s focus beyond economic and fiscal policy by using the Treasury’s Living Standards Framework to inform the Government’s investment priorities and funding decisions. The Government will measure and report against a broader set of indicators to show a more rounded measure of success, as a country and as a Government. This will be supported by Budget processes that facilitate evidence-based decisions and deliver the Government’s objectives in a cost-effective way. The Wellbeing Budget represents an important step towards embedding wellbeing in New Zealand’s public policy. (Treasury & NZ Government, 2018a)

This represents a movement to a stronger interest in the long-term impact and breadth of operating processes and decisions. Further, the support growing for the ‘Wellbeing Budget’ highlights how traditional reporting tools are no longer adequate as a way of measuring quality of life in the current day. The Minister of Finance Grant Robertson expressed this view in a recent speech stating ‘we have long held the view that GDP is an inadequate measure not only of the quality of our economic growth, but of the value of the other things that affect how we live our lives’ (Robertson, 2018).

Users are increasingly expressing a desire for more information about the four capitals (see Figure 9 below) (McGuinness Institute, 2018a, p. 16). The four capitals – human, social, natural and financial/physical – are outlined in Treasury’s Living Standards Framework, which focuses on achieving a higher living standard for New Zealanders (Treasury, 2018). In a speech to Treasury, Secretary and Chief Executive Gabriel Makhlouf discussed application of the framework and the four capitals to public policy, noting that the framework allows ‘a comprehensive assessment of both tangible and intangible factors that impact on people’s lives’ whilst ‘factoring in social, cultural, civil, environmental and economic aspects into our thinking when we frame up policy advice’ (Makhlouf, 2017, p. 4).
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Figure 9: The New Zealand Treasury’s Four Capitals
Source: (Treasury, 2018)

The Four Capitals
Intergenerational wellbeing relies on the growth, distribution, and sustainability of the Four Capitals. The Capitals are interdependent and work together to support wellbeing. The Crown-Māori relationship is integral to all four capitals. The LSF is being continually developed and the next iteration of the framework will consider the role of culture, including Māori culture, as part of the capitals approach in more detail.

- **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 and 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.

Figure 10 illustrates the trend of an increasing reporting focus on the four capitals and overall wellbeing. This trend is tied to the trend of increasing activism (Trend 7), as well as to the emergence of new reporting practices that increasingly recognise the importance of non-financial information (see Implication 5).

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

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3.2 Implications

1. Increase in corporate responsibility

A number of countries are looking at ways to improve transparency surrounding companies’ operations. For example, in the UK the FRC consultation on the *Wates Corporate Governance Principles for Large Private Companies* closed for comment on 7 September 2018. The principles are intended ‘to inform and develop [the] corporate practices’ of large private companies and are expected to be adopted ‘on an “apply and explain” basis’ (FRC, 2018a). The six principles underlying the consultation are purpose (of a company), composition, responsibilities, opportunity and risk, remuneration, and stakeholders (engagement) (FRC, 2018a).
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As the notion of corporate responsibility is increasingly incorporated into the fabric of companies around the world, companies are recognising sustainability to be the longevity of a company in the face of emerging challenges and rapid changes (MfE, n.d.; BSR, 2017, p. 6). These challenges, according to Business for Social Responsibility (BSR), can be broken into three areas: climate change, technology and structural economic change. These will have fundamental implications for businesses as society faces new disruptions from climate-related forces, technological and artificial forces, and societal shifts such as population growth, the rise of the middle class and new emerging business models (BSR, 2017, p. 6).

However, a survey undertaken by KPMG found that New Zealand’s corporate responsibility reporting rate of 69% sits below the 72% average of the 49 countries analysed (KPMG, 2017, p. 6). Changes and levels of uncertainty are shaping the business environment and provoking businesses, governments, NGOs and the general public into asking questions around how they will be affected by these emerging trends. How can companies maintain levels of profit and success and retain a social licence to operate in the face of climate change, pollution, human rights, employment, cyberattacks, artificial intelligence and other emerging disruptions? If ideological anti-regulation continues over the coming years, it would appear that the balance between global, national, local and individual goals may be unachievable.

2. The need for risk and governance reporting obligations

Since the financial crisis, external reporting has included an ‘increased focus on risk management’ (FRC, 2017, p. 3). This is often the result of pressure from investors, who ‘are unanimous’ about the importance of understanding risk ‘both before making an investment and during the holding of that investment’ (FRC, 2017, p. 3). According to the FRC’s research, they agree that better engagement and risk reporting ‘has improved their understanding of how the board identifies and manages risk’ (FRC, 2017).

Given this pressure, companies may struggle to get an appropriate balance of disclosure between remaining succinct, providing enough information and not giving away any competitive advantage (FRC, 2017, p. 3). However, the FRC research does offer some more specific guidance in terms of risk disclosure. They found that investor views of how many principal risks a company disclose varied, with some investors preferring a short list of five to ten, while others appreciated a more comprehensive list that may also include emerging risks (FRC, 2017, p. 11). Most investors found clear categorisation of principal risks and their likelihood and impact to be helpful (FRC, 2017, pp. 13, 16). Furthermore, they found that investors were less interested in ‘the disclosure of general macroeconomic, geopolitical or industry wide risks […] than company-specific risks’ (FRC, 2017, p. 11). They recommend that risks be described clearly and concisely alongside the potential impacts, be linked to KPIs and strategy, and should be contextualised in consideration of ‘a broad range of circumstances’, e.g. ‘cyber-crime and climate change (FRC, 2017, p. 31).

Improvements in this are being made internationally, as evident in FRC’s Financial Reporting Lab work around risk and viability reporting. They note that ‘external reviews of annual reports and accounts have found a slight improvement in the quality of narrative […] risk reporting’, which they attribute in part to the ‘introduction of viability statements in the 2014 UK Corporate Governance Code’ (FRC, 2017, p. 3).

In New Zealand, brand and reputational risk was ranked second as an external risk to organisations in the Directors Risk Survey Report for 2018 (Marsh & McLennan Companies, 2018, p. 3; see also Table 1). This is of note as an area that relates strongly to corporate reporting practices in terms of levels of perceived transparency.

While the call for more meaningful reporting of business practices over the past decade has led to incremental change in reporting habits, the lack of transparency in government and corporate relations, particularly concerning political donations, has yet to be addressed with any real change to corporate reporting practices. Difficulties for the public in assessing the impacts of financial contributions to government policies and decision-making are of particular concern. While it is clear that a close relationship between business and government can be indicative of financial success for a particular
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corporation, a lack of transparency on the exact role of political donations in that relationship leaves
the public, and the democratic system as a whole, open to abuse and increases the risk of mistrust. No
distinction is made between political and non-political donations in the requirement for companies to
'state the total amount of donations made by the company during the accounting period' under s 211 of
the Companies Act 1993. As such, requiring both political parties and corporations to disclose any and
all information on financial donations, be that in annual reports or otherwise, is necessary for a healthy
democracy.

By comparison, in 2013 Ireland set legislation that requires corporations to announce all political
donations over €200 to all their members, shareholders or trustees (Standards in Public Office
Commission, 2013). The Electoral (Amendment) (Political Funding) Act 2012 also requires donations
over €200 to be 'registered with the Standards in Public Office Commission' (Standards in Public Office
Commission, 2013). If these requirements are not met, acceptance of the corporate donation is banned
(Standards in Public Office Commission, 2013).

The requirement for corporations to disclose any and all political donations to political parties should be
coupled with assurance in order to be trustworthy and effective.

3. The need for climate change reporting obligations

There is increasing recognition of the fact that climate change poses material and financial risks for many
industries and institutions. The Institute of Directors (IoD) states that ‘risk management is critical to
business success and a key responsibility of all boards. At a governance level […] boards are responsible
for ensuring the organisation has an effective risk management programme’ (IoD, n.d.). They go on to
list environmental risk as one of the organisational risks that boards should be reporting on (IoD, n.d.).
Similarly, the FRC found themselves challenging the judgments made by directors around principal risks
and uncertainties, such as climate change, when they were unclear in or omitted from strategic reports
(FRC, 2017, p. 22). They went on to assert their expectation for ‘reference to be made to the impact of
climate change where relevant for an understanding of the company’s activities’ (FRC, 2017, p. 22).

Investment decisions will increasingly need to factor in these issues, putting pressure on boards and
management to have long-term strategies and targets in place for reducing and preparing for these risks.
While preparing The Global Risks Report 2018, WEF polled 1000 senior business leaders from its global
network about the top five global risks (by likelihood). These were perceived to be ‘extreme weather,
natural disaster, cyberattacks, data theft and failure to adapt to climate change’ (Dann, 2018).

The Task Force on Climate-related Financial Disclosures (TCFD) offers an approach and opportunity to
risk reporting in Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures.
This includes calculating the costs of risks posed by climate change, with the TCFD viewing the issue
to be ‘one of the most significant, and perhaps most misunderstood, risks that organizations face today’
(TCFD, 2017, p. ii). The TCFD’s recommendation to disclose information on climate change risks in the
notes to the financial statements has gained traction, but there is no consensus as to whether or not this is
appropriate, as not all climate change risks can be considered material.

The TCFD further recommends that if companies are unable to add this information into the filings, they
should include this information in the annual report (TCFD, 2017, p. 17). Although the recommendations
are well-meaning and the TCFD should be acknowledged for taking action, the reality is that they are
stepping up to fill a void left by international accounting institutions. This risks ad hoc development of
the international accounting standards framework; the system should be built on in a considered and
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coherent manner in order to confront the risk of climate change. This view is supported by a September 2018 report that reviewed the status of TCFD disclosures. The report stated:

> While the Task Force found some of the results of its disclosure review encouraging, it also recognized further work is needed for disclosures to contain more decision-useful climate-related information. The majority of companies reviewed disclosed information that is aligned with at least one of the recommended disclosures in their financial filings, annual reports, or sustainability reports. In addition, the Task Force found several instances of disclosures addressing the core element of each of the 11 recommended disclosures. These results demonstrate that it is both possible and practicable for companies to disclose certain baseline climate-related information today. (TCFD, 2018, iii)

The key takeaways from the review are summarised as follows:

- The majority disclose some climate-related information. The majority of companies reviewed disclosed information aligned with at least one recommended disclosure, usually in sustainability reports.
- Financial implications are often not disclosed. While many companies disclose climate-related information, few disclose the financial impact of climate change on the company.
- Information on strategy resilience under different climate-related scenarios is limited. Few companies describe the resilience of their strategies under different climate-related scenarios, including a 2°C or lower scenario, which is a key area of focus for the Task Force.
- Disclosures vary across industries and regions. Companies’ areas of focus in terms of climate-related financial disclosures vary significantly. For example, a higher percentage of non-financial companies reported information on their climate-related metrics and targets compared to financial companies; but a higher percentage of financial companies indicated their enterprise risk management processes included climate-related risks. In terms of regional differences, a higher percentage of companies in Europe disclosed information aligned with the recommendations compared to companies in other regions.
- Disclosures are often made in multiple reports. Companies often provided information aligned with the TCFD recommendations in multiple reports—financial filings, annual reports, and sustainability reports. (TCFD, 2018, p. iii)

There will be repercussions for failure to report on risks and material issues that arise out of the uncertainties and disruptions currently facing New Zealand and the world. As noted by the WBCSD, ‘the Australian business community is highly vulnerable to the worsening extreme weather and other effects that climate change will bring’, and New Zealand may be even more vulnerable (WBCSD, 2018, p. 3). It is timely for intervention in the form of encouragement and guidance on how companies can best report on risks such as climate change, technological shifts and rapidly changing business environments. Figure 11 below illustrates the benefits of New Zealand acting early in response to climate change risks.

Figure 11: Illustrating the benefits of New Zealand acting early in response to climate change risks

![Figure 11](image-url)  
Source: (McGuinness Institute, 2018b, p. 49)

New Zealand will be affected by more frequent extreme weather events, rising sea levels and temperatures and the accompanying impacts on health and biodiversity (MfE, n.d.[b]). Given the likely impacts for New Zealand, the change in results for New Zealand risks for doing business from 2015 to 2018 in the Directors Risk Survey Report are surprising. A comparison of the perceived top five risks in 2015 and 2018 is provided in Table 1 below.
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Table 1: Marsh and McLennan risks for doing business in New Zealand as at 2015 and 2018
Source: (Marsh & McLennan Companies, 2016, p. 3; 2018, p. 3)

<table>
<thead>
<tr>
<th>2015 top five external risks</th>
<th>2018 top five external risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Reputational risk</td>
<td>Cyber</td>
</tr>
<tr>
<td>2 Cyber</td>
<td>Brand and reputational risk</td>
</tr>
<tr>
<td>3 Disruption to your business following a major incident</td>
<td>Disruption to your business following a major natural catastrophe, such as earthquake, flood or extreme weather</td>
</tr>
<tr>
<td>4 Increased competition</td>
<td>Financial risks</td>
</tr>
<tr>
<td>5 Financial risks</td>
<td>Increased competition</td>
</tr>
</tbody>
</table>

Climate change was not on the radar of the surveyed New Zealand business leaders in 2015, but since then has moved to the third most significant risk in the form of ‘Disruption to your business following a major natural catastrophe’, as outlined in Table 1. This trend of increased awareness is also evident in the Climate Change and Business conference that has been run annually by EDS since 2015. This increasing concern is also reflected in the Zero Carbon Bill, which, if passed, will put in place a 2050 target to reduce emissions and establish an independent climate change commission to help New Zealand adapt to climate change (MfE, n.d.[c]). The Insurance Council of New Zealand (ICNZ) noted in response to the discussion document on the Bill that:

…it is right to identify the importance of undertaking a national climate change risk assessment so that planning and actions can address those risks in totality. Critical in this process is quantifying those risks and prioritising initiatives that have a net benefit to the country […] This is an opportunity to form a national strategy […] [to] help both insurers and the public more accurately measure and understand risk, particularly regarding properties. (ICNZ, 2018)

Robust disclosure of information about climate-related risks and opportunities in annual reports is vital for enabling stakeholders to identify and analyse risks and opportunities.

4. The need for taxation reform

Base erosion and profit shifting (BEPS) refers to ‘tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations’ (OECD, n.d.[a]). Fifteen actions have been developed to equip governments with domestic and international instruments to address BEPS, such as actions to manage harmful tax practices, treaty abuse, transfer prices (e.g. treatment of intangibles) and disclosure of aggressive tax planning (OECD, n.d.[b]). In December 2017 the New Zealand Government introduced a taxation bill into Parliament to address the fact that multinational companies get all the benefits of operating in New Zealand but in some cases do not have tax obligations; in 2018 New Zealand was rated as the top country in the world for ease of doing business for the second year in a row (IRD, 2017a; Companies Office, 2018a).

To illustrate the legal loopholes that allow this, as of March 2017 Apple New Zealand Limited had legally not paid income tax to Inland Revenue for the previous decade. The income tax paid in their accounts show that any tax paid has gone to the Australian Tax Office. This is a result of The Avoidance of Double Taxation treaty between Australia and New Zealand, which has been in place since 2007. The treaty permits companies to only pay tax where the company is controlled; Apple Sales New Zealand is wholly-owned by the Australian parent company (Nippert, 2017a).

The New Zealand Herald’s 2016 ‘Tax Gaps’ series found multinational technology companies to be the most aggressive industries for shifting profits outside of New Zealand, followed by pharmaceutical companies. Companies are manipulating their incomes to be low in New Zealand in order to pay little tax but report high profits abroad (Nippert, 2017b). For example, Pfizer reported $22.5 million in ‘return to capital’ to the parent company in the Netherlands thereby reducing its tax bracket and payments in New Zealand (Nippert, 2016a). The 20 companies that most aggressively shifted profits out of New Zealand together made $10 billion worth of sales in New Zealand but paid zero in income tax (Nippert, 2016b).
Furthermore, New Zealand suffered $1.24 billion in stolen tax revenue compared to $30 million defrauded benefit money in 2014, yet the government spends $3 (per $100 recovered) on tax evasion compared to $17 (per $100 recovered) on benefit fraud (Morris, 2017).

In 2016 the release of the Panama Papers further highlighted BEPS practices as utilised by foreign trusts, of which there are many set up in New Zealand. Due to loopholes in New Zealand’s trust law, New Zealand is currently ‘complicit in schemes to avoid tax’ (NZ Herald, 2016). This is due to a rule set up in 1988 designed to stop New Zealanders from setting up foreign trusts overseas; the rule meant that trusts were taxed based on where the settlor of the trust lives, i.e. if the trustee and beneficiary are overseas but the settlor lives in New Zealand, the trust will be taxed (Russell, 2016). Therefore, when the ‘settlers are overseas, [the] beneficiaries are overseas, the assets that are in the trust are overseas’, the income is earned by non-residents outside of New Zealand and is not taxed (Russell, 2016). As ‘most other countries tax based on where the trustee lives’, if a trust is set up in New Zealand with a New Zealand-based trustee but the settlor lives overseas, a loophole allows the trust to not be taxed (Russell, 2016). While trustees in New Zealand are required to keep records, they are not required to file information with Inland Revenue. Inland Revenue only collects the name of the trust and of the trustee. Following the New Zealand Government’s 2016 Inquiry into Foreign Trust Disclosure Rules (the Shewan Report), the Taxation (Business Tax, Exchange of Information and Remedial Matters) Act 2017 was passed, requiring more information to be provided from the trust upon registration and annually (IRD, 2017b). ‘The Shewan Report concluded that foreign trusts had very limited disclosure requirements and further, the requirements were not effectively policed’. Failure to comply with the new rules ‘will result in loss of the exemption from New Zealand income tax for that trust’ (McCrae & Marr, 2017).

5. Emergence of new reporting practices

There is an international trend of increasing requirements and guidelines for company reporting from both regulators and stock exchanges. International bodies like the EU and countries such as the UK and US have increased reporting requirements to include ‘non-financial’ information (Ho, 2018). Similarly, the IASB ‘has held preliminary discussions on its role in wider corporate reporting’ following encouragement from some of its stakeholders to acknowledge the growing importance of ‘non-financial information and the societal impacts of business’ (FRC, 2017, p. 42). Sustainability reporting and reporting against the IR framework have emerged as key reporting practices. This represents a shift from generally accepted accounting practices (GAAP) to looking outside of GAAP as a way to produce more useful data for users. This section discusses the demand side in terms of what financial information preparers are willing to supply that is currently outside the existing regulatory framework.

The XRB defines alternative performance measures (APMs) as ‘company performance measures other than those reported under Generally Accepted Accounting Practice (GAAP)’ (XRB, 2017b, p. 2). Although APMs ‘can provide valuable insight into a company and the extent to which its business model is successful and its objectives achieved’, if they are given ‘undue prominence […] over the equivalent IFRS measures’, they ‘can call into question the balance of the strategic report’ (FRC, 2017, p. 26).

The Institute’s research found that only a small number of NZSX-listed companies disclosed APMs (i.e. non-GAAP data) in their financial statements (McGuinness Institute, 2018c, p. 82). There is also an emerging trend of providing GAAP data outside of the financial statements but inside the annual report (e.g. in a highlights box); a KPMG study found that 52% of annual reports contained non-GAAP measures (KPMG, 2016a, p. 10).

An XRB survey found that 67.8% of users found multiple APMs useful and 80.2% of users found that reconciliation between non-GAAP and GAAP figures is ‘useful, with many commenting that this information is essential, vital or should be mandatory’ (XRB, 2017b). The XRB and the FMA have both prepared research documents and guidance on the reporting of non-GAAP information, although the
FMA guidance relates specifically to financial information outside the financial statements (XRB, 2017b; FMA, 2017).

Notably, the IASB has not prepared any guidance in this area. The July 2018 update on the IFRS’s Disclosure Initiative – Principles of Disclosure states that ‘the Board tentatively decided not to develop requirements about IFRS information provided outside the financial statements [...] The Board also tentatively decided not to develop requirements about non-IFRS information provided within financial statements’ (IFRS, 2018).

This means that the international status quo for APMs continues, leaving responsibility for ensuring disclosures are not misleading up to individual regulators.

6. Increase in number and frequency of standards and guidelines

Given the emergence of new reporting practices identified above, there are a growing number of protocols and voluntary guidelines being developed outside the accounting framework and applied by a range of report preparers (see Tables A2.1 and A2.2 in Appendix 2). Looking at 71 countries in 2016, KPMG found there were 383 sustainability reporting instruments across 64 countries, with 65% of these instruments being mandatory (KPMG et al., 2016, p. 9). Government regulation accounted ‘for the largest proportion of sustainability reporting instruments worldwide with governments in over 80% of the countries studied [...] introducing some form of regulatory sustainability reporting instruments’ (KPMG et al., 2016, p. 9). Accordingly, ‘81% of the companies listed on the S&P 500 published sustainability reports in 2016’, all largely influenced by the emergence of sustainable reporting frameworks (McElroy, 2017).

The recommendations of the TCFD are an interesting example of guidelines, in that they have been developed separately from accounting standard-setters but have been designed to improve GAAP information in financial statements. It remains surprising that the IASB is not addressing the emergence of new guidelines and protocols, making the reporting framework ad hoc and more challenging for prepares and users alike.

7. The need for assurance reform

In the wake of other trends such as the emergence of new business models and reporting practices, there is growing concern surrounding ‘the big four accounting firms, Deloitte, EY, KPMG and PWC’ and the auditing and accounting sector more generally, ‘precipitated by a series of high profile corporate collapses’ (Eaqub, 2018). In May 2018, a report by two UK parliamentary select committees into the collapse of Carillion, a British contracting and building firm and one of the biggest corporate failures in recent British history, found:

There is a danger of a crisis of confidence in the audit profession. KPMG’s audits of Carillion were not isolated failures, but symptomatic of a market which works for the Big Four firms but fails the wider economy. There are conflicts of interest at every turn [...] Waiting for a more competitive market that promotes quality and trust in audits has failed. It is time for a radically different approach. We recommend that the Government refers the statutory audit market to the Competition and Markets Authority. The terms of reference of that review should explicitly include consideration of both breaking up the Big Four into more audit firms, and detaching audit arms from those providing other professional services. (Business, Energy and Industrial Strategy and Work and Pensions Committees, 2018, pp. 5–6)

Stephen Haddrill who, as CEO of the UK Financial Reporting Council (FRC), (i) sets the Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work, (ii) monitors and takes action to promote the quality of corporate reporting, and (iii) operates independent enforcement arrangements for accountants and actuaries, noted:

At a time when public trust in business and in audit is in the spotlight, the Big 4 must improve the quality of their audits and do so quickly. They must address urgently several factors that are vital to audit, including the level of challenge and skepticism by auditors [...] to meet the legitimate expectation of investors and other stakeholders. (FRC, 2018b)
Actions taken by the FRC include ‘implementing a new audit firm monitoring approach, focusing on
five key pillars: leadership and governance, firm values and behaviours, business models and financial
soundness, risk management, and evidence of audit quality’ (FRC, 2018b).

In New Zealand, the need for reform in the accounting industry has been raised by economist Shamubeel
Eaqub. In July 2018 he argued that, rather than split up the big firms into a number of multi-disciplinary
firms to create more competition, a better option would be to separate the audit role to ‘make audit [sic]
stand on its own feet and make their only job to challenge the businesses to ensure they are fit and looking
after their shareholders’ interests’ (Eaqub, 2018). He argues New Zealand should ‘look at rules to make this
happen’ and, ‘in the meantime, government should lead by example and use audit-only firms’ (Eaqub, 2018).

The current New Zealand assurance system was outlined at the time of the 2009 financial reporting
framework review, when the MED considered ‘which GPFR entities should be required, by law, to obtain
some form of audit assurance’, but left it open for the XRB to determine what level of assurance should
apply to each entity type (ASRB, 2009, p. 44). The ASRB agreed that ‘assurance is generally required
for users information needs to be met’ but was careful to consider the cost-benefit balance of providing
assurance (ASRB, 2009, p. 44).

The XRB and the FMA undertook a review in 2017 of the new Key Audit Matters (KAMs) that require
auditors to amend their auditor’s reports to ‘provide greater transparency about the audit that was
performed, highlight the matters that required the most audit attention [and] provide users with a basis
to further engage with management and those charged with governance’ (XRB & FMA, 2017, p. 3). The
authors note that this is ‘the most visible change to the auditor’s report in more than 50 years’ and that
the ‘driver for these changes was a demand from users for the auditor to provide more insights about
the audit process’ (XRB & FMA, 2017, p. 3). The most common KAMs listed by auditors in the review
were ‘impairment of goodwill/other intangible assets, valuation property plant & equipment, revenue
recognition [and] investment-related entities’ (XRB & FMA, 2017, p. 9). They also found that the
placement of the audit report varied in practice, ‘with most annual reports including the auditor’s report
after the financial statements’ (XRB & FMA, 2017, p. 25). In 2018, New Zealand law firm Chapman Tripp
noted ‘a tension between providing enough information to convey the significance of the KAM without
the reader reading too much into the outcome, given the judgements that need to be applied to complex
decisions’ (Chapman Tripp, 2018, p. 8).

Furthermore, the XRB consulted on ED NZAuASB 2017-1 Proposed Amendments to PES 1 (Revised)
Provisions Addressing the Long Association of Personnel with an Assurance Client in 2018 and has now
issued PES 1 International Code of Ethics for Assurance Practitioners (including International Independence
Standards) (New Zealand) (XRB, 2018a; 2018XX). The Australian equivalent in relation to companies is
outlined in ss 324DA(1) and (2) of the (Australian) Corporations Act 2001 (see Appendix 7, Part B).
4. Insight: McGuinness Institute research

Highlights

1. Users’ demands for reporting disclosures exceed the preparers’ provision of information. A significant reporting gap exists between what users need and what preparers provide.

2. Financial statements report against a narrow set of principles and standards while annual reports report against broad and diverse legal requirements without a common set of principles or standards. The distinction between what should be published in financial statements and what should be published in annual reports is becoming increasingly unclear.

3. A number of reporting inconsistencies exist. Examples of these include no requirements on political donations, no distinction between cash paid to the New Zealand IRD versus other nation states’ equivalents, no climate change reporting standards or the broader question of how we report on ‘low probability/high magnitude’ events.

4. No sector is reporting well on climate change in their annual reports. This is most likely due to the fact that there is no clear guidance for them to report against beyond greenhouse gas emissions and the emissions trading scheme. Work is urgently required to better inform investors and other stakeholders about vulnerability to climate change risks, how the organisation might be impacted and the steps it is taking to manage and/or adapt to the problems (see Figure 28 in Section 4.3.1).

5. Business models are undergoing substantial change. This is evidenced by the move away from tangible assets towards more intangible asset market values, which are more volatile, less certain and therefore harder to value. Reputation is an increasingly important asset for organisations to manage.

6. No stewardship exists across the whole reporting framework, instead the system is divided into silos. Each silo is managed with varying levels of rigour and types of monitoring. It was difficult to understand the efficiency and effectiveness of each silo, as compliance costs, late filing fees and penalties were not easy to find.

7. Although a significant amount of research is being undertaken on financial statements, very little research is being undertaken on annual reports.

In 2011 the McGuinness Institute published Survey: Integrated Annual Report Survey of New Zealand’s Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues (the 2011 Preparers’ Survey), which focused on Integrated Reporting (IR). IR refers to the integrated representation of a company’s performance in terms of both financial and non-financial results, then assumed to be included as an extended version of an annual report. Accordingly, 2011 Preparers’ Survey respondents were asked to focus solely on their annual reports.

To examine the subsequent dialogue and developments on EER, the research underpinning Report 17 was split into five phases, outlined in Table 2 below, to assess what is and is not working in the current reporting landscape. The research phases of Project ReportingNZ complement each other to build a picture of New Zealand’s reporting landscape. Together the results enable an analysis of the attitudes of users and preparers towards reporting, an analysis of current disclosures in annual reports, report disclosures/data that may become more important in the future, and an overview of the existing reporting framework for five types of entities.

An overview of each piece of research and the specific research findings is outlined in each sub-section under the topic headings of accessibility, content, frameworks and assurance. Phases 4 and 5 are new, previously unpublished research, and are explained in greater detail in Sections 4.4 and 4.5.
4. INSIGHT: PRIMARY RESEARCH

Table 2: Five research phases as at August 2018

<table>
<thead>
<tr>
<th>Phase 1: Analysis of preparer and user views on Extended External Reporting (EER)</th>
<th>Phase 2: Analysis of NZSX-listed companies’ annual reports</th>
<th>Phase 3: Analysis of climate change reporting in the public and private sectors</th>
<th>Phase 4: Analysis of intangible asset market value</th>
<th>Phase 5: Reporting requirements of five types of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>What/who was researched?</td>
<td>92 responses from CFOs of NZSX-listed companies and companies listed on the 2016 Deloitte Top 200.</td>
<td>104 responses from users. The survey was open to the public and sent to a range of potentially interested parties including investors, industry organisations, NGOs and universities.</td>
<td>126 NZSX-listed company 2016 annual reports.</td>
<td>186 2017 Deloitte Top 200 annual reports/financial statements, 29 government department annual reports, 65 Crown agent and Crown entity annual reports, ten state-owned enterprise annual reports and 78 local authority annual reports.</td>
</tr>
<tr>
<td>What information was collected?</td>
<td>Quantitative data taken from multi-choice questions in the survey. Qualitative data from comments.</td>
<td>Quantitative data taken from multi-choice questions in the survey. Qualitative data from comments.</td>
<td>Quantitative data from annual report content.</td>
<td>Quantitative data from financial statements and market capitalisation.</td>
</tr>
</tbody>
</table>

4.1 Phase 1: Analysis of 2017 preparer and user views on EER

4.1.1 Overview

The 2017 Preparers’ Survey and Users’ Survey was a collaboration between the McGuinness Institute and the External Reporting Board (XRB). The two surveys can be read in full in the Preparers’ Survey: Attitudes of the CFOs of significant companies towards Extended External Reporting booklet and the Users’ Survey: Attitudes of interested parties towards Extended External Reporting booklet. A full analysis of the results can be read in Survey Insights: An analysis of the 2017 Extended External Reporting Surveys. Alternatively, a summary of the results can be read in Survey Highlights: A summary of the 2017 Extended External Reporting Surveys.
The aims of the 2017 surveys were threefold:

- 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.

Where appropriate, responses from 2011 Preparers’ Survey and 2017 Preparers’ Survey were compared. Please note that, unless otherwise indicated, all findings below are from the 2017 surveys.

4.1.2 Research results

Views on Extended External Reporting (EER)

- 56% of users responded to the survey in their capacity as shareholders/existing investors, followed by 32% responding as members of civil society (McGuinness Institute, 2018b, pp. 7, 13)

- Qualitative analysis of comments from Users’ Survey responses revealed four comment groups: EER sceptics, pragmatic sceptics, pragmatic supporters and EER supporters. The majority of respondents (70%) can broadly be categorised as supporters of EER (see Figure 12 below).

Accessibility

- 63% of users indicated that they did not consider EER information to be easily accessible (McGuinness Institute, 2018a, p. 10).
- 23% of users indicated that they accessed annual reports via the Companies Register (McGuinness Institute, 2018a, p. 10).
- 81% of users indicated that over the past two years they had not requested EER information from a for-profit entity (McGuinness Institute, 2018a, p. 13).
- 57% of preparers indicated that their company publishes EER (McGuinness Institute, 2018a, p. 10).
- Preparers indicated that they receive very few requests for further information in their reports. Many noted in their survey responses that they struggle to see the return on investment of providing more information (McGuinness Institute, 2018d, pp. 25–27).
- Some report preparers indicated that finding the right skills for the collection and reporting of some data can be a significant challenge (McGuinness Institute, 2018d, p. 23).
Content – Four capitals

- Users were consistently more likely than preparers to think it important or very important for a company ‘to disclose information on the four capitals in EER’:
  - 87% of users believed this to be the case for natural capital (compared with 56% of preparers),
  - 86% for human capital (compared with 53% of preparers),
  - 84% for economic capital (compared with 46% for preparers), and
  - 75% for social capital (compared with 42% for preparers) (McGuinness Institute, 2018a, p. 14).
Users also did not believe this information was well-reported, with 33% considering the natural and human capitals ‘to be reported on well’, 31% considering economic capital ‘to be reported on well’, and 24% considering social capital ‘to be reported on well’ (McGuinness Institute, 2018a, p. 14). See all results in Figure 13.

Figure 13: Comparing views of report preparers with report users on what specific EER information are important or very important to disclose

Source: (McGuinness Institute, 2018a, p. 16)

Content – Performance and EER information

- 95% of the surveyed EER users indicated that they ‘primarily access EER through an annual report’ (McGuinness Institute, 2018a, p. 10). A further 63% of EER users said they did not think this kind of information was easily accessible, suggesting that the current systems are not serving the needs of users (McGuinness Institute, 2018a, p. 10).

- The gaps between what information preparers provide and what users want is substantial. See Figures 14-16.

- 77% of preparers and 93% of users considered ‘total deaths as a result of work’ to be an important/very important disclosure. 37% of users considered this information to be ‘reported on well’ (see Figure 15).

- Among the preparers, support for disclosing health and safety information (under the broader notion of ‘human capital’) tended to come from ‘preparers that worked in labour-intensive industries’ (McGuinness Institute, 2018a, p. 18). These survey respondents ‘placed high importance on the disclosure of [...] the total number of deaths, injuries and illnesses as a result of work when compared to industries that were less labour-intensive’ (McGuinness Institute, 2018a, p. 18).

- 53% of preparers and 79% of users indicated that they consider it important or very important to disclose total greenhouse gas emissions. 18% of users considered GHG emissions to be ‘reported on well’ (see Figure 15).

- 54% of preparers and 70% of users considered the disclosure of gender statistics on employees to be important. 37% of users considered this information to be ‘reported on well’ (see Figure 15).
Figure 14: Comparing views of report preparers with report users on what performance details are important or very important to disclose
Source: (McGuinness Institute, 2018a, p. 14)

Figure 15: Comparing views of report preparers with report users on what specific EER statistics are important or very important to disclose (plus how well users considered information to be reported)
Source: (McGuinness Institute, 2018a, p. 15)

<table>
<thead>
<tr>
<th>Q: Do you think it is important/very important to disclose the following statistics in EER?</th>
<th>Preparers</th>
<th>Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total deaths as a result of work (Q14)</td>
<td>93%</td>
<td>77%</td>
</tr>
<tr>
<td>Total company income tax paid (Q14)</td>
<td>88%</td>
<td>76%</td>
</tr>
<tr>
<td>Total injuries/illnesses as a result of work (Q14)</td>
<td>87%</td>
<td>68%</td>
</tr>
<tr>
<td>Number of full-time equivalents (FTEs) (Q14)</td>
<td>85%</td>
<td>68%</td>
</tr>
<tr>
<td>Breaches of air pollution standards (Q14)</td>
<td>84%</td>
<td>61%</td>
</tr>
<tr>
<td>Breaches of water quality standards (Q14)</td>
<td>86%</td>
<td>60%</td>
</tr>
<tr>
<td>Number of employees by gender (Q14)</td>
<td>70%</td>
<td>54%</td>
</tr>
<tr>
<td>Total greenhouse gas emissions (Q14)</td>
<td>79%</td>
<td>53%</td>
</tr>
<tr>
<td>Number of stakeholders engaged (Q14)</td>
<td>69%</td>
<td>42%</td>
</tr>
<tr>
<td>Number of cyber security breaches (Q14)</td>
<td>77%</td>
<td>36%</td>
</tr>
<tr>
<td>Amount of nitrogen used (Q14)</td>
<td>66%</td>
<td>31%</td>
</tr>
<tr>
<td>Average payment period in days (Q14)</td>
<td>50%</td>
<td>18%</td>
</tr>
<tr>
<td>Types and numbers of animals in care (Q14)</td>
<td>49%</td>
<td>17%</td>
</tr>
</tbody>
</table>
Figure 16: Comparing views of report preparers with report users on what specific EER statistics are important or very important to disclose

Source: (McGuinness Institute, 2018a, p. 15)

Assurance

- 56% of report preparers and 76% of report users indicated their support for independent assurance (McGuinness Institute, 2018a, p. 23).
- 45% of preparers and 41% of users indicated that the XRB was their preferred standard-setter for EER (see Figure 17 below).

Figure 17: Comparing views of report preparers with report users on who should issue guidance if EER was made mandatory in New Zealand

Source: (McGuinness Institute, 2018a, p. 22)
4. INSIGHT: PRIMARY RESEARCH

4.2 Phase 2: Analysis of the 2016 annual reports of 2017 NZSX-listed companies

4.2.1 Overview

When scoping the 2017 surveys, the Institute became interested in understanding how the content of annual reports may be changing over time. Given that annual reports of companies are not always publicly available, the Institute focused on the annual reports of NZSX-listed companies. Under cls 61D(2) and (3) of the Financial Markets Conduct Regulations 2014, if an FMC reporting entity is an ‘e-reporting entity’ (which includes listed companies), the organisation’s annual report must remain available on the company’s website for at least five years. Given this, the Institute felt confident that the annual reports would be easily available.

The results of this research can be found in Working Paper 2018/01 – NZSX-listed Company Tables. It reviewed the annual reports through a number of lenses, looking at the availability of both financial and non-financial data as well as the use of external reporting frameworks and ease of access of the annual reports. Chartered accounting firm BDO audited this report to ensure the analysis was transparent, objective and data-driven. A comprehensive methodology for Working Paper 2018/01 – NZSX-listed Company Tables is outlined in Supporting Paper 2018/01 – Methodology for Working Paper 2018/01. The methodology documents the research process, as well as the challenges and issues that arose during the process to enable the research to be repeated in the future.

Please note that all findings below are from the analysis of the 2017 NZSX-listed companies’ annual reports, unless otherwise indicated. For example, in some cases the research was expanded to review and compare the results with companies listed on the 2016 Deloitte Top 200, or annual reports of NZSX-listed companies published in the 2017 calendar year.

4.2.2 Research results

Accessibility

- Of the 2016 Deloitte Top 200, 83 companies applied disclosure concessions when preparing their 2016 annual reports, electing to report under Tier 2 (NZ IFRS RDR) and limiting their requirements to provide certain legally required non-financial information (McGuinness Institute, 2018c, p. 40).

- For companies deemed to be publishing EER (not legally required), a variety of approaches were taken to format the content and data. For example, many of the 2017 NZSX-listed companies disclosing gender diversity information (such as for their directors and officers) variously did so as numbers or percentages, making comparisons difficult (see Figure 18).
Figure 18: Overview of how the gender diversity of ‘company directors’ and ‘company officers’ is disclosed in 2016 annual reports of 2017 NZSX-listed companies

Source: (McGuinness Institute, 2018c, pp. 144–145)

(i) Company directors

(ii) Company officers

Content – Health and safety

- 40% of the 2017 NZSX-listed companies mentioned specific health and safety information (classified here as statistics, practices and/or targets) in their 2016 annual reports (see Figures 19–20). Furthermore, 55% of these companies mentioned a health and safety policy in their 2016 annual reports (McGuinness Institute, 2018e, p. 3).

Figure 19: Comparing the ‘health and safety information’ disclosures with non-disclosures in the 2016 annual reports of 2017 NZSX-listed companies

Source: (McGuinness Institute, 2018e, p. 4)
4. INSIGHT: PRIMARY RESEARCH

Figure 20: Illustrating the types of ‘health and safety information’ disclosed in Figure 19
Source: (McGuinness Institute, 2018c, p. 4)

![Graph](image)

Content – Climate change reporting
- 28.6% of 2017 NZSX-listed companies’ 2016 annual reports disclosed information on environmental practices or targets and 24.6% of these annual reports disclosed carbon emissions information (see details in Figures 21–24 below).

Figure 21: Comparing environmental information ‘not disclosed’ with environmental information ‘disclosed’ when analysing the 2016 annual reports of 2017 NZSX-listed companies
Source: (McGuinness Institute, 2018c, p. 164)

![Pie chart](image)

Figure 22: Illustrating the types of environmental information companies disclosed in Figure 21
Source: (McGuinness Institute, 2018c, p. 164)
Content – Gender

- The average number of women in the position of officer has decreased over the last six years (18% in 2016 compared to 21% in 2012) whereas the average number of women in directorship has increased (18% in 2016 compared to 9% in 2012) (McGuinness Institute, 2018c, pp. 144–145; Bond, 2012).

- 35% of boards have male-only directors, 58% have female directors but a male majority, 4% have an equal number of men and women and 3% have male directors but a female majority. No companies have female-only directors. Figures for representation of female directors on boards were higher than female officers on the executive team; eight companies versus four companies for those that were 50:50 or less (see Figure 25 below).
Content – Political and non-political donations

- 102 out of 126 NZSX-listed companies made a general disclosure regarding donations (see Figure 26(i)).

- 12 companies specifically disclosed a statement on political donations. All 12 companies reported zero political donations were made (see Figure 26(ii)). Interestingly, two of the 12 companies did not disclose any other form of donation (McGuinness Institute, 2018c, pp. 129, 133).
4. INSIGHT: PRIMARY RESEARCH

Figure 26: Overview of how ‘donations’ and ‘political donations’ are disclosed in the 2016 annual reports of 2017 NZSX-listed companies
Source: (McGuinness Institute, 2018c, pp. 128–129, 132–133)

(i) Donations (political and non-political)  
(ii) Political donations

- Annual reports that did not disclose donations made [24]
- Annual reports that disclosed donations made [102]
- Annual reports that did not disclose political donations [114]
- Political donations disclosed (all $0) [12]

Reporting frameworks

- 18 of the NZSX-listed companies analysed applied an internationally recognised framework when preparing their 2016 annual reports (McGuinness Institute, 2018c, p. 73).
- 55 of the NZSX-listed companies used the NZX Corporate Governance Code (NZX Code), which was voluntary until 31 December 2017 (McGuinness Institute, 2018c, p. 73).
- Nine of the NZSX-listed companies did not prepare their 2016 financial statements according to NZ IFRS and instead used overseas accounting standards (McGuinness Institute, 2018c, pp. 29, 89).

Assurance

- 72% of the NZSX-listed companies had used the same auditor over the five-year period in question (2012–2016). The most commonly used firms over this five-year period were PwC and KPMG, with 33 and 22 companies contracting them respectively (see Figure 27 below).
Figure 27: Illustrating the proportions of audit firms that 72% of the 2016 NZSX-listed companies have engaged for five consecutive years (2012–2016)

Source: (McGuinness Institute, 2018c, p. 61)

4.3 Phase 3 results: Analysis of climate change reporting in the public and private sectors

4.3.1 Overview

When writing up the findings of Working Paper 2018/01 – NZSX-listed Company Tables, it became apparent that New Zealand had a climate change reporting problem (e.g. only 24.6% of annual reports from the 2017 NZSX-listed companies disclosed carbon emissions information, see Figure 23). The Institute was interested to find out whether this was unique to the 31 NZSX-listed companies.

As this research phase was carried out in 2018, the Institute decided to use annual reports published in 2017. As the focus was comparing significant organisations operating in New Zealand, the data set was also extended to include the accessible annual reports of 384 organisations: 186 2017 Deloitte Top 200 companies, 29 government departments, 65 Crown agents and Crown entities, 10 state-owned enterprises and 78 local authorities.

The results were written up in Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors. The research analysed 2017 annual reports (or, if not available, financial statements), looking at how they reported climate change information. Climate change information was categorised as risks, metrics, costs, controls, targets and initiatives, which were chosen to illustrate the three steps of problem solving (see Figure 28 below). The working paper also included examples of best practice from each organisation type.

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2 The 14 companies that did not make their financial statements available on their website are: British American Tobacco Holdings (New Zealand) Limited, Nuplex Industries Limited, Methanex New Zealand Limited, OJI Fibre Solutions (NZ) Limited, Shell, H. J. Heinz Company (New Zealand) Limited, Beca, Waste Management NZ Limited, Samsung, Orion, Northpower, ACI Operations NZ Limited, Oceanic Communications Limited and Tango Holdings Limited (McGuinness Institute, 2018f, pp. 64-71). At least six of the 14 could be able to be classified as branches of overseas-owned companies: British American Tobacco Holdings (New Zealand) Limited, Methanex New Zealand Limited, OJI Fibre Solutions (NZ) Limited, Shell, H. J. Heinz (New Zealand) Limited and Samsung. Interestingly, two of the 14 companies are New Zealand energy companies (Orion and Northpower).
4. INSIGHT: PRIMARY RESEARCH

4.3.2 Research results

Accessibility

- 50.5% of the documents provided by the 2017 Deloitte Top 200 were not searchable using ‘find’ and needed to be converted into searchable documents (see Figure 29 below).
- 57.5% of 2017 Deloitte Top 200 companies filed their annual reports (instead of just their financial statements) on the Companies Register (see Figure 30 below).
- 54% of New Zealand’s most significant companies are unlikely to meet the definition of an FMC reporting entity (under s 451 of the Financial Markets Conduct Act 2013), as they are not a listed issuer and are unlikely to meet the other requirements in the definition (see Figure 31 below).

Please note that all findings below are from the analysis of 2017 published annual reports (or financial statements), unless otherwise indicated.
4. INSIGHT: PRIMARY RESEARCH

Content

- Of the 384 entities analysed, 248 did not disclose climate change information in any category. Figure 32 below illustrates the disclosures that were made by the remaining 136 entities.
- 2017 Deloitte Top 200 companies are no different than other entities in New Zealand. See Figure 33.
- 10.4% disclosed information on climate change risks in their annual reports or financial statements (see Figure 33(vi)).
- The most disclosed climate change information categories were climate change costs and initiatives (19.0% and 18.8% respectively) (see Figure 33(vi)).

Figure 30: Overview of accessibility of 2017 Deloitte Top 200 annual reports and financial statements on the Companies Register
Source: (McGuinness Institute, 2018b, p. 8)

Figure 31: Comparing companies that are on the 2017 Deloitte Top 200 with the 2017 NZSX-listed companies
Source: (Deloitte, 2017; Personal communication with NZX, 3 May 2018)

3 Please note that four of the state-owned enterprises (KiwiRail Holdings Limited, Landcorp Farming Limited, Transpower New Zealand Limited and New Zealand Post Limited) are in both the 2017 Deloitte Top 200 and state-owned enterprises data sets: data sets (i) and (iv). For Figures 32 and 33 (vi) the double counting has been removed. This means that adding the totals of Figures 33 (i), (ii), (iii), (iv) and (v) will result in 388 entities: four more than what is shown in Figure 33 (vi). Furthermore, both the Crown Research Institutes [7] and district health boards [20] have been grouped and treated as one entity respectively, but each of their individual annual reports were analysed. This aligned the data sets with the original lists taken from the Crown Entities Act 2004. This means in practice that another 25 organisations were analysed, bringing the total number of organisations analysed to 409.
Figure 32: Illustrating climate change information disclosed by number of categories in the 2017 annual reports of significant entities [136 out of 384]
Source: (McGuinness Institute, 2018b, p. 53)
Figure 33: Comparing climate change information disclosed in the 2017 annual reports of significant organisations
Source: (McGuinness Institute, 2018b, pp. 6, 17, 19, 21, 24, 52)

(i) 2017 Deloitte Top 200 companies [200]

(ii) Government departments [31]

(iii) Crown agents and Crown entities [65]

Climate change information categories
Figure 33: Comparing climate change information disclosed in the 2017 annual reports of significant organisations cont.
Source: (McGuinness Institute, 2018b, pp. 6, 17, 19, 21, 24, 52)

(iv) State-owned enterprises [14]

(v) Local authorities [78]

(vi) Total New Zealand entities analysed [384]
4. INSIGHT: PRIMARY RESEARCH

Reporting frameworks

- Figure 34 below illustrates the research results from searching the 2017 annual reports and financial statements to understand the level of adoption of different international guidelines/standards. The results highlight that there is very little uptake by New Zealand companies of international standards such as GRI Standards, the IIRC Framework and other approaches such as the CDP, Accounting For Sustainability (A4S) frameworks and TCFD.

As illustrated above, nine significant organisations mentioned scope 1, 2 and 3 emissions in their annual report. Out of those nine, three mentioned the Ministry for the Environment’s voluntary guidelines: Vector Limited, Sanford and Contact Energy. However, the majority of these companies are following international guidelines and reporting frameworks (such as GHG Protocol or ISO:14001), rather than the MfE’s reporting guidelines (see Table 3 below).
4. INSIGHT: PRIMARY RESEARCH

Table 3: Reporting guidelines used by significant organisations that mentioned ‘scope’

<table>
<thead>
<tr>
<th>Organisations that mention ‘scope’ (in the context of climate change reporting)</th>
<th>Guidelines followed (in relation to mentions of ‘Scope’)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact Energy Limited</td>
<td>MfE voluntary guidelines</td>
</tr>
<tr>
<td>Greater Wellington Regional Council</td>
<td>No guidelines mentioned explicitly (assumed GHG Protocol)</td>
</tr>
<tr>
<td>Mercury New Zealand Limited</td>
<td>GRI 305</td>
</tr>
<tr>
<td>Meridian Energy Limited</td>
<td>GRI EN15-17</td>
</tr>
<tr>
<td>New Zealand Post Limited</td>
<td>ISO 14064-1:2006</td>
</tr>
<tr>
<td>Sanford Limited</td>
<td>MfE voluntary guidelines</td>
</tr>
<tr>
<td>SKYCITY Entertainment Group Limited</td>
<td>No guidelines mentioned explicitly (plan to start reporting against scopes in the future)</td>
</tr>
<tr>
<td>Vector Energy Limited</td>
<td>MfE voluntary guidelines</td>
</tr>
<tr>
<td>Z Energy Limited</td>
<td>GRI 305</td>
</tr>
</tbody>
</table>

Report length

- The average annual report length of 2017 NZSX-listed companies was between 50–100 pages (see Figure 35 below). Research conducted by KPMG on 270 2015/2016 international companies (being annual reports and possibly complementary documents) indicated an average length of 204 pages (KPMG, 2016b, p. 6).

Figure 35: Comparing the ‘average page length’ of the 2017 annual reports of 2017 NZSX-listed companies with the average page length of 2015/16 annual reports of international companies

Source: (Adapted from KPMG, 2016b, p. 8; Personal Communication with NZX, 3 May 2018)

4 Please note that the KPMG methodology was unclear and the data may therefore not be comparable. The KPMG report was published in 2016 but the balance date of the reports studied was not disclosed. Furthermore, the KPMG report included disclosures from additional documents in the page count of the annual reports in cases where such disclosures would ‘normally be provided in an annual report’ (KPMG, 2016b, p. 6).
4. INSIGHT: PRIMARY RESEARCH

4.4 Phase 4 Research: Analysis of intangible asset market value

4.4.1 Overview

This section analyses the tangible and intangible asset values of 110 companies listed on the NZSX in 2017. The Institute found that NZSX-listed companies followed the current international trend of moving from primarily tangible to intangible asset value. This coupled with the fact that, due to the requirements of current accounting reporting standards, only certain intangible assets are recorded in financial statements (e.g. goodwill) while others are not (e.g. the value of the company’s brand), makes finding an accurate value of a company’s intangible assets a difficult task.

The Ocean Tomo 2015 study *Intangible Asset Market Value* outlines a method to accurately estimate the value of a company’s intangible assets. This method was applied to the 110 2017 NZSX-listed companies that published 2017 financial statements. Firstly, market capitalisation (market cap) is calculated at the balance date of the financial statements. At this time, the total ordinary shares issued is multiplied by the share price. Secondly, the company’s net tangible asset value (NTAV) (total assets minus total intangible assets reported in financial statements minus total liabilities) is calculated from the financial statements. Thirdly, net intangible asset value (NIAV) is calculated by market capitalisation less NTAV. This process shows the proportion of the company’s market cap that is attributable to intangible assets (NIAV divided by market cap) and tangible assets (NTAV divided by market cap) (Elsten & Hill, 2017, p. 245).

(a) Comparison of New Zealand and international equity markets

Figure 36 (vi) presents the 2017 results for New Zealand’s NZSX, enabling comparisons with other international equity markets using Ocean Tomo’s 2015 data; the NZSX has an average tangible asset value of 41% and average intangible asset value of 59%. This provides a current snapshot of the NZSX. However, not all companies were similar in terms of tangible and intangible asset values. There were many cases where a company had a negative tangible/intangible asset value (and as a result one percentage would be negative and one would be over 100%), indicating a company’s value depended highly on their tangible/intangible assets. For example, New Zealand Oil and Gas Limited (a mining company) has a tangible asset value that is 136.18% of market capitalisation (and thus an intangible asset value of -36.18% of their market capitalisation), meaning the company is highly dependent on tangible assets. By contrast Trade Me Group Limited (an information technology company) has an intangible asset value of 104.35% of their market capitalisation.

Figures 36(i) and (ii) indicate that the percentage of NZSX’s average tangible asset value is higher than the American and European equity markets. The NZSX aligns more closely with the Asian markets (Figures 36(iii) to (vi)), which have tangible asset values between 31% and 46%. Although the comparable data is from 2015, it indicates that the New Zealand equity market has a higher tangible asset value than its international counterparts. There may be a number of reasons for this; international markets may have more companies in sectors that depend on intangible assets. The S&P 500 (an American stock market index) tends to list companies in sectors whose value comes primarily from intangible assets, such as information technology (e.g. Apple, Facebook and Microsoft) and healthcare (e.g. Johnson & Johnson, Pfizer Inc. and Cigna), with these two sectors alone making up 40% of the S&P 500 (S&P Dow Jones Indices, n.d.). The NZSX, on the other hand, may have more primary industry and property companies, which are both heavily dependent on tangible assets.

(b) Comparisons over time

Ocean Tomo’s 2015 study illustrates that, over the past 40 years, the S&P 500 market value has shifted from being primarily driven by tangible assets to being primarily driven by intangible assets (see Figure 37...
below). Similar shifts have been observed in Asian and European markets (Elsten & Hill, 2017, pp. 246–247). Companies whose values depend heavily on tangible assets are now increasing their levels of intangible assets (Jarboe, 2015, p. 2). All tangible assets are recognised in the financial statements, but not all intangible assets are recognised in the financial statements. This discrepancy indicates that financial statements do not currently accurately portray a company’s value and raises questions as to whether accounting standards, both in New Zealand and internationally, need to change to enable the value of a company’s intangible assets to be more accurately represented.

4.4.2 Research results

- New Zealand follows a similar proportion of tangible versus intangible asset market value as Asian markets (see Figures 36(iii)–(vi)).

- The US market is becoming significantly less dependent on tangible assets (see Figure 37). An argument exists that while the old model of company tends to be tangible asset rich, the new model tends to be intangible asset rich (Skroupa, 2018).

- Intangible assets are increasingly important in creating value for companies, even for companies whose value comes primarily from tangible assets (Skroupa, 2017; Jarboe, 2015, p. 2).

- The risk is that ‘reporting systems could become increasingly irrelevant’ and ‘may not capture the true role and purpose of organizations (beyond profit)’ (Persico, n.d.). Furthermore, ‘they may not communicate how and for whom organizations are creating long-term value’ (Persico, n.d.).
Figure 36: Comparing intangible asset market values of international equity markets (2015) with the New Zealand equity market (2017)

Source: Figures (i)–(v) adapted from Elsten & Hill, 2017, pp. 245–246; Figure (vi) from Yahoo Finance and company financial statements.
Figure 37: Illustrating the changes in intangible asset market values of US S&P 500 over time (1975–2015)
Source: (Elsten & Hill, 2017, p. 245)

4.5 Phase 5: Analysis of reporting requirements of five types of entities

4.5.1 Overview

The reporting framework has evolved on an entity by entity basis over many varying time frames. This made it necessary to locate each entity’s reporting requirements in legislation and then work backwards to determine how the framework operates in practice. Tables 4 and 5 and the tables in Appendix 5 are the result of this process. Tables 4 and 5 in the body of this section contain the same information as the tables in Appendix 5 (Tables A5.1–A5.5), but are structured to emphasise different aspects of the reporting framework.

Table 4 below enables comparison of each entity type’s annual report reporting requirements while Table 5 enables comparison of each entity type’s financial statement reporting requirements. In contrast, the five tables in Appendix 5 compare the reporting requirements of annual reports and financial statements for each entity type.

The five entity types selected were companies, Crown agents and Crown entities, government departments, local government and registered charities. Even though the scope of this exercise was narrow, it was difficult to complete due to the disjointed nature of the reporting framework. Notably, the financial reporting framework was significantly easier to review than the annual reporting framework.

When reviewing the table and the observations below it is important to note that although financial statements are a subset of annual reports, for the purposes of this research annual reports are reviewed as though they do not include financial statements. Appendix 5 contains additional notes that relate specifically to Tables 4 and 5.
4. INSIGHT: PRIMARY RESEARCH


4.5.2 Research results

The research results are broken down into general and specific observations.

General observations

- For some entities, the legal language regarding annual reports implies that financial statements are included as a component of the annual report. However, in general, they are treated as separate publications in law. In contrast to financial statements, the content of annual reports is not tightly managed to ensure compliance (in terms of content, timing, accessibility).
- As a general rule, public sector legislation tends to focus on annual reports (which includes financial statements), whereas private sector legislation tends to focus on financial statements.
- There is a technical distinction between the ‘preparation’ of annual reports or financial statements and when those reports and statements are ‘published’. This is not always clear in law despite the fact it has significant implications on how the framework operates in practice for report users.

Specific observations on annual reports (Table 4)

- The public sector requires annual reports to not only be prepared but to be made public. In contrast, the private sector requires annual reports to be prepared but not made public (the only exception is FMC reporting entities who are required to keep their annual reports on their websites for five years (see Table 4, row 3(d)).
- The content required for annual reports in the public sector is far broader than that required in the private sector. For example, compare the reporting requirements in s 211 of the Companies Act 1993 with the other legislative requirement in Table 4, row 1. The public sector tends to focus on comparing ‘intended performance’ with ‘actual performance’ whereas companies are not required to do this. The private sector tends to focus on actual results.
- For public sector organisations there seems to be a greater leniency regarding the timing of report preparation. For example, for government departments and Crown entities, the preparation is required to occur ‘as soon as practicable’ after the end of each financial year. There is no explanation in the legislation as to what exactly this means. The exception was local government, which did specify a time frame (four months after the end of each financial year).
- There is no requirement for registered charities to produce annual reports. The reason for this is unclear, although they are subject to some specific disclosure requirements depending on their tier. See Table 4 (all Charities columns).
- With one exception, there is no penalty in legislation for failure to prepare annual reports on time. The exception is for companies that fail to prepare an annual report within five months of the balance date. See Table 4, row 2. The absence of penalties among the public sector is due to the ‘particular conceptual problem [of] the Crown punishing itself’, although there is provision for ‘individuals employed by the Crown [to] be subject to the same criminal liability as the equivalent people employed in the private sector’ (Legislation Design and Advisory Committee, 2018, pp. 54–55)
- Across all entities, there is no requirement to file annual reports with Registers. See Table 4, row 3(b).
- FMC reporting entities are the only kind of entity required to uploaded annual reports to a website (the company’s website). In contrast, government departments and Crown entities are required to ‘publish’ the report, but there is no direction as to where. Local government authorities are required to make their annual reports ‘publicly available’ but there is no specification as to where, or how. See Table 4, row 3(d).
• Government departments and local government authorities are the only entities (out of the five reviewed) whose annual reports must be audited. See Table 4, row 4.

• The size and types of penalty for offences such as failure to prepare an annual report, failure to make an annual report available and failure to provide the required content in an annual report are not consistent when compared across entity types (see Appendix 5).

Specific observations on financial statements (Table 5)
• Government departments and Crown entities are required to compare ‘actual’ financial statements with ‘forecast’ financial statements. See Table 5, row 1.

• Companies and registered charities are the only entities (out of the five reviewed) where a penalty exists if they fail to meet the content requirements for financial statements. See Table 5, row 1.

• Companies and registered charities are the only entities (out of the five reviewed) where a penalty exists for failing to prepare financial statements on time, although companies are the only entity that have an actual financial penalty. Charities that do not comply risk being deregistered. See Table 5, row 2. As noted in the specific observations on annual reports, it is very rare for legislation to provide for fines against government entities due to ‘important practical and legal policy issues’ (Legislation Design and Advisory Committee, 2018, p. 54).

• For those entities that have specific timing requirements for preparation of their financial statements, this timing requirement ranges from preparation within 4-6 months after the balance date or end of financial year. See Table 5, row 2.

• Generally, all requirements for FMC reporting entities are stricter than for other entities. For example, FMC reporting entities must file within four months after the balance date, rather than the five months required for all other companies. See Table 5, row 2.

• For companies that are required to file financial statements, the late fee is $25 for lodging up to 25 days after the due date, or $100 for more than 25 working days after the due date. See Table 5, row 3(b).

• For companies that are required to file financial statements, the cost of filing is $201.25. For FMC reporting entities it is $256.45. For more information on the varying filing costs, see Table A2.3.

• For NZX annual fees, see Table A2.4. The annual base fee is between $25,426 and $72,613.

• For registered charities, there is no filing fee for an annual return if a charity’s total gross income is under $10,000. For smaller registered charities (Tier 3 & 4), if the return is uploaded online the fee is $51.11 and if the return is posted or completed by email the fee is $76.67. See Table A2.5.
### 1. Content requirements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Set out in s 211 of Companies Act 1993.</strong></td>
<td><strong>Set out in s 151 of the Crown Entities Act 2004.</strong></td>
<td><strong>Set out in ss 45 and 45A(a)–(e) of Public Finance Act 1989. See a list of relevant guidance documents for department annual reports in Appendix 2.</strong></td>
<td><strong>Set out in s 98 and Part 3 of Schedule 10 of Local Government Act 2002.</strong></td>
<td><strong>No requirement under legislation.</strong></td>
<td></td>
</tr>
<tr>
<td>Company annual reports must include (unless shareholders holding 95% of the shares opt-out) the company’s financial statements as well as further information on: the nature of the company, remuneration, employees and directors, donations and entries in the interests register. If applicable, the annual report must also include the above information for subsidiaries. Listed issuers are also required to make available substantial product holder information under s 293 of Financial Markets Conduct Act 2013.</td>
<td>Crown entity annual reports must include financial statements, as well as information on: operations, performance, responsibility, Ministerial direction, employer status (relating to equal opportunities programs) and payments to members and employees.</td>
<td>Government department annual reports must include financial statements and forecast financial statements, as well as information on the department’s: operations, progress on strategic intentions, a statement of responsibility from the Chief Executive, organisational health and capability, expenses and capital expenditure, resource management and departmental agencies.</td>
<td>The purpose of local government annual reports is to compare intended performance with actual performance and promote accountability to the community for decision-making. Schedule 10 is extensive and requires, amongst other things, information on internal borrowing, insurance of assets, employee staffing levels and remuneration, a statement of service provision and a statement of compliance with statutory requirements to be included in an annual report.</td>
<td><strong>No penalty found.</strong></td>
<td><strong>No penalty found.</strong></td>
</tr>
<tr>
<td>Entity type</td>
<td>Companies</td>
<td>Crown Entities</td>
<td>Government Departments</td>
<td>Local Government</td>
<td>Registered Charities</td>
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<tr>
<td><strong>2. Preparation timing requirements</strong></td>
<td>Broadly, every company that is large (as defined in s 45 of Financial Reporting Act 2013), every company with 10 or more shareholders, every FMC reporting entity, and every company that is a public entity is required to prepare within 5 months of balance date under s 208 of Companies Act 1993. In certain circumstances, shareholders of large companies may opt out under s 208 (4). See also Table A4.3.</td>
<td>As soon as practicable after the end of each financial year a Crown entity must prepare an annual report under s 150(1) of Crown Entities Act 2004.</td>
<td>Must prepare ‘as soon as practicable after the end of each financial year’ under s 43(1) of Public Finance Act 1989.</td>
<td>Must prepare and adopt by resolution within 4 months after end of each financial year under s 98(3) of Local Government Act 2002. See also 3(b) below.</td>
<td>No requirement under legislation.</td>
</tr>
</tbody>
</table>

| Penalty | Directors liable to conviction which can result in a fine not exceeding $10,000 under s 374(2)(19) of Companies Act 1993. | No penalty found. | No penalty found. | No penalty found. | Not applicable. |

| **3. Accessibility requirements** | Annual report (or a notice notifying the shareholder that they have a right to request an annual report) must be sent to shareholders 20 working days before the annual meeting or, if an annual meeting is unnecessary, within 20 working days after the report is prepared under s 209 of Companies Act 1993. | Must provide to the responsible Minister no later than 15 working days after receiving the audit report under s 150(1) of Crown Entities Act 2004. The responsible Minister must present the entity’s annual report to the House of Representatives within 5 working days, under s 150(3) of Crown Entities Act 2004. | Must be presented by responsible Minister alongside audit report to House of Representatives no later than 15 days after the audit report is received under s 44 of Public Finance Act 1989. | No requirement under legislation. | No requirement under legislation. |
### Annual Report (other than financial statements)

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty</td>
<td>Directors liable to a conviction which can result in a fine not exceeding $10,000 under s 374(2)(21) of Companies Act 1993.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(b) Registry filing requirements</td>
<td>Not required to be filed with a registrar but see 3(c) and 3(d).</td>
<td>There is no Register for Crown Entities unless it is a company. However, it must be presented to the House of Representatives, see 3(d).</td>
<td>Not required to be filed with a Registrar but must be presented to the House of Representatives, see 3(a).</td>
<td>There is no Registrar for local government. However, must be sent within 1 month of adoption to the Secretary for Local Government, the Auditor-General and the Parliamentary Library under s 98(6) of Local Government Act 2002.</td>
<td>No requirement under legislation.</td>
</tr>
<tr>
<td>Penalty</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(c) NZX delivery requirements</td>
<td>If NZX-listed, annual reports must be prepared within three months after the end of the Issuer’s financial year and delivered to NZX electronically and made available to Quoted Security holders. Half-year reports must be delivered to NZX electronically and made available to Quoted Security holders within three months after the end of the first six months of each financial year. See NZX Rules 10.4.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>

Table 4: Annual report requirements (other than financial statements) for companies, Crown entities, government departments, local government and registered charities.
### Table 4: Annual report requirements (other than financial statements) for companies, Crown entities, government departments, local government and registered charities

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Penalty</strong></td>
<td>NZX may bring a charge against the Issuer for breach of the rules under NZX Rules 2.3.5.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(d) Publication on organisation’s website requirements</td>
<td>If an FMC reporting entity is an e-reporting entity, must remain available on the company’s website for at least five years under cls 61D(2) and (3) of the Financial Markets Conduct Regulations 2014.</td>
<td>Must publish its annual report as soon as practicable after it has been presented to the House of Representatives, but in any case, not later than 10 working days after the annual report is received by the Minister under s 150(4) of Crown Entities Act 2004. This does not specify where it is to be published, however.</td>
<td>Must publish no later than 15 days after presentation to the House of Representatives under s 44(4)(a) of Public Finance Act 1989. This does not specify where it is to be published, however.</td>
<td>Must ‘make publicly available’ under s 98(4) of Local Government Act 2002. This does not specify where it is to be published, however.</td>
<td>No requirement under legislation.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>If an FMC reporting entity, an infringement offence applies under subpart 5 of Part 8 of Financial Markets Conduct Act 2013.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td><strong>4. Assurance requirements</strong></td>
<td>No requirement under legislation.</td>
<td>No requirement under legislation.</td>
<td>Must be delivered to the Auditor-General within 2 months of balance date (s 45D(1)(b) Public Finance Act 1989). Auditor-General must then provide audit report within 3 months after the end of each financial year under s 45D(2) Public Finance Act 1989.</td>
<td>Must be audited by Auditor-General and contain a report on whether the summary fairly represents its contents under s 99 of Local Government Act 2002.</td>
<td>No requirement under legislation.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>
### Financial Statements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
</table>
| 1. Content requirements       | Must comply with generally accepted accounting practice, if required to under s 201 of Companies Act 1993, s 9 of Financial Reporting Act 2013 and s 460 of Financial Markets Conduct Act 2013. See Table A4.3 for more detailed information on compliance requirements. Companies that do not have a statutory requirement must prepare financial statements to sufficiently meet requirements of clause 8 of the Tax Administration (Financial Statements) Order 2014. However, small companies (such as those with income or expenditure is less than $30,000 per year and are not part of a group of companies) are exempt from minimum requirements under clause 5. | Must comply with generally accepted accounting practice, include any other information or explanations needed to fairly reflect the financial operations and financial position and include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements under s 154(3) of Crown Entities Act 2004. | Must be prepared in accordance with generally accepted accounting practice under s 45B(1) of Public Finance Act 1989. Where an entity is required to prepare financial statements in accordance with generally accepted accounting practice, the specific accounting standards that it must apply depend on whether it is classified as a public benefit entity or a for-profit entity, whether it has public accountability, and its size. The External Reporting Board’s standard, XRB A1 Application of the Accounting Standards Framework provides the requirements for determining which accounting standards apply to an entity. Must also include any other information or explanations needed to fairly reflect the department’s financial operations and financial position and the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements under s 45B(2) of Public Finance Act 1989. | Set out in Schedule 10, s 29 of Local Government Act 2002.  
(i) Where the entity is a specified not-for-profit entity, the financial statements must be prepared in accordance with generally accepted accounting practice under s 42A(1)(a) of Charities Act 2005. The term ‘specified not-for-profit entity’ has the meaning set out in s 46 of the Financial Reporting Act 2013: ‘...an entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are $125,000 or more.’  
(ii) Where the entity is not a specified not-for-profit entity, the financial statements must be prepared in accordance with generally accepted accounting practice, or a non-GAAP standard that applies for the purposes of s 42A(1)(b) of the Charities Act 2005, as defined in s 5 of the Financial Reporting Act 2013 under ss 24A(1)(b) and 42A(2) of Charities Act 2005. |
<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Entity and every officer of the entity is liable on conviction to pay a fine not exceeding $50,000 under s 42B of Charities Act 2005.</td>
<td></td>
</tr>
</tbody>
</table>

If financial statements fail to comply with an applicable financial reporting standards, the company commits an offence and is liable on conviction to a fine not exceeding $50,000 under s 207G(2). Further, its directors are liable on conviction to a fine not exceeding $50,000 under s 207G(3) of Companies Act 1993.

If a company is an FMC reporting entity and its financial statements do not comply with an applicable financial reporting standard and the director is aware of this at the time the financial statements are lodged, the director is liable on conviction to imprisonment for up to 5 years, and/or a fine of up to $500,000 and the entity is liable on conviction to a fine not exceeding $2.5 million, under s 461I(2) of Financial Markets Conduct Act 2013.
### 2. Preparation timing requirements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set out in s 201 of Companies Act 1993, certain companies must prepare financial statements within 5 months of the balance date. However, if the company is an FMC reporting entity, the financial statements must be prepared within 4 months after balance date under s 460(1) of Financial Markets Conduct Act 2013. See Table A4.3 for more detailed requirements of who must comply.</td>
<td>As soon as practicable after the end of each financial year, a Crown entity must prepare financial statements in relation to the entity for that financial year under s 154(1) of Crown Entities Act 2004. They must be provided to the Auditor General within 3 months after the end of each financial year under s 156(1) of Crown Entities Act 2004.</td>
<td>Audited financial statements must be included in annual report of department under s 45(2)(e) of Public Finance Act 1989 and be prepared ‘as soon as practicable after the end of each financial year’ under s 43(1) of Public Finance Act 1989. They must be provided to the Auditor-General within 2 months after the end of the financial year under s 45D of Public Finance Act 1989.</td>
<td>Must accompany the annual report, which is required ‘within 4 months after the end of the financial year’ under s 98(3) of Local Government Act 2002.</td>
<td>Must accompany the annual return, which is required to be filed ‘within 6 months after each balance date’ under s 41 of Charities Act 2005.</td>
<td></td>
</tr>
<tr>
<td>Fine not exceeding $50,000 under s 207G of Companies Act 1993. If a company is an FMC reporting entity, fine not exceeding $50,000 under s 461H(2) of Financial Markets Conduct Act 2013.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Charity’s registration could be at risk (Personal communication with Charities Services, 24 August 2018).</td>
<td></td>
</tr>
</tbody>
</table>
### 3. Accessibility requirements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shareholder delivery requirements</td>
<td>Must be provided on request by shareholders if prepared under, or for the purposes of, any Inland Revenue Acts under s 207F(2) of Companies Act 1993. However, if a NZX-listed company, shareholders can access financial statements in the latest annual report on the NZX website.</td>
<td>Must accompany the annual report under s 151(1)(c) of Crown Entities Act 2004. Must be provided to its responsible Minister no later than 15 working days after receiving the audit report under s 150(1) of Crown Entities Act 2004. The responsible Minister must present the entity’s annual report to the House of Representatives within 5 working days.</td>
<td>Must accompany the annual report under s 45(2)(e) of Public Finance Act 1989. Must be presented by the responsible Minister to the House of Representatives no later than 15 days after receiving the audit report under s 44 of Public Finance Act 1989.</td>
<td>No requirement under legislation.</td>
<td>No requirement under legislation. See also 3(b).</td>
</tr>
</tbody>
</table>

| Penalty | No penalty found. | No penalty found. | No penalty found. | Not applicable. | Not applicable. |

| (b) Regulatory filing requirements | Some ‘large companies’ with overseas shareholding must file within 5 months after the balance date under s 207E(1) of Companies Act 1993. All FMC reporting entities must file within 4 months after the balance date with the Companies Registrar under s 461H(1) of Financial Markets Conduct Act 2013. See Table A4.3. | There is no Register for Crown Entities, unless it is a company. However, it must be presented to the House of Representatives, see 3(d). | Not required to be filed with a Registrar but with the House of Representatives. | There is no Register for local government. However financial statements must accompany the annual report, which must be sent within 1 month after adoption to the Secretary for Local Government, the Auditor-General and the Parliamentary Library under s 98(6) of Local Government Act 2002. | Requirement to send performance report and annual return to Charities Services Register under s 24 of Charities Act 2005. |

Table 5: Financial statement requirements for companies, Crown entities, government departments, local government and registered charities cont.
<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty</td>
<td>$25 for lodging with Registrar up to 25 working days after due date or $100 for more than 25 working days after (Companies Office, 2018b). Infringement penalties may also be issued to directors of the company under Companies Act 1993. If an FMC reporting entity fails to lodge and the Registrar notifies the FMA, the company can be issued an infringement notice and be liable for an infringement penalty of $7500 or a fine of up to $50,000 under s 461H(2) of Financial Markets Conduct Act 2013 (Companies Office, 2018b).</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>A charity and every officer is ‘liable on conviction to a fine not exceeding $50,000’ under s 42B of Charities Act 2005, if they knowingly do not comply with a ‘applicable financial reporting standard’ or a non-GAAP standard.</td>
</tr>
<tr>
<td>(c) NZX delivery requirements</td>
<td>If NZX-listed, financial statements are included in the annual report and half-year report under NZX Rules 10.4.1.</td>
<td>Crown Entities are not listed on the NZX, unless they are a listed company.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Penalty</td>
<td>NZX may bring a charge against the Issuer for breach of the rules under NZX Rules 2.3.5.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>
### 4. INSIGHT: PRIMARY RESEARCH

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>[d] Publication on organisation’s website requirements</td>
<td>If an FMC reporting entity is an e-reporting entity, it must accompany the annual report and therefore must remain available on the company’s website for at least five years under cl 61D(3) of Financial Markets Conduct Regulations 2014.</td>
<td>Must accompany the annual report under s 151(1)(c) Crown Entities Act 2004 and therefore must be published as soon as practicable after it has been presented to the House of Representatives, but in any case, not later than 10 working days after the annual report is received by the Minister under s 150(4) of Crown Entities Act 2004. This does not specify where it is to be published, however.</td>
<td>Financial statements form part of the annual report, which must be published no later than 15 days after presentation to the House of Representatives under s 44(4)(a) Public Finance Act 1989. This does not specify where it is to be published, however.</td>
<td>Must accompany the annual report and therefore must be made ‘publicly available’ under s 98(4) of Local Government Act 2002. This does not specify where it is to be published, however.</td>
<td>There is no requirement under legislation to make performance report (financial statements) public on own website.</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>

Table 5: Financial statement requirements for companies, Crown entities, government departments, local government and registered charities.
## 4. INSIGHT: PRIMARY RESEARCH

### Financial Statements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance requirements</td>
<td>Broadly, where financial statements are required, they must be audited. Must be audited under s 99 of Local Government Act 2002.</td>
<td>A Crown entity must forward to the Auditor-General, the Crown entity’s annual financial statements within 3 months after the end of each financial year under s 156(1) of Crown Entities Act 2004. The Auditor-General must audit the statements and provide an audit report to the Crown entity within 4 months after the end of each financial year under s 156(2) of Crown Entities Act 2004.</td>
<td>Must be delivered to the Auditor-General within 2 months of balance date under s 45D(1) of Public Finance Act 1989. The Auditor-General must provide audit report within 3 months after the end of each financial year under s 45D(2) of Public Finance Act 1989.</td>
<td>Must be audited under s 42C of Charities Act 2005. A charitable entity is large in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is $1 million or more under s 42D(1)(a) of Charities Act 2005. Must be audited by a qualified auditor under s 461D of Financial Markets Conduct Act 2013. Under s 461G of Financial Markets Conduct Act 2013, the FMA must send a copy of the audit report and the XRB if parts of the Act have not been complied with.</td>
</tr>
</tbody>
</table>

### Table 5: Financial statement requirements for companies, Crown entities, government departments, local government and registered charities cont.
4. INSIGHT: PRIMARY RESEARCH

Financial Statements

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Companies</th>
<th>Crown Entities</th>
<th>Government Departments</th>
<th>Local Government</th>
<th>Registered Charities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty</td>
<td>If a company fails to audit its financial statements, the company commits an offence and is liable to a fine not exceeding $50,000 and every director of the company commits an offence and is liable on conviction to a fine not exceeding $50,000 under s 207G(2) and (3) of Companies Act 1993.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
<td>Entity liable on conviction to pay a fine not exceeding $50,000 under s 42E of Charities Act 2005.</td>
</tr>
</tbody>
</table>

Table 5. Financial statement requirements for companies, Crown entities, government departments, local government and registered charities cont.
5. Analysis of the reporting framework

Highlights

The current reporting framework is managed by nine different institutions which are shaped by at least 11 pieces of legislation and three policy instruments. The three main policy instruments are financial statements, annual reports and regulatory filings (for which there are approximately 20 registers). There were ten key findings:

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 for further reform).
3. The framework is fragmented, inconsistent and outdated.
4. Donations, and in particular the disclosure of political donations, requires urgent attention.
5. No standard definition as to the purpose of annual reports exists.
6. Access to private sector annual reports is problematic.
7. Access to public sector annual reports is problematic: there is no access to a central register of annual reports or financial statements for 'public sector entities'.
8. The Companies Register is not being used to its full potential.
9. Data collected by institutions is not always aligned or checked for completeness.
10. User demands for reporting disclosures exceed information supplied by preparers.

This section examines the operational strengths and weaknesses of the framework. It does not discuss the more strategic policy issues (the policy knots); these are discussed in Section 6.

When undertaking any form of analysis it is important to set the domain and be clear about the lens being applied. In this case, the domain is the reporting framework, with a specific focus on five entity types: companies, Crown entities, government departments, local government and registered charities. The lens will determine the emphases of this analysis. It is informed by (i) what success looks like (see Section 1.1), (ii) the seven characteristics of a successful reporting framework (see Section 1.2.2) and (iii) the underlying assumptions (see Section 1.2.3).

This section is divided into the three main components of the policy framework: institutions, instruments and information. Figure 38 below illustrates them as 'cogs'. Analysing public policy in this way enables flaws in the system to be identified, weak linkages strengthened and alternative policy solutions examined. This section contains opinion and sets up the context for the recommendations in Section 7 of this report.
5. ANALYSIS OF THE REPORTING FRAMEWORK

Figure 38: Illustrating the relationship between institutions, instruments and information

5.1 Institutions

Table 6 below provides an overview of the reporting framework through by looking more closely at the nine institutions responsible for aspects of the framework. The purpose of each institution can be described in terms of the sectors that they focus on (i.e. public or private), the role they play (i.e. standard-setter, regulator, information collator or auditor), the number of entities they oversee (e.g. from under 200 to over 27,000) or the types of information they report (i.e. financial or non-financial information). There are at least 11 pieces of legislation that empower these institutions (see the list in Appendix 6 and excerpts in Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation).

Table 6: Comparing the roles of key reporting institutions
Please note all oversight entity numbers are approximate.

<table>
<thead>
<tr>
<th>Institution</th>
<th>Role</th>
<th>Oversight</th>
<th>Relevant appendix</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIA</td>
<td>Regulator</td>
<td>27,000 registered charities</td>
<td>See Table A3.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>78 Local authorities</td>
<td>See Table A3.5</td>
</tr>
<tr>
<td>FMA</td>
<td>Regulator</td>
<td>800 FMA reporting entities including some FMC reporting entities</td>
<td>See Table A4.1 and glossary</td>
</tr>
<tr>
<td>MBIE</td>
<td>Collator (Registrar for 20 registers, including the Companies Register and the NZBN Register)*</td>
<td>528,000 companies</td>
<td>See Tables A3.6 and A3.7</td>
</tr>
<tr>
<td>NZX</td>
<td>Regulator</td>
<td>200 NZX-listed companies</td>
<td>See Table A3.1</td>
</tr>
<tr>
<td>OAG</td>
<td>Auditor</td>
<td>4000 public sector entities plus local government</td>
<td>See Figure A3.1, and Tables A3.4 and A3.5.</td>
</tr>
<tr>
<td>PCO</td>
<td>Collator (publishes legislation and XRB standards)**</td>
<td>550,000 entities</td>
<td>See tables in Appendices 3 and 4</td>
</tr>
<tr>
<td>Stats NZ</td>
<td>Collator (publishes statistics on enterprises and maintains the business register)</td>
<td>528,000 enterprises</td>
<td>See Tables A3.6 and A3.7</td>
</tr>
<tr>
<td>Treasury</td>
<td>Regulator for state service organisations (also publishes government’s financial statements)</td>
<td>2800 state sector entities (not including local government)</td>
<td>See Figure A3.1 and Table A3.4</td>
</tr>
<tr>
<td>XRB</td>
<td>Standard-setter of accounting, auditing and assurance</td>
<td>550,000 entities</td>
<td>See tables in Appendices 3 and 4</td>
</tr>
</tbody>
</table>
5. ANALYSIS OF THE REPORTING FRAMEWORK

Notes to be read in conjunction with Table 6:

* The 20 registers are: Approved Overseas Auditors & Associations of Accountants, Auditors, Building Societies, Charitable Trusts, Companies Register, Credit Unions, Disclose Register, Financial Service Providers Register, Friendly Societies, Incorporated Societies, Industrial & Provident Societies, Limited Partnerships (New Zealand & overseas), NZBN, Overseas Issuers, Participatory Securities, Personal Property Securities Register, Registered Unions, Retirement Villages, Superannuation Schemes, and Unit Trusts (Companies Office, 2018c).

** The Financial Reporting Act 2013 sets out the method of public notice for XRB standards in s 24, requiring them to be published in the Gazette and on XRB’s website.

The XRB is the only policy-maker in the framework able to issue financial reporting standards for the public and private sectors. MED noted in their 2012 Cabinet paper that the definition of a financial reporting standard as laid out in the pre-2013 Financial Reporting Act was ‘not very clear, particularly in relation to non-financial reporting that is closely associated with financial reporting’ (MED, 2012, p. 12). This led to the new clarification in s 17 ‘explicitly stating that the XRB has the power to make standards covering related non-financial matters’ (MED, 2012, p. 12). In the 2013 Act, these financial reporting standards can cover non-financial information relating to ‘an entity’s performance; or an entity’s related party transactions; or any other non-financial matter that directly relates, or is incidental or ancillary, to an entity’s financial reporting’. However, the XRB cannot issue reporting standards covering other non-financial information (wider external reporting) without approval from the relevant Minister and the authorisation of the Governor-General by Order in Council under s 17(2) of the Financial Reporting Act 2013. See Appendix 9 for our suggested amendments to s 17.

Section 17 – Financial reporting standards may cover non-financial reporting [Financial Reporting Act 2013]

(1) A financial reporting standard may relate to reporting on—
   (a) an entity’s performance; or
   (b) an entity’s related party transactions; or
   (c) any other non-financial matter that directly relates, or is incidental or ancillary, to an entity’s financial reporting; or
   (d) other non-financial matters authorised by an Order in Council made under subsection (2).

(2) The Governor-General may, on the recommendation of the Minister, by Order in Council,—
   (a) authorise the Board to issue financial reporting standards that relate to reporting on 1 or more of the following matters:
      (i) an entity’s governance:
      (ii) an entity’s strategic direction and targets:
      (iii) the social, environmental, and economic context in which an entity operates:
      (iv) any other matter relating to an entity’s performance or position; and
   (b) specify conditions to which the authorisation is subject.

(3) The Minister may make a recommendation only if he or she is satisfied that it is desirable for standards referred to in subsection (2)(a) to be issued in order to provide for the integrated reporting of an entity’s performance or position in terms of both financial and non-financial information.

(4) This section does not limit section 15.

(i) Non-financial information
This means there is no current policy-maker for the generation or regulation of non-financial information. This also means that voluntary guidance issued by regulators such as the NZX and the FMA are sometimes the only guidelines preparers have to follow for non-financial information. The voluntary nature of this guidance has, to some degree, led to repetition. For example, NZSX-listed companies are required to follow NZX Rules and guidelines as well as FMA guidelines.
(ii) Financial information

The XRB is an ‘independent Crown entity responsible for [preparing and assuring] accounting and auditing [and] assurance standards’ (XRB, 2018b). The XRB states on their website that they are responsible for ‘developing a financial reporting strategy for New Zealand’, ‘preparing and issuing accounting standards’, ‘preparing and issuing standards for assurance practitioners’ and ‘liaising with national and international organisations that have similar standard setting functions’ (XRB, 2018c).

Under s 25 of the Financial Reporting Act 2013, XRB financial reporting standards are technically considered ‘disallowable instruments’ and are not ‘legislative instruments’. This means that, although they are not drafted by the Parliamentary Counsel Office, financial reporting standards can still be disallowed by Parliament under Part 3 of the Legislation Act 2012. There is some confusion around the differences between legislative instruments and ‘other instruments’ (see glossary definitions), which will be remedied if the Legislation Bill before the House is passed. This would formalise use of the term ‘secondary legislation’ to cover all legislative, disallowable and other instruments (Personal communication with PCO, 6 September 2018). See also the discussion in Appendix 6, Part C, Note 2, of this report.

Key finding 1: Institutions remain consistent, stable and proactive (but there is no overall stewardship or leadership).

New Zealand’s network of reporting institutions is consistent and stable. Specific institutions such as the FMA, the NZX, the XRB, Institute of Directors, Companies Office, MBIE and Stats NZ work consistently to ensure that their parts of the reporting system remain relevant. Generally, these institutions uphold their roles and continually seek to evolve and adapt for the future. This is evidenced, for example, by the XRB’s interest in collaborating with the Institute on the user and preparer surveys discussed in Section 4.1 and their separate enquiry into alternative performance measures; NZX’s regular review of their listing rules and guidelines, and FMA’s regular review of their guidelines, surveys and research reports, which also included work on non-GAAP measures (also known as APMs). MBIE has also recently updated its website.

Complex and uncertain systems are not linear, therefore requiring ongoing management. It was therefore surprising to find no over-arching manager or steward of the framework. Further, there was little specific reporting or measures on the effectiveness and efficiency of aspects of the framework. For example, MBIE’s recent annual report provided little insight into the current operations of the Companies Office or the effectiveness or efficiency of the Companies Register.

This was also the case for the Department of Internal Affair’s recent annual report which did not mention the Charities Register at all, despite the fact they manage Charities Services. Additionally we could not find an annual report for Charities Services. When reaching these conclusions we searched the recent annual reports for the words ‘register,’ ‘companies office,’ ‘charities services,’ and ‘charity.’ The main takeaway is that we were unable to find an overview of the operations of the Companies Office or Charities Services.

In contrast, NZX’s recent annual report did refer to a supplementary document which looks at Quarterly Regulation metrics. However, this document was difficult to find and the information in it was not comprehensive or extensive. There was reference to investigations begun in relation to issuers and complaints received concerning issuers but this information was not detailed.

Lack of stewardship means there is no body or individual focused on either the strategic outcomes of the existing framework, or on opportunities for collaboration between key institutions. This was evidenced by the lack of feedback loops and reporting on the efficiency and effectiveness of the systems in operation. Examples include why annual reports (including financial statements) are on the NZX website but financial statements (for those same companies) are on the Companies Register and why registered charities that are also registered on the Companies Office cannot be easily searched (e.g.
5. ANALYSIS OF THE REPORTING FRAMEWORK

Sanitarium). This leaves a number of unanswered questions, such as: Why do we not have a central register that can be searched more effectively? Does New Zealand require too high levels of transparency on NZSX-listed companies (and registered charities) and too little on other private companies?

The filing fees charged also deserve some form of underlying set of principles. For example, are New Zealand’s pricing schedules based on a full cost-recovery basis? If not, what is the pricing system based on? (The Institute’s view is that the costs of administration may outweigh the costs of revenue collection). See Tables A2.3–A2.5 in Appendix 2.

Of further concern was the lack of an overarching purpose or set of principles to guide decision-making. Although the MED discussion document ostensibly attempted to clarify ‘the principles and indicators for a reporting framework’, the reality is that the primary principle of ‘information to meet user needs’ and the three indicators – ‘public accountability, economic significance and separation of ownership and management’ – have been insufficient due to their focus on purely financial reporting (ASRB, 2009, pp. 14–15). International frameworks offer ample examples for some of the characteristics that good be adopted as principles for an effective external reporting framework that includes relevant non-financial disclosures. For example, the FRC outlines the importance of consistency:

highlighted or adjusted figures, key performance indicators (KPIs) and non-GAAP measures referred to in the strategic report are clearly reconciled to the relevant amounts in the accounts and any adjustments are clearly explained, together with the reasons why they are being made. (FRC, 2017)

In their 2016/2017 corporate reporting review they also discuss the importance of following ‘the spirit as well as the letter’ of any reporting standards (FRC, 2017).

What is needed is an institution to monitor the framework for strengths, weaknesses, opportunities and threats and a put in place a set of principles to guide the shape of the framework going forward. An institution should be held accountable to deliver reliable, cost-effective and timely information that meets the needs of users and to collect feedback on when the system is not working. Without this guidance, the system will remain fragmented, with ‘all substantive financial reporting requirements’ appearing in ‘sector or entity-specific legislation’ (MED, 2012, p. 3). This leaves regulators (such as the NZX, FMA and Charities Services in the private sector and Treasury and DIA in the public sector) trying to fill gaps through the provision of additional non-financial guidance.

Key finding 2: The legislation has some built-in flexibility (but ministerial approval is required).

Flexibility exists in delegated authority through standard-setting (to XRB) and to the Registrars. Delegating authority through regulation has been more commonly adopted in UK law (e.g. the Secretary of State can make provisions by regulations about director remuneration, see s 412 in the UK Companies Act 2006 in Appendix 7).

Of particular relevance to this report is s 17(2) of the Financial Reporting Act 2013 (see above). Its inclusion in law is a way of future-proofing the legislation. This flexibility became a key platform for the New Zealand Productivity Commission, who recommended in their final Low-emissions Economy report that:

The Government should implement mandatory (on a comply or explain basis), principles-based, climate-related financial disclosures by way of a standard under section 17(2)(iii) of the Financial Reporting Act 2013. These disclosures should be audited and accessible to the general public. (New Zealand Productivity Commission, 2018, p. 199)

It is also clear the XRB sees the need for reporting standards on non-financial information at some time in the future. XRB states their long-term strategy in their recent strategic plan, titled “A User-Needs Framework for New Zealand’s Wellbeing”:

Promoting the awareness, understanding and implementation of EER among New Zealand constituents by: adopting a proactive leadership approach to EER, giving consideration to investor versus broader stakeholder requirements;
Key finding 3: The framework is fragmented, inconsistent and outdated

The FRC, ASRB and MED have all expressed concern about fragmentation of the reporting framework. In a 2016/2017 review the FRC found that ‘the current corporate reporting landscape has a large number of voluntary codes and guidance in this area and perhaps there is a need for a consistent global reporting framework’ (FRC, 2017, p. 42). In their 2009 discussion document the ASRB discusses ‘two broad reporting streams: for-profit entities applying IFRS; and PBEs applying NZ PBE Accounting Standards’ (ASRB, 2009, p. 51). However, they ultimately decided that shared heritage of the standards would minimise the issue of fragmentation and did not address it much further than acknowledging its existence (ASRB, 2009, p. 51). In the 2012 Cabinet paper, MED asserted the importance of adopting a consistent approach in several places, noting changes that would ‘promote consistency and reduce the risk that new inconsistencies will develop over time’ (MED, 21012, p. 1). More specifically, the Financial Reporting Act was to ‘include standard definitions and requirements in relation to matters such as auditor qualifications and auditors’ access to information’ (MED, 2012, p. 3).

In the same document, they consider the importance of adaptability in the framework, noting that ‘it is not in New Zealand’s interests to adopt a set of standards if we don’t have reasonable confidence about their future robustness’ and suggesting the development of New Zealand-specific standards using IPSAS as a starting point in such a case (ASRB, 2009, p. 38). The same consideration of flexibility in reporting is evident in discussion of the enhanced transparency framework in Article 13 of the Paris Agreement, which acknowledges the importance of balancing ‘flexibility against several other objectives such as facilitating improved reporting and transparency over time, the need to promote transparency, accuracy, completeness, consistency and comparability’ (Biniaz, 2018, p. 2).

More specifically, amendments to reporting legislation over the years have resulted in a fragmented, inconsistent and outdated legal framework on which current reporting requirements are based (see Table 4 for a comparison of the different annual report content requirements for various types of entities). This may be due to when legislation has been passed, with more recent legislation reflecting more modern values and practices. Given the emerging trends discussed in Section 3 and the results of the research on intangible assets in Section 4.4 (Phase 4 research), there are questions about whether certain organisations should have higher transparency requirements than others. This is explored more in Section 5.3 of this report.

5.2 Instruments

There are three categories of policy instruments used to inform wider stakeholders: financial statements, annual reports and regulatory filings. All three instruments are regulated through legislation.
5. ANALYSIS OF THE REPORTING FRAMEWORK

5.2.1 Financial statements

Accountants and auditors generally focus on the content of financial statements. The accounting standards are built on a set of guiding principles and any changes are rigorously debated, meaning they take a long time to come into force.

Accounting standards are often supplemented by additional requirements in law. In the past, financial statements were primarily financial figures but, over time, many countries have required non-financial information to be included in the notes to the financial statements. This ensures such information is audited in accordance with auditing standards. For example, information about employee numbers are included in the notes to the financial statements in UK law (see Appendix 7, Part A, s 411 of the UK Companies Act 2006).

New Zealand has adopted the IASB definition of financial statements as outlined in the 2018 NZ Conceptual Framework:

The objective of financial statements is to provide financial information about the reporting entity’s assets, liabilities, equity, income and expenses that is useful to users of financial statements in assessing the prospects for future net cash inflows to the reporting entity and in assessing management’s stewardship of the entity’s economic resources. (XRB, 2018b, p. 19)

The 2018 NZ Conceptual Framework emphasises that useful financial information ‘must be relevant and faithfully represent what it purports to represent’, as well as the fact that ‘the usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable’ (XRB, 2018b, p. 13). These characteristics can be used to determine the best way to present information if there are multiple possibilities that seem equally relevant and faithful (XRB, 2018b, p. 15).

Application of specific accounting standards depend on a number of factors including whether an entity classifies itself as a public benefit entity (if not it becomes, for reporting purposes, a for-profit entity), whether it has public accountability, and its size. XRB Standard A1 Application of the Accounting Standards Framework outlines how to determine which accounting standards apply to an entity.

Financial statements are generally governed by ‘international GAAP’, set out in accounting and financial reporting standards issued by the IASB. The IASB standards are called IAS if published before 2001 or IFRS if published after 2001 (CCH Tagetik, 2018). In the for-profit sector, these are based on standards issued by the IASB and encompassing ‘the principles on which those standards are based’ (Melville, 2017, p. 6). Alan Melville, a UK academic, states that:

at present there is no globally accepted set of accounting regulations and principles but the IASB is working towards that end and is trying to achieve convergence [for-profit entities] between the various regulations which are in force around the world (Melville, 2017, p. 6).

In the PBE sector, standards are based on those issued by the International Public Sector Accounting Standards Board (IPSASB).

There are four issues of note:

(i) Public sector

Under the Public Sector Finance Act 1989, New Zealand has a requirement to publish the annual ‘Financial Statements of the Government’. Arguably, the next step in the process to improve transparency and accountability is for the Act to be updated to require an ‘Annual report of Government’. There is also the opportunity to require a set of consolidated local authorities accounts to keep the public informed on overall debt levels within the public sector, along the lines of the ‘Financial Statements of Local Government’ and the ‘Annual report of Local Government’.

(ii) Private sector (SMEs)

Some IASB standards are adopted by the XRB as mandatory, whereas others are voluntary. For example, New Zealand has not adopted the IFRS standard for SMEs. Instead, New Zealand SMEs can
choose to apply *A Special Purpose Financial Reporting Framework for use by For-Profit Entities (SPFR for FPEs)* published by Chartered Accountants of Australia and New Zealand (CA ANZ). The SPFR for FPEs was developed to be both less complex than NZ IFRS and ‘appropriate for the preparation of SME financial statements based on the needs of financial statement users and cost-benefit considerations’ (CA ANZ, 2018, p. 8). Other than comparative simplicity, the key features of the SPFR for FPEs for SMEs are as follows:

- ‘Historical cost is the primary measurement basis; […]
- Adjustments needed to reconcile tax return income are reduced;
- Reporting guidelines are principle-based and can be applied across various industry sectors;
- Entities can also apply NZ IFRS for complex transactions while remaining in compliance with SPFR for FPEs;
- Financial statements prepared in accordance with SPFR for FPEs ‘meet the Inland Revenue minimum financial reporting requirements’ and are auditable (CA ANZ, 2018, p. 8)

SPFR for FPEs outlines the contents of a whole set of financial statements, differentiating between required core components and optional non-core components. The required core components are ‘balance sheet as at the balance date’, ‘statement of profit or loss for the reporting period’, ‘notes to the financial statements’ and ‘statement of changes in equity for the reporting period’, which may be included in the notes to the financial statements’ (CA ANZ, 2018, p. 18). The statement of cash flows is listed as an optional non-core component; the SPFR for FPEs does not provide guidance on the preparation of a statement of cash flows but notes that ‘entities wishing to prepare a statement of cash flows should step up to NZ IAS 7 Statement of Cash Flows’ (CA ANZ, 2018, p. 18).

(iii) The link between assurance of financial statements and annual reports

Generally speaking, financial statements are assured, and the rest of the annual report is read for consistency with the financial statements. Other information is not usually assured unless specifically noted (e.g. sustainability reports). Although not well known, *ISA (NZ) 720: The Auditor’s Responsibilities Relating to Other Information (ISA (NZ) 720 (Revised))* does contain a definition of annual report. This is provided to describe to an auditor that the content of the financial statements must align with the text in the annual report.

Para 1: This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor’s responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor’s report thereon), included in an entity’s annual report. An entity’s annual report may be a single document or a combination of documents that serve the same purpose.

Para 12. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:

(a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters. (Ref: Para. A1–A5)

(b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)

Reading and Considering the Other Information

Para: 14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24) (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarise, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (Ref: Para. A25–A29) (XRB, 2015b).
(iv) Statement of Cash Flow

In addition to the statement of financial position and the statement of financial performance, financial statements also include a statement of cash flow. While the first two statements have become less relevant, the statement of cash flow is becoming increasingly important for report users to understand where cash has been generated and how it has been spent over the financial year. It also enables companies that are growing fast and/or investing in the long term to evidence their investment approach in their cash flow statement. This is helped by the fact that this report is also audited report.

There are four reasons why statements of financial position and performance on their own may not accurately reflect a business’s stability in terms of cash:

a) Profits are computed on the accruals basis. Therefore, revenue shown in the statement of comprehensive income might not be actually received for a considerable period of time, especially if the business offers lengthy credit to its customer.

b) The purchase of non-current assets has an immediate cash impact but filters through to the statement of comprehensive income only gradually, in the form of depreciation.

c) A business which builds up large inventories (perhaps in the hopes of attracting more customers) usually has to pay for these inventories fairly quickly, but their cost has no impact on reported profit until they are sold at some time in the future.

d) The repayment of a loan takes cash out of the business but has no direct effect on profit. The same applies to the payment of a dividend. (Melville, 2017, p. 251)

In the past cash flow statements were difficult to produce, therefore accounting standards did not require SMEs to produce them. However, new accounting software such as Xero enables cash flow statements to be produced quickly and efficiently.

Key finding 4: Donations, and in particular the disclosure of political donations, requires urgent attention.

There appears to be no set definition of what constitutes a donation, nor is there a requirement for the figure in the financial statements to align with discussions of donations in the annual report. A statement by Contact Energy Limited in their 2017 annual report indicated that ‘donations are made on the basis that the recipient is not obliged to provide any service such as promoting Contact’s brand and are separate from Contact’s sponsorship activity’ was a useful benchmark definition for this research (Contact Energy Limited, 2017, p. 54). However, there needs to be clearer rules surrounding disclosure of ‘donations’ to provide comparability and improve trust. Developing a cohesive and consistent way of reporting on donations, and the different types of donations (political or otherwise), will allow wider stakeholders and society to trace the relationship between the corporate sector and the community or civic spheres.

The relationship between organisations and political parties (and those wanting to attain or retain a representative role in councils) deserves special mention. Political donations need careful monitoring to ensure an organisation’s interests do not conflict with the public interest. The Institute found that while some companies did make a statement about political donations, most did not (McGuinness Institute, 2018c, p. 128). The issue of political donations has also been raised in Australia, with the Select Committee into the Political Influence of Donations making the following recommendation:

> that the Australian Government initiate discussions between state and territory governments and the Commonwealth with regard to political donations regulation—including legislative definitions, allowable donors, disclosure thresholds and disclosure timeframes—with a view to developing harmonised laws within two years. (Commonwealth of Australia, 2018, p. vii)

It is clear that New Zealand needs a similar discussion to the one recommended in Australia.

There are a number of specific issues for consideration. Firstly, amounts paid in donations are only required to be disclosed in annual reports and are no longer required to be separately disclosed in financial statements. This follows amendments made to NZ IFRS accounting standard NZ IAS 1 Presentation of Financial Statements in 2016 (XRB, 2011a, p. 13; 2011b, p. 34). Secondly, it was unclear over the course of
Working Paper 2018/01 – NZSX-listed Company Tables research whether or not companies that provided a figure for donations made during the accounting period were including political donations in this figure. Thirdly, this research revealed that a number of the companies that did disclose amounts of donations made in their financial statements disclosed a different figure to the one they disclosed as part of their obligation in s 211(1) of the Companies Act 1993. The current framework can be confusing, see for example an excerpt from the 2016 annual report of Synlait Milk Limited:

this year we gave away more than $15,000 in donations and sponsorships. [However, the notes to the financial statements referred to] "donations $3" [and the statutory information said that] ‘For the year ended 31 July 2016 we donated $2,500 to charitable and community organisations’. (cited in McGuinness Institute, 2018f, pp. 47–48)

5.2.2 Annual reports

The content of an annual report is different for each type of entity and is set out in legislation (see Table 4, row 1). There are no New Zealand standards for annual reports (other than for financial statements). To add to the confusion, an annual report often includes a set of audited financial statements but there are cases where an annual report may include financial statements that are not audited.

Internationally, it is not always clear what is included in an annual report. Interestingly the UK often refers to ‘annual reports and accounts’, indicating that annual reports produced there include a set of financial statements. The UK also introduced a strategic report in 2013 to provide better clarity over what was expected in annual reports (see s 414A of the Companies Act 2006, in Appendix 7). Over the years a diverse range of corporate reports have been introduced, such as directors reports, governance reports and sustainability reports – which further adds to the confusion as to the content of an annual report. Therefore, in contrast to financial statements, annual reports tend to be both loosely managed and under-regulated.

Specifically, New Zealand content requirements for private sector annual reports are outlined in s 211 of the Companies Act 1993 (see below) and NZX Rule 10.4.1(c) requires compliance with this section, removing the possibility of companies opting out under s 211(3) (NZX, 2017a, p. 139). There are no penalties for non-compliance with either of these, other than a possible reprimand by NZX. Section 211 of the Companies Act 1993 states:

Section 211 – Contents of annual report [Companies Act 1993]

(1) Every annual report for a company must be in writing and be dated and, subject to subsection (3), must—

(a) describe, so far as the board believes is material for the shareholders to have an appreciation of the state of the company’s affairs and will not be harmful to the business of the company or of any of its subsidiaries, any change during the accounting period in—

(i) the nature of the business of the company or any of its subsidiaries; or

(ii) the classes of business in which the company has an interest, whether as a shareholder of another company or otherwise; and

(b) include any financial statements or group financial statements for the accounting period that are required to be prepared under Part 11, Part 7 of the Financial Markets Conduct Act 2013, or any other enactment (if any); and

(c) if an auditor’s report is required under Part 11, Part 7 of the Financial Markets Conduct Act 2013, or any other enactment in relation to the financial statements or group financial statements included in the report, include that auditor’s report; and

(d) [Repealed]

(e) state particulars of entries in the interests register made during the accounting period; and

(f) state, in respect of each director or former director of the company, the total of the remuneration and the value of other benefits received by that director or former director from the company during the accounting period; and

(g) state the number of employees or former employees of the company, not being directors of the company, who, during the accounting period, received remuneration and any other benefits in their capacity as employees, the value of which was or exceeded $100,000 per annum, and
must state the number of such employees or former employees in brackets of $10,000; and

(h) state the total amount of donations made by the company during the accounting period; and

(i) state the names of the persons holding office as directors of the company as at the end of the accounting period and the names of any persons who ceased to hold office as directors of the company during the accounting period; and

(j) state the amounts payable by the company to the person or firm holding office as auditor of the company as audit fees and, as a separate item, fees payable by the company for other services provided by that person or firm; and

(k) be signed on behalf of the board by 2 directors of the company or, if the company has only 1 director, by that director.

(2) A company that is required to include group financial statements in its annual report must include, in relation to its subsidiaries, the information specified in paragraphs (e) to (j) of subsection (1).

(3) The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.

The Institute has engaged in numerous personal communications with various different reporting institutions and regulators to ascertain who supervises s 211 of the Companies Act 1993 to ensure that companies are complying with this requirement (relating to the content of an annual report). The Companies Office does not oversee this provision as annual reports are not required to be filed with the Registrar of Companies. It was not apparent from any of these communications who, if anyone, has oversight of this provision. The conclusion the Institute has reached is that there is no institutional body checking whether companies are complying with s 211 of the Companies Act 1993.

Requirements for annual reports differ from financial statements in that, although a significant number of entities may be required to prepare annual reports, only a small number of entities are required to make them public.

In terms of the availability of annual reports, many companies are required under s 208 of the Companies Act 1993 to prepare and make their annual reports available to shareholders only and are liable for a penalty under s 374(2) if they fail to do so. The same requirements do not apply for provision of annual reports to stakeholders. However, NZSX-listed companies are required by Rule 10.4.1 of the NZX Rules to deliver an annual report ‘to NZX electronically, in the format specified’, which is then made temporarily public on the NZX website (NZX, 2017a, p. 139). FMC reporting entities that are deemed to be ‘e-reporting entities’ under s 61C of the Financial Markets Conduct Regulations 2014 are required, under s 61D, to make their annual reports publicly available on their own website for a minimum of five years after its first publication.

Additional information is usually provided voluntarily by the entity to further inform shareholders and wider stakeholders on the operations and goals of the entity. There is a growing array of voluntary guidance on the types of information that entities should provide (see Table A2.1 in Appendix 2). For example, the content stipulated in s 211 in the Companies Act 1993 only forms a small proportion of the non-financial information disclosed in the annual reports of NZSX-listed companies. Figure 34 (see Section 4 of this report) highlights the variety of voluntary guidance frameworks available by presenting the results of a search of the 2017 annual reports of significant New Zealand entities for reference to or evidence that they were prepared in accordance with international reporting frameworks.

The proliferation of voluntary guidance can be linked to both ‘carpet bombing syndrome’ and the conceptual challenge for corporate reporters posed by materiality (SustainAbility Ltd & UNEP, 2004, p. 34). This is particularly evident in relation to climate change disclosures, as discussed in Section 3.2.3, and risk reporting. UNEP defines material issues in relation to financial accounting as something that ‘has the potential to affect your perception of the company and any decisions you might take as a result’, yet they acknowledge the ‘nebulous’ nature of the term (SustainAbility Ltd & UNEP, 2004, p. 34). UNEP
describes ‘carpet bombing syndrome’ as the reporting trend of ‘inundating readers with information’ ‘with little or no thought for significance or materiality’ (SustainAbility Ltd & UNEP, 2002, pp. 2, 31). However, they also acknowledge the pressure on companies to ‘make their reports ever more complex’ and cite the expanded indicators section of guidelines such as GRI (SustainAbility Ltd & UNEP, 2004, p. 34). Research indicates ‘the average page-length of printed reports has soared 45% in just two years – with little change in report quality’ (SustainAbility Ltd & UNEP, 2002, p. 2).

**Key finding 5: No standard definition as to the purpose of annual report exists.**

The failure to have a standardised, prescribed definition of the purpose or content of an annual report in legislation that can be applied across the reporting framework is an example of what a lack of stewardship delivers. This failure presents itself in several different ways.

(a) **No consistent definition of annual reports across the legislation**

This is best illustrated in Table 4 (see Section 4 of this report).

(b) **No purpose of an annual report in the Companies Act 1993**

Section 208 of the Companies Act 1993 outlines a company’s ‘obligation to prepare an annual report’. However, the Act does not set parameters for an annual report’s purpose. As there is no set definition of an annual report in the Companies Act 1993, it must be assumed that the content requirements in ss 211(1), (2) and (3) of the Companies Act 1993 imply an annual report’s purpose. Section 211(1) lists ten key components of an annual report (see above). The selected governance disclosures narrowly focus on salary bands and interests of employees and directors, and it is explicitly stated in s 211(1) that any changes to company’s state of affairs that may be harmful to the business need not be disclosed. These requirements tend to focus on the needs of shareholders and to assure them the company’s finances are being managed well.

(c) **Use of the term ‘concise annual report’**

The introduction of ‘concise annual reports’ was part of a 2006 amendment to s 209(5) of the Companies Act 1993. The Companies Act 1993 appears to contradict itself, stating in s 2 that an annual report ‘does not include a concise annual report’ but noting in s 209C(5) that ‘annual report means a report prepared under s 208 and includes a concise annual report (if any)’. Further, there is confusion over the difference between ‘concise annual reports’ and ‘summary financial statements’; both are a type of reduced disclosure scheme. The first is applied in New Zealand law, but is legally defined as a set of concise financial statements (and not an annual report), while the second is applied by the XRB and internationally. The term ‘concise annual reports’, as used in the Companies Act 1993, seems to only refer to a summary of the financial statements, presumably without notes and without an audit report. This contrasts with the Australian definition of concise financial report, which does include cash flow statements. It is unclear why New Zealand uses the term ‘concise annual reports’ when other countries use ‘concise financial reports’ (AASB, 2002, p. 4). No statistics were found on the number of concise annual reports currently being produced in New Zealand or whether users have found these summary reports acceptable.

(d) **Use of the term ‘annual financial statements’**

The term ‘financial statements’ sometimes becomes ‘annual financial statements’, creating unnecessary confusion between financial statements and annual reports. For example, the Companies Office website for incorporated societies refers to the ‘annual financial statement’, as does s 45 of the Public Finance Act 1989 (Companies Office, 2016). For report users, this inconsistency adds unnecessary confusion.
5. ANALYSIS OF THE REPORTING FRAMEWORK

(e) Use of the term ‘annual return’ on the Companies Register

The term annual return is used to refer to ‘a yearly update of publicly available information about a company on the Companies Register’ and is clearly indicated to be different from a tax return or financial statement (Companies Office, 2018c). However, this still leaves the term ‘annual return’ open to confusion with annual reports (see definitions of each in the glossary). It is interesting to note that the UK repealed the requirement to prepare and submit an annual return under the (UK) Companies Act 2006 on 30 June 2016 and replaced it with the requirement to complete a ‘confirmation statement’ (Thomson Reuters, 2018).

Together these issues provide an opportunity to improve the framework for users, preparers, policy-makers, regulators and auditors.

Key finding 6: Access to private sector annual reports is problematic.

Current legislation only requires NZSX-listed companies to make their annual reports public. There is no requirement at all for registered charities to prepare (or publish) an annual report, despite the intention of the 2012 Financial Reporting Bill to strengthen ‘financial reporting for registered charities by requiring them to report in accordance with reporting standards issued by the XRB’ (MED, 2012, p. 1). This change was aimed at ‘improving the quality of reporting’, but seems to have instead resulted in varied requirements for charities’ annual returns, which in some cases require quite extensive information (MED, 2012, p. 1). This creates significant gaps in data and obstacles for assessing the overall industry.

There is a limited amount of information available about significant ‘for-profit entities’, which is why the annual report is such a useful instrument for preparers (i.e. it is an instrument that can be used to communicate with stakeholders) and for users (i.e. it is an instrument that can be used to learn more about what the company has done, is doing or is planning to do).

Limited access is due to the limited scope set out in legislation. Only a small number of companies are required to file financial statements (not annual reports) with the Companies Office. Under law the Companies Office cannot accept voluntarily filing of financial statements (unless legally required), of annual reports (unless where the company decides to file them as their ‘financial statements’) and/or additional reports (such as sustainability reports).

It was surprising to find annual reports being required to be on a company’s individual website for five years (rather than a public register). Our research for Section 4 of this report illustrated how flawed this concept was in practice. Many company websites were hard to find, particularly when entities had a variety of different names (i.e. operating names, official/legal names and marketing names); this meant that not all annual reports could be found.

Annual reports are not required and therefore cannot be accessed on the Charities Register, only financial statements and annual returns are required. However ‘annual returns’ are becoming extended by types of information that some might consider non-financial information that one might expect in annual reports.

There is a discussion that needs to be had over the role of annual reports, who should be required to file, should a voluntary filing system be added to the existing Companies Register and, more broadly, how might annual reports be better assessed. See Section 6.3 of this report.

5.2.3 Regulatory filings

Most countries require some form of regulatory filings for companies and registered charities, although the terms of these may vary. From the Institute’s perspective, the goal of the regulatory filings is transparency, with the underlying issue concerning what information an entity should be required to make public. Although this point is further discussed in Section 6.3, this subsection puts in place a brief description of the current framework.
The Institute uses the term ‘regulatory filings’ to include policy instruments that are required to be made public. In practice three institutions manage public registers of financial statements or annual reports in New Zealand: the Companies Office, Charities Services and NZX. The latter is not considered a register in law, but in practice the NZX does provide the public a register of annual reports on their website, albeit for a short window (until the next six-monthly annual report becomes available).

Duplication does exist. For example, NZX will make an annual report available on their website at the same time as the Companies Register will upload the company’s annual report on the Companies Register (many companies upload the annual report instead of just their financial statements). Additionally, FMA requires FMC reporting entities (which includes NZSX-listed companies) to have their annual reports on the company’s website for five years (see Table 4, Row 3[d]). This means companies might have publish their annual reports in three different places. Similar situations occur for companies that are registered charities and are also required to be registered on the Companies Register. In the public sector there are further variations, for example some Crown entities must also file financial statements on the Companies Register. A further example is the requirement for annual reports of Crown entities and government departments to be presented to the House of Representatives (which is a type of filing) but local authorities only need to send the annual report to the Parliamentary Library. The Parliamentary Library is publicly available, albeit by appointment only. This seems outdated and does not facilitate easy public access to this information. See Table 4, row 3(d).

Figure A4.1 in Appendix 4 sets out New Zealand’s filing requirements for companies. Key determinants include whether the company is an FMC reporting entity, whether it has an overseas shareholding and whether it is large. Section 45 of the Financial Reporting Act 2013 sets out the thresholds of total revenue and total assets within the two previous financial years to determine which companies are considered to be ‘large’ in New Zealand. The definition is complex and outdated because it fails to account for a number of factors.

The definition also fails to account for the number of employees a company may have and the size of the company’s carbon footprint. For example, a company may not reach the total assets or total revenue threshold to be considered large, but may use and/or pollute natural capital at comparable rates to those that are considered large and therefore have a greater moral responsibility to be transparent about its operations.

Furthermore, the current definition of large does not function in such a way that allows companies on the Companies Register to be analysed in terms of the size of their business. This became apparent after an OIA request to the Companies Office seeking ‘a list of companies that meet the definition of “large” currently operating in New Zealand’. The Companies Office could only provide three lists excluding FMC reporting entities, as illustrated in Table A4.2, because they did not have access to FMA data to confirm how many large New Zealand companies (with no overseas ownership) operated in New Zealand (Personal communication with MBIE, 2018a)

This type of information is important to understand in order to ensure the system is operating in a cost-effective, integrated manner.

**Key finding 7: Access to public sector annual reports is problematic**

There are significant weaknesses within the public sector external reporting system. This is evident in a case from September 2018 in which two Crown companies failed to prepare performance statements (Williams, 2018). The statements are a legal requirement and include ‘financial forecasts and output targets’ (Williams, 2018). Christchurch accountant Cam Preston noted that the companies were ‘acting “beyond the law”’, as the statements are ‘not discretionary’ and are ‘important for transparency and accountability’ (Williams, 2018).
There exists an opportunity to bring together all public sector reports under one central register, what the Institute would call a Public Sector Register. The creation of a central register would aid in enabling citizens to view government entities working together as part of a whole system. Additionally, it may improve collaboration between public sector organisations. This would add significant value for the general public, meaning they have an additional accountability tool by which they can assess the progress of public sector entities against their stated goals.

Furthermore, the register could be structured to complement the annual Budget. While the Wellbeing Budget illustrates where public funds are intended to be spent, a Public Sector Register would work in tandem with this to show where money was spent. This could be incorporated with the 2019 Wellbeing Budget. Users of the system would be able to reconcile the two, thereby building public trust and awareness of government activities.

5.3 Information

In order to create an anti-fragile system for complex times, a system should be designed to provide timely feedback loops and frequent internal and external reviews.

Regular and comparable information is required to assess whether the system is being run in a cost-effective, transparent and timely manner. This information is usually provided by reviews and analyses. Such information is available in the form of Cabinet papers and regulatory impact statements, XRB surveys, FMA and NZX reviews, and assumptions can be made based on legislative improvements to the system (see for example, the Local Government (Financial Reporting and Prudence) Regulations 2014).

Key finding 8: The Companies Register is not being used to its full potential.

The Companies Register holds a number of different documents and information required under the Companies Act 1993 for every registered for-profit company in New Zealand. What follows are issues the Institute found as part of its research. Many of these are small and should be easy to rectify while others are not.

(a) Searching

At present, the ‘advanced search’ option on the Companies Register enables users to make a search specific to categories such as entity types (e.g. overseas ASIC and non-ASIC companies, or the type of company such as limited liability or co-operative etc.); date of incorporation; company status; registered address (Companies Office, 2018d). While this is a helpful tool for navigating the register and refining searches, it does not provide statistical data on these categories, nor does it allow a user to refine the search by ‘large’ companies only or by industry type. Also the number of registers are not necessary; arguably one register could cater for all entities if a sophisticated search engine was put in place. MBIE currently makes 20 separate registers public, yet just one might suffice. See Table 6 in Section 5.1.

(b) Industry classification

On the matter of industry types, the Australian and New Zealand Standard Industrial Classification (ANZSIC) provides vital information which enables Stats NZ to create a landscape of the number of enterprises within each industry. The ANZSIC system was developed in the 1990s by Stats NZ (then referred to as Statistics New Zealand) and the Australian Bureau of Statistics as a means of improving the comparability of Australian and New Zealand industries with other countries (Stats NZ, n.d.[a]). It was updated in 1993, 1996 and then in 2006 to its current form. Each year Stats NZ conducts the Business Operations Survey for the approximately 7500 New Zealand businesses that employ staff and have been engaged in any of the industries for at least a year (Stats NZ, 2016a).
The ANZSIC system presents an opportunity for better understanding the existing landscape of companies, but it is not currently fulfilling its potential in terms of integration with existing registers. Industry classification information enables analyses of industry results across the whole economy in order to assess and identify fragile areas within markets and develop strategy.

The New Zealand Government invites those completing their NZBN, which is voluntary, to provide Primary Business Data (PBD) on the NZBN Register, which includes a Business Industry Classification Code (MBIE, n.d.). The UK Government makes it a mandatory requirement for companies to provide their ‘standard industrial classification of economic activities (SIC)’ code as part of their confirmation statement, which the equivalent of an annual return (GOV.UK, 2018).

Improving the ANZSIC system might enable specialised industry standards to be developed and applied in the future so that report users can assess the different impacts of varying types of business operations and business models (e.g. construction industries consume a significant amount of energy, whereas the agricultural sector is responsible for a significant amount of greenhouse gas emissions). Statistics on the progress made by each industry in terms of profit, turnover, employment, emissions, sustainability, taxation etc. could also be collected.

(c) Nature of business

The term ‘nature of business’ is currently undefined in the Companies Act 1993, despite the fact that companies are required to disclose any changes to the nature of its business (or a subsidiary’s business) in their annual report under s 211(1). Additionally, the wording of the act allows for considerable flexibility with the concession that disclosures are only required ‘so far as the board believes is material’. While preparing Working Paper 2018/01 – NZSX-listed Company Tables, it was assumed that the nature of business or purpose of a company refers to the company’s primary product and/or service. Of the 126 companies whose annual reports could be found, 54 companies were difficult to group within one of the ANZSIC industry sectors categories (McGuinness Institute, 2018c, pp. 26–28). It may be worth considering whether ‘nature of the business’ could be defined in law and aligned with the ANZSIC classification system mentioned above.

(d) Legal company names

As a further difficulty for identifying companies on the Register, companies do not consistently use their legal names. The legal names of companies operating in New Zealand tend to have ‘Limited’ at the end to identify the entity type as a limited liability company. In media and communications contexts, ‘Limited’ is often omitted from company titles, companies such as ‘Apple Sales New Zealand’ are referred to simply by their parent company name (‘Apple’). Further, multiple subsidiary companies and a parent company are usually registered on the Companies Register, yet it is difficult to identify the parent company when the legal name is unknown. This was apparent when analysing annual reports, as the only place where the research team could consistently find the legal name was either the auditor’s report or the notes to the financial statements. The front pages of annual reports tend to use the shortened, more colloquial versions of company names. This meant that the only way to reconcile the company name on the 2016 Deloitte Top 200 list with the correct corresponding company on the Companies Register was to reconcile the revenue figures on the list with those in the financial statements. This, coupled with the fact that New Zealand Business Numbers (NZBNs) are not yet universally adopted means is not easy to identify companies, causes unnecessary difficulty.

(e) Ownership structure and taxation

Companies are required to disclose their ‘ultimate holding company’ on the Companies Register (Companies Office, 2018e). However, the Phase 2 research of NZSX-listed companies in 2017 (discussed in Section 4.2) highlighted some disparities between the disclosure of a company’s parent entity or significant shareholder in the annual report, and the information given on a company’s
Companies Register summary page. For example, some companies would disclose a parent company in their annual report but not on the Register, while some companies would disclose an ultimate holding company which, in turn, was a subsidiary of a larger company. Furthermore, the holding entity disclosed is not necessarily the absolute holding company. ‘For example, the ultimate holding company stated on the Company Summary of [MCK] Millennium & Copthorne Hotels New Zealand is “Millennium & Copthorne Hotels plc”’, but the annual report of Millennium & Copthorne Hotels New Zealand Limited reveals that Millennium & Copthorne Hotels plc ‘is registered in the UK but is owned by Hong Leong Investments based in Singapore’ (McGuinness Institute, 2018f, pp. 15–16).

The ownership structure is also linked to the issue of taxation, raising questions of whether the company pays tax to New Zealand and whether or not their profit goes overseas. These, along with the reputation of the ultimate holding company, are all important factors that investors take into consideration. Given the BEPS discussion in Implication 4: The need for taxation reform (in Section 3), it seems timely to revisit the disclosure of tax paid to each nation state.

(f) Provision for voluntary filing

As discussed earlier, the Companies Office does not allow the voluntary filing of annual reports or of financial statements from companies that are not legally required to file their financial statements under s 207D of the Companies Act 1993 (Companies Office, 2018f).

This means the number of annual reports accessible through the Companies Register is limited to companies that are obligated to file their financial statements under ss 207D and 207E of the Companies Act 1993, but that meet this requirement by also filing their annual report (which includes their financial statements). Furthermore, the register does not differentiate between types of document, meaning that these annual reports were found under the link ‘financial statements’.

The Institute found that 93 out of 126 companies listed on the NZSX in 2016 and 87 of the 2017 Deloitte Top 200 companies uploaded their annual reports onto the Companies Register (McGuinness Institute, 2018c, pp. 65–67; 2018b, p. 50). These numbers indicate that it would be easy to move from a mandatory filing regime for ‘financial statements’ to a mandatory filing regime for ‘annual reports’.

This is further supported by responses to the 2017 Preparers’ Survey. Over half of preparers (53%) would support mandatory filing of annual reports on the Companies Register (McGuinness Institute, 2018a, p. 10).

However, exploring this idea further, a mandatory filing regime for annual reports would still disadvantage the companies currently not required to make financial filings under the law yet wish to do so in order to support their brand, enhance their reputation and/or in the interests of being transparent. The only option for these companies is to make their reports available on their own website. For this reason, centralised voluntary filing of annual reports that allows any company to opt-in may be a better option.

(g) Filing due dates

‘Large’ companies and FMC reporting entities are required to file their financial statements within five months and four months respectively after their balance dates (see Appendix 4).

Of those companies that were required to file financial statements, 19 of the 2017 Deloitte Top 200 companies did not file financial statements on the Companies Register within the five-month time limit from December 2017.5 There is no evidence that these companies paid the late fee, or if they

were exempted by the Companies Office, why this was the case. Options would be to make their financial transactions with the Companies Office transparent and to ensure all late fees and penalties are documented on the company’s profile on the Companies Register.

It is also worth noting that, despite the recommendation in the MED Cabinet paper, ‘the maximum penalty for financial reporting offences be a fine of $50,000 for reporting entities other than the classes discussed above’, penalties remain inconsistent across the framework (MED, 2012, p. 9).

Keeping interested parties informed in a timely manner is an important aspect of good governance. The filing due dates seem unnecessarily generous, particularly in comparison to public sector requirements (see Appendix 5).

Key finding 9: Data collected by institutions is not always aligned or checked for completeness.

Discrepancies between figures on the registers and official statistics do not always align. This appears to be due to different meanings being assigned to similar words. For example, the Institute found that the number of registered companies on the Companies Register was 605,018, but the number of enterprises according to Stats NZ was 528,171 (see Appendix 3). This was confusing as companies are only a subset of enterprises and, by this logic, there should be more enterprises identified by the Stats NZ’s survey than registered companies on the Companies Register. On further research the Institute found this was due to different definitions being used by the Stats NZ survey and the Companies Register. For the Stats NZ survey:

An enterprise [is economically significant if it meets] at least one of the following criteria: annual expenses or sales (subject to GST) of more than $30,000 [or] 12 month rolling mean employee count of greater than three [or] part of a group of enterprises or registered for GST and involved in agriculture or forestry [or] over $40,000 of income recorded in the IR10 annual tax return (this includes some units in residential property leasing and rental). (Stats NZ, n.d.[b])

The Stats NZ survey is a private register based on data from Inland Revenue rather than from the Companies Register. Only the total figures are released. Stats NZ continually monitors ‘enterprises recorded on Inland Revenue’s client registration file to determine whether they meet the “economic significance” requirements for inclusion. Enterprises maintained on the [Business Register] represent the target population from which Statistics NZ’s economic surveys are selected’. They exclude ‘all non-trading or dormant enterprises, as well as enterprises outside New Zealand’ (Stats NZ, n.d.[b]). To prevent confusion in the future, it may be useful for Stats NZ to use another term, other than Register.

The Companies Register, on the other hand, is a public register comprised of all companies that are registered to do business in New Zealand, including those incorporated overseas (Companies Office, 2018[d]). The information produced by Stats NZ could not be verified on either the Companies Register or the NZ Business Register, as there is currently no way to search for economically significant, non-trading or dormant enterprises. There may be an opportunity to link this information in the future.

Key finding 10: User demands for reporting disclosures exceed information supplied by preparers.

Despite the international trend of non-financial material being increasingly demanded by investors and civil society, this pressure is not as evident in New Zealand. Although a gap is present between the needs of report users and what is published by preparers, international demand of report users seems greater. This may be due to our market being smaller, our large investment funds being less demanding, our users being less informed and/or company failures less frequent.

The 2017 users and preparers surveys yielded a number of insights around the perceived quality of current reporting practices (see Figures 12–17 in Section 4 of this report). The results indicated that, overall, both preparers and users consider most annual report content to be important. However, users considered each type of content contained in the annual report to be more important than preparers.
5. ANALYSIS OF THE REPORTING FRAMEWORK

did. Additionally, users did not believe the information contained in the annual report was well reported on. Users indicated that areas of particularly poor disclosure included climate change-related information (such as ‘breaches of air pollution standards’, ‘total greenhouse gas emissions’ and ‘amount of nitrogen used’) and technological information (such as ‘cybersecurity breaches’). With climate change and technological disruptions posing the two greatest risks to businesses globally, this is a cause for concern as it relates to how well companies are recording, assessing and managing sustainable practices.

As the research phases 1 and 2 suggest (see Section 4); there are gaps between what information preparers perceive themselves to be providing and what is actually reported. This implies that there may be gaps between what users want and what they think they want. This is illustrated in Figure 40 below.

![Figure 40: Illustrating the process that exists between what report preparers provide and what report users need](image)

Given that s 211(1)(a) of the Companies Act 1993 states that the annual report should include information ‘the board believes is material for the shareholders to have an appreciation of the state of the company’s affairs and will not be harmful to the business of the company’, it is troubling firstly that preparers do not consider EER to be relevant, and secondly that shareholders are not putting pressure on companies to include EER in their reports.
6. Policy knots shaping the reporting framework

Highlights

Four over-arching questions requiring attention were identified. If answered by government, these would help develop a new, improved reporting framework fit for purpose:

1. Who should the reporting framework be designed for: shareholders or stakeholders?
2. Who is in control – the CEO, the board or the shareholders – and who are they being held accountable to?
3. Which policy instruments should be used for which type of organisation: financial statements, annual reports and/or regulatory filings?
4. Who should write and regulate reporting and assurance policy, and which disclosures should be mandatory?

Policy knots is a term used in Report 17 to refer to high-level tensions and complex, interconnected issues that are often difficult to unbundle. They are usually caused by strategic issues such as an unbalanced system, ill-defined purpose, conflicting goals, confusing processes, or a lack of regular reviews (meaning the system fails to refresh and recalibrate). However, once policy knots are resolved the system can operate without disruption and deliver on its purpose in a cost-effective and timely manner.

Figure 41 below illustrates the four policy knots in the reporting framework that the Institute believes require urgent attention. Government could clarify the purpose and principles driving the reporting framework by outlining a response to each of the policy knots summarised below. Having a clear purpose and agreed set of principles is the first step to ensuring that New Zealand has a reporting framework fit for purpose.

Figure 41: Illustrating the policy knots creating uncertainty in the reporting framework
6. POLICY KNOTS SHAPING THE REPORTING FRAMEWORK

Figure 42: Comparing the difference between the shareholder with the stakeholder as the key user of the reporting framework

**Shareholders (or potential shareholder)**

- **To buy/hold or sell**
  - **Focused on:**
    - Financial returns (past and future),
    - Share price gains and market capitalisation (past and future),
    - Governance (e.g. board and the CFO),
    - Who controls the organisation, and
    - What risks the organisation is facing/may face.
  - **Tend to focus on financial returns, stability, risks impacting on the organisation, opportunities and governance information.**

- **All stakeholders other than shareholders or potential shareholders, such as consumers, suppliers, employers, neighbours, fund managers, regulators, bankers, insurance companies, the IRD, competitors, industry organisations, unions, environmentalists, NGOs and government (both central and local).**
  - **To work for/leave the organisation**
  - **To buy products/services or boycott products/services from the organisation**
  - **To learn about and possibly change/support the behaviour of the organisation (e.g. removing its social licence or being a whistleblower)**
  - **Focused on:**
    - How the organisation impacts on the four capitals (human, social, natural and financial/physical) the community (e.g. who gains and who loses and the multiplier affect (e.g. RMA),
    - Which organisation pays taxes and what country receives the taxes (e.g. BEPS and whether the organisation is in a tax haven),
    - Where profits go (e.g. New Zealand or overseas),
    - Who controls the organisation and who has the power (e.g. where is the ultimate holding company located New Zealand or overseas),
    - Systemic risks and supply chain risks,
    - Net emissions and the resulting strategy to move to a low-carbon economy, and
    - Trade-offs that may exist (e.g. human capital, social capital, natural capital).
  - **In addition to financial returns, stability, risks, opportunities and governance information, other stakeholders are also interested in the organisation’s ethics, its behaviour within the wider community and its long-term footprint.**

**Shareholder (or potential shareholder)**

- **To buy/hold or sell**
  - **Focused on:**
    - Financial returns (past and future),
    - Share price gains and market capitalisation (past and future),
    - Governance (e.g. board and the CFO),
    - Who controls the organisation, and
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  - **Tend to focus on financial returns, stability, risks impacting on the organisation, opportunities and governance information.**

- **All stakeholders other than shareholders or potential shareholders, such as consumers, suppliers, employers, neighbours, fund managers, regulators, bankers, insurance companies, the IRD, competitors, industry organisations, unions, environmentalists, NGOs and government (both central and local).**
  - **To work for/leave the organisation**
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    - Where profits go (e.g. New Zealand or overseas),
    - Who controls the organisation and who has the power (e.g. where is the ultimate holding company located New Zealand or overseas),
    - Systemic risks and supply chain risks,
    - Net emissions and the resulting strategy to move to a low-carbon economy, and
    - Trade-offs that may exist (e.g. human capital, social capital, natural capital).
  - **In addition to financial returns, stability, risks, opportunities and governance information, other stakeholders are also interested in the organisation’s ethics, its behaviour within the wider community and its long-term footprint.**

**Stakeholders (or potential stakeholder)**

- **Who is the user of the reporting framework?**
  - All stakeholders other than shareholders or potential shareholders, such as consumers, suppliers, employers, neighbours, fund managers, regulators, bankers, insurance companies, the IRD, competitors, industry organisations, unions, environmentalists, NGOs and government (both central and local).

- **What types of decisions are the users wanting to make?**
  - To work for/leave the organisation
  - To buy products/services or boycott products/services from the organisation
  - To learn about and possibly change/support the behaviour of the organisation (e.g. removing its social licence or being a whistleblower)

- **What is the user interested in learning about?**
  - To work for/leave the organisation
  - To buy products/services or boycott products/services from the organisation
  - To learn about and possibly change/support the behaviour of the organisation (e.g. removing its social licence or being a whistleblower)

- **What information do the users focus on?**
  - That the financial statements are made available and are produced in a timely manner.
  - That the contents are accurate, easy to navigate and can be relied upon (e.g. assurance).
  - That the annual report contains all the necessary information on governance, risks, opportunities and provides clarity over who they are investing in (e.g. who is the ultimate controlling party).
  - If the organisation is listed on the NZSX, that the announcements are accurate, complete, timely and relevant.

- **What are the specific requirements of the users?**
  - All stakeholders other than shareholders or potential shareholders, such as consumers, suppliers, employers, neighbours, fund managers, regulators, bankers, insurance companies, the IRD, competitors, industry organisations, unions, environmentalists, NGOs and government (both central and local).

- **What timeframe is driving the user’s decision making?**
  - Tend to focus on the short-term
  - Comparing the same organisation with itself over time – one year with another.

- **How do users compare the information?**
  - Tend to focus on the medium to long-term
  - Comparing one organisation with another or one industry with another over the same period of time.

**Figure 42:** Comparing the difference between the shareholder with the stakeholder as the key user of the reporting framework.
6.1 Who should the reporting framework be designed for: shareholders or stakeholders?

The first policy knot concerns the most significant question raised by this research – should the reporting framework be designed for shareholders or stakeholders? Answering this question will have the biggest impact on the framework, and the resulting structure and strategy. Figure 42 above highlights this by comparing a framework designed for shareholders to a framework designed for stakeholders. The key to the distinction between the terms ‘shareholder’ and ‘stakeholder’ is that the former has a share in an organisation’s profits while the latter has a stake or interest in the impacts of an organisation’s operations. Over time the types of users that consider themselves to have an interest or stake in the impacts of an organisation’s operations have expanded to include a wide range of parties other than shareholders, including employees, suppliers, neighbours, bankers, insurers and government.

It is important to clarify both who the existing framework was designed for and whether there are emerging audiences with different needs. The existing framework was designed for shareholders; only the term ‘shareholder’ is recognised in law in relation to reporting (see Table 7 below). This is even the case in the Public Finance Act 1989, which requires reports to be presented to the House of Representatives as the ‘shareholders’ of the public sector (see s 31). Stakeholders are mentioned elsewhere in legislation, but not in relation to reporting. For example, the Education Act 1989 and the Fiordland (Te Moana o Atawhenua) Marine Management Act 2005 mention the term stakeholder, but only in relation to consultation requirements or in the preamble (respectively).

Table 7: Mentions of shareholder and stakeholder in legislation as at 22 August 2018

<table>
<thead>
<tr>
<th>Legislation (as listed in Appendix 6)</th>
<th>Mentions of ‘shareholder’ in legislation</th>
<th>Mentions of ‘stakeholder’ in legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Charities Act 2005</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2. Companies Act 1993</td>
<td>853</td>
<td>0</td>
</tr>
<tr>
<td>3. Crown Entities Act 2004</td>
<td>46</td>
<td>0</td>
</tr>
<tr>
<td>4. Environmental Reporting Act 2015</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5. Financial Markets Conduct Act 2013</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>6. Financial Reporting Act 2013</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>7. Incorporated Societies Act 1908</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8. Local Government Act 2002</td>
<td>31</td>
<td>0</td>
</tr>
<tr>
<td>9. New Zealand Business Number Act 2016</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>10. Public Finance Act 1989</td>
<td>13</td>
<td>0</td>
</tr>
<tr>
<td>11. Public Records Act 2005</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12. State Sector Act 1988</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>13. Financial Markets Conduct Amendment Regulations 2017</td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td>14. Local Government (Financial Reporting and Prudence) Regulations 2014</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>15. Tax Administration (Financial Statements) Order 2014</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>986</strong></td>
<td><strong>0</strong></td>
</tr>
</tbody>
</table>

Shareholder and creditor bias is evident in the NZ Conceptual Framework, which identified primary users and users as follows:

Many existing and potential investors, lenders and other creditors cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they are the primary users to whom general purpose financial reports are directed [...] Throughout the 2018 NZ Conceptual Framework, the terms ‘primary users’ and ‘users’ refer to those existing and potential investors, lenders and other creditors who must rely on general purpose financial reports for much of the financial information they need. (XRB, 2018b, p. 9)
Shareholder bias is also evident in guidance documents. For example, the NZX Code only includes ‘shareholder rights/relations’ as a principle (NZX, 2017b, p. 2). The FMA Handbook previously included stakeholder interests as a distinct principle, but this was combined with shareholder relations in 2017 to become Principle 8: ‘Shareholder relations and stakeholder interests’ (FMA, 2014a, p. 2; 2018a, p. 3). This may have been in response to FMA’s 2016 Review of corporate governance disclosure, which found that ‘of the nine principles outlined in our handbook, stakeholder interests had the lowest reporting (19%), followed by reporting on remuneration (37%)’ (FMA, 2016, p. 5).

Although New Zealand does not currently have any meaningful recognition of stakeholder interests, there are more significant recognitions of other stakeholders being undertaken internationally. From 1 January 2019, some directors of large companies in the UK will have to report to shareholders on how they ‘take employee and other stakeholder interests into account’, what their ‘responsible business arrangements’ are, and how share price changes will affect executive pay, in order to better ‘inform shareholders when voting on long-term incentive plans’. Further, the UK Financial Reporting Council (FRC) has further updated their Strategy Report Guidance to recognise the importance of non-financial reporting and is now encouraging companies ‘to consider wider stakeholders and broader matters that impact performance over the longer term’. (Deloitte, 2018, p. 79; Department for Business, Energy & Industrial Strategy, 2018).

**Key observations**

Although shareholders are developing a stronger interest in the wider impacts of their organisations’ operations, the broader needs of stakeholders are largely neglected. This is an important observation, with serious impacts for those interested in tackling public issues such as climate change, poverty, water quality and gender inequality.

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

The second policy knot deals with the tension between different parties with decision-making powers, and explores how those parties are held accountable for their decisions (and who holds them to account). Different sectors have different approaches for the division of control and accountability between CEOs, boards and shareholders. In the current reporting framework it is very clear who is accountable and responsible in the private sector (but is it balanced) and it is not clear who exactly is accountable for public sector entity decision-making.

**Private sector**

In the private sector, responsibility and accountability for the actions of a company generally fall on the board of directors. Section 131 of the Companies Act 1993 places a duty on ‘directors to act in good faith and in [the] best interests of company’. However this is not necessarily in the best interests of the shareholders, which therefore can create a tension. There are other provisions that place further responsibility on the board. Section 211 of the Companies Act 1993 makes the board accountable by requiring two directors of the company to sign the annual report. Commercial law firm Chapman Tripp expects that ‘boards will continue to be subject to high levels of scrutiny, including from the New Zealand Shareholders’ Association (NZSA), institutional and retail investors, and the FMA’ (Chapman Tripp, 2018, p. 1). To support this expectation, the Takeovers Panel issued the Takeovers Code, which ‘governs transactions and events that impact on the voting rights [of] shareholders of “Code companies”’ (see glossary). The guidance reinforces the expectation that directors will formulate a recommendation for the shareholders regarding responses to Code-regulated transactions (Takeovers Panel, n.d.).

Overseas, this onus on board members is evident in the case of the Sackler family, a pharmaceutical dynasty known for its patronage of the arts and now facing accusations of fuelling America’s opioid
crisis. In June 2018 the attorney-general in Massachusetts filed a lawsuit that named eight members of the Sackler family, all of whom served on the board of Purdue Pharma, as defendants (Crow, 2018). This ‘shifted the focus of the legal fight’ away from Purdue as a company, alleging that the family members ‘oversaw and engaged in a deadly, deceptive scheme to sell opioids’ (Crow, 2018).

The implications of this are that CEOs and shareholders tend not to be held accountable for a company’s actions of the company (particularly if the CEO is not on the board). This is contrary to the belief held by many who would argue the power of CEOs and shareholders are increasing, a developing tension.

This issue was raised by Barbara Hackman Franklin (29th US Secretary of Commerce and chair emerita of the National Association of Corporate Directors) in a 2017 *Harvard Business Review* article. To the question ‘Do you agree that excessive focus on shareholders has become a problem?’, Franklin responded with the following:

> I have always viewed it as a tripartite system of checks and balances. Shareholders own shares and elect the board of directors. The board of directors sets policies and hires and fires the CEO. The CEO and management run the company. The power balance among those three parties ebbs and flows over time, but there’s always some balance. When I first joined boards of large public companies, three decades ago, CEOs were dominant. Then boards began to assert themselves, and the balance shifted toward them, particularly after Sarbanes-Oxley was passed in, in 2002. The balance has shifted again in the past five or six years, toward shareholders.

But there’s an added complication, which is activist shareholders, and their increased presence seems to me different from the normal ebb and flow among the three parties. Different and more worrying. This has been a new thing over the past few years. So I agree that the power should now shift back from shareholders and move towards boards and management. (Bower & Paine, 2017)

In New Zealand, the division of control is further complicated by a number of interdependent relationships between business and government. The distinction between the two is sometimes muddied, which can create tension for how CEOs and boards operate. Two recent examples are:

- Regional Development Minister Shane Jones has commented that the loss of Fletcher Building’s vertical construction expertise ‘would be a huge strategic blow to the country, which could be forced to outsource large projects to foreign companies’ (Irwin, 2018).

- Minister Jones has ‘called on the new chairman of Fonterra to ensure the “right CEO” is chosen for New Zealand’s biggest company’ (Fox, 2018). Fonterra’s history is interesting in that it ‘was created under special enabling legislation from an industry mega-merger in 2001 to be a national export champion’ (Fox, 2018).

The FRC has identified the disclosure of key relationships and dependencies as an aspect of effective and transparent external reporting (FRC, 2017, p. 24). This may be an area that New Zealand could work on improving.

The increasing role of shareholder activism (discussed in Section 3.1), alongside concerns over executive pay, has led to some interesting responses from government. For example, in 2017 as part of a broader package of corporate reforms, the UK Government invited:

> the Investment Association to implement a proposal [...] to maintain a public register of listed companies encountering shareholder opposition to pay awards of 20% or more to executive pay and other resolutions, along with a record of what these companies say they are doing to address shareholder concerns. (Department for Business, Energy & Industrial Strategy, 2017, p. 19)

Furthermore, the role of CEOs who are not board members presents an interesting dilemma, given their significant level of power yet low level of accountability (other than the responsibility to report to the board of directors). This is illustrated by the issue of remuneration disclosure. CEOs who are not board members are not required under the Companies Act 1993 to have their remuneration disclosed. This point was raised by a member of the University of Otago’s accounting and finance department in submission feedback on the FMA’s *Corporate Governance Handbook*:
This means that often it is very difficult to determine exactly how much they are paid in any given year. In these cases the readers of the annual report have to rely on the disclosures for employees earning more than $100,000 that are given in $10,000 bandwidths. However it might be that the highest paid individual reported in this list is not necessarily the CEO. It could be another executive manager (e.g. the CFO) or the highest amount that is paid out actually includes compensation for retirement or redundancy purposes for the CEO or some other individual. The case is even more complex when a CEO is only in office for a short time and enters during a financial year or is replaced very close to the end of a financial year. (FMA, 2018b)

The same submission also noted that remuneration disclosures should be more specific about policies, arguing that ‘actual details about compensation setting practice, measurement and determination of pay out needs to be more transparent’ (FMA, 2018b). The submission also raised an interesting point about the possibility of executive remuneration being based more specifically on their individual personal and company performance rather than the overall success of their sector (FMA, 2018b).

This is synonymous with international discussion of remuneration, where ‘stakeholders continue to report that remuneration reports are opaque, too long and complex and not sufficiently focused’ and investors seek ‘more transparency and simpler remuneration structures’ (FRC, 2017, p. 31). Discussions about remuneration link into broader ESG issues such as working conditions and fairness.

The existing private sector reporting framework places a significant amount of responsibility on the board of directors, grants shareholders significant rights without responsibility, and bestows non-board member CEOs with significant power but minimal accountability. This raises the question of whether the tripartite system of checks and balances is working and is as ‘balanced’ as it should be.

**Public sector**

In contrast to the private sector, public sector CEOs are held responsible for the operations of their organisations. The CEO of a department is required to sign a statement of responsibility for ‘the accuracy of any end-of-year performance information prepared by the department [...] whether or not that information is included in the annual report’ under s 45S of the Public Finance Act 1989. As noted above, this contrasts completely with the private sector, where that same responsibility is placed on two directors to sign off the annual reports.

As noted in Table 4, row 3 (see Section 4 of this report), there are many situations in the public sector where annual reports are presented or published without a lot of clarity as to the ‘tripartite’ structure of decision-making power and who holds ultimate accountability. Depending on the viewpoint, these examples could be positioning the Crown as equivalent to the board, or the majority shareholder. For example:

- The consolidated financial statements for central government are required under s 31 of the Public Finance Act 1989 to be prepared by Treasury and presented to the House of Representatives by the Minister.

- Under s 67 of the Local Government Act 2002, councils or council-controlled organisations are required to deliver their annual reports to shareholders and make them available to the public. Under ss 98(4) and (6) of the Local Government Act 2002, local authorities must make their annual reports and summaries publicly available as well as send copies of them to the Secretary (DIA), the Auditor-General and the Parliamentary Library.

In order to ensure that the reporting framework is fit for purpose these checks and balances in the public sector deserve to be addressed and clarified. The ‘roles’ of shareholder, management, and board needs to be clarified in the public sector so decision-making power can be balanced and monitored.

**Key observations**

A lack of clarity exists in the tripartite system of checks and balances in the public and private sectors. However each sector has its own unique issues. The private sector arguably places too little responsibility on shareholders and CEOs (particularly non-board member CEOs). In contrast, the public sector places too much responsibility on CEOs and at the same time fails to clarify the role...
of the Government and the House of Representatives (in that they act more as a board and less as a shareholder). The Government and the House of Representatives have a significant impact on the operations of every public sector entity. It is as if the differentiated roles of the shareholder and stakeholder are lost in the public sector framework as it currently stands.

Government must revisit whether the current framework ensures that those who have control can also be held accountable. The differences discussed above illustrate the need for stewardship and a set of principles that will, over time, deliver public trust in CEOs, boards of directors and shareholders, as well as the relationships between them.

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

The third policy knot discusses the three policy instruments (discussed in detail in Section 5 of this report) in terms of what instrument should be used to deliver which information on organisations to the public. Below is a brief summary of each instrument followed by a discussion of which policy instrument should be used for which type of organisation.

- Financial statements are generally required for filing purposes. Sometimes, the terms ‘annual financial statements’ or ‘performance report’ are used in its place. They are often audited or reviewed (see Table 5 in Section 4 of this report).
- Annual reports (excluding financial statements) are always made public in the public sector but rarely made public in the private sector. The exceptions in the private sector are NZSX-listed companies. They must deliver annual reports to the NZX for uploading onto their website (until the six-monthly report is received). These companies are also required to make their annual reports available on their own website for five years (see Table 4).
- Regulatory filings require financial statements to be filed and made public. There are currently two government agencies managing New Zealand’s regulatory registers: MBIE and Charities Services (see discussion on annual reports above).

Initiatives to improve financial statements

Both the XRB and the FMA have undertaken work towards improving financial statements. In developing their financial reporting strategy, the XRB undertook research into APMs (XRB, 2017b). In 2014 the FMA released the report Quality Financial Reporting – How to improve Financial Statements, which sought to encourage entities to reassess financial statements with a focus on making them ‘a clear and effective reporting and communication tool’ (FMA, 2014b, p. 2). To achieve this, the proposed approach was to firstly identify material information and secondly to communicate the information in a ‘clear, concise and effective manner’ (FMA, 2014b, p. 4). To follow up, the FMA published a monitoring report in 2018 that reviewed ‘the most recently issued financial statements of the NZX 50 [the top 50 on the NZSX by float-adjusted market capitalisation] as at 30 November 2017 to determine the extent of improvements since the release of the 2014 Report’ (FMA, 2018c, p. 2). They found that only 24% of companies had made ‘substantial improvements’ to the content, layout or structure of their financial statements, leaving 76% of companies having made only some changes or none at all (FMA, 2018c, p. 2).

The FMA published an information sheet on the Disclosure of significant accounting estimates, also in 2018, noting the ‘lack of disclosure in significant accounting estimates and assumptions, particularly those containing high levels of uncertainty’ (FMA, 2018d). They go on to list ‘common areas of concern’ as the following:
6. POLICY KNOTS SHAPING THE REPORTING FRAMEWORK

- potential liabilities subject to the outcome of litigation;
- recognition and measurement of revenues of long term contracts;
- recognition and measurement of any expected contract losses;
- unobservable inputs used in assessments of the fair value or recoverable amount of an asset or liability;
- recognition and measurement of a group of insurance contracts; and
- the cost of a business combination when consideration is contingent on future performance or events. (FMA, 2018d)

This raises questions of why financial reporting has not improved significantly and who is responsible for regulating the financial statements that are not covered by the FMA or the Companies Office, and indicates the necessity of stewardship and central oversight.

Initiatives to improve annual reports

Although the XRB is New Zealand’s standard-setter, it cannot set reporting standards governing non-financial information outside of s 17(1) of the Financial Reporting Act 2013, without being empowered by the Minister under s 17(2). Furthermore, the XRB is not a regulator of the entities that apply the standards it sets. Although the NZX monitors compliance with the content requirements specified in s 211 of the Companies Act 1993 as part of their process of uploading the annual reports of NZX-listed companies, there is no standard-setter or regulator for annual reports of private sector non-NZX-listed companies.

Furthermore, the content requirements in s 211 are not detailed or comprehensive, which does not serve the interests of wider stakeholders and ignores the fact that conscientious investors also seek other relevant information in making resource allocation decisions. There is guidance for public sector annual reports (see Appendix 2) but it is fragmented and has no provision for penalising non-compliance (see Appendix 5).

This lack of stewardship, compounded by the lack of a standardised definition and/or a purpose of an annual report, has resulted in annual reports largely becoming a marketing exercise. This is confirmed by recent research:

- After undertaking a New Zealand study of annual reports of the top 100 companies by market capitalisation listed on the NZX in the years 2005, 2010, and 2015, Auckland University of Technology academics Anil Narayan and Sabrina Chong found that ‘between 2005 and 2015... there was a 34 per cent increase in the number of sustainability related photos as compared to only a 10 per cent increase in the total number of photos’. Of the 5000 images, 991 were sustainability related. The researchers became curious after noticing the ever-more attractive, glossy annual reports which listed companies were preparing. Chong noted that over time, annual reports have ‘evolved into marketing documents’ (Stuff, 2018).

- After undertaking a global study of companies between 2010 to 2014, Auckland Business School’s Graduate School of Management lecturer, Ramona Zharpeykan, found that companies tend to ‘cherry-pick... sustainability measures that make them look good’. Zharpeykan and her team found that of the 797 companies studied, not one of them reported on ‘all 91 Global Reporting Initiative voluntary sustainability indicators’. In addition, the research team found that ‘the number [of sustainability indicators] reported on varied by company and region, but companies in Australia and New Zealand reported on the smallest number, alongside [...] companies in Africa’. Although sustainability reporting is already mandated in some countries such as Denmark, South Africa, China and Malaysia, ‘the regulations, and the things expected to be reported on, differed from country to country, depending on the priorities of their governments’. Zharpeykan believes the development of a single mandatory global reporting standard is necessary in order to develop an accurate, comparable picture of how companies are doing across the sustainability spectrum. However she is also clear that New Zealand should not wait for other countries to take the lead. (Stock, 2018).

The finding of Phase 1 McGuinness Institute research that users are not requesting EER information from for-profit entities (discussed in Section 4) may go some way to explaining the poor quality of annual
reports. However, it may conversely be true that users do not seek out annual reports as sources of information if the reports do not provide (or are not known to provide) useful and accessible information. It is troubling firstly that preparers do not see EER to be relevant, and secondly that shareholders are not putting pressure on companies to include EER information in their annual reports. This is particularly surprising given that s 211(1)(a) of the Companies Act 1993 states that the annual report should include information ‘the board believes is material for the shareholders to have an appreciation of the state of the company’s affairs and will not be harmful to the business of the company’.

The 2017 FMA Handbook and NZX Code 2017 have provided some guidance that attempts to address these issues, but these generally only apply to FMC reporting entities and NZX-listed companies. Recommendation 4.3 of the NZX Code states that a non-financial disclosure should consider ‘material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non financial targets are measured’ (NZX, 2017a, p. 19).

The NZX Code also suggests aligning companies’ ESG reporting with international reporting initiatives such as GRI and IIRC. The ESG Guidance Note can be voluntarily adopted and is the first guidance prepared by a New Zealand regulator that encourages non-financial reporting (NZX, 2017c, p. 20; 2018). In addition, the Companies Amendment Act (No 4) 2014 strengthened the rules ‘applying to the governance, registration, and reconstruction of companies, and the registration of limited partnerships’, indirectly extending the purpose and content of the annual report (MBIE, 2015a).

Internationally the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013, passed in the UK, placed an additional requirement on directors of medium and large companies to publish a strategic report (see Appendix 7, Part 4). The Regulations expanded the report to include requirements for information about environmental matters, employees, and social, community and human rights issues (see Appendix 7). However, the recently updated FRC Guidance on the Strategic Report document narrows the possible audience of annual reports, noting that information necessary for shareholders may also be of interest to stakeholders, but that information relevant only to stakeholders should sit outside the annual report (FRC, 2018c, pp. 3–4).

These tensions raise the question of responsibility for providing standards and guidance on information disclosures for stakeholders that are not relevant to shareholders, as well as the question of what these disclosures might be. The practice of including strategic information in an annual report aligns with emerging trends, but narrowly targeting such information seems counter-intuitive. This example illustrates both the challenges of improving annual reporting and the policy knot of determining reporting audiences.

**Initiatives to improve regulatory filings**

Regulatory filings on a public register managed by a registrar under law is the only instrument that ensure the permanent availability of the information. Both financial statements and annual reports can be placed on the organisation’s own website, which provides little assurance that the website can be found or easily navigated. Furthermore, annual reports have only minimal content requirements under s 211 of the Companies Act 1993 and other sections in legislation, and these do not appear to be regulated or penalised (see Table 4). However, as noted earlier in this report, financial statements also present challenges given the level of changes in intangible asset market value (see Section 4.4 of this report) and an inability to quantify low probability, high magnitude events.

There are arguably two problems and one strategic decision regarding to regulatory filings. Section 5 discusses two of the problems in detail; that there are too many registers and that there is no central register for public sector entities. However, the strategic issue still remains – which entities should be required to file and what should they file? This concerns the types of thresholds that are used. Before reviewing existing and potential thresholds it is important to step back and consider why some private
sector companies or public sector entities might require more transparency than others. For the purposes of the discussion, it is important to look at companies that currently report in a more opaque way.

Advantages exist for opaque reporters. Obvious ones include less profile (particularly if the company is operating in a business that is not aligned to today’s values) and fewer compliance costs (although this is arguably less relevant given the latest technologies). However, the biggest advantage to an opaque reporter is likely to be the opportunity not to be transparent to competitors, and conversely the opportunity to learn more about competitors (if competitors are required to file).

The next question is how many opaque reporters are significant companies. Figure 31 (see Section 4) illustrates that about 54% of Deloitte Top 200 companies are possibly opaque as they are unlikely to meet the definition of an FMC reporting entity (under s 451 of the Financial Markets Conduct Act 2013).

Given the research to date, there are at least three types of opaque companies providing minimal information in the public arena:

- New Zealand-owned and operated companies that are not required to file their financial statements with the Companies Office.⁶
- Large companies that opt out of reporting requirements by applying concessions under s 211(3) of the Companies Act 1993. Although MBIE was able to identify ‘large’ overseas or overseas-owned companies, they were unable to provide data on ‘large’ New Zealand companies currently in operation, meaning there is no record for the total number of companies in this 'large' category (Personal communication with MBIE, 23 April 2018). The concessions under s 211(3) were applied by 83 companies on the 2016 Deloitte Top 200 when preparing their 2016 annual reports, opting out of providing basic non-financial information in their annual report (McGuinness Institute, 2018a, p. 40).
- New Zealand companies registered in Australia. These companies are not required to file any reports on the Companies Office website because they are registered with ASIC, and their reporting requirements lie with ASIC rather than the Companies Office (Companies Office, 2018g).

There are also be a number of overseas entities operating in New Zealand, providing a wide ranges of goods and services that are opaque reporters (such as those providing services over the Internet).

Below are some examples of the different thresholds currently applied to determine reporting requirements:

1. Revenue/assets: large companies are determined by the figure for total revenue or total assets in each of the two preceding accounting periods, with a lower threshold set for overseas companies (see Appendix 4).
2. Overseas ownership: companies with significant overseas shareholding.
3. Number of shareholders: code companies, as regulated by the Takeovers Panel, are determined by number of shareholders.
4. Consensus among shareholders: companies can opt out of reporting requirements for annual reports if agreed by shareholders holding at least 95% of voting shares (s 211 of the Companies Act 1993).
5. Entity type: entities defined as having ‘public accountability’, FMA reporting entities (including FMC reporting entities with higher public accountability), central government and charities that

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⁶ In practice the Companies Office will not allow a company to upload its financial statements or annual reports unless the company is required to under s 208 of the Companies Act 1993. If these companies want to make their financial statements or annual reports public, their only option is to publish them on their own website. To understand what percentage of companies might fit this category, the Institute found that 28 of the 2017 Deloitte Top 200 companies did not meet the financial statement filing requirements as their financial statements had not been uploaded to the Companies Register (McGuinness Institute, 2018b, pp. 64–71). We then looked to see if the 28 companies voluntarily made their financial statements available on their website. Half (14 companies) went on to make their financial statements public on their company's website (McGuinness Institute, 2018b, p. 8).
have applied and obtained registration by proving their charitable purpose (as described in s 5 of the Charities Act 2005) all have different reporting requirements.

6. Ownership structure: ultimate holding or controlling companies have special accounting relationships that impact on reporting requirements, as stipulated in s 2 of the Companies Act 1993 or standards, as do council-controlled organisations under the Local Government Act 2002.

7. Registration: A number of charities that are closely related or affiliated are permitted to register as a single entity and may be able to file consolidated financial statements under the Charities Act 2005. Requirements for large companies, as defined in s 45 of the Financial Reporting Act 2013, also incorporate the threshold for overseas companies; this may not be the only example of overlap between the thresholds. This illustrates the level of complication in the system raising the question of whether or not the thresholds are fulfilling their original purposes. This is difficult to establish because there is no overall stewardship to review and measure the effectiveness of the framework system against its original purpose. For example, it is unclear whether the definitions for overseas companies or the figures for revenue and assets are still appropriate, or the extent to which companies restructure in order to remain below a threshold, or whether some of the thresholds present disincentives to listing on the NZX.

Furthermore there are some thresholds, grouped for clarity under the four capitals, that are not accounted for in the framework:

1. Natural capital: carbon emissions and other pollutants such as phosphates leaking into waterways are not taken into consideration in terms of industry type (e.g. agriculture, and oil and gas).

2. Human capital: number of employees (i.e. FTE), number of volunteers, number of fatalities or serious accidents (e.g. in forestry or construction) and the numbers of zero contracts or casual employees are not taken into consideration. Interestingly, the threshold for large companies previously included the number of employees (under s 19A of the Financial Reporting Act 1993), but was removed from the definition of large when the Financial Reporting Act 2013 became law.

3. Social capital: some organisations generate more social capital for wider society (e.g. iwi organisations, hospitals and education institutions) than others.

4. Financial and physical capital: similarly, some physical capital is more important or rarer than others (e.g. specialist infrastructure such as vertical construction, ports and transportation). Another example is the use of market capitalisation at the end of the financial year.

**Key observations**

The concerns about financial statements and annual reports raised above present an argument for a comprehensive review of the reporting framework in the current global context of complexity and change. This would determine what information should be made public and which policy instrument (out of financial statements, annual reports or regulatory filings) is best placed to present that information, with the understanding that all three are connected.

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

The forth policy knot, shaping the reporting framework concerns responsibility for writing and regulating the policy underpinning the existing framework. This is fundamentally important. Although there is no current stewardship for the framework, some organisations are trying to step up to this role.

In New Zealand, the *NZX Code* and *FMA Handbook* both provide written guidance on corporate governance and non-financial information. The FMA originally published their handbook in 2014 and targeted it at both listed and unlisted companies. However, since the NZX published their updated Code, based on the *2014 FMA Handbook*, the FMA has recognised the *Handbook* as the primary
6. POLICY KNOTS SHAPING THE REPORTING FRAMEWORK

guidance for listed companies and has refocused its own guidance for ‘non-listed companies and entities, many of which have a significant impact on New Zealand’s financial markets’ (FMA, 2018a, p. 5). While this is an effective way to minimise repetition and overlap, it may also create confusion in the market if not all entities are aware of the various relevant guidance documents.

International reporting organisations such as the IIRC are also adding to the system’s complexity with protocols and guidance (see Table A2.2, Appendix 2). The most recent of these was the report outlining the recommendations of the TCFD, which has been well-received internationally in a time of uncertainty around the future of the climate. However, it must be noted that the TCFD is an organisation comprised of preparers and users specifically from economic and financial sectors selected by the FSB, preparing recommendations for those industries. Although they are generally useful, the recommendations are presented as voluntary and unregulated.

Voluntary guidelines raise additional problems in that most of the resulting disclosures fall outside the financial statements, meaning they are not audited. Furthermore, voluntary guidelines allow organisations to self-select the information they want to make public. These decisions and resulting gaps are not necessarily apparent to the users. Companies have a tendency to ‘cherry-pick indicators that were either easy to collect, or easy to imply positive or neutral messages, while some of the most sensitive indicators have barely been covered’, particularly surrounding the growing pressure on ‘listed companies to prove they are environmentally and socially “sustainable”’ (Stock, 2018).

In contrast to voluntary guidelines, standards are mandatory guidance classified as ‘other instruments’ (as opposed to ‘legislative instruments’). XRB is delegated the power to create financial reporting standards in s 12 of the Financial Reporting Act 2013. However, there are still flaws in the current mandatory framework. An example of this is the problem of ‘cooking the decisions, not the books’, which refers to short-term manipulation of accounts to optimise results:

In general, regulations have weakened companies’ ability to manipulate financial reports—and in response, the gaming of results has moved to a place that accounting rules will struggle to reach: corporate decision making that serves the interest of short-term reporting but undermines long-term performance. (Sherman & Young, 2016)

US President Donald Trump has recently ‘asked the Securities and Exchange Commission to look into letting public companies file financial reports every six months instead of every quarter’ (Reuters, 2018). ‘Critics of the quarterly system have argued that [it] is costly, distracts companies from focusing on longer-term financial and strategic goals, and may deter companies from going public’ (Edgecliffe-Johnson & Badkar, 2018). However, the counter argument made by the system’s defenders is that quarterly reporting improves transparency and that ‘longer intervals between financial disclosures create more incentive for insider trading’ (Edgecliffe-Johnson & Badkar, 2018).

These arguments mirror broader discussions about the costs and benefits of external reporting. In the 2009 work on the financial reporting framework, MED asserted the importance of the system weighing ‘the benefits of reporting against the associated compliance costs’ (ASRB, 20019, p. 18). It was this argument that led to the development of the tier system based on entity size, because ‘the smaller the entity the smaller the number of users there are likely to be’ (ASRB, 2009, p. 19). Furthermore, the Financial Reporting Act review intended to remove GPFR requirements for small and medium companies explicitly in order to ‘reduce compliance costs, particularly for medium-sized companies’ (MED, 2012, p. 1). Taking ‘account of the availability of credible international standards’ is also recognised as part of developing a cost-effective system (ASRB, 2009, p. 19).

Key observations

The arguments over whether mandatory or voluntary reporting requirements are best have remained relatively constant. They centre on trade-offs between compliance costs to preparers and value for users, along with arguments that principles, as communicated through voluntary guidance, will deliver more innovative reporting practices than mandatory rules. Although voluntary guidelines lead to
some innovation (e.g. the TCFD), they are not leading to broad improvements across all entities. This suggests that there is a role for both voluntary and mandatory requirements. However, in cases where users consider specific disclosures to be important, but either the preparer does not want to make such disclosures public or if the user wants to compare between organisations, industries or over time, mandatory reporting is the only way to deliver on the user’s needs. This gap is supported by the research in Section 4 of this report, which found significant discrepancies between the importance of various disclosures as determined by users compared to the importance of the same disclosures as determined by preparers (see Figure 15).

New Zealand has been fortunate to avoid situations where reporting practices lead to significant harm for investors or broader stakeholders. However, overseas experience indicates that New Zealand may not continue to be so fortunate. New Zealand has an opportunity to become a leader in developing a flexible and robust reporting framework fit for the future. For this to happen, Government needs to decide which disclosures should be mandatory, who should write the regulations for such disclosures and who should monitor compliance with the regulations.
7. Package of climate reporting recommendations

Highlights

A two-stage approach is recommended:

1. Pass a Zero Carbon Act that requires the following entities to file a Statement of Climate Change Information (or equivalent) on a public register:
   (i) private sector entities to file on the Companies Register and the Charities Register, and
   (ii) public sector entities to file on a new public register, established by the New Zealand Treasury or MfE.
2. The Minister to invoke s 17(2) of the Financial Reporting Act 2013 to allow the XRB to create a reporting standard on climate change information. This enables the standard to be developed based on the knowledge gleaned from the regulatory filing requirements in Stage 1.

This report is focused on future-proofing New Zealand through ensuring the reporting framework is sufficiently durable and flexible to deliver good outcomes for New Zealanders over the long term. However, the immediate threat of climate change is such that this section focuses solely on the steps New Zealand should take immediately to ensure organisations and institutions inform investors and other stakeholders about: (i) the possible impacts (low probability, high magnitude events) and probable impacts (high probability, high magnitude events) of climate change, (ii) the data they are collecting to understand those risks and their vulnerability to them and (iii) the steps they are implementing to manage and/or adapt to those risks (these steps are illustrated in Figure 28).

Before discussing the package in detail, it is important to note that New Zealand’s response to climate change requires a unique approach for a number of reasons. These include our geography, our unique flora and fauna, our agricultural base, our natural resources, our shared culture and our environmental values. Many of these characteristics require a unique and immediate response to climate change. It is therefore important that our reporting framework is flexible and is designed to cater for these unique characteristics.

The package of recommendations below is distinct from the recommendations listed in Section 8. Those offer a more detailed set of recommendations that aim to improve the whole framework. This section answers four questions concerning the practical implications of requiring a Statement of Climate Change Information and our two-pronged approach (one of our key recommendations):

1. Why is a separate Statement of Climate Change Information necessary?

The Institute’s research has indicated that annual reports currently lack the necessary structure, content and regulation to enable an investor, policy analyst or other stakeholder to have confidence that crucial information on the organisation’s climate change risks can be easily accessed in a manner that is consistent, reliable and comparable. Furthermore, strengthening the requirements for climate change disclosures in annual reports would require the amendment of at least 11 separate pieces of legislation (see Appendix 6) in order to ensure the requirements are applied across the public and private sectors.

A further argument against trying to legislate for better climate-related disclosures in annual reports is the fact that access to annual reports is limited at best (as highlighted in the ReportingNZ research). Improving the quality of annual reports through amending the legislation will require a considered approach, which will take time. The end outcome will be a fixed set of requirements that is no longer appropriate in today’s rapidly changing environment.

However, strengthening the requirements for climate change disclosures in financial statements is also problematic; the IASB standards are not designed to deal with low probability high magnitude risks and
consequently the current standards deliver preparers a lot of flexibility. There is also little leadership coming from the IASB on climate change reporting, so that current approach is unlikely to change in the short term.

However, the Statement of Climate Change Information could be included in the annual report along with the financial statements as a matter of best practice.

2. What should the contents of the statement be?

In terms of content, the Institute envisages the Statement of Climate Change Information as a two-page statement organised around the three steps of problem solving outlined in Figure 28. The disclosure requirements would bring together the disclosure types analysed in Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors:

1. The first step is for the organisation to identify the problem. Guidance in this section could ask organisations to ‘identify the risks of climate change your organisation may be vulnerable to in relation to the impact they are having or may have on your operations’.

2. The second step is for the organisation to collect and present data to understand and benchmark the problem. Guidance in this section could ask organisations to ‘explain these risks in terms of metrics and costs and either provide benchmarking of progress in your Statement of Climate Change Information over time or outline how you intend to use these metrics and costs to benchmark progress over time’.

3. The third step is for the organisation to implement steps to manage the problem. Guidance in this section could ask organisations to ‘describe the controls, targets and initiatives your organisation is undertaking and/or plans to undertake to mitigate and/or adapt to the risks of climate change’.

It is worth noting here that the New Zealand Productivity Commission, in their report Low-emissions Economy, advocates the recommendations of the TCFD (New Zealand Productivity Commission, 2018, p. 519). The Institute developed the six disclosure types (in italics above) with the recommendations of the TCFD in mind; however, the Institute has reservations about the long-term use and relevance of their recommendations. These reservations stem from the recommendations being written by members of the economic and financial sectors (in urgency) and, although they represent an important contribution, the framework remains unproven and some of the terminology used is narrow (e.g. the term ‘strategy’).

Notably, the content should build on the Environmental Reporting Act 2015, which includes a climate domain report. The Institute would have preferred to see an air and atmosphere domain, as we considered that gave more integrity to the 2015 law. However, given the urgency on climate change reporting, it was difficult to argue against. However this could be superseded and better aligned through this two pronged approach.

3. What is the two-stage approach and where would this requirement be included in law?

The requirement to produce a Statement of Climate Change Information could be legislated in a number of ways; below are two options discussed in detail. Given the time and costs involved with each option, the Institute recommends implementing both options in a two-prong approach.

Stage 1: Incorporate regulatory filing of a Statement of Climate Change Information into the Zero Carbon Bill.

This Bill is currently being drafted, which presents a timely opportunity to require organisations to file a Statement of Climate Change Information as part of their regulatory filings and include it in their annual report. The consultation document on the Zero Carbon Bill notes the importance of adaptation and affirms the opportunity presented by the Bill to make systemic changes:
The Bill could require the Government to develop national adaptation plans that prioritise actions based on regular risk assessments. We also want to explore whether a targeted adaptation reporting power might be set up. This could see some organisations share information on their exposure to climate change risks. (MFE, 2018, p. 13)

Regulatory filings are only required for companies or registered charities. This means that to ensure all entities operating in New Zealand are required to produce the statement, it may be necessary for Treasury to establish a public register for the state sector and DIA to establish a public register for local government organisations. These registers should be a repository for annual reports and could later be provided for in law.

More broadly, the change would involve adding definitions of ‘Statement of Climate Change Information’ and ‘climate change reporting entity’ to the interpretation section of the Bill (see examples below) and adding a section to the Bill to require the statement to be filed.

Section 2 – Interpretation [Zero Carbon Bill]

**Climate change reporting entity** means all FMC reporting entities, ‘large’ companies,7 state sector entities, local governments, registered charities (Tier 1) and significant entities.8

**Statement of Climate Change Information** means a statement prepared by climate change reporting entities as at balance date and filed on a New Zealand register, that identifies (i) vulnerability to climate change risks in relation to impact on the entity’s operations, (ii) data that measures and benchmarks the risks and (iii) the steps the entity has and/or will implement to mitigate and/or adapt to the risks and manage their impacts.

The advantage of this approach is that it allows the Government to extend the application of the requirement beyond companies simply by including other entities in the definition of a ‘climate change reporting entity’ (e.g. registered charities and public sector entities). This significantly reduces the level of necessary legislative amendment (see list of relevant reporting legislation in Appendix 6). Another advantage is the speed with which this could be achieved, due to the fact that the Bill is scheduled to be enacted by July 2019 (see Figure 43 below).

As a disadvantage, this approach would add another further distinct component to the reporting framework infrastructure. However, the Institute considers this to be warranted given the urgency of climate change risks and the necessity of a whole-framework review. The time frames of a review and implementation of the resulting recommendations are not an adequate policy response to climate change risk (as illustrated in Figure 43 timeline comparison below). Further, this option would allow users and preparers to ascertain issues and challenges that arise during the implementation of Stage 1, which could then be addressed in the new standard, proposed in Stage 2 below.

Stage 2: Amend the Companies Act 1993 to require the adoption of reporting standards for non-financial information.

This method of implementation aligns with the New Zealand Productivity Commission’s Recommendation 7.4:

The Government should implement mandatory (on a comply or explain basis), principles-based, climate-related financial disclosures by way of a standard under section 17(2)(iii) of the Financial Reporting Act 2013. These disclosures should be audited and accessible to the general public. (New Zealand Productivity Commission, 2018, p. 519)

This would require adding definitions of ‘Statement of Climate Change Information’ and ‘climate change reporting entity’ to the Interpretation section of the Act, as well as amending s 207E to remove the

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7 The term ‘large’, as defined in the glossary, imposes a higher level of transparency on overseas companies than New Zealand companies, but the Institute believes that it would be beneficial to lower the thresholds for the definition of large.

8 The term ‘significant entity’ is included as a term for which the thresholds should be determined by MfE and could include entities connected to vulnerable infrastructure, as well as significant carbon emitters and emitters of other pollutants such as phosphates.
word ‘financial’ and adding the term *Statement of Climate Change Information* (see blue text below). The advantage of this approach is that the *Statement of Climate Change Information* sits alongside the financial statements as part of the regulatory filings that are also included in the annual report. This means the *Statement of Climate Change Information* would be filed on the Companies Register, making the statements easily accessible to the public and continuously available over time. A further advantage of this approach is that it does not necessarily require any changes to the content requirements of financial statements or annual reports in legislation. One disadvantage is that this approach is that it is restricted to companies and registered charities due to these entities being the only entities for which a public register exist. However, Treasury and Local Government New Zealand (LGNZ) could be required to create a public register for annual reports and *Statements of Climate Change Information*; if Stage 1 was implemented first as recommended, public sector entities could be encouraged to produce such statements through guidance in the first instance.

**Section 2 – Interpretation [Companies Act 1993]**

*Climate change reporting entity* means all FMC reporting entities, ‘large’ companies and significant entities.9

*Statement of Climate Change Information* means a statement prepared by a climate change reporting entity, as at balance date, that meets the requirements of the applicable non-financial reporting standard and is included in annual reports (or possibly financial statements).10

**Section 207E – Financial External Reporting** Statements must be registered [Companies Act 1993]

(1) A company or an overseas company to which this section applies must ensure that, within 5 months after the balance date of the company or overseas company, (i) copies of its financial statements or group financial statements completed in relation to that balance date under section 201, 202, or 204 (if any) together with a copy of the auditor’s report on those statements (if any) and a *Statement of Climate Change Information* are delivered to the Registrar for registration.

(2) The company or overseas company must, when the financial statements or group financial statements are registered, pay to the Registrar the prescribed registration fee (if any).

4. What is the value of a two-stage approach?

A two-stage approach would allow an initial period of transition, which will highlight any issues. These can then be addressed when developing the proposed reporting standard for non-financial information in Stage 2. The two-stage approach is also valuable in terms of the timing differences highlighted in Figure 43 below. Figure 43 illustrates that standards are not necessarily quicker to implement than legislation, especially in the case of reporting standards for non-financial information outside of s 17(1) of the Financial Reporting Act 2013, which the XRB needs to be authorised to make by the Minister under s 17(2).

The *Statement of Climate Change Information* approach would enable the Climate Change Commission (if the current intention becomes law) to use these statements to generate a regular report on the status of climate change risks, vulnerability, impacts and adaptation, and ideally create a ranking system to shape public policy, improve investment and drive change. It would also help investors make informed decisions.

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9 The term ‘significant entity’ is included as a term for which the thresholds should be determined by MfE and could include entities connected to vulnerable infrastructure, as well as significant carbon emitters and emitters of other pollutants such as phosphates.

10 The reporting standard would outline the contents of a *Statement of Climate Change Information* in relation to risks, metrics, costs, controls, targets and initiatives.
Figure 43: Comparing the tentative timelines for enactment of the Zero Carbon Bill and development of XRB reporting standards on non-financial information

Source: (MfE, n.d.[c]; XRB, 2018e)

(all timeframes approximate)

### Zero Carbon Bill timeline

1. July – December 2018
   - Government considers policy and Bill drafted
2. February – June 2019
   - Select Committee
3. July 2019
   - Zero Carbon Act in force

### XRB standard for non-financial information timeline

1. January 2019 – October 2020
   - Minister to invoke s 17(2)(iii) of the Financial Reporting Act 2013 for a non-financial standard on climate change reporting
2. November 2020 – March 2021
   - XRB to prepare Exposure Draft
3. March – June 2021
   - Consultation on Exposure Draft
4. June – August 2021
   - Consideration of comments. If comments result in substantial changes, Step 3 repeats and draft is re-exposed.
5. September – November 2021 (or up to 2022)
   - Finalisation, approval and sign-off. Gazetted and becomes law 28 days later.
6. 2022 – 2025
   - May take up to three years to become effective, depending on complexity.
8. Comprehensive list of recommendations

Highlights

The research of this report can be summarised with seven key reflections:

1. The external reporting framework lacks stewardship.
2. The framework is fragmented, complex and inefficient.
3. The framework is outdated and not adapting to current trends.
4. The framework is unbalanced across entity types.
5. The private sector system focuses on shareholders.
6. Financial statements retain a lot of weight, particularly in the private sector, but do not reflect the increasing importance of intangible asset market value.
7. Annual reports are not being used to their full potential and are at risk of being misused as marketing documents.

Based on these key reflections, nine key recommendations were identified:

1. Undertake a review of the reporting framework with the aim of establishing a clear purpose and set of guiding principles in legislation. This review is intended to provide opportunities to critically examine the other issues raised in this recommendations section.
2. Aggregate legislation under one act called the Reporting Act, which will cover both financial and non-financial information across the public and private sectors.
3. Develop a central register for all regulatory filings in the public and private sectors and prepare a regular operational report.
4. Increase penalties for non-compliance and ensure monitoring.
5. Remove the requirement for NZX-listed companies to produce half-year reports and improve the quality and policing of NZX announcements instead.
6. Re-evaluate the thresholds and criteria for company reporting requirements (e.g. definition of ‘large’) with a view to simplifying the system.
7. Use a two-stage approach to add a Statement of Climate Change Information to regulatory filings and annual reports:
   (i) introduce a requirement to the Zero Carbon Bill,
   (ii) enable the XRB to prepare a reporting standard for non-financial disclosure of climate change information.
8. Enable the XRB to produce standards not only for:
   (i) the content and presentation of financial statements, but also for
   (ii) the content and presentation of annual reports,
   (iii) climate change information.
9. Consider adding a Statement of Wellbeing as part of regulatory filings, along the lines of Treasury’s Living Standards Framework.

The reporting framework is a key foundation of New Zealand’s democracy. The benefits of an effective, efficient reporting framework are not well understood until something no longer functions the way it was intended to. When this happens, the common response is to solve the problem quickly and in an...
ad hoc manner, often adding further complexity and compliance costs to an already overloaded system. In times of rapid change, there is a moral imperative to review our frameworks regularly to ensure risks are managed. This means looking at the system as a whole and re-evaluating its purpose. The Institute’s observations in response to the question ‘does New Zealand’s reporting framework meet the current and future needs of New Zealanders?’ are as follows.

Generally speaking, Project ReportingNZ research found the current framework to be outdated, stagnant, inflexible and, arguably, costly. It is not fit for the needs of current New Zealanders and is unlikely, in its present state, to be responsive to the needs of future New Zealanders. A full review of the framework is necessary. Granted, such a review will take time, effort and focus, and will require both the leadership and the expertise of a number of key players. The Institute is unsure who would be best placed to undertake this review.

The aim of this report was not just to review the existing framework but to reconsider what information is necessary in the 21st century to ensure that decision-making is effective and timely, and that public policy delivers positive outcomes for all New Zealanders. Considering what kinds of knowledge will be needed allows us to work backwards from there to ascertain what data should be collected and reported. There are some commonalities with needs in the 1990s but also some key differences.

The current pace of global change means an adaptive framework that is responsive to the emerging needs and technologies likely to shape our future is necessary. The increasing use of artificial intelligence will change the ways data is processed, allowing all information to be weighted equally. Policing and protecting data and the systems underlying our frameworks will become increasingly challenging.

One of the key changes will be an increased interest in what other companies, businesses, industries, or countries are doing, alongside existing interest in what specific entities were doing last year or are planning for next year. An increased interest in future-focused data is also likely. If comparison between entities is to become as important as comparison within the same entity over time, and a stakeholder focus is to become as important as a shareholder focus, the reporting framework will need to change significantly. Before this happens, society needs to decide what information is necessary and useful and what information is not. Possible disclosures include information on how the organisation aims to provide value, what success looks like, governance, risks, strategy, trade-offs and the impact of the organisation’s operations on the four capitals (human, social, natural and financial/physical). Furthermore, how these disclosures would be delivered will need to be clarified and standardised.

The following recommendations were developed during the Project ReportingNZ research process. They take into account the historical context (Section 2), emerging trends (Section 3), the Institute’s research (Section 4), an analysis of how the existing reporting framework operates in practice (Section 5), a review of four strategic policy knots shaping the reporting framework, which includes a discussion on the purpose of the reporting framework (Section 6) and a closer look at the best way to develop cost-effective reporting on climate change.

This section contains a list of every possible recommendation identified while completing this report. The Institute is not necessarily advocating for the implementation of all the following, but rather for a review that considers all of these observations and recommendations. The comprehensive list is grouped by whether a recommendation is administrative, legislative, or strategic in nature. Some recommendations are offered as alternatives to one another. For example, a minister may prefer one option over another, while others build on each other to strengthen the framework over the long-term. The specific recommendations are organised into three parts, as illustrated in Figure 44 below.
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8.1 Administrative recommendations

These recommendations align with the existing purpose of the reporting framework and therefore could be implemented cost-effectively and without changes to legislation. Administrative recommendations are intended to provide clarity and improve the efficiency and effectiveness of the existing framework. The need for many of these changes became apparent when collecting data for the Institute’s research (see the findings in Section 4).

1. Minister to appoint a steward of the reporting framework to provide central oversight.

A steward would have central oversight over the reporting framework, allowing them to monitor the activities of all entities involved in administering and enforcing reporting in New Zealand. The intention of this is not to centralise the system but rather to increase communication across silos and awareness of differences in standards, guidance, and enforcement. This would prevent issues that the Institute has come across during the course of research for this report (i.e. contacting many different agencies to determine who had oversight over s 211 of Companies Act 1993 only to discover that no agency had oversight, nor did they seem to be aware of this).

2. Minister to authorise the XRB to produce New Zealand standards specifically for non-financial reporting.

The Minister should recommend that the Governor-General authorises the XRB to issue reporting standards for non-financial information under s 17(2) of the Financial Reporting Act 2013. There are three areas that should be urgently addressed by such standards: financial statements, annual reports and climate change reporting.

(a) XRB to issue a financial reporting standard to improve the content and presentation of financial statements.

- Continue to require statements of cash flow to be prepared by all entities that are currently required to prepare financial statements.
- Continue to require the statement of cash flow to include specific information on each of the following:
  - net GST paid/received to/from the New Zealand Government,
  - tax (income) paid to the New Zealand Government,
  - any other tax paid to the New Zealand Government,
  - tax (income) paid to the Australian Government (or any other country’s government specified by name),
  - political donations paid, and
  - non-political donations paid (see also Recommendation 19h).
- Require the legal and trading names of the company to be disclosed on the cover of the financial statements.
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- Specify the placement of the audit report.
- Require financial statements to be signed off by the CFO (see also Recommendation 19k).
- Require auditor rotation.

(b) XRB to issue a reporting standard to improve the content and presentation of annual reports.

- Require disclosure of nature of business.
- Require disclosure of company purpose to make it clear how companies define success.
- Clarify the focus/audience.
- Require disclosure of industry classification in line with the ANZSIC system. The Institute notes that most large companies already provide industry classification data to Stats NZ.
- Require disclosure of cybersecurity breaches including costs and risks to the public.
- Require a statement on corporate governance (i.e. this should be instead of the NZX Code).
- Require the publication of Strategic Reports (the UK model).
- Require disclosure of health and safety policy as well as breaches of that policy.
- Require the disclosure of breaches of pollution.
- Require more robust disclosures surrounding gender diversity, including wage disparities and diversity of representation among board members, officers and employees.
- Require disclosure of ‘shareholder rebellions’ as discussed in Section 4, Trend 7. The Companies Register should keep a public record of shareholder rebellions by 25% or more shareholders. These should include shareholder disagreements over a company’s environmental or social records as well as rebellions regarding executive pay.

(c) XRB to prepare a reporting standard to improve the content and presentation of climate change information in the annual report.

- Require disclosures in line with the phases of problem solving as outlined in Figure 28:
  - Risks – Phase 1
  - Metrics – Phase 2
  - Costs – Phase 2
  - Controls – Phase 3
  - Targets – Phase 3
  - Initiatives – Phase 3
- Require disclosure of GHG emissions.
- Require disclosure of carbon credits owned or traded over the period.

3. Parliamentary Counsel Office to recognise XRB standards as legislative instruments rather than ‘other instruments’.

This would simplify the legislation website, improve accessibility of XRB standards and emphasise their legal status by better aligning them with primary legislation.

4. Companies Office to publish an operational report about the Companies Register every calendar year.

The process of collating data for Appendix 2 highlighted that this data should be produced annually by the Companies Office as a standard report available to the public. The report should include: the number and names of new registrations and deregistrations for the year, the number and domicile country of new registrations that are overseas or overseas subsidiaries, the number of New Zealand companies that are more than 25% overseas-owned, the number and names of companies that filed after their due date and their subsequent penalties, the administration costs per new registration,
8. COMPREHENSIVE LIST OF RECOMMENDATIONS

the revenue earned from registering a company, the number of economically significant enterprises and any issues or emerging issues for consideration. This would allow changes in this information over time to be analysed.

5. Companies Office to improve searchability on their website.

This could be achieved in a variety of ways, as outlined below:

- the Companies Office only accepting for upload searchable PDFs of documents.
- Addressing the fragmentation of the registers on the Companies Office website by compiling the registers into a single search function.
- Increasing the range of possible searches to include information such as: location (including domicile of each overseas company on a map and notification of whether or not the domicile country is a signatory or party to the BEPS Multilateral Instrument), New Zealand companies more than 25% overseas-owned, industry classification, New Zealand Business Number (NZBN), NZX-listed status and size (e.g. large).

6. Companies Office to require companies to disclose primary business information on the front or inside page of their financial statements and stipulate the placement of the audit report.

Much of the key information about companies, although publicly available (except possibly IRD numbers), is not easily accessible in one place. Requiring the centralised disclosure of key information would improve accessibility for policy analysts and other users and enable a greater understanding of the reporting entity landscape in New Zealand.

Key information that could be collected and integrated into the search engine is as follows: legal name, trading name, name of ultimate holding company, name of ultimate controlling party (as required under NZ IAS 24: New Zealand Equivalent to International Accounting Standard 24 Related Party Disclosures), what tier they report (and whether they opt-in or opt-out of Tier 2), the type of FMC reporting entity (if appropriate), type of issuer (if appropriate), type of economic significance according to Stats NZ classification, NZBN, industry classification, IRD number and type of assurance.

Although there are a number of ways this additional information could be reported (e.g. by changing the annual return form or amending s 211 of the Companies Act 1993), collating it on the front page or inside page of the financial statements would be a cost-effective solution. This would require the company to provide this data only once, rather than supplying it to a number of different government organisations.

7. The Companies Office should also consider incorporating the NZBN register into the Companies Register (or vice versa).

8. Charities Services to require charities to disclose primary operational information on the front or inside page of their financial statements and stipulate the placement of the audit report.

Additional information to be disclosed by charities should include trading name (if they have one), name of ultimate holding charity, name of ultimate controlling party (as required under NZ IAS 24: New Zealand Equivalent to International Accounting Standard 24 Related Party Disclosures), NZBN (if they have one), sector classification (see Table A3.3) and IRD number (if they have one).

9. Companies Office to allow any registered company to voluntarily upload their audited financial statements or full annual report.

Extending the register to make voluntary filing an option would retain its original purpose in law but make it a more comprehensive resource.
10. XRB to continue to work with the IASB to improve the usefulness and relevance of financial statements.

The IASB must evolve in response to emerging trends (see Section 3). Areas where improvement to the international standards or guidance would be helpful are as follows:

- **IFRS information provided outside the financial statements.** The IASB currently focuses on financial statements, leaving guidance and legislation relating to annual reports to individual nation states. This highlights the issue of how to present and assure GAAP information in parts of the annual report other than the audited financial statements.

- **Non-IFRS information (such as APMs) provided within financial statements.** The Institute does not believe financial statements should contain non-GAAP information as this undermines the integrity of financial statements and may lead to confusion by investors.

- **Climate change information.** The IASB is yet to publish a standard or guideline for climate change information, despite the increasing urgency and importance of this issue. Instead they are relying on the concept of materiality, directing preparers to report on the risks of climate change in the notes to the financial statements. Further, data on emissions and strategies to curb emissions are more difficult to disclose appropriately. This means the IASB should publish guidance for reporting on uncertain risks that have the characteristics of low probability high magnitude events.

- **Taxes paid to nation states.** NZ IAS 12 *Income taxes* and NZ IAS 7 *Statement of Cash Flows* should be updated to require a breakdown of tax paid to different nation states, and of income tax as opposed to other forms of tax. This would inform the BEPS discussion and enable nation states to check the assured tax figure in an annual report against their own records of tax paid (e.g. to IRD). Requiring companies on the Companies Register to clearly disclose their ultimate holding company could have major flow-on effects for simplifying the tax system and addressing the BEPS issues currently facing New Zealand.

- **Tax evasion penalties incurred and other fines.** Requiring penalties incurred to be published in financial statements is likely to make companies more careful about how they operate.

- **Political donations.** The IASB should require preparers to publish a statement on political donations (even if they are zero). This figure should be separate from non-political donations in the financial statements. Data on the respective value and recipients of political donations provides useful insights, particularly for countries where the interests of politicians and business are closely aligned.

- **Cybersecurity breaches and associated costs.** These disclosures should be required under IAS as they affect the profitability of an entity and may pose wider risks to society. Such disclosures would also illustrate the magnitude of the problem for law enforcement agencies and gain support for tighter regulation.

11. MBIE to clarify responsibility for regulating annual reports of non-FMC reporting entities, along with penalties for omitting or providing misleading information in annual reports.

The Institute understands that non-FMC reporting entities’ annual reports are not assessed for compliance by the FMA (the FMA is the regulator of FMC reporting entities). This means that a significant number of annual reports are prepared by companies and placed on their websites without being monitored for completeness and inclusion of all required information. Changes to s 211 of the Companies Act 1993 will not deliver significant improvements if this section continues to be unenforced. This is discussed further in the legislative recommendations below.

Guidance for preparing annual reports for charities and government organisations was not always clear or aligned. See Table A2.1 in Appendix 2 for a list of guidance documents relevant to this research and Tables 4 and 5 to understand the nuances in the existing reporting framework.
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12. Treasury to clarify the purpose of the public sector reporting framework, to prepare a set of principles and to establish a register of annual reports.

This could be done immediately without legislation, but in the longer term it should be set out in law. See Recommendation 19 (k) below.

13. Treasury to prepare a guide on the content of annual reports for all entities operating in the state services.

The Treasury has created guidance documents for annual reports and end-of-year performance information for specific public entity types, including Crown Entities and government departments (See Table A2.1). Creating a single document for all public sector entities gives a baseline standard for annual reports regardless of entity types. Further guidance documents can be used to differentiate reporting requirements for different entity types. This could be the first step towards unifying the framework and improving the quality of reporting across the broader framework.

14. Treasury and Stats NZ to create alignment between the wellbeing indicators and key performance measures for Government.

Stats NZ project is developing ‘Indicators Aotearoa New Zealand’, which is ‘a set of indicators to measure progress. Stats NZ and Treasury are working together to ensure the indicators align with their Living Standards Framework’. The first set of indicators is expected to be released at the end of 2018. This recommendation takes this a step further and suggests that the annual reports become the policy instruments that collects the indicators on an entity basis. This way New Zealand is measuring progress against one set of indicators (Stats NZ, 2018).

15. CA ANZ to make cash flow statements a required core component in the SPFR for FPEs.

16. Treasury or DIA to prepare consolidated annual financial statements of local government and make publicly available (ideally on a central register).

17. NZX to remove the requirement for NZX-listed companies to produce half-year reports and improve the quality and regulation of NZX announcements instead.

The key principle underlying the rigidity of the announcement rules is ‘timeliness and consistency of information’. A review of this proposal should be undertaken to see if NZX announcements could be operated and regulated in such a way to reduce the reliance on half-year reports. It was interesting to note that in February 2018, the NZX suspended the trading of specialist insurance company CBL’s shares because, in their view, ‘not all material information relating to CBL and its ordinary shares [was] available to the market’ and the insurer was ‘providing the market with incomplete and inaccurate information’ (Tibshraeny, 2018).

18. Set a country goal to improve gender representation on all public sector and private sector boards (including Registered Charities).

Specific goals could include:
(i) no single gender boards by 2020, or
(ii) a minimum gender ratio on all boards of 20:80 by 2020.

As some boards are not limited by the number of board members, these goals could easily be achieved by increasing the number of board members. Penalties could be regulated and collected through the Companies Office if these goals are not achieved. Interestingly, the United Kingdom government is conducting a multiyear review on the lack of women in top executive positions at companies in the FTSE 350 Index and has set a goal of women occupying at least one-third of board seats by 2020. Interestingly, the United Kingdom only has 10 all-male FTSE company boards in 2017, while New Zealand has 41 (see Figure 25[i] in Section 4 of this paper) (Stein, 2018).
8.2 Legislative recommendations

These recommendations align with the ‘shareholder’ purpose shaping the existing reporting framework. These recommendations are designed to improve the overall efficiency and effectiveness of the framework but unlike the administrative recommendations, they would require the support of Government. They will not change the purpose of the existing framework; they aim to strengthen and simplify it, making it more robust, cost-effective, trustworthy and durable.

Where possible, this group of recommendations is discussed in terms of amendments to existing legislation.

19. Amend the existing ‘content of the annual report’ requirements in ss 211(1)(a) to 211(1)(k) of the Companies Act 1993.

This recommendation is provided as an alternative to Recommendation 2, which proposes XRB prepare three new reporting standards. All of the below could be covered by a standard/s developed by XRB as outlined in Recommendation 2, as could the entirety of the existing s 211 of the Companies Act 1993. Standards are effectively legal instruments, but unlike Acts they can be changed without being passed in the House, enabling greater flexibility in these changing times. Government would need to decide whether legislation or a standard would be the best instrument.

Each subsection of s 211 is discussed below.

(a) Amend s 211(1)(a) to require annual disclosure of the ‘nature’ and ‘classes of business’.

The Institute believes that all company annual reports should state the nature of business, as it forms the basis of a company’s business model, strategies and long-term goals, rather than simply ‘changes to the nature of businesses’ and ‘classes of business in which the company has an interest’ (s 211 of the Companies Act 1993). Furthermore, companies should state their industry type in alignment with the ANZSIC system.

(b) Amend s 211(1)(b) to require full financial statements to be included in any annual report.

This subsection currently only applies to FMC reporting entities. Requiring all annual reports to include full financial statements as a matter of law would be a more consistent approach.

(c) Amend s 211(1)(c) to require a statement on the front cover of the financial statements outlining the type of assurance engagement that was undertaken.

The audit report does not form part of the financial statements in legislation, but all companies that must file their financial statements are legally required to have those statements audited.

(d) Repealed: s 211(1)(d).

(e) Amend s 211(1)(e) to clarify whether the annual interests register is included in the annual report.

(f) Amend s 211(1)(f) to include the remuneration package (including bonuses) for the Chief Executive.

Chief Executives are an important part of executive and shareholder governance structures and other stakeholders have a strong interest in the benefits they receive.

(g) Amend s 211(1)(g) to make the executive team remuneration package (including incentives) transparent.

This will enable users to compare data between organisation and over time. This should also be applied to the public sector.

(h) Amend s 211(1)(h) to distinguish between donations and political donations and add definitions for these terms to the interpretation section of the Act.
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The definition for political donations should be broad enough to cover donations to local authority candidates.

(i) No change to s 211(1)(i).

(j) No change to s 211(1)(j).

(k) Amend s 211(1)(k) to require the annual report to also be signed by the CFO (if the financial statements are not audited and/or do not include an audit report).

This amendment would ensure that annual reports only include financial statements that have been signed by an accountant (i.e. auditor or CFO). Another option would be to incorporate this requirement into s 211(1)(c) (see suggested amendment above).

20. Either replace ‘concise annual reports’ in the Companies Act 1993 with ‘concise financial reports (international practice)’ or remove completely.

New Zealand’s use of the term is not in line with international practice and, given the increasing importance of notes and cash flow statements and the fact these need to be produced in order to provide GAAP financial statements, it is questionable whether a summary is useful if read in isolation.

21. Change the term ‘annual return’ to ‘confirmation statement’ (in line with the UK).

This terminology is continuously confused with an annual report, and could easily be changed across all the reporting framework to the term ‘confirmation statement’ in line with UK practices.

22. Amend the Companies Act 1993 to remove the opt-out provision in s 211(3).

The concessions in s 211(3) of the Companies Act 1993 allow shareholders holding at least 95% of the company’s voting shares to withhold disclosure of select governance information, remuneration and information on the company’s state of affairs. This is mostly used by companies operating in New Zealand that are subsidiaries of overseas companies. Once the concessional information is removed, the required content of an annual report can be stripped back to the financial statements only, thereby reducing the document’s capacity to inform its users.

23. Add penalties for failure to meet s 211 content of annual report requirements, increase existing penalties and fees, and require any penalties received to be made public.

All requirements should have a penalty and a regulator in place to ensure legal compliance. While there are currently penalties for late filing of annual reports, there are no penalties (as far as the Institute is aware) for the content. In other words, it is not what you file, but that you file on time that matters. This is likely to be gap in the drafting of the original Bill.

Furthermore, the current penalties and late fees should be significantly increased, as they do not currently act as a deterrent (see Appendix 5 for current penalties). The penalty for late filing of financial statements should be increased (e.g. to $50,000). If not filed within 28 working days, the penalty should be $7000 from each director (new). If the penalty is not paid within 56 working days of notification, the company should be deregistered (new). Lastly, the Institute believes that entities that are fined (or pay late fees) should be required to make this public in their annual report as reputational damage may be a more effective incentive than fines to improve content and filing practices.

8.3 Strategic recommendations

These recommendations would change the purpose of the reporting framework to make it fit for the future. Strategic recommendations would require extensive strategic legislative change and would therefore require government support. These recommendations are designed to create a framework
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that is sufficiently flexible to meet current and future needs and to put in place a steward who will implement and monitor the system, review progress and provide regular reports.

24. Use the regulatory filing system to address emerging and urgent information needs.

This could be achieved by requiring the following:

- Companies that are already required to make financial filings to also file annual reports. A total of 87 of the 2017 Deloitte Top 200 voluntarily made their annual reports (not just their financial statements) available on the Companies Register (McGuinness Institute 2018f, p. 50). Changing the legislation would make that 100 percent. ¹¹

- A Statement of Climate Change Information be filed on the Companies Register and included in the annual report. For the purposes of this report, such entities are referred to as climate change reporting entities. See discussion in Section 7.

- A Statement of Wellbeing to be filed on the Companies Register. A wellbeing statement would ideally be a two-page statement in the company’s annual report. The statement would bring together information already published in various contexts (e.g. in other publications on a company’s own website). It could align with Treasury’s Living Standards Framework and presented it in an easily accessible format. This could be achieved through an amendment of s 211 of the Companies Act 1993. For further detail on the possible disclosures and content of a wellbeing statement, see Appendix 8.

25. Reconsider annual report filing and the definition of ‘large.’

The definition of ‘large’ is complex and places a high level of transparency on a few companies and less on others (see Section 5). Briefly, companies are considered ‘large’ based on whether they meet certain assets or revenue criteria. As noted earlier, the Companies Office does not know the number of ‘large companies’, however our view is that there are not many (possibly in the hundreds rather than the thousands).¹²

In the past, a focus on the total assets of a company made sense, but with the business model changing (as illustrated in Figure 37 in Section 4) and public goods being impacted by business operations in the private sector (e.g. climate change and water quality), the composition of threshold should be reconsidered.

Our first consideration is that such companies should not only be required to file their financial statements with the Companies Office, but their annual reports as well. As noted earlier, given Institute research found that 87 of the 2017 Deloitte Top 200 companies voluntarily file their annual reports (not just their financial statements), this is unlikely to be problematic.

Our second consideration is to change the definition of ‘large’. Our proposal is as follows:

- There should continue to be a higher obligation on overseas companies to be transparent; all overseas companies operating in New Zealand should produce unique annual reports for their New Zealand operations. We appreciate this is likely to place an additional onus on these companies, but given their profits mostly go overseas it seems appropriate to ensure transparency regarding who is operating in New Zealand and what they are (or are not) contributing. This would be revisiting the existing system as outlined in Appendix 4, Figure A4.1. Instead of merely ‘Financial statement filing requirements for companies’ this would become ‘Annual report filing requirements for companies.’

- Further, ‘number of employees’ should be reintroduced as a threshold. This will need to be a threshold that can be adapted for other types of labour; for example, for charities, volunteer

¹¹ Interestingly, this indicates that 36 companies of the 2017 Deloitte Top 200 are ‘large’ but not listed on NZX (i.e. 87 - 51 (Figure 31) = 36).

¹² See footnote above and Table A3.2. A more definitive number of ‘large’ companies was not available (Personal communication with MBIE, 2018a).
workers could be measured using FTEs for volunteer hours. Furthermore, given the increasing level of automation throughout the workforce, it may be prudent to consider how the threshold could account for this. Government needs to understand and monitor this transition and, as discussed internationally, consider the introduction of ‘robot taxes’ in the longer term. Getting information on this early should help inform effective public policy.

- Standard-setters should recognise IAV in financial statements to provide a better reflection of tangible and intangible value of a company. This could be strengthened with consideration of market capitalisation (at financial year end), although market capitalisation is not a particularly stable threshold and can change quite quickly.

- Fourth, there should be a threshold for types of companies that have unique negative impacts on New Zealanders and the wider environment. This could be managed from a regular list managed through MfE. Examples of companies the Institute’s considers should be on the list to produce annual reports would include sugar companies, tobacco companies, dairy companies and phosphate companies.

- A financial threshold does make sense, but the Institute’s view is that the total inflows and outflows presented in a Statement of Cash Flow is extremely useful. Total assets should also be retained. The Institute is less certain whether revenue is a useful threshold to retain given the wide range of business models existing today (e.g. social enterprises). Perhaps the inclusion of expenses might make a threshold more useful, as is done for PBE standards.

26. Aggregate all reporting legislation into a single Act and establish stewardship for the whole system.

This could be achieved by removing the word ‘financial’ from the Financial Reporting Act 2013 and rewriting the Act to bring together all reporting requirements, including all entity types, registers and references to the annual report. All corresponding sections would be removed from other legislation.

This External Reporting Act would result make the following improvements:

- Assign responsibility for stewardship of the whole reporting system to a single body. If necessary, responsibility could be shared across the role of the Independent Fiscal Institution (currently being discussed at present by Treasury) and MBIE. However, our preference is one body that would standardise and streamline (but not centralise) reporting by acting as an independent steward across the public sector.

- Establish a set of key principles in legislation to drive and measure success (these could be similar to the seven characteristics outlined in Section 1.3),

- Clarify the responsibilities of the steward, such as managing complaints, ensuring all institutions work together with minimal repetition and undertaking five-yearly reviews of the system. This review should include assessment of:
  - compliance costs,
  - the needs of users in terms of balancing costs to preparers,
  - accessibility of reports and their contents/formats,
  - the quality of reporting, and
  - emerging issues.

- Require an ‘Annual report of Government’ to be published in order to improve public understanding of government’s strategic narrative. This will increase awareness of what activities government are carrying out and will enable citizens to act as an accountability-check on these activities.
8. COMPREHENSIVE LIST OF RECOMMENDATIONS

- Require government departments to replace their four-year plans with 10-year plans. These should align with local government and the results of these reports should be written for citizens to read and should align with annual reports. The 10-year plans should be prepared every three years (aligned with local government). Currently the four-year plans are endorsed by Ministers and appear written for the Ministers.
- Add a new s 211(1)(l) requiring FMC reporting entities and public sector entities to report according to a set of agreed principles for extended external reporting.

Specific suggestions would include requiring regulatory filing requirements to be met within three months from balance date (currently annual reports only need to be prepared [but not made public] within five months for ‘large’ companies and four months for FMC reporting entities, see Table 4).

These requirements could be retained (existing practice) or expanded (new) to include the following:

- All FMC reporting entities (existing practice).
- All state-owned enterprises (new).
- All government organisations/entities (new, although there are current requirements for various specific government entity types).
- All registered charities (existing practice).
- All companies with an overseas shareholding in excess of 25% and their subsidiaries (see s 207D of the Companies Act 1993). The current system already puts a higher level of transparency on overseas companies and their subsidiaries through the Financial Reporting Act 2013; s 45 places a lower threshold on overseas companies than New Zealand companies owned by overseas investors (see Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation). Appendix 2 illustrates that taking a blanket approach to filing by overseas companies and their subsidiaries is unlikely to result in a major increase in filings. Appendix 4 indicates that such a change would have a significant impact in terms of simplifying the system.
- All high-impact companies (new). The Institute has used the term ‘high-impact company’ to refer to companies that have a significant footprint in terms of one or more of the capitals (financial, human, natural or social). These companies are distinct from companies defined as large. The thresholds for definition as ‘high-impact’ should be outlined in regulations, as the government may want to change them over time. Companies should receive 12 months advance warning of their classification as ‘high-impact’ and an outline of their corresponding filing requirements.

Furthermore, the new Act could centre annual reports as the key reporting instrument for all significant organisations. This would expand the requirement for the Treasury to prepare consolidated financial reports for central government to include the preparation of a consolidated annual report. Unlike the content of financial statements, which is determined by the IASB, the annual report is an instrument under New Zealand law and can be crafted to New Zealand’s unique needs, through either legislation or standards (provided Recommendation 2 is actioned). This represents a significant opportunity to replace financial statements in reporting legislation with annual reports, enabling shareholders/investors and stakeholders access to a more comprehensive overview of the company’s operations and how they see success.

This would also provide an opportunity for the Registrar to create a single register for all New Zealand organisations to make their annual reports public. This could be voluntary for non-significant companies and mandatory for significant organisations. The register should be a website that is easy to navigate and search (e.g. by entity type, industry type, size, NZBN, registered location) and would serve
as a central information hub, benefiting investors, government, NGOs, researchers and the general public. Developing such a platform would encourage a culture of transparency. Greater accessibility to annual reports would develop benchmarks in terms of quality and reduce unnecessary complexity. This would enable comparisons to be drawn, both over time, and between companies, industries and the public and private sectors. It would also provide a central platform for bankers, insurers and investors, improving access to capital and building trust in New Zealand’s reporting framework.
Appendix 1: Timeline

The timeline below illustrates both changes over time from 1970s to today and changes by category (stock exchange, international, financial reporting and legislation). The summary provided by the timeline supports the three high-level eras discussed in Section 2.

<table>
<thead>
<tr>
<th>Threads</th>
<th>Stock Exchange</th>
<th>International</th>
<th>Financial reporting</th>
<th>Legislation</th>
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<tbody>
<tr>
<td><strong>1970s</strong></td>
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<tr>
<td>1973</td>
<td>New Zealand Society of Accountants began formalising accounting standards following international trends (Colquhoun, 2010).</td>
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<td></td>
</tr>
<tr>
<td>1973</td>
<td>International Accounting Standards Committee was established to formulate and publish standards for audited accounts and financial statements (FASB, n.d.).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1978</td>
<td>Securities Act 1978</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979</td>
<td>New Zealand Securities Commission (NZSC) was established following the Securities Act 1978 (Fitzsimons, 1994).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1980s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981</td>
<td>Sharebrokers Amendment Act 1981</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td>New Zealand Stock Exchange (NZSE) was established by the Sharebrokers Amendment Act 1981, amalgamating most regional exchanges (Grant, 2010).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 1983</td>
<td>International Organisation of Securities Commissions (IOSCO) was established to bring together the world’s securities regulators (IOSCO, 2018).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td>Snap election led to ‘Rogernomics’ and the subsequent deregulation of the financial markets and foreign exchange (MCH, n.d.).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>State-Owned Enterprises Act 1986</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>The financial market grew until the 1987 international stock market crash (Grant, 2010).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>Securities Commission tightened company law (Grant, 2010).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>NZSE enforced new rules for listed companies (Grant, 2010).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>Securities Amendment Act 1988</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td><em>Implementation of Accrual Accounting for Government Departments</em> written (McGuinness, 1988)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>Market Surveillance Panel was established to gather more information about listed companies (Grant, 2010).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1990s</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>Stockholm Stock Exchange became the first demutualised stock exchange (OECD, 2017, p. 47)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>Companies Act 1993</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>Financial Reporting Act 1993</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1993</td>
<td>Accounting Standards Review Board (ASRB) was established to approve and give legal authority to accounting standards prepared by ‘the then New Zealand Institute of Chartered Accountants’ as part of the Financial Reporting Act 1993 (XRB, 2017a).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29 November 1994</td>
<td>King Committee on Corporate Governance produced the first King Report (King I) (IoDSA, n.d.).</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>Securities Amendment Act 1996</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>New Zealand Institute of Chartered Accountants Act 1996</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## APPENDIX 1  TIMELINE

<table>
<thead>
<tr>
<th>Threads</th>
<th>Stock Exchange</th>
<th>International</th>
<th>Financial reporting</th>
<th>Legislation</th>
</tr>
</thead>
</table>

### 1990s

- **1996** Over half of New Zealand broking firms had overseas connections (Grant, 2010).
- **1996** Institute of Chartered Accounting of New Zealand replaced the New Zealand Society of Accountants in the New Zealand Institute of Chartered Accountants Act 1996.
- **1997** Global Reporting Initiative (GRI) was established to develop a sustainability reporting framework (GRI, n.d.[b]).
- **1999** Companies Office was the first registry in the world to allow the incorporation of companies over the Internet (CAPAM, n.d.).
- **February 1999** Financial Stability Forum (FSF) established ‘by the G7 Finance Ministers and Central Bank Governors’ (FSB, 2018a).
- **May 1999** New Zealand Business Council for Sustainable Development (NZBCSD) established (NZBCSD, 2002).

### 2000s

- **2000** GRI launched the first global sustainability reporting guidelines (GRI, n.d.[b]).
- **2000** High profile multinational financial collapses prompted a worldwide improvement in accounting practices (Colquhoun, 2010).
- **2000** International Financial Reporting Standards (IFRS) Foundation was established (IFRS, n.d.[a]).
- **2001** International Accounting Standards Committee (IASC) was restructured to become the International Accounting Standards Board (IASB) (FASB, n.d.).
- **2001** The New Zealand Shareholders’ Association was established to improve board and company performance, with a particular interest in ‘board governance process, attitudes to shareholders and risk taking’ (NZSA, n.d.).
- **2002** ‘Institute of Chartered Accountants of New Zealand established a’ Taskforce on Sustainable Development Reporting (Milne, et al., 2003, p. 4).
- **26 March 2002** ‘King Committee on Corporate Governance launched the King Report on Corporate Governance for South Africa (King II Report)’ (IoDSA, n.d.).
- **2003** IASB issued the first standards IFRS 1 (IFRS, n.d.[a]).
- **1 January 2003** NZX was demutualised and became a limited liability company (NZX, 2017d).
- **2003** NZSE changed its name to New Zealand Exchange Limited (NZX) (NZX, 2017d).
- **2004** Prince’s Accounting for Sustainability Project was established to develop ‘resilient business models and a sustainable economy’ (A4S, n.d.).
- **2005** ASRB adopted IFRS to establish NZ IFRS with three additional New Zealand-specific standards (IFRS, 2016, p. 2).
- **2006** New Zealand Institute of Chartered Accountants (NZICA) replaced the Institute of Chartered Accounting of New Zealand (Colquhoun, 2010).
- **1 January 2007** NZ IFRS became mandatory (IFRS, 2016, p. 2).
- **2007** Australia passed the National Greenhouse and Energy Reporting (NGER) Act 2007, which still ‘represents the longest unbroken national mandatory GHG reporting scheme in the world’ (WBCSD, 2018, p. 4).
- **2008** Global Financial Crisis
- **22 July 2008** Capital Market Development Taskforce was formed in response to the financial crisis to develop and launch a blueprint for improving New Zealand’s capital markets (Dalziel, 2008).
- **2009** The Sustainable Stock Exchanges Initiative (SSE) was launched by the Secretary General of the United Nations (SSE, 2017a).
- **April 2009** Regulatory Responsibility Taskforce established (Hide, 2009).
- **April 2009** Financial Stability Board (FSB) replace the FSF (FSB, 2018a).
- **1 September 2009** King III Report and Code were published (IoDSA, n.d.).
## Threads

- **Stock Exchange**
- **International**
- **Financial reporting**
- **Legislation**

### 2010s

**March 2010**
Companies ‘listed on the Johannesburg Stock Exchange (JSE) [were] required to produce an integrated report’ or ‘explain why they are not’ in accordance with the King Code of Governance (King III) (SAICA, 2011).

**April 2010**
Maryland became the first US state to pass legislation that ‘allow[ed] companies to register as benefit corporations’ (Field, 2013).

**August 2010**
GRI and A4S established the International Integrated Reporting Committee (IIRC) to create a global integrated reporting framework (A4S & GRI, 2010).

**2011**
- Securities Amendment Act 2011
- Financial Markets Authority Act 2011
- Financial Markets Authority (FMA) established under s 6 of the Financial Markets Authority Act 2011 ‘to promote and facilitate the development of fair, efficient, and transparent financial markets’. The FMA replaced the NZSC.
- Chair of the Cabinet Economic Growth and Infrastructure Committee recommended that audit requirements should be retained for large companies with 25% or more overseas ownership because ‘the failure of a large non-issuer company can have significant adverse impacts on society. GPFR [General Purpose Financial Reporting] can contribute to avoiding business failure’ (CCEGIC, [ca. 2011], p. 10)
- 1 July 2011
  - External Reporting Board (XRB) replaced the ASRB under the Financial Reporting Amendment Act 2011 (XRB, 2014a, p. 7)
- November 2011
  - IIRC renamed the International Integrated Reporting Council (IIRC, 2011)
- 2012
- April 2012
  - Minister of Commerce approved XRB’s new Accounting Standards Framework (XRB, 2014a, p. 9).
- 2013
  - Accounting Standards Advisory Forum (ASAF) established (IFRS, n.d. [a]).
  - Financial Markets Conduct Act 2013
  - Financial Reporting Act 2013
- May 2013
  - XRB issued PBE standards for public-sector entities for periods beginning on or after 1 July 2014 (XRB, 2018xx).
- November 2013
  - PBE standards apply to NFP entities for periods beginning on or after 1 April 2015 (XRB, 2018xx).
- December 2013
- 2014
  - Financial Reporting Amendment Act 2014
  - Global Sustainability Standards Board (GSSB) established to set standards for sustainability reporting (GRI, n.d. [b]).
- December 2014
  - The FMA published their *Corporate Governance in New Zealand: Principles and Guidelines* handbook (FMA, 2014a).
- December 2014
  - New Zealand Institute of Chartered Accountants and the Institute of Chartered Accountants Australia merged to become Chartered Accountants Australia and New Zealand (CA ANZ, 2015, p. 80)
- March 2015
  - Old GAAP standards and differential reporting standards withdrawn for FP entities effective 2 April 2015 (XRB, 2018xx)
- 28 July 2015
  - NZ Corporate Governance Forum established by a group of institutional investors to ‘improve corporate governance in New Zealand companies’ (NZCGF, 2015a).
### 2010s cont.

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 2015</td>
<td>FSB formed the ‘Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations on climate-related financial disclosures’ (FSB, 2018b).</td>
</tr>
<tr>
<td>December 2015</td>
<td>Accounting Standards Framework updated to reflect legislative changes since 2012 and new descriptions of the Tier requirements (XRB, 2015a, pp. 12–13).</td>
</tr>
<tr>
<td>2016</td>
<td>GRI launched the first global sustainability reporting standards, developed by the GSSB (GRI, n.d.[b]).</td>
</tr>
<tr>
<td>27 September 2016</td>
<td>Luxembourg Stock Exchange launched the first green exchange (LGX) ‘for issuers who dedicate 100% of the raised funding to green investments’ (Medland, 2016).</td>
</tr>
<tr>
<td>1 November 2016</td>
<td>King Report IV published (IoDSA, n.d.).</td>
</tr>
<tr>
<td>18 April 2017</td>
<td>NZX announced that ‘it is joining’ the SSE (SSE, 2017b).</td>
</tr>
<tr>
<td>2017</td>
<td>NZX published their Corporate Governance Code (NZX, 2017e).</td>
</tr>
<tr>
<td>2017</td>
<td>ACCSR published their annual review of CSR in Australia and New Zealand (ACCSR, 2017).</td>
</tr>
<tr>
<td>June 2017</td>
<td>Judith Collins, Minister of Revenue, signed a new OECD treaty, the Multilateral Convention to Implement Tax Treaty-Related Measures to Prevent Base Erosion and Profit Shifting (known as the Multilateral Instrument) to help coordinate countries’ tax treaties (Collins, 2017).</td>
</tr>
<tr>
<td>June 2017</td>
<td>TCFD publish their final report of recommendations (TCFD, 2017, p. i).</td>
</tr>
<tr>
<td>6 December 2017</td>
<td>BEPS tax bill introduced (IRD, 2017a).</td>
</tr>
<tr>
<td>11 December 2017</td>
<td>NZX published their Environmental, Social and Governance Guidance Note (NZX, 2017c).</td>
</tr>
<tr>
<td>2018</td>
<td>FMA published an updated Corporate Governance in New Zealand: Principles and Guidelines handbook (FMA, 2018a).</td>
</tr>
</tbody>
</table>
Appendix 2: Existing institutions and instruments

There are a number of institutions and instruments that shape the existing reporting framework. The tables below provide a summary of them, their roles and the fees they charge.

- Table A2.1: Key New Zealand institutions and their instruments as at August 2018
- Table A2.2: Key international institutions and their instruments as at August 2018
- Table A2.3: Companies Office schedule of fees as at September 2018
- Table A2.4: NZX schedule of fees as at September 2018
- Table A2.5: Charities Services schedule of fees as at September 2018

Table A2.1: Key New Zealand institutions and their instruments as at August 2018

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Standard/guidance-setter</strong></td>
<td><strong>Focus</strong></td>
</tr>
<tr>
<td>DIA</td>
<td>Registered charities</td>
</tr>
<tr>
<td>FMA</td>
<td>FMC reporting entities*</td>
</tr>
<tr>
<td>MBIE</td>
<td>CRIs</td>
</tr>
<tr>
<td>OAG</td>
<td>Local authorities</td>
</tr>
<tr>
<td>XRB</td>
<td>All public and private sector organisations</td>
</tr>
</tbody>
</table>
### APPENDIX 2    EXISTING INSTITUTIONS AND INSTRUMENTS

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-government</strong></td>
<td></td>
</tr>
<tr>
<td>Enviro-Mark</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td></td>
<td>Carbon Programmes and Certification (CEMARS and CarboNZero) (Enviro-Mark, n.d.)</td>
</tr>
<tr>
<td>New Zealand Corporate Governance Forum</td>
<td>NZ companies operating in the capital market</td>
</tr>
<tr>
<td></td>
<td>Guidelines (NZCGF, 2015b)</td>
</tr>
<tr>
<td>NZX</td>
<td>Listed companies</td>
</tr>
<tr>
<td></td>
<td>NZX Limited: Main Board/Debt Market Listing Rules (NZX, 2017a)</td>
</tr>
<tr>
<td></td>
<td>NZX Corporate Governance Code (NZX, 2017b)</td>
</tr>
<tr>
<td></td>
<td>Guidance note: Diversity Policies and Disclosure (NZX, 2015)</td>
</tr>
<tr>
<td></td>
<td>Environmental, Social and Governance: NZX Guidance note (NZX, 2017c)</td>
</tr>
<tr>
<td></td>
<td>Note: Other guidance documents can be found on the NZX website.**</td>
</tr>
</tbody>
</table>

**Notes to be read in conjunction with Table A2.1:**

* FMC reporting entities include issuers of financial products, market services licensees, licensed supervisors, listed issuers, operators of licensed markets, recipients of money from conduct issues, registered banks, licensed issuers, credit unions and building societies (see s 451 of the Financial Markets Conduct Act 2013 in Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation).


**Table A2.2: Key international institutions and their instruments as at August 2018**

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Standard/guidance-setter</strong></td>
<td>Focus</td>
</tr>
<tr>
<td>The Prince’s Accounting for Sustainability Project (A4S)</td>
<td>Companies</td>
</tr>
<tr>
<td>Carbon Disclosure Project (CDP)</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td>Financial Reporting Council (FRC)</td>
<td>UK companies</td>
</tr>
<tr>
<td>Greenhouse Gas Protocol (GHG)</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td>Global Reporting Index (GRI)</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td>International Accounting Standards Board (IASB)</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td>International Integrated Reporting Council (IIRC)</td>
<td>All public and private sector organisations</td>
</tr>
</tbody>
</table>
## APPENDIX 2  EXISTING INSTITUTIONS AND INSTRUMENTS

<table>
<thead>
<tr>
<th>Institutions</th>
<th>Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard/guidance-setter</td>
<td>Focus</td>
</tr>
<tr>
<td>Rules (mandatory)</td>
<td>Comply or explain</td>
</tr>
<tr>
<td>Guidance (voluntary)</td>
<td></td>
</tr>
<tr>
<td>International Organization for Standardization (ISO)</td>
<td>All public and private sector organisations</td>
</tr>
<tr>
<td></td>
<td>Various standards found on ISO website (ISO, n.d.[a])</td>
</tr>
<tr>
<td>Principles for Responsible Investment (PRI)</td>
<td>Investors*</td>
</tr>
<tr>
<td></td>
<td>What are the Principles for Responsible Investment? (PRI, n.d.[a])</td>
</tr>
<tr>
<td>Task Force on Climate-related Financial Disclosures (TCFD)</td>
<td>Companies</td>
</tr>
<tr>
<td></td>
<td>Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD, 2017)</td>
</tr>
<tr>
<td>United Nations (UN)</td>
<td>Countries</td>
</tr>
<tr>
<td></td>
<td>Transforming Our World: The 2030 Agenda for Sustainable Development (UN, 2015)</td>
</tr>
</tbody>
</table>

### Note to be read in conjunction with Table A2.2:

* PRI are the only guidance aimed at investors rather than entities themselves. They are intended to shape investing practices rather than reporting practices (PRI, n.d.[b]).

### Table A2.3 Companies Office schedule of fees as at September 2018

<table>
<thead>
<tr>
<th>Service</th>
<th>Companies Office fee</th>
<th>FMA levy</th>
<th>XRB levy</th>
<th>Total excl GST</th>
<th>GST</th>
<th>Total incl GST</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company name reservation</td>
<td>$10.00</td>
<td>N/A</td>
<td>N/A</td>
<td>$10.00</td>
<td>$1.50</td>
<td>$11.50</td>
</tr>
<tr>
<td>Company incorporation</td>
<td>$90.00</td>
<td>$9.00</td>
<td>$6.00</td>
<td>$105.00</td>
<td>$15.75</td>
<td>$120.75</td>
</tr>
<tr>
<td>Company annual return</td>
<td>$21.00</td>
<td>$9.00</td>
<td>$6.00</td>
<td>$36.00</td>
<td>$5.40</td>
<td>$41.40</td>
</tr>
<tr>
<td>Company annual return API*</td>
<td>$18.00</td>
<td>$9.00</td>
<td>$6.00</td>
<td>$33.00</td>
<td>$4.95</td>
<td>$37.95</td>
</tr>
<tr>
<td>Company amalgamation</td>
<td>$350.00</td>
<td>N/A</td>
<td>N/A</td>
<td>$350.00</td>
<td>$52.50</td>
<td>$402.50</td>
</tr>
<tr>
<td>Company restoration</td>
<td>$150.00</td>
<td>N/A</td>
<td>N/A</td>
<td>$150.00</td>
<td>$22.50</td>
<td>$172.50</td>
</tr>
<tr>
<td>Financial statement filing (under the Companies Act 1993)</td>
<td>$175.00</td>
<td>N/A</td>
<td>N/A</td>
<td>$175.00</td>
<td>$26.25</td>
<td>$201.25</td>
</tr>
<tr>
<td>Financial statement filing (under the FMC)</td>
<td>$175.00</td>
<td>$48.00</td>
<td>N/A</td>
<td>$223.00</td>
<td>$33.45</td>
<td>$256.45</td>
</tr>
</tbody>
</table>
Note to be read in conjunction with Table A2.3:

* This refers to Application Processing Interfaces which ‘allows customers to build software that connects directly to [the Companies Office’s] systems’ (Companies Office, 2018h).

Table A2.4: NZX schedule of annual fees as at September 2018
Source: (NZX, 2018c)

<table>
<thead>
<tr>
<th>NZX Main Board and NZX Alternative Market (NZAX) Annual Fees ($NZ)</th>
<th>Market capitalisation ranges, as at 31 May each year ($millions)</th>
<th>Base fee</th>
<th>Additional charge*</th>
</tr>
</thead>
</table>
| Less than $50  
[ALF028, ALF029] | $25,426 | None |
| From $50 to $99.9  
[ALF022 - ALF025] | $36,307 | None |
| From $100 to $499.9  
[ALF016 - ALF019, ALF080, ALF086, ALF087] | $46,680 | 0.00255% of market cap above $100m |
| From $500 to $2999.9  
[ALF010 - ALF013, ALF082, ALF088, ALF089] | $57,053 | 0.00061% of market cap above $500m |
| $3000 and above  
[ALF003, ALF004, ALF007, ALF008, ALF084, ALF085] | $72,613 | 0.00025% of market cap above $3 billion |

**Additional Index Inclusion Fee ($NZ)**

| Issuers in the S&P/ NZX 50 (excluding the top 10)  
[ALF071, ALF072] | $25,000 |
| Issuers in the top 10 of the S&P/ NZX 50  
[ALF001, ALF002] | $50,000 |

**NXT Annual Fees ($NZ)**

| All NXT Market Issuers (includes the cost of research providers and market makers)  
[ALF090] | $30,000 |

Note to be read in conjunction with Table A2.4:

* Additional charge is calculated by multiplying the applicable percentage by the market capitalisation above the minimum level in each range. For example, the fee in the above table for a non-index issuer with a market cap of $600 million would be $57,663 ($57,053 + 0.00061% * ($600,000,000 - $500,000,000)). If this issuer was included in the S&P/ NZX 50 (excluding the top 10) an additional index inclusion fee of $25,000 would apply.
### Table A2.5: Charities Services schedule of fees as at September 2018

Source: (Charities Services, n.d.[c])

<table>
<thead>
<tr>
<th>Item</th>
<th>Annual return fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Return if total gross income is under $10,000</td>
<td>$0.00</td>
</tr>
<tr>
<td>Annual Return completed online, and supporting documents including Performance Report (Tier 3 &amp; 4)/Financial Statements (Tier 1 &amp; 2) uploaded during the online process</td>
<td>$51.11</td>
</tr>
<tr>
<td>Annual Return completed online, but supporting documents including Performance Report (Tier 3 &amp; 4)/Financial Statements (Tier 1 &amp; 2) sent to us by post or email</td>
<td>$76.67</td>
</tr>
<tr>
<td>Annual Return completed on paper and sent to us by post or email with supporting documents including Performance Report (Tier 3 &amp; 4)/Financial Statements (Tier 1 &amp; 2)</td>
<td>$76.67</td>
</tr>
</tbody>
</table>

**Notes to be read in conjunction with Table A2.5:**

1. There is no cost to submit an application to register as a charity with Charities Services.
2. There is no cost to update the details of a charity already registered with Charities Services. Charities can access their online dashboard to make changes directly as required (Charities Services, n.d.[c]).
Appendix 3: Information on how the reporting framework works in practice

The reporting framework can be broken down in a number of ways, including into different types of reporting entity. Tables A3.1–3.7 provide an insight into how the reporting framework operates in practice:

- Table A3.1 NZSX issuer numbers by calendar year 2010–2017
- Table A3.2: Companies Register by entity type as at 25 July 2018
- Table A3.3: Charities Register by entity type as at 8 August 2018
- Table A3.4: State service agencies by entity type as at 26 April 2018
- Table A3.5: Local government sector by authority types as at 11 September 2018
- Table A3.6: Enterprises by employee numbers as at February 2016 and February 2017
- Table A3.7: Enterprises operating in New Zealand by industry as at February 2017

Table A3.1 NZSX issuer numbers by calendar year 2010–2017
Source: (McGuinness Institute, 2018c, p. 10; Personal communication with NZX, 2018)

<table>
<thead>
<tr>
<th>Year end</th>
<th>Number of issuers</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 December 2010</td>
<td>147</td>
</tr>
<tr>
<td>31 December 2011</td>
<td>148</td>
</tr>
<tr>
<td>31 December 2012</td>
<td>145</td>
</tr>
<tr>
<td>31 December 2013</td>
<td>146</td>
</tr>
<tr>
<td>31 December 2014</td>
<td>151</td>
</tr>
<tr>
<td>31 December 2015</td>
<td>168</td>
</tr>
<tr>
<td>31 December 2016</td>
<td>166</td>
</tr>
<tr>
<td>31 December 2017</td>
<td>159</td>
</tr>
</tbody>
</table>

Table A3.2: Companies Register by entity type as at 25 July 2018
Source: (Companies Register, 2018a–f)

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Number of entities</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ limited company</td>
<td>602,413</td>
<td>99.6%</td>
</tr>
<tr>
<td>NZ unlimited company</td>
<td>388</td>
<td>0.1%</td>
</tr>
<tr>
<td>NZ co-operative company</td>
<td>130</td>
<td>0.0%</td>
</tr>
<tr>
<td>Overseas ASIC company</td>
<td>1589</td>
<td>0.3%</td>
</tr>
<tr>
<td>Overseas non-ASIC company</td>
<td>498</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total number of registered companies</strong></td>
<td><strong>605,018</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Table A3.3: Charities Register by entity type as at 8 August 2018
Source: (Charities Services, n.d.[d])

<table>
<thead>
<tr>
<th>By sector</th>
<th>Number of registered charities</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation/housing</td>
<td>462</td>
<td>1.7%</td>
</tr>
<tr>
<td>Arts/culture/heritage</td>
<td>2529</td>
<td>9.3%</td>
</tr>
<tr>
<td>Care/protection of animals</td>
<td>272</td>
<td>1%</td>
</tr>
<tr>
<td>Community development</td>
<td>2121</td>
<td>7.8%</td>
</tr>
<tr>
<td>Economic development</td>
<td>136</td>
<td>0.5%</td>
</tr>
<tr>
<td>Education/training/research</td>
<td>5875</td>
<td>21.6%</td>
</tr>
<tr>
<td>Emergency/disaster relief</td>
<td>707</td>
<td>2.6%</td>
</tr>
<tr>
<td>Employment</td>
<td>54</td>
<td>0.2%</td>
</tr>
<tr>
<td>Environment/conservation</td>
<td>816</td>
<td>3%</td>
</tr>
<tr>
<td>Fundraising</td>
<td>1006</td>
<td>3.7%</td>
</tr>
<tr>
<td>Health</td>
<td>2040</td>
<td>7.5%</td>
</tr>
<tr>
<td>International activities</td>
<td>82</td>
<td>0.3%</td>
</tr>
<tr>
<td>Marae on reservation land</td>
<td>299</td>
<td>1.1%</td>
</tr>
<tr>
<td>Other</td>
<td>1061</td>
<td>3.9%</td>
</tr>
<tr>
<td>People with disabilities</td>
<td>870</td>
<td>3.2%</td>
</tr>
<tr>
<td>Promotion of volunteering</td>
<td>82</td>
<td>0.3%</td>
</tr>
<tr>
<td>Religious activities</td>
<td>5004</td>
<td>18.4%</td>
</tr>
<tr>
<td>Social services</td>
<td>1985</td>
<td>7.3%</td>
</tr>
<tr>
<td>Sport/recreation</td>
<td>1849</td>
<td>6.8%</td>
</tr>
<tr>
<td><strong>Total number of registered charities</strong></td>
<td><strong>27197</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Notes to be read in conjunction with Table A3.3:

1. The Register shows the following information about each charity:
   - name, address and unique registration number of the charity,
   - names of the current officers, and all officers since the charity was first registered,
   - the application for registration (including all required accompanying information and documents),
   - the charity’s rules document,
   - the financial information provided in the annual return, and the annual financial statements of that charity as PDFs,
   - the charity’s activities, beneficiaries and areas of operation, and
   - each update to details filed by that charity.

2. The Charities Act 2005 allows for public access to be restricted to certain information and documents if it is in the public interest to do so. This means that in some cases, particular information is not shown on the public Register.

3. Registration on the Charities Register is voluntary; however, only registered charities are eligible for charitable tax status, which exempts them from paying income tax.
Note to be read in conjunction with Figure A3.1:

1. The public sector comprises approximately 4000 entities. Examples include ‘government departments, State-owned enterprises, Crown research institutes, the defence forces, district health boards, city and district councils and the entities they own, ports, schools, universities, polytechnics, and wānanga’ (OAG, 2015).
Table A3.4: State service agencies by entity type as at 26 April 2018

Source: (SSC, 2018b)

<table>
<thead>
<tr>
<th>Agency type</th>
<th>Number of agencies in the public service</th>
<th>Number of agencies in the state services</th>
<th>Number of agencies in the state sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public service</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Departments</td>
<td>31</td>
<td>31</td>
<td>31</td>
<td>1.1%</td>
</tr>
<tr>
<td>• Departmental agency</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Non-public service departments</strong></td>
<td></td>
<td></td>
<td></td>
<td>0.2%</td>
</tr>
<tr>
<td>• In the State services</td>
<td>3</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• In the wider State sector</td>
<td>2</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Crown entities</strong></td>
<td></td>
<td>46</td>
<td>46</td>
<td>95%</td>
</tr>
<tr>
<td>• Crown agents</td>
<td></td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>• District Health Boards (included in Crown agents)</td>
<td></td>
<td>16</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td>• Autonomous Crown entities (ACEs)</td>
<td></td>
<td>17</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>• Independent Crown entities (ICEs)</td>
<td></td>
<td>7</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>• Crown entity companies:</td>
<td></td>
<td>150</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>• Crown research institutes</td>
<td></td>
<td>2416</td>
<td>2416</td>
<td></td>
</tr>
<tr>
<td>• Crown entity subsidiaries*</td>
<td></td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>• School boards of trustees*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Other companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>In the wider state sector</strong></td>
<td></td>
<td></td>
<td>27</td>
<td>1.0%</td>
</tr>
<tr>
<td>• Tertiary education Institutions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Universities</td>
<td></td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>• Polytechnics/Institutes of technology</td>
<td></td>
<td>16</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>• Wānanga</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public Finance Act 1989 Schedule 4 organisations</strong></td>
<td></td>
<td>13</td>
<td>13</td>
<td>1.6%</td>
</tr>
<tr>
<td>• Fish and game councils</td>
<td></td>
<td>20</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>• Reserves Boards</td>
<td></td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>• Trusts</td>
<td></td>
<td>4</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>• Other (Bodies corporate)</td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>• Other (Unincorporated)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Public Finance Act 1989 Schedule 4A companies</strong></td>
<td></td>
<td>10</td>
<td>10</td>
<td>0.4%</td>
</tr>
<tr>
<td><strong>Reserve Bank of New Zealand</strong></td>
<td></td>
<td></td>
<td>1</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Offices of Parliament</strong></td>
<td></td>
<td></td>
<td>3</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>State-owned enterprises</strong></td>
<td></td>
<td></td>
<td>13</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>Mixed ownership model companies</strong></td>
<td></td>
<td></td>
<td>3</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Total number of state service agencies</strong></td>
<td>32</td>
<td>2749</td>
<td>2796</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notes to be read in conjunction with Table A3.4:

1. There is no register for public sector agencies other than a list on the NZ Government website.
2. The number of Crown entity subsidiaries and school boards of trustees are both approximations (SSC, 2018b).
Table A3.5: Local government sector by authority types as at 11 September 2018
Source: (LGNZ, 2017)

<table>
<thead>
<tr>
<th>Authority type</th>
<th>Number of authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional councils</td>
<td>11</td>
</tr>
<tr>
<td>Territorial authorities (11 are city councils and 50 are district councils)</td>
<td>61</td>
</tr>
<tr>
<td>Unitary councils (which are territorial authorities with regional council responsibilities)</td>
<td>6</td>
</tr>
<tr>
<td>Total local authorities (also called local council)</td>
<td>78</td>
</tr>
</tbody>
</table>

Notes to be read in conjunction with Table A3.5:
1. Territorial authorities are described as:
   either city or district councils, and there are no differences in the way that they operate. Territorial authorities’ responsibilities include: the provision of local infrastructure, including water, sewerage, storm water, roads, environmental safety and health, district emergency management and civil defence preparedness, building control, public health inspections and other environmental health matters, controlling the effects of land use (including hazardous substances, natural hazards and indigenous biodiversity), noise, and the effects of activities on the surface of lakes and rivers. (DIA, 2011)
2. Unitary authorities are described as:
   Some district and city councils which also have the powers of regional councils’. These additional duties and powers are conferred ‘either by the provisions of any act, or by an Order in Council giving effect to a reorganisation scheme’ (DIA, 2011).

Table A3.6: Enterprises by employee numbers as at February 2016 and February 2017
Source: (MBIE, 2017; Stats NZ, 2017)

<table>
<thead>
<tr>
<th>Number of enterprises by employee size*</th>
<th>2016 number</th>
<th>2016 percentage</th>
<th>2017 number</th>
<th>2017 percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero employees</td>
<td>362,856</td>
<td>70.5%</td>
<td>372,429</td>
<td>70.5%</td>
</tr>
<tr>
<td>1–5 employees</td>
<td>98,748</td>
<td>19.2%</td>
<td>100,590</td>
<td>19.0%</td>
</tr>
<tr>
<td>6–19 employees</td>
<td>38,340</td>
<td>7.4%</td>
<td>39,609</td>
<td>7.5%</td>
</tr>
<tr>
<td>20–49 employees</td>
<td>9780</td>
<td>1.9%</td>
<td>10,029</td>
<td>1.9%</td>
</tr>
<tr>
<td>50 or more employees</td>
<td>5325</td>
<td>1.0%</td>
<td>5514</td>
<td>1.0%</td>
</tr>
<tr>
<td>Totals</td>
<td>515,046</td>
<td>100%</td>
<td>528,171</td>
<td>100%</td>
</tr>
</tbody>
</table>

Note to be read in conjunction with Table A3.6:
* ‘Enterprise’ refers to ‘[a] business operating in New Zealand. It can be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, voluntary organisation or self-employed individual’ (MED, 2011, p. 66).
### Table A3.7: Enterprises operating in New Zealand by industry as at February 2017

Source: (Stats NZ, 2017)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Enterprises</th>
<th>Percentage of total enterprises</th>
<th>Employees</th>
<th>Percentage of total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry &amp; fishing</td>
<td>68,385</td>
<td>12.9%</td>
<td>116,700</td>
<td>5.4%</td>
</tr>
<tr>
<td>Mining</td>
<td>678</td>
<td>0.1%</td>
<td>5200</td>
<td>0.2%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>21,360</td>
<td>4.0%</td>
<td>241,100</td>
<td>11.2%</td>
</tr>
<tr>
<td>Electricity, gas, water &amp; waste services</td>
<td>1122</td>
<td>0.2%</td>
<td>17,700</td>
<td>0.8%</td>
</tr>
<tr>
<td>Construction</td>
<td>59,712</td>
<td>11.3%</td>
<td>158,100</td>
<td>7.3%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>17,685</td>
<td>3.3%</td>
<td>108,400</td>
<td>5.0%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>28,002</td>
<td>5.3%</td>
<td>215,300</td>
<td>10.0%</td>
</tr>
<tr>
<td>Accommodation &amp; food services</td>
<td>21,345</td>
<td>4.0%</td>
<td>159,100</td>
<td>7.4%</td>
</tr>
<tr>
<td>Transport, postal &amp; warehousing</td>
<td>16,341</td>
<td>3.1%</td>
<td>94,100</td>
<td>4.4%</td>
</tr>
<tr>
<td>Information media &amp; telecommunications</td>
<td>5709</td>
<td>1.1%</td>
<td>34,500</td>
<td>1.6%</td>
</tr>
<tr>
<td>Financial &amp; insurance services</td>
<td>37,332</td>
<td>7.1%</td>
<td>57,100</td>
<td>2.6%</td>
</tr>
<tr>
<td>Rental, hiring &amp; real estate services</td>
<td>110,901</td>
<td>21.0%</td>
<td>33,400</td>
<td>1.5%</td>
</tr>
<tr>
<td>Professional, scientific &amp; technical services</td>
<td>58,935</td>
<td>11.2%</td>
<td>151,900</td>
<td>7.0%</td>
</tr>
<tr>
<td>Administrative &amp; support services</td>
<td>17,739</td>
<td>3.4%</td>
<td>111,100</td>
<td>5.1%</td>
</tr>
<tr>
<td>Public administration &amp; safety</td>
<td>1257</td>
<td>0.2%</td>
<td>132,500</td>
<td>6.1%</td>
</tr>
<tr>
<td>Education &amp; training</td>
<td>8595</td>
<td>1.6%</td>
<td>180,400</td>
<td>8.3%</td>
</tr>
<tr>
<td>Health care &amp; social assistance</td>
<td>19,326</td>
<td>3.7%</td>
<td>232,800</td>
<td>10.8%</td>
</tr>
<tr>
<td>Arts &amp; recreation services</td>
<td>10,047</td>
<td>1.9%</td>
<td>39,600</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other services</td>
<td>23,697</td>
<td>4.5%</td>
<td>72,100</td>
<td>3.3%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>528,168</strong></td>
<td><strong>100%</strong></td>
<td><strong>2,161,300</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

### Table A3.8: New Zealand financial reporting standard types

<table>
<thead>
<tr>
<th>Type of standard</th>
<th>Relevant section of FRA 2013</th>
<th>Standard prepared by</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>GAAP financial reporting standard</td>
<td>ss 8 and 9(2)</td>
<td>Adopted for IASB/IFRS</td>
<td>All XRB standards apart from Tier 4 PBE Accounting Requirements</td>
</tr>
<tr>
<td>Non-GAAP financial reporting standard</td>
<td>ss 9(1)(b) and 18</td>
<td>XRB</td>
<td>PBE SFR-C (PS) – Tier 4: Public Benefit Entity Simple Format Reporting – Cash (Public Sector)</td>
</tr>
<tr>
<td>Reporting standard including non-financial information (narrow)</td>
<td>s 17(1)</td>
<td>XRB</td>
<td>PBE FR5 48 – Service Performance Reporting and PBE IPSAS 30 – Financial Instruments: Disclosures</td>
</tr>
<tr>
<td>Reporting standard including non-financial information (broad)</td>
<td>s 17(2)</td>
<td>XRB</td>
<td>None currently (requires Minister approval)</td>
</tr>
<tr>
<td>Auditing and assurance standards</td>
<td>s 12</td>
<td>XRB</td>
<td>XRB Au1, ISA (NZ) 200, ISA (NZ) 210, ISA (NZ) 220, ISA (NZ) 230, ISA (NZ) 240, ISA (NZ) 250 (Revised), ISA (NZ) 260 (Revised), ISA (NZ) 265, ISA (NZ) 300, ISA (NZ) 315 (Revised), ISA (NZ) 320, ISA (NZ) 330, ISA (NZ) 402, ISA (NZ) 450, ISA (NZ) 500, ISA (NZ) 501, ISA (NZ) 505, ISA (NZ) 510, ISA (NZ) 520, ISA (NZ) 530, ISA (NZ) 540, ISA (NZ) 550, ISA (NZ) 560, ISA (NZ) 570 (Revised), ISA (NZ) 580, ISA (NZ) 600, ISA (NZ) 610 (Revised), ISA (NZ) 620, ISA (NZ) 700 (Revised), ISA (NZ) 701, ISA (NZ) 705 (Revised), ISA (NZ) 706 (Revised), ISA (NZ) 710, ISA (NZ) 720 (Revised), ISA (NZ) 800 (Revised), ISA (NZ) 805 (Revised), ISA (NZ) 810 (Revised)</td>
</tr>
</tbody>
</table>
Appendix 4: Financial statement filing requirements for companies

Figure A4.1: Illustrating the regulatory financial statement filing requirements for companies

Sources: (Companies Office, 2018g; FMA, n.d.[a])

Note to be read in conjunction with Figure A4.1:

1. See Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation for the following:
   - The meaning of ‘FMC reporting entity’ is provided in s 451 of the Financial Markets Conduct Act 2013.
   - The meaning of ‘large’ is provided in s 45 of the Financial Reporting Act 2013.
   - The meaning of ‘overseas company’ is provided in s 2 of the Companies Act 1993.
   - A discussion of ‘New Zealand company with overseas shareholding’ is provided in s 207D of the Companies Act 1993.
Table A4.1 FMC reporting entities by type as at 31 July 2018
Source: (FMA, n.d.[a])

<table>
<thead>
<tr>
<th>FMC reporting entity types</th>
<th>Specifically</th>
<th>Filing requirements</th>
<th>Number of entities*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers of financial products under regulated offers</td>
<td>Those who make regulated offers under the FMC Act 2013 – except closely-held companies that are only FMC reporting entities as equity issuers</td>
<td>Financial statements on Companies Register</td>
<td>Not known</td>
</tr>
<tr>
<td>Market services licensees (except independent trustees of restricted schemes)</td>
<td>MIS managers, DIMS providers, derivatives issuers, providers of peer-to-peer lending and crowdfunding service providers</td>
<td>Financial statements on Companies Register</td>
<td>185</td>
</tr>
<tr>
<td>Licensed supervisors</td>
<td>Under the Financial Markets Supervisors Act 2011</td>
<td>Financial statements on Companies Register</td>
<td>6</td>
</tr>
<tr>
<td>Listed issuers</td>
<td>Those listed on a market licensed under the FMC Act 2013</td>
<td>Financial statements on Companies Register</td>
<td>Not known</td>
</tr>
<tr>
<td>Operators of licensed markets</td>
<td>Except overseas-regulated markets</td>
<td>Financial statements on Companies Register</td>
<td>1</td>
</tr>
<tr>
<td>Recipients of money from conduit issuers</td>
<td>Recipients of funds from regulated offers under the FMC Act 2013</td>
<td>Financial statements on Companies Register</td>
<td>Not known</td>
</tr>
<tr>
<td>Registered banks</td>
<td>Under the Reserve Bank of New Zealand Act 1989</td>
<td>Financial statements on Companies Register</td>
<td>26</td>
</tr>
<tr>
<td>Licensed insurers</td>
<td>Under the Insurance (Prudential Supervision) Act 2010</td>
<td>Financial statements on Companies Register</td>
<td>90</td>
</tr>
<tr>
<td>Credit unions</td>
<td>Under the Friendly Societies and Credit Unions Act 1982</td>
<td>Financial statements on Companies Register</td>
<td>13</td>
</tr>
<tr>
<td>Building societies</td>
<td>Under the Building Societies Act 1965</td>
<td>Financial statements on Companies Register</td>
<td>3</td>
</tr>
<tr>
<td>People specified in regulations under cl 27A of Schedule 1 of the FMC Act 2013</td>
<td>People that have gained more than 50 shareholders through small offers under Schedule 1 of the FMC Act 2013</td>
<td>Financial statements on Companies Register</td>
<td>Not known</td>
</tr>
<tr>
<td>Total FMC reporting entities in New Zealand</td>
<td></td>
<td></td>
<td>Not known</td>
</tr>
</tbody>
</table>

Note to be read in conjunction with Table A4.1:
* The FMA provided links to complete some rows on the table above, but not all.
Table A4.2: Large companies (other than FMC reporting entities) by type as at 31 March 2018

Source: (Personal communication with MBIE, 23 April 2018)

<table>
<thead>
<tr>
<th>Entity type</th>
<th>Filing requirements</th>
<th>Number of entities</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Large overseas companies</td>
<td>Financial statements on Companies Register</td>
<td>493</td>
</tr>
<tr>
<td>ii. Large New Zealand companies that are subsidiaries of overseas companies</td>
<td>Financial statements on Companies Register</td>
<td>1198</td>
</tr>
<tr>
<td>iii. Large New Zealand companies that are overseas-owned</td>
<td>Financial statements on Companies Register</td>
<td>42</td>
</tr>
<tr>
<td><strong>Total large companies operating in New Zealand</strong></td>
<td></td>
<td><strong>1733</strong></td>
</tr>
</tbody>
</table>

Table A4.3: Detailed compliance requirements for companies as at August 2018

Companies registered under the Companies Act 1993 are required to prepare financial statements in compliance with generally accepted accounting practice, and have those financial statements audited. They must then file those audited financial statements in the manner below:

<table>
<thead>
<tr>
<th>Type of company</th>
<th>Required to prepare financial statements in compliance with generally accepted accounting practice?</th>
<th>Required to have its financial statements audited?</th>
<th>Required to file its financial statements?</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMC reporting entity</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (within 4 months)</td>
</tr>
<tr>
<td>Large company (revenue &gt; $30m or assets &gt; $60m as at the balance date of each of the two preceding accounting periods)</td>
<td>Yes (within 5 months)</td>
<td>Yes, but can opt out (with the approval of at least 95% of shareholders entitled to vote; this approval must be provided within time frames specified within the Companies Act 1993)</td>
<td>No</td>
</tr>
<tr>
<td>Large company (revenue &gt; $30m or assets &gt; $60m as at the balance date of each of the two preceding accounting periods) with 25% or more overseas ownership</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (within 5 months)</td>
</tr>
<tr>
<td>Large overseas companies / subsidiaries of overseas companies (revenue &gt; $10m or assets &gt; $20m as at the balance date of each of the two preceding accounting periods)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes (within 5 months)</td>
</tr>
<tr>
<td>Non-large companies with 10 or more shareholders</td>
<td>Yes, but can opt out (with the approval of at least 95% of shareholders entitled to vote; this approval must be provided within time frames specified within the Companies Act 1993)</td>
<td>Yes, but can opt out (with the approval of at least 95% of shareholders entitled to vote; this approval must be provided within time frames specified within the Companies Act 1993)</td>
<td>No</td>
</tr>
<tr>
<td>Non-large companies with fewer than 10 shareholders</td>
<td>No, but can opt in (if required to do so by at least 5% of shareholders entitled to vote; this requirement must be notified to the company within time frames specified within the Companies Act 1993)</td>
<td>No, but can opt in (if required to do so by at least 5% of shareholders entitled to vote; this requirement must be notified to the company within time frames specified within the Companies Act 1993)</td>
<td>No</td>
</tr>
</tbody>
</table>
Notes to be read in conjunction with Table A4.3:

1. See Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation for the following:
   - Financial reporting requirements are provided in ss 200 to 202 and 204 of the Companies Act 1993.
   - Audit requirements are provided in ss 206 to 207 of the Companies Act 1993.
   - Filing requirements are provided in ss 207D and 207E of the Companies Act 1993.
   - The size criteria are outlined in s 45 of the Financial Reporting Act 2013.
   - Opt-out and opt-in time frames are provided in sections 207H to 207K of the Companies Act 1993.

2. Where a company is required to prepare financial statements in accordance with generally accepted accounting practice, the specific accounting standards that it must apply will depend on whether it is classified as a public benefit entity or a for-profit entity, whether it has public accountability, and whether it is large. The External Reporting Board’s standard, XRB A1 Application of the Accounting Standards Framework provides the requirements for determining which accounting standards apply to an entity.

3. Where a company does not have a statutory requirement to prepare financial statements in accordance with generally accepted accounting practice, it must prepare financial statements sufficient to meet the requirements of the Tax Administration (Financial Statements) Order 2014.
Appendix 5: Annual report and financial statement reporting requirements for major types of organisations

This Appendix outlines the reporting requirements of five entity types: companies, government departments, crown entities, local government and registered charities. Please note that there are a number of entities that also have reporting requirements but are outside the limitations of this research. For example, incorporated societies (currently under review), charitable trusts and registered unions.

This appendix presents the same information that can be found in Tables 3 and 4.

Reporting requirements by entity type

Tables 4 and 5 compare the reporting requirements of five entity types for annual reports and for financial statements respectively:

- Table 4: Annual report requirements for companies, Crown entities, government departments, local government and registered charities.
- Table 5: Financial statement requirements for companies, Crown entities, government departments, local government and registered charities.

This analysis highlights the differences and commonalities across the reporting framework and questions why companies have a lower standard of transparency than government entities and registered charities. Requirements for the former tend to focus on the financial statements of a small number of companies, while requirements for the latter focus on annual reports. The exception to this is listed companies, which are also required to publish annual reports on their website and deliver annual reports to NZX. The overarching question is whether the balance of requirements across entities is appropriate.

Reporting requirements by document type

Tables A5.1–A5.5 compare the annual report and financial statement reporting requirements for each of the five entity types:

- Table A5.1: Annual report and financial statement reporting requirements for companies
- Table A5.2: Annual report and financial statement reporting requirements for Crown entities
- Table A5.3: Annual report and financial statement reporting requirements for government departments
- Table A5.4: Annual report and financial statement reporting requirements for local government
- Table A5.5: Annual report and financial statement reporting requirements for registered charities

This analysis highlights the differences and commonalities across document types and questions why there is so little clarity over the purpose and content of annual reports. It also raises questions of which information should be included in financial statements compared to which information should be included in an annual report. The over-arching question is whether the balance between what is reported in annual reports and what is reported in financial statements is appropriate.

Notes to be read in conjunction with Tables 3 and 4 and Tables A5.1–A5.5:

1. For this appendix annual reporting requirements exclude financial statements. The purpose of this is to highlight ‘financial statements’ and ‘annual reports without financial statements’ as two separate types of policy instruments available to policy makers.


3. The Incorporated Societies Act 1908 is currently under review by government. The Act is ‘more than 100 years old and needs updating to help volunteers govern and administer a society in today's conditions’ (MBIE, 2018b).

4. When discussing local government, the tables exclude reporting requirements for council-controlled organisations.
5. Government departments, as discussed in these tables, exclude the reporting requirements of Financial Statements of the Government; they are set out separately in legislation.

6. There is a difference between the requirement to prepare and the requirement to make a report or statement public.

7. Where an entity is required to prepare financial statements in accordance with GAAP, the specific accounting standards that it must apply will depend on whether it is classified as a public benefit entity or a for-profit entity, whether it has public accountability and is large. The XRB standard A1 Application of the Accounting Standards Framework provides the requirements for determining which accounting standards apply to an entity.

8. See ‘tier strategy’ and ‘public accountability’ defined in the glossary.

9. Tables A2.3 and Tables A2.4 in Appendix 2 provide a detailed schedule of fees for the Companies Office and Charities Services.
Table A5.1: Annual report and financial statement reporting requirements for companies

<table>
<thead>
<tr>
<th>1. Content requirements</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set out in s 211 of Companies Act 1993. If NZX-listed, see additional content requirements in the NZX Main Board/Debt Market Listing Rules. Company annual reports must include (unless shareholders holding 95% of the shares opt-out) the company’s financial statements as well as further information on: the nature of the company, remuneration, employees and directors, donations and entries in the interests register. If applicable, the annual report must also include the above information for subsidiaries. Listed issuers are also required to make available substantial product holder information under s 293 of Financial Markets Conduct Act 2013.</td>
<td>Must comply with generally accepted accounting practice, if required to under s 201 of Companies Act 1993, s 9 of Financial Reporting Act 2013 and s 460 of Financial Markets Conduct Act 2013. See Table A4.3 for more detailed information on compliance requirements. Companies that do not have a statutory requirement must prepare financial statements to sufficiently meet requirements of clause 8 of the Tax Administration (Financial Statements) Order 2014. However, small companies (such as those with income or expenditure is less than $30,000 per year and are not part of a group of companies) are exempt from minimum requirements under clause 5.</td>
<td></td>
</tr>
</tbody>
</table>

| Penalty | No penalty found. | If financial statements fail to comply with an applicable financial reporting standards, the company commits an offence and is liable on conviction to a fine not exceeding $50,000 under s 207G(2). Further, its directors are liable on conviction to a fine not exceeding $50,000 under s 207G(3) of Companies Act 1993. If a company is an FMC reporting entity and its financial statements do not comply with an applicable financial reporting standard and the director is aware of this at the time the financial statements are lodged, the director is liable on conviction to imprisonment for up to 5 years, and/or a fine of up to $500,000 and the entity is liable on conviction to a fine not exceeding $2.5 million, under s 461I(2) of Financial Markets Conduct Act 2013. |

| 2. Preparation timing requirements | Broadly, every company that is large (as defined in s 45 of Financial Reporting Act 2013), every company with 10 or more shareholders, every FMC reporting entity, and every company that is a public entity is required to prepare within 5 months of balance date under s 208 of Companies Act 1993. In certain circumstances, shareholders of large companies may opt out under s 208 (4). See also Table A4.3. | Set out in s 201 of Companies Act 1993, certain companies must prepare financial statements within 5 months of the balance date. However, if the company is an FMC reporting entity, the financial statements must be prepared within 4 months after balance date under s 460(1) of Financial Markets Conduct Act 2013. See Table A4.3 for more detailed requirements of who must comply. |

| Penalty | Directors liable to conviction which can result in a fine not exceeding $10,000 under s 374(2)(19) of Companies Act 1993. | Fine not exceeding $50,000 under s 207G of Companies Act 1993. If a company is an FMC reporting entity, fine not exceeding $50,000 under s 461H(2) of Financial Markets Conduct Act 2013. |
### Table A5.1: Annual report and financial statement reporting requirements for companies cont.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accessibility requirements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Shareholder delivery requirements</td>
<td>Annual report (or a notice notifying the shareholder that they have a right to</td>
<td>Must be provided on request by shareholders if prepared under, or for the purposes of,</td>
</tr>
<tr>
<td></td>
<td>request an annual report) must be sent to shareholders 20 working days before</td>
<td>any Inland Revenue Acts under s 207F(2) of Companies Act 1993.</td>
</tr>
<tr>
<td></td>
<td>the annual meeting or, if an annual meeting is unnecessary, within 20 working</td>
<td>However, if a NZX-listed company, shareholders can access financial statements in the</td>
</tr>
<tr>
<td></td>
<td>days after the report is prepared under s 209 of Companies Act 1993.</td>
<td>latest annual report on the NZX website.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Directors liable to a conviction which can result in a fine not exceeding $10,000</td>
<td>No penalty found.</td>
</tr>
<tr>
<td></td>
<td>under s 374(2)(21) of Companies Act 1993.</td>
<td></td>
</tr>
<tr>
<td>(b) Regulatory filing requirements</td>
<td>Not required to be filed with a registrar but see 3(c) and 3(d).</td>
<td>Some ‘large companies’ with overseas shareholding must file within 5 months after the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>balance date under s 207E(1) of Companies Act 1993.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>All FMC reporting entities must file within 4 months after the balance date with the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Companies Registrar under s 461H(1) of Financial Markets Conduct Act 2013.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>See Table A4.3.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Not applicable.</td>
<td>$25 for lodging with Registrar up to 25 working days after due date or $100 for more</td>
</tr>
<tr>
<td></td>
<td></td>
<td>than 25 working days after (Companies Office, 2018b).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Infringement penalties may also be issued to directors of the company under Companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Act 1993.</td>
</tr>
<tr>
<td>(c) NZX delivery requirements</td>
<td>If NZX-listed, annual reports must be prepared within three months after the</td>
<td>If NZX-listed, financial statements are included in the annual report and half-year</td>
</tr>
<tr>
<td></td>
<td>end of the Issuer’s financial year and delivered to NZX electronically and</td>
<td>report under NZX Rules 10.4.1.</td>
</tr>
<tr>
<td></td>
<td>made available to Quoted Security holders.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Half-year reports must be delivered to NZX electronically and made available</td>
<td></td>
</tr>
<tr>
<td></td>
<td>to Quoted Security holders within three months after the end of the first six</td>
<td></td>
</tr>
<tr>
<td></td>
<td>months of each financial year. See NZX Rules 10.4.</td>
<td></td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>NZX may bring a charge against the Issuer for breach of the rules under NZX</td>
<td>NZX may bring a charge against the Issuer for breach of the rules under NZX Rules</td>
</tr>
<tr>
<td></td>
<td>Rules 2.3.5.</td>
<td>2.3.5.</td>
</tr>
</tbody>
</table>
### Table A5.1: Annual report and financial statement reporting requirements for companies cont.

<table>
<thead>
<tr>
<th>(d) Publication on organisation’s website requirements</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>If an FMC reporting entity is an e-reporting entity, must remain available on the company’s website for at least five years under cls 61D(2) and (3) of the Financial Markets Conduct Regulations 2014.</td>
<td>If an FMC reporting entity is an e-reporting entity, it must accompany the annual report and therefore must remain available on the company’s website for at least five years under cl 61D(3) of Financial Markets Conduct Regulations 2014.</td>
<td></td>
</tr>
<tr>
<td>Penalty</td>
<td>If an FMC reporting entity, an infringement offence applies under subpart 5 of Part 8 of Financial Markets Conduct Act 2013.</td>
<td>No penalty found.</td>
</tr>
</tbody>
</table>

| 4. Assurance requirements | No requirement under legislation. | Broadly, where financial statements are required to be prepared, they must be audited. Must be audited under s 207(1) of Companies Act 1993 and must be carried out in accordance with all applicable auditing and assurance standards under s 207A of Companies Act 1993. The auditor must report to the shareholders under s 207B(1) of Companies Act 1993. If an FMC reporting entity, must be audited by a qualified auditor under s 461D of Financial Markets Conduct Act 2013. Under s 461G of Financial Markets Conduct Act 2013, the auditor must send a copy of the audit report and the statements to the FMA and the XRB if parts of the Act have not been complied with. See Table A4.3 for more detailed requirements of who must comply to auditing standards. |
| Penalty | Not applicable. | If a company fails to audit its financial statements, the company commits an offence and is liable to a fine not exceeding $50,000 and every director of the company commits an offence and is liable on conviction to a fine not exceeding $50,000 under s 207G(2) and (3) of Companies Act 1993. |
Table A5.2: Annual report and financial statement reporting requirements for Crown entities

<table>
<thead>
<tr>
<th>1. Content requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>Crown entity annual reports must include financial statements, as well as information on: operations, performance, responsibility, Ministerial direction, employer status (relating to equal opportunities programs) and payments to members and employees.</td>
<td></td>
</tr>
<tr>
<td>Must comply with generally accepted accounting practice, include any other information or explanations needed to fairly reflect the financial operations and financial position and include the forecast financial statements prepared at the start of the financial year, for comparison with the actual financial statements under s 154(3) of Crown Entities Act 2004.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Preparation timing requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>As soon as practicable after the end of each financial year a Crown entity must prepare an annual report under s 150(1) of Crown Entities Act 2004.</td>
<td></td>
</tr>
<tr>
<td>As soon as practicable after the end of each financial year, a Crown entity must prepare financial statements in relation to the entity for that financial year under s 154(1) of Crown Entities Act 2004. They must be provided to the Auditor General within 3 months after the end of each financial year under s 156(1) of Crown Entities Act 2004.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Accessibility requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shareholder delivery requirements</td>
<td></td>
</tr>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>Must provide to the responsible Minister no later than 15 working days after receiving the audit report under s 150(1) of Crown Entities Act 2004. The responsible Minister must present the entity’s annual report to the House of Representatives within 5 working days, under s 150(3) of Crown Entities Act 2004.</td>
<td></td>
</tr>
<tr>
<td>Must accompany the annual report under s 151(1)(c) Crown Entities Act 2004, therefore must be provided to its responsible Minister no later than 15 working days after receiving the audit report under s 150(1) of Crown Entities Act 2004. The responsible Minister must present the entity’s annual report to the House of Representatives within 5 working days.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(b) Regulatory filing requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>There is no Register for Crown Entities unless it is a company. However, it must be presented to the House of Representatives, see 3(d).</td>
<td></td>
</tr>
<tr>
<td>There is no Register for Crown Entities, unless it is a company. However, it must be presented to the House of Representatives, see 3(d).</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(c) NZX delivery requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>Crown Entities are not listed on the NZX, unless they are a listed company.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>(d) Publication on organisation’s website requirements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Annual report</strong></td>
<td><strong>Financial statements</strong></td>
</tr>
<tr>
<td>Must publish its annual report as soon as practicable after it has been presented to the House of Representatives, but in any case, not later than 10 working days after the annual report is received by the Minister under s 150(4) of Crown Entities Act 2004. This does not specify where it is to be published, however.</td>
<td></td>
</tr>
<tr>
<td>Must accompany the annual report under s 151(1)(c) Crown Entities Act 2004 and therefore must be published as soon as practicable after it has been presented to the House of Representatives, but in any case, not later than 10 working days after the annual report is received by the Minister under s 150(4) of Crown Entities Act 2004. This does not specify where it is to be published, however.</td>
<td></td>
</tr>
</tbody>
</table>

| Penalty | Penalty | Penalty | Penalty | Penalty | Penalty |
Table A5.2: Annual report and financial statement reporting requirements for Crown entities cont.

<table>
<thead>
<tr>
<th>4. Assurance requirements</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>No requirement under legislation.</td>
<td>A Crown entity must forward to the Auditor-General, the Crown entity’s annual financial statements within 3 months after the end of each financial year under s 156(1) of Crown Entities Act 2004. The Auditor-General must audit the statements and provide an audit report to the Crown entity within 4 months after the end of each financial year under s 156(2) of Crown Entities Act 2004.</td>
<td></td>
</tr>
<tr>
<td>Penalty</td>
<td>Not applicable.</td>
<td>No penalty found.</td>
</tr>
</tbody>
</table>
### Table A5.3: Annual report and financial statement reporting requirements for government departments

<table>
<thead>
<tr>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Content requirements</strong></td>
<td>Set out in ss 45 and 45A(a)–(e) of Public Finance Act 1989. See a list of relevant guidance documents for department annual reports in Appendix 2. Government department annual reports must include financial statements and forecast financial statements, as well as information on the department’s: operations, progress on strategic intentions, a statement of responsibility from the Chief Executive, organisational health and capability, expenses and capital expenditure, resource management and departmental agencies.</td>
</tr>
</tbody>
</table>

**Penalty** | No penalty found. | No penalty found. |

| **2. Preparation timing requirements** | Must prepare ‘as soon as practicable after the end of each financial year’ under s 43(1) of Public Finance Act 1989. | Audited financial statements must be included in annual report of department under s 45(2)(e) of Public Finance Act 1989 and be prepared ‘as soon as practicable after the end of each financial year’ under s 43(1) of Public Finance Act 1989. They must be provided to the Auditor-General within 2 months after the end of the financial year under s 45D of Public Finance Act 1987. |

**Penalty** | No penalty found. | No penalty found. |

| **3. Accessibility requirements** | Must be presented by responsible Minister alongside audit report to House of Representatives no later than 15 days after the audit report is received under s 44 of Public Finance Act 1989. | Must accompany the annual report under s 45(2)(e) of Public Finance Act 1989. Must be presented by the responsible Minister to the House of Representatives no later than 15 days after receiving the audit report under s 44 of Public Finance Act 1989. |

**Penalty** | No penalty found. | No penalty found. |

**(a) Shareholder delivery requirements** | Not required to be filed with a Registrar but with the House of Representatives, see 3(a). | Not required to be filed with a Registrar but with the House of Representatives. |

**Penalty** | Not applicable. | Not applicable. |

**(b) Regulatory filing requirements** | Not applicable. | Not applicable. |

**Penalty** | Not applicable. | Not applicable. |
Table A5.3: Annual report and financial statement reporting requirements for government departments cont.

<table>
<thead>
<tr>
<th>Description</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penalty</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(d) Publication on organisation’s website requirements</td>
<td>Must publish no later than 15 days after presentation to the House of</td>
<td>Financial statements form part of the annual report, which must be published no</td>
</tr>
<tr>
<td></td>
<td>Representatives under s 44(4)(a) of Public Finance Act 1989. This does not</td>
<td>later than 15 days after presentation to the House of Representatives under s 44(4)(a)</td>
</tr>
<tr>
<td></td>
<td>specify where it is to be published, however.</td>
<td>Public Finance Act 1989. This does not specify where it is to be published, however.</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
</tr>
<tr>
<td>4. Assurance requirements</td>
<td>Must be delivered to the Auditor-General within 2 months of balance date</td>
<td>Must be delivered to the Auditor-General within 2 months of balance date under s</td>
</tr>
<tr>
<td></td>
<td>(s 45D(1)(b) Public Finance Act 1989). Auditor-General must then provide audit</td>
<td>45D(1) of Public Finance Act 1989. Auditor-General must then provide audit report</td>
</tr>
<tr>
<td></td>
<td>report within 3 months after the end of each financial year under s 45D(2)</td>
<td>within 3 months after the end of each financial year under s 45D(2) of Public Finance</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
</tr>
</tbody>
</table>
### Table A5.4: Annual report and financial statement reporting requirements for local government

<table>
<thead>
<tr>
<th>Content requirements</th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set out in s 98 and Part 3 of Schedule 10 of Local Government Act 2002. The purpose of local government annual reports is to compare intended performance with actual performance and promote accountability to the community for decision-making. Schedule 10 is extensive and requires, amongst other things, information on internal borrowing, insurance of assets, employee staffing levels and remuneration, a statement of service provision and a statement of compliance with statutory requirements to be included in an annual report.</td>
<td></td>
<td>Set out in Schedule 10, s 29 of Local Government Act 2002.</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
</tr>
</tbody>
</table>

| Preparation timing requirements | Must prepare and adopt by resolution within 4 months after end of each financial year under s 98(3) of Local Government Act 2002. See also 3(b) below. | Must accompany the annual report, which is required ‘within 4 months after the end of the financial year’ under s 98(3) of Local Government Act 2002. |
| Penalty | No penalty found. | No penalty found. |

<table>
<thead>
<tr>
<th>Accessibility requirements</th>
<th>No requirement under legislation.</th>
<th>No requirement under legislation.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shareholder delivery requirements</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(b) Regulatory filing requirements</td>
<td>There is no Registrar for local government. However, must be sent within 1 month of adoption to the Secretary for Local Government, the Auditor-General and the Parliamentary Library under s 98(6) of Local Government Act 2002.</td>
<td>There is no Register for local government. However financial statements must accompany the annual report, which must be sent within 1 month after adoption to the Secretary for Local Government, the Auditor-General and the Parliamentary Library under s 98(6) of Local Government Act 2002.</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(c) NZX delivery requirements</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>Penalty</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(d) Publication on organisation’s website requirements</td>
<td>Must ‘make publicly available’ under s 98(4) of Local Government Act 2002. This does not specify where it is to be published, however.</td>
<td>Must accompany the annual report and therefore must be made ‘publicly available’ under s 98(4) of Local Government Act 2002. This does not specify where it is to be published, however.</td>
</tr>
<tr>
<td>Penalty</td>
<td>No penalty found.</td>
<td>No penalty found.</td>
</tr>
</tbody>
</table>

| Penalty | No penalty found. | No penalty found. |
### Table A5.5: Annual report and financial statement reporting requirements for registered charities

<table>
<thead>
<tr>
<th></th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Content requirements</strong></td>
<td>No requirement under legislation.</td>
<td>(i) Where the entity is a specified not-for-profit entity, the financial statements must be prepared in accordance with generally accepted accounting practice under s 42A(1)(a) of Charities Act 2005. The term ‘specified not-for-profit entity’ has the meaning set out in s 46 of the Financial Reporting Act 2013: ‘...an entity is a specified not-for-profit entity in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating payments of the entity are $125,000 or more.’ (ii) Where the entity is not a specified not-for-profit entity, the financial statements must be prepared in accordance with generally accepted accounting practice, or a non-GAAP standard that applies for the purposes of s 42A(1)(b) of the Charities Act 2005, as defined in s 5 of the Financial Reporting Act 2013 under ss 24A(1)(b) and 42A(2) of Charities Act 2005. See for example PBE SFR-C (NFP) Public Benefit Entity Simple Format Reporting – Cash (Not-for-profit).</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Not applicable.</td>
<td>Entity and every officer of the entity is liable on conviction to pay a fine not exceeding $50,000 under s 42B of Charities Act 2005.</td>
</tr>
<tr>
<td><strong>2. Preparation timing requirements</strong></td>
<td>No requirement under legislation.</td>
<td>Must accompany the annual return, which is required to be filed ‘within 6 months after each balance date’ under s 41 of Charities Act 2005.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Not applicable.</td>
<td>Charity’s registration could be at risk (Personal communication with Charities Services, 24 August 2018).</td>
</tr>
<tr>
<td><strong>3. Accessibility requirements</strong></td>
<td>No requirement under legislation.</td>
<td>No requirement under legislation. See also 3(b).</td>
</tr>
<tr>
<td>(a) Shareholder delivery requirements</td>
<td></td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(b) Regulatory filing requirements</td>
<td>No requirement under legislation.</td>
<td>Requirement to send performance report and annual return to Charities Services Register under s 24 of Charities Act 2005.</td>
</tr>
<tr>
<td><strong>Penalty</strong></td>
<td>Not applicable.</td>
<td>A charity and every officer is ‘liable on conviction to a fine not exceeding $50,000’ under s 42B of Charities Act 2005, if they knowingly do not comply with a ‘applicable financial reporting standard’ or a non-GAAP standard.</td>
</tr>
</tbody>
</table>
### Table A5.5: Annual report and financial statement reporting requirements for registered charities cont.

<table>
<thead>
<tr>
<th></th>
<th>Annual report</th>
<th>Financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>(c) NZX delivery requirements</td>
<td>Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td></td>
<td>Penalty Not applicable.</td>
<td>Not applicable.</td>
</tr>
<tr>
<td>(d) Publication on organisation’s website requirements</td>
<td>No requirement under legislation.</td>
<td>There is no requirement under legislation to make performance report (financial statements) public on own website.</td>
</tr>
<tr>
<td></td>
<td>Penalty Not applicable.</td>
<td>Not applicable.</td>
</tr>
</tbody>
</table>

#### 4. Assurance requirements

<table>
<thead>
<tr>
<th></th>
<th>No requirement under legislation.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(i) Large charitable entities must be audited by a qualified auditor under s 42C of Charities Act 2005. A charitable entity is large in respect of an accounting period if, in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is $1 million or more under s 42D(1)(a) of Charities Act 2005.</td>
</tr>
<tr>
<td></td>
<td>(ii) Medium sized charitable entities must either be audited or reviewed by a qualified auditor under s 42C of Charities Act 2005. A charitable entity is of medium size in respect of an accounting period if (1) it is not large (as defined above) and (2) in each of the 2 preceding accounting periods of the entity, the total operating expenditure of the entity and all entities it controls (if any) is $500,000 or more under s 42D(1)(b) of Charities Act 2005.</td>
</tr>
<tr>
<td></td>
<td>(iii) Other charitable entities do not have assurance requirements.</td>
</tr>
<tr>
<td></td>
<td>Penalty Not applicable.</td>
</tr>
<tr>
<td></td>
<td>Entity liable on conviction to pay a fine not exceeding $50,000 under s 42E of Charities Act 2005.</td>
</tr>
</tbody>
</table>
Appendix 6: Relevant New Zealand Legislation

This appendix lists 18 different acts, legislative instruments, secondary legislation and bills that form the legal basis for the reporting framework.

Part A: Acts
1. Charities Act 2005*
2. Companies Act 1993*
3. Crown Entities Act 2004*
4. Environmental Reporting Act 2015*
5. Financial Markets Conduct Act 2013*
6. Financial Reporting Act 2013*
7. Incorporated Societies Act 1908*
8. Local Government Act 2002*
9. New Zealand Business Number Act 2016*
10. Public Finance Act 1989*
11. Public Records Act 2005*
12. State Sector Act 1988*

Part B: Secondary Legislation
i. Legislative Instruments
15. Tax Administration (Financial Statements) Order 2014

ii. Other Instruments
16. XRB standards

Part C: Bills
17. Legislation Bill
18. Local Government (Community well-being) Amendment Bill

Notes to be read in conjunction with Appendix 6:
1. The asterisk (*) above indicates legislation that may require further amendment if the government decided that climate change information should become mandatory and that this information should be published in annual reports.
2. The term ‘secondary legislation’ is not currently included in law, but it will become the legal term to describe XRB standards and similar instruments if the Legislation Bill is passed in its current form (see Part D, 16). XRB standards are currently categorised as ‘other instruments’ (see glossary for definitions of ‘legislative instruments’ and ‘other instruments’).
Appendix 7: Relevant international legislation

This appendix outlines excerpts of relevant international legislation referred to in the report to illustrate other legislative possibilities that could be adopted in New Zealand. The excerpts are grouped into two parts: legislation operating in A: the United Kingdom and B: Australia. Please refer to the appropriate website to read the sections in full.

Part A: United Kingdom

Companies Act 2006

Section 385 – Quoted and unquoted companies
(1) For the purposes of this Part a company is a quoted company in relation to a financial year if it is a quoted company immediately before the end of the accounting reference period by reference to which that financial year was determined.
(2) A “quoted company” means a company whose equity share capital—
(a) has been included in the official list in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (c. 8), or
(b) is officially listed in an EEA State, or
(c) is admitted to dealing on either the New York Stock Exchange or the exchange known as Nasdaq.
(3) An “unquoted company” means a company that is not a quoted company.

Section 393 – Accounts to give true and fair view
(1) The directors of a company must not approve accounts for the purposes of this Chapter unless they are satisfied that they give a true and fair view of the assets, liabilities, financial position and profit or loss—
(a) in the case of the company’s individual accounts, of the company;
(b) in the case of the company’s group accounts, of the undertakings included in the consolidation as a whole, so far as concerns members of the company.
(2) The auditor of a company in carrying out his functions under this Act in relation to the company’s annual accounts must have regard to the directors’ duty under subsection (1).

Section 411 – Information about employee numbers and costs
(1) The notes to a company’s annual accounts must disclose the average number of persons employed by the company in the financial year.
(1A) In the case of a company not subject to the small companies regime, the notes to the company’s accounts must also disclose the average number of persons within each category of persons so employed.
(2) The categories by reference to which the number required to be disclosed by subsection (1A) is to be determined must be such as the directors may select having regard to the manner in which the company’s activities are organised.
(3) The average number required by subsection (1) or (1A) is determined by dividing the relevant annual number by the number of months in the financial year.
(4) The relevant annual number is determined by ascertaining for each month in the financial year—
(a) for the purposes of subsection (1), the number of persons employed under contracts of service by the company in that month (whether throughout the month or not);
(b) for the purposes of subsection (1A), the number of persons in the category in question of persons so employed;
and adding together all the monthly numbers.
(5) Except in the case of a company subject to the small companies regime, the notes to the company’s annual accounts or the profit and loss account must disclose, with reference to all persons employed by the company during the financial year, the total staff costs of the company relating to the financial year broken down between—
Companies Act 2006 cont.

(a) wages and salaries paid or payable in respect of that year to those persons,
(b) social security costs incurred by the company on their behalf, and
(c) other pension costs so incurred.

Section 412 – Information about directors’ benefits: remuneration

(1) The Secretary of State may make provision by regulations requiring information to be given in notes to a company’s annual accounts about directors’ remuneration.

(2) The matters about which information may be required include—
   (a) gains made by directors on the exercise of share options;
   (b) benefits received or receivable by directors under long-term incentive schemes;
   (c) payments for loss of office (as defined in section 215);
   (d) benefits receivable, and contributions for the purpose of providing benefits, in respect of past services of a person as director or in any other capacity while director;
   (e) consideration paid to or receivable by third parties for making available the services of a person as director or in any other capacity while director.

(3) Without prejudice to the generality of subsection (1), regulations under this section may make any such provision as was made immediately before the commencement of this Part by Part 1 of Schedule 6 to the Companies Act 1985 (c. 6).

Section 414A – Duty to prepare strategic report

(1) The directors of a company must prepare a strategic report for each financial year of the company.

(2) Subsection (1) does not apply if the company is entitled to the small companies exemption.

(3) For a financial year in which—
   (a) the company is a parent company, and
   (b) the directors of the company prepare group accounts,
      the strategic report must be a consolidated report (a “group strategic report”) relating to the undertakings included in the consolidation.

(4) A group strategic report may, where appropriate, give greater emphasis to the matters that are significant to the undertakings included in the consolidation, taken as a whole.

(5) In the case of failure to comply with the requirement to prepare a strategic report, an offence is committed by every person who—
   (a) was a director of the company immediately before the end of the period for filing accounts and reports for the financial year in question, and
   (b) failed to take all reasonable steps for securing compliance with that requirement.

(6) A person guilty of an offence under this section is liable—
   (a) on conviction on indictment, to a fine;
   (b) on summary conviction, to a fine not exceeding the statutory maximum.

Section 414B – Strategic report: small companies exemption

A company is entitled to the small companies exemption in relation to the strategic report for a financial year if—
   (a) it is entitled to prepare accounts for the year in accordance with the small companies regime, or
   (b) it would be so entitled but for being or having been a member of an ineligible group.
Section 414C – Contents of strategic report

1. The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

2. The strategic report must contain—
   (a) a fair review of the company’s business, and
   (b) a description of the principal risks and uncertainties facing the company.

3. The review required is a balanced and comprehensive analysis of—
   (a) the development and performance of the company’s business during the financial year, and
   (b) the position of the company’s business at the end of that year, consistent with the size and complexity of the business.

4. The review must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include—
   (a) analysis using financial key performance indicators, and
   (b) where appropriate, analysis using other key performance indicators, including information relating to environmental matters and employee matters.

5. In subsection (4), “key performance indicators” means factors by reference to which the development, performance or position of the company’s business can be measured effectively.

6. Where a company qualifies as medium-sized in relation to a financial year (see sections 465 to 467), the review for the year need not comply with the requirements of subsection (4) so far as they relate to non-financial information.

7. In the case of a quoted company the strategic report must, to the extent necessary for an understanding of the development, performance or position of the company’s business, include—
   (a) the main trends and factors likely to affect the future development, performance and position of the company’s business, and
   (b) information about—
      (i) environmental matters (including the impact of the company’s business on the environment),
      (ii) the company’s employees, and
      (iii) social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.

If the report does not contain information of each kind mentioned in paragraphs (b)(i), (ii) and (iii), it must state which of those kinds of information it does not contain.

8. In the case of a quoted company the strategic report must include—
   (a) a description of the company’s strategy,
   (b) a description of the company’s business model,
   (c) a breakdown showing at the end of the financial year—
      (i) the number of persons of each sex who were directors of the company;
      (ii) the number of persons of each sex who were senior managers of the company (other than persons falling within sub-paragraph (i)); and
      (iii) the number of persons of each sex who were employees of the company.

9. In subsection (8), “senior manager” means a person who—
   (a) has responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company, and
   (b) is an employee of the company.

10. In relation to a group strategic report—
    (a) the reference to the company in subsection (8)(c)(i) is to the parent company; and
    (b) the breakdown required by subsection (8)(c)(ii) must include the number of persons of each sex who were the directors of the undertakings included in the consolidation.
Companies Act 2006 cont.

(11) The strategic report may also contain such of the matters otherwise required by regulations made under section 416(4) to be disclosed in the directors’ report as the directors consider are of strategic importance to the company.

(12) The report must, where appropriate, include references to, and additional explanations of, amounts included in the company’s annual accounts.

(13) Subject to paragraph (10), in relation to a group strategic report this section has effect as if the references to the company were references to the undertakings included in the consolidation.

(14) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the interests of the company.

Section 414CA – Non-financial information statement

(1) A strategic report of a company must include a non-financial information statement if the company was at any time within the financial year to which the report relates—

(a) a traded company,

(b) a banking company,

(c) an authorised insurance company, or

(d) a company carrying on insurance market activity.

(2) If the company’s strategic report is a group strategic report, the non-financial information statement to be included in the report under subsection (1) must be a consolidated statement (a “group non-financial information statement”) relating to the undertakings included in the consolidation.

(3) Subsection (1) does not apply if—

(a) the company is subject to the small companies regime in relation to that financial year (see sections 382 to 384), or

(b) the company qualifies as medium-sized in relation to that financial year (see sections 465 to 467).

(4) Subsection (1) does not apply if—

(a) where the company was not a parent company in that financial year, the company had no more than 500 employees in that financial year, or

(b) where the company was a parent company at any time within that financial year, the aggregate number of employees for a group headed by that company in that financial year was no more than 500.

(5) The number of employees means the average number of persons employed by the company in the year, determined as follows—

(a) find for each month in the financial year the number of persons employed under contracts of service by the company in that month (whether throughout the month or not),

(b) add together the monthly totals, and

(c) divide by the number of months in the financial year.

(6) The aggregate number of employees for a group is ascertained by aggregating the relevant figures determined in accordance with subsection (5) for each member of the group.

(7) Subsection (1) does not apply if the company is a subsidiary undertaking at the end of that financial year and is included in—

(a) a group strategic report of a parent undertaking of the company that satisfies the requirements in subsection (8), or

(b) a report that satisfies the requirements in subsection (9).

(8) The requirements in this subsection are that—

(a) the group strategic report relates to undertakings that include the company and its subsidiary undertakings (if any),

(b) the report is prepared for a financial year of the parent undertaking that ends at the same time as, or before the end of, the company’s financial year, and
Companies Act 2006 cont.
(c) the report includes a group non-financial information statement in respect of all the undertakings included in the consolidation.

(9) The requirements in this subsection are that—
(a) the report is—
   (i) a consolidated management report under Article 29 of Directive 2013/34/EU of the European Parliament and of the Council on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, or
   (ii) such separate report as is referred to in Article 19a(3) or 29a(3) of that Directive,
(b) the report is the report of a parent undertaking of the company established under the law of an EEA State,
(c) the report relates to undertakings that include the company and its subsidiary undertakings (if any), and
(d) the report includes such information as is required by Article 19a (non-financial statement) or Article 29a (consolidated non-financial statement), as the case may be.

(10) A company to which subsection (1) does not apply may include a non-financial information statement in its strategic report or, as the case may be, a group non-financial information statement in its group strategic report.

Section – 414CB Contents of non-financial information statement
(1) The non-financial information statement must contain information, to the extent necessary for an understanding of the company’s development, performance and position and the impact of its activity, relating to, as a minimum—
(a) environmental matters (including the impact of the company’s business on the environment),
(b) the company’s employees,
(c) social matters,
(d) respect for human rights, and
(e) anti-corruption and anti-bribery matters.

(2) The information must include—
(a) a brief description of the company’s business model,
(b) a description of the policies pursued by the company in relation to the matters mentioned in subsection (1)(a) to (e) and any due diligence processes implemented by the company in pursuance of those policies,
(c) a description of the outcome of those policies,
(d) a description of the principal risks relating to the matters mentioned in subsection (1)(a) to (e) arising in connection with the company’s operations and, where relevant and proportionate—
   (i) a description of its business relationships, products and services which are likely to cause adverse impacts in those areas of risk, and
   (ii) a description of how it manages the principal risks, and
(e) a description of the non-financial key performance indicators relevant to the company’s business.

(3) In subsection (2)(e), “key performance indicators” means factors by reference to which the development, performance or position of the company’s business, or the impact of the company’s activity, can be measured effectively.

(4) If the company does not pursue policies in relation to one or more of the matters mentioned in subsection (1)(a) to (e), the statement must provide a clear and reasoned explanation for the company’s not doing so.

(5) The statement must, where appropriate, include references to, and additional explanations of, amounts included in the company’s annual accounts.

(6) If information required by subsections (1) to (5) to be included in the statement is published by the company by means of a national, EU-based or international reporting framework, the statement must specify the framework or frameworks used, instead of including that information.
Companies Act 2006 cont.

(7) If a non-financial information statement complies with subsections (1) to (6), the strategic report of which it is part is to be treated as complying with the requirements in—

(a) section 414C(4)(b),
(b) section 414C(7), except as it relates to community issues,
(c) section 414C(8)(b), and
(d) section 414C(12), so far as relating to the provisions mentioned in paragraphs (a) to (c).

(8) In relation to a group non-financial information statement, this section has effect as if the references to the company were references to the undertakings included in the consolidation.

(9) Nothing in this section requires the disclosure of information about impending developments or matters in the course of negotiation if the disclosure would, in the opinion of the directors, be seriously prejudicial to the commercial interests of the company, provided that the non-disclosure does not prevent a fair and balanced understanding of the company’s development, performance or position or the impact of the company’s activity.

Section 414D – Approval and signing of strategic report

(1) The strategic report must be approved by the board of directors and signed on behalf of the board by a director or the secretary of the company.

(2) If a strategic report is approved that does not comply with the requirements of this Act, every director of the company who—

(a) knew that it did not comply, or was reckless as to whether it complied, and
(b) failed to take reasonable steps to secure compliance with those requirements or, as the case may be, to prevent the report from being approved,

commits an offence.

(3) A person guilty of an offence under this section is liable—

(a) on conviction on indictment, to a fine;
(b) on summary conviction, to a fine not exceeding the statutory maximum.”.

Section 444 – Filing obligations of companies subject to small companies regime

(1) The directors of a company subject to the small companies regime—

(a) must deliver to the registrar for each financial year a copy of [F1 the balance sheet] drawn up as at the last day of that year, and

(b) may also deliver to the registrar—

(i) a copy of the company’s profit and loss account for that year, and
(ii) a copy of the directors’ report for that year.

Section 445 – Filing obligations of medium-sized companies

(1) The directors of a company that qualifies as a medium-sized company in relation to a financial year (see sections 465 to 467) must deliver to the registrar a copy of—

(a) the company’s annual accounts,

(aa) the strategic report, and

(b) the directors’ report.

(2) They must also deliver to the registrar a copy of the auditor’s report on those accounts (and on the strategic report and the directors’ report).
Companies Act 2006 cont.

Section 446 – Filing obligations of unquoted companies

(1) The directors of an unquoted company must deliver to the registrar for each financial year of the company a copy of—
   (a) the company’s annual accounts,
   (aa) the strategic report,
   (b) the directors’ report, and
   (c) any separate corporate governance statement.

(2) The directors must also deliver to the registrar a copy of the auditor’s report on those accounts (and the strategic report where this is covered by the auditor’s report), the directors’ report and any separate corporate governance statement.

Section 447 – Filing obligations of quoted companies

(1) The directors of a quoted company must deliver to the registrar for each financial year of the company a copy of—
   (a) the company’s annual accounts,
   (b) the directors’ remuneration report,
   (ba) the strategic report,
   (c) the directors’ report, and
   (d) any separate corporate governance statement.

(2) They must also deliver a copy of the auditor’s report on those accounts (and on the directors’ remuneration report), the strategic report where this is covered by the auditor’s report, the directors’ report and any separate corporate governance statement.

Part B: Australia

Corporations Act 2001

Section 324DA – Limited term for eligibility to play significant role in audit of a listed company or listed registered scheme

(1) If an individual plays a significant role in the audit of a listed company or listed registered scheme for 5 successive financial years (the extended audit involvement period), the individual is not eligible to play a significant role in the audit of the company or the scheme for a later financial year (the subsequent financial year) unless:
   (a) the individual has not played a significant role in the audit of the company or the scheme for at least 2 successive financial years (the intervening financial years); and
   (b) the intervening financial years:
      (i) commence after the end of the extended audit involvement period; and
      (ii) end before the beginning of the subsequent financial year.

Note: Play a significant role in an audit is defined in section 9.

(2) An individual is not eligible to play a significant role in the audit of a listed company or listed registered scheme for a financial year if, were the individual to do so, the individual would play a significant role in the audit of the company or scheme for more than 5 out of 7 successive financial years.

(3) For the purposes of subsection (2), disregard an individual’s playing of a significant role in the audit of a company or scheme for a financial year if:
   (a) either:
      (i) the directors of the company or scheme grant an approval under section 324DAA in relation to the individual; or
      (ii) ASIC makes a declaration under paragraph 342A(1)(a) in relation to the individual; and
   (b) because of the approval or the declaration, subsection (1) of this section does not operate to make the individual not eligible to play a significant role in the audit of the company or scheme for that financial year.
Appendix 8: Example of a Statement of Wellbeing

The content requirements of annual reports outlined in s 211 of the Companies Act 1993 present an opportunity to clarify the definition and purpose of annual reports and to better align their contents with the increasing focus on wellbeing discussed as Trend 8. This could be achieved in a number of ways, but the simplest would be to amend s 211 to require certain entity types to present a Statement of Wellbeing as part of their annual report. In order for these statements to be publicly available, it would be necessary to require annual reports to be filed with the Companies Office and made public on the Companies Register. This would require further changes to s 207E of the Companies Act 1993.

The statement of wellbeing is envisaged as a two-page statement and is intended to bring together information already produced by company boards in various contexts, enabling all key information on wellbeing to be easily found and evaluated by users of reports. The statement could break down wellbeing into the four capitals; potential disclosure examples are listed below:

Natural capital (information could align with the Environmental Reporting Act 2015)
- GHG emissions in terms of past actions, costs and results, future goals and strategies, and amount of carbon credits owned and traded during the year reported on.
- Water (quality and quantity) in terms of past actions, costs and results, and future goals and strategies.
- Measures taken to minimise the risk of stranded assets (i.e. moving to low-carbon inputs such as change to electric vehicles).
- Livestock under the company’s care in terms of number and type(s).

Physical/financial capital
- Company purpose as set by the company’s board.
- Industry type as per Australian and New Zealand Standard Industrial Classification 2006.
- Cybersecurity breaches including number and magnitude in terms of direct amount of dollars lost and number of customers affected.
- Income tax and GST paid to the New Zealand Government presented as separate figures. This must align with the figures in the cash flow statement in the financial statements.

Human capital
- Bonuses and remuneration for CEOs and management teams including clarification of what are they being remunerated for in alignment with the purpose of the company.
- Employment data such as gender diversity of directors and officers.
- Healthy and safety data such as deaths or injuries at work and health and safety reports made.

Social capital
- Political donations in terms of the amount donated and to whom.
- Non-political donations of cash and of services. This must align with the figures in the cash flow statement in the financial statements.
Appendix 9: Amendments to s 17 of the Financial Reporting Act 2013

In undertaking the research outlined in this report, the importance of s 17 of the Financial Reporting Act 2013 became increasingly apparent. This mechanism provides much needed flexibility in the framework, as well as providing a means for the Government to control the XRB’s remit as a standard-setter. However, the Institute takes issue with a few aspects of s 17. Firstly, we believe there is some ambiguity in the section, particularly as read by those who are not legal experts. The broad phrasing in s 17(1)(c) of a non-financial matter that ‘relates, or is incidental or ancillary to’ confuses the line between what XRB can and cannot do and would benefit from clarifying or at least narrowing. Secondly, the entity’s performance is mentioned in both s17(1)(a) and s 17(2)(a)(iv), raising the question of what the difference is between the two sub-sections.

These factors contribute to a possible misreading of s 17(1) setting context and s 17(2) setting out exceptions, rather than the correct reading that s 17(1) sets out non-financial information that the XRB (the Board) can already set standards on while s 17(2) sets out non-financial information that they can only set standards on with permission from the Minister. We recommend the amendments below to clarify the meaning of s 17.

Section 17 – Financial reporting standards may cover non-financial reporting

(1) The Board is authorised to prepare financial reporting standards on the following non-financial information—
(a) an entity’s performance; or
(b) an entity’s related party transactions; or
(c) any other non-financial matter that directly relates, or is incidental or ancillary, to an entity’s financial reporting; or
(d) other non-financial matters authorised by an Order in Council made under subsection (2).

(2) The Governor-General may, on the recommendation of the Minister, by Order in Council,—
(a) authorise the Board to issue financial reporting standards that relate to reporting on 1 or more of the following matters:
(i) an entity’s governance;
(ii) an entity’s strategic direction and targets;
(iii) the social, environmental, and economic context in which an entity operates; and
(iv) any other matter relating to an entity’s performance or position; and
(b) specify conditions to which the authorisation is subject.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>A4S</td>
<td>Accounting for Sustainability</td>
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<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
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<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Countering Financing of Terrorism</td>
</tr>
<tr>
<td>ANZSIC06</td>
<td>Australian and New Zealand Standard Industrial Classification 2006</td>
</tr>
<tr>
<td>APM</td>
<td>Alternative Performance Measures</td>
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<tr>
<td>ASIC</td>
<td>Australian Securities &amp; Investments Commission</td>
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<td>ASRB</td>
<td>Accounting Standards Review Board</td>
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<tr>
<td>ASX</td>
<td>Australian Stock Exchange</td>
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<tr>
<td>AUD</td>
<td>Australian Dollar</td>
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<tr>
<td>BDSS</td>
<td>Business Demographic Statistics System (Stats NZ)</td>
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<tr>
<td>BEPS</td>
<td>Base erosion and profit shifting</td>
</tr>
<tr>
<td>BR</td>
<td>Business Register (Stats NZ)</td>
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<tr>
<td>CA ANZ</td>
<td>Chartered Accountants of Australia and New Zealand</td>
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<tr>
<td>CDP</td>
<td>Carbon Disclosure Project</td>
</tr>
<tr>
<td>CEMARS</td>
<td>Certified Emissions Measurement and Reduction Scheme</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<tr>
<td>CR</td>
<td>Corporate responsibility</td>
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<tr>
<td>DIA</td>
<td>Department of Internal Affairs</td>
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<tr>
<td>EBIT</td>
<td>Earnings Before Interest and Tax</td>
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<tr>
<td>EBITDA</td>
<td>Earnings Before Interest, Tax, Depreciation and Amortization</td>
</tr>
<tr>
<td>EC</td>
<td>Employee Count</td>
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<td>EER</td>
<td>Extended External Reporting</td>
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<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<td>ETS</td>
<td>Emission Trading Scheme</td>
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<td>EU IFRS</td>
<td>European Union International Financial Reporting Standards</td>
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<td>FMA</td>
<td>Financial Markets Authority</td>
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<td>FMC</td>
<td>Financial Markets Conduct</td>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<td>FSM</td>
<td>Fonterra Shareholders’ Market</td>
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<td>GAAP</td>
<td>Generally Accepted Accounting Practices</td>
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<td>GBP</td>
<td>Great British Pound</td>
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<td>GHG</td>
<td>Greenhouse gas</td>
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<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>IAS</td>
<td>International Accounting Standards</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<tr>
<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>IoDSA</td>
<td>Institute of Directors in Southern Africa</td>
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<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<td>IIRC</td>
<td>International Integrated Reporting Council</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<tr>
<td>IPSASB</td>
<td>International Public Sector Accounting Standards Board</td>
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<tr>
<td>IR</td>
<td>Integrated Reporting</td>
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<tr>
<td>KAM</td>
<td>Key Audit Matters</td>
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<td>LSE</td>
<td>London Stock Exchange</td>
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<td>LTIFR</td>
<td>Lost Time Injury Frequency Rate</td>
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<td>LuxSE</td>
<td>Luxembourg Stock Exchange</td>
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<tr>
<td>MBIE</td>
<td>Ministry of Business, Innovation and Employment</td>
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<td>MFE</td>
<td>Ministry for the Environment</td>
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<tr>
<td>NIAV</td>
<td>Net Intangible Asset Value</td>
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<tr>
<td>Non-ASIC</td>
<td>Not on an ASIC register (see ASIC above)</td>
</tr>
<tr>
<td>Non-GAAP</td>
<td>Not compliant with GAAP (see GAAP above)</td>
</tr>
<tr>
<td>NFP</td>
<td>Not-for-profit</td>
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<tr>
<td>NTAV</td>
<td>Net Tangible Asset Value</td>
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<tr>
<td>NXT</td>
<td>NXT Market</td>
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<td>NYSE</td>
<td>New York Stock Exchange</td>
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<td>NZAX</td>
<td>NZX Alternative Market</td>
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<td>NZBN</td>
<td>New Zealand Business Number (MBIE)</td>
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<td>NZCGF</td>
<td>New Zealand Corporate Governance Forum</td>
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<td>NZD</td>
<td>New Zealand Dollar</td>
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<td>NZDX</td>
<td>NZX Debt Market</td>
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<td>NZ ETS</td>
<td>New Zealand Emissions Trading Scheme</td>
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<td>NZ FTS</td>
<td>New Zealand Funds Transfer Scheme</td>
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<td>NZICA</td>
<td>New Zealand Institute of Chartered Accountants</td>
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<td>NZ IFRS RDR</td>
<td>NZ IFRS with reduced disclosures</td>
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<td>NZ IFRS</td>
<td>New Zealand equivalents to International Financial Reporting Standards</td>
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<td>NZSX</td>
<td>NZX Main Board</td>
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<td>NZX</td>
<td>New Zealand Stock Exchange</td>
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<td>NZX Rules</td>
<td>NZX Limited: Main Board/Debt Market Listing Rules</td>
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<td>OAG</td>
<td>Office of the Auditor-General</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>PBE</td>
<td>Public Benefit Entity</td>
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<tr>
<td>PCO</td>
<td>Parliamentary Counsel Office</td>
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<td>PRI</td>
<td>Principles for Responsible Investment</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>RDR</td>
<td>Reduced Disclosure Regime</td>
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<tr>
<td>S&amp;P 500</td>
<td>Standard &amp; Poor’s 500</td>
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<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
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<tr>
<td>SPFR for FPEs</td>
<td>Special Purpose Financial Reporting Framework for use by For-Profit Entities</td>
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<td>SR/SDR</td>
<td>Sustainability Reporting/Sustainable Development Reporting</td>
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<tr>
<td>SSC</td>
<td>State Services Commission</td>
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<td>SSE</td>
<td>Sustainable Stock Exchanges Initiative</td>
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<tr>
<td>TCFD</td>
<td>Task Force on Climate-related Financial Disclosures</td>
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<tr>
<td>TPEx</td>
<td>Taipei Exchange</td>
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<tr>
<td>TRIFR</td>
<td>Total Recordable Injury Frequency Rate</td>
</tr>
<tr>
<td>UHC</td>
<td>Ultimate holding company</td>
</tr>
<tr>
<td>UK GAAP</td>
<td>United Kingdom Generally Accepted Accounting Practices</td>
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<tr>
<td>UN SDG</td>
<td>UN Sustainable Development Goals</td>
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<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>XRB</td>
<td>External Reporting Board</td>
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</table>
Glossary

Many of the terms in this glossary are used in legislation or other rules, protocols and compliance standards that shape international reporting. Relevant legislation that outlines definitions of any terms below is included in Working Paper 2018/04 - Legislation Shaping the Reporting Framework: A compilation. Other terms are used specifically in the context of McGuinness Institute research. In order to reduce repetition, we have given prominence to the definitions given in standards for for-profit entities rather than not-for-profit entities.

2°C Scenario
A scenario originally proposed in the 1990s, whereby there will be severe consequences to the environment and climate if global temperatures increase by more than 2°C above pre-industrial levels (EESI, 2015).

Accessibility
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to the levels of ease with which information can be accessed. Accessibility can include different factors such as who can gain access (disclosure barriers), formats (technology barriers), costs (pricing barriers), timing (timing barriers), and location of information (e.g. Companies Office website, NZX website or company’s own website).

AccountAbility
An international accounting body that provides guidance to preparers. AccountAbility describes its AA1000 Series of Standards as ‘principles-based Standards and Frameworks used by a broad spectrum of organizations – global businesses, private enterprises, governments and civil societies – to demonstrate leadership and performance in accountability, responsibility and sustainability’ (AccountAbility, 2016).

Accounting for Sustainability (A4S)
An international standard-setter that provides guidance to preparers. The initiative was established by the Prince of Wales in 2004 and aims to ‘inspire finance leaders to adopt sustainable and resilient business models, transform financial decision making to enable an integrated approach, reflective of the opportunities and risks posed by environmental and social issues, and to scale up action across the global finance and accounting community’ (A4S, n.d.).

Accounting Standards Review Board (ASRB)
A body established by the Financial Reporting Act 1993 to approve and issue financial reporting standards used in New Zealand (XRB, 2017a).

Alternative performance measures (APMs)
An accounting term that refers to company performance measures other than those prepared using GAAP (see ‘GAAP’ below). Examples of APMs include ‘underlying profits’, ‘normalised profits’, ‘EBIT’ (earnings before interest and tax) and ‘EBITDA’ (earnings before interest, tax, depreciation and amortisation) (XRB, 2017b).

Announcements
See ‘NZX announcements’ below.

Annual report
Defined varyingly across the public and private sectors in a range of documents (see Appendix 5). Contents of an annual report are specified in s 211 of the Companies Act 1993 and NZX Rule 10.4.5 (NZX, 2017a, pp. 141-143). For further information, please see p. 7 in ISA (NZ) 720 (Revised).

Annual return
‘A yearly update of publicly available information’ about an entity that must be provided to a Registrar, distinct from both tax returns and financial statements (Companies Office, 2018c). In New Zealand, both companies and charities must file annual returns. Charities Services is required under s 41 of the Charities Act 2005 to collect and publish annual returns.
Australian Securities and Investment Commission (ASIC)
Used in the context of this research as a determinant of financial filing requirements (see ‘Overseas ASIC’ and ‘non-ASIC companies’ below).

Auditing/assurance requirements
The different legal obligations of various public and private sector entities to have their financial statements verified by a licensed auditor (see Appendix 5).

Australian and New Zealand Standard Industrial Classification 2006 (ANZSIC)
A classification system ‘used to compile and analyse industry statistics in New Zealand and Australia’ based on the predominant activity of a business (Stats NZ, n.d.[c]). The system uses four levels: ‘division, subdivision, group, and class’ (Stats NZ, n.d.[d]).

Base erosion and profit shifting (BEPS)
‘Tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations’ (OECD, n.d.[a]).

Business Register
A private data set created and managed by Stats NZ using information collected from surveys of enterprises. Its main purpose is to act as a ‘statistical register or frame’ for Stats NZ’s business surveys by recording ‘names and addresses, predominant type of industrial activity performed, institutional sector, employment levels, and the degree of overseas ownership’ (Stats NZ, 2016c). Its specific contents cannot be made available to the general public because Stats NZ cannot release information identifying a specific business or person, although summary data is available (see Tables A3.6 and A3.7). The register is not legislated (Personal communication with Stats NZ, 14 September 2018).

Cash flow statements
See ‘statement of cash flows’ below.

Cash equivalents
‘Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value’ (XRB, 2011c, p. 7).

CDP
‘A not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts’ (CDP, n.d.). Formerly known as the Carbon Disclosure Project.

Certified Emissions Measurement and Reduction Scheme (CEMARS)
A climate change certification programme established by Enviro-Mark Solutions. Members of the programme receive ‘software, tools and guidance needed to actively measure and successfully manage carbon emissions’ (Enviro-Mark Solutions, n.d.).

Chief Financial Officer (CFO)
The person responsible for overseeing and managing the finances of a company (CFO, n.d.)

Climate change initiatives
Used specifically by the McGuinness Institute in Project ReportingNZ to refer to a statement or reference to an action that provides evidence of an organisation’s efforts (or intended efforts) to curb its emissions or reduce its vulnerability to climate change risks (or the vulnerability of a country or the world).

Climate change risks
Used specifically by the McGuinness Institute in Project ReportingNZ to refer to a statement of any possible impact that climate change may have on an organisation, country or the world. Such a statement may include discussion of the nature of the risk, possible impacts on the organisation’s business model and/or actions the organisation is considering in response to these risks (its future orientation).
Code companies
‘New Zealand-registered companies that are listed on the NZX or that have 50 or more shareholders and 50 or more share parcels’ (Takeovers Panel, n.d.).

Comply or explain
A regulatory term used only in the private sector, which operates through encouragement to follow certain guidance without penalties but with an expectation that reasons for non-compliance will be explained. For example,

Under the NZX Code, if the Board of an issuer considers that a recommendation is not appropriate because it does not fit the issuer’s circumstances, it is entitled not to adopt it. If it does not adopt it, it must explain why it has not. (NZX, 2017a, p. 4)

Companies Register
A website operated by the New Zealand Companies Office where company details, including ‘registration of a company, its directors, officers, shareholders and members, disclosure and reporting duties, restructuring or amalgamation of companies, dissolution, termination or removal of companies from the Companies Register’, are stored (Companies Office, 2018f).

Concise annual report
A legal term introduced in the Companies Amendment Act (No 2) 2006 to refer to a summary of financial statements. This term should not be confused with ‘summary financial statements’ as required by accounting standards (see below). The content requirements for concise annual reports are outlined under s 209(5) of the Companies Act 1993.

Control of an investee
An accounting term defined in IFRS 10 Consolidated Financial Statements as a situation where an ‘investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee’ (XRB, 2011d, p. 10).

Corporate governance statement
A reporting document that outlines the system of rules, practices and processes through which the company is directed and controlled. For NZX-listed companies, the statement is required under Rules 10.4.5(h) and (i) to outline any corporate governance policies they have adopted and how these materially differ from the NZX Code. The statement can either be included in an annual report, or the annual report must provide a clear reference to where the statement can be found on a company’s public website (NZX, 2017a, p. 143).

Deloitte Top 200
A list of New Zealand’s largest organisations by revenue, prepared annually by Deloitte and announced in December (Deloitte, n.d.). The list can include publicly listed companies, unlisted companies, New Zealand subsidiaries/branches of overseas companies and local authority or state-owned enterprises.

Department
A legal term defined in ss 27A(1) and (2) of the State Sector Act 1988 as ‘a department of the public service specified in Schedule 1’. Schedule 1 lists 32 departments of the public service.

Departmental agency
A legal term defined in ss 27A(1) and (2) of the State Sector Act 1988 as ‘a departmental agency specified in the first column of Schedule 1A, which is part of its host department’. Schedule 1A lists the Social Investment Agency as the only departmental agency.

Directors
A legal term defined for companies under s 126(1) of the Companies Act 1993 and for other entities under Rule 1.6.1 as ‘any person occupying a position in that entity that is comparable with that of a director of a company’ (NZX, 2017a, pp. 9–10).
Donation
A legal term that refers to a form of payment defined conditionally based on the payer not receiving ‘direct benefit in return’ (IRD, 2014).

Earnings before interest and tax (EBIT)/earnings before interest, tax, depreciation and amortisation (EBITDA)
A measure of a company’s performance that is independent of the environment and/or financing decisions (EBITDA, n.d.).

Economically significant enterprise
A statistical term defined by Stats NZ against the following criteria:
- annual expenses or sales (more than $30,000),
- ‘12 month rolling mean employee count’ (more than three),
- status as part of a group of enterprises,
- GST registration,
- involvement in agriculture or forestry and/or
- IR10 tax form record of income (over $40,000) (Stats NZ, n.d.[b]).

Emission controls
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer existing measures taken to control or abate carbon emissions.

Emission costs
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to existing carbon emission offsets stated in financial figures and/or number of carbon units used.

Emission metrics
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to existing carbon emissions data stated in tonnes, percentages or CO₂/m² produced and/or abated.

Emission targets
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to specific goals to reduce future carbon emissions (distinct from ‘climate change initiatives’, see above).

Employee count
A statistical term that refers to ‘paid employees [as] a head count of salary and wage earners sourced from taxation data. EC data is available on a monthly basis’ (Stats NZ, n.d.[d]).

Enterprise
A statistical term that refers to an ‘institutional unit that generally corresponds to legal entities operating in New Zealand. It can be a company, partnership, trust, estate, incorporated society, producer board, local or central government organisation, voluntary organisation, or self-employed individual’ (Stats NZ, n.d.[d]).

Enterprise group
A statistical term defined by Stats NZ as follows:
- a grouping of enterprises in the Business Register linked by common ownership. Generally, the Business Register only records links of over 50 percent shareholding between enterprises. Types of enterprise groups are:
  - all-resident enterprise group – an enterprise group in which all enterprises are resident in New Zealand
  - multinational enterprise group – an enterprise group that contains one or more enterprises resident outside New Zealand
  - foreign-controlled enterprise group – a multinational enterprise group controlled by a group head with its headquarters outside New Zealand
  - domestically controlled enterprise group – a multinational enterprise group controlled by a group head with its headquarters in New Zealand. (Stats NZ, n.d.[d])
**Entity**
A legal term defined in s 5 of the Financial Reporting Act 2013.

**Environment ISO 14001:2015**
A standard that provides an environmental management system by mapping ‘out a framework that a company or organization can follow to set up an effective environmental management system (ISO, n.d.[b]).

**Environmental practices**
A climate change reporting term used specifically by the McGuinness Institute in *Project ReportingNZ* to refer to existing controls implemented to reduce the environmental impacts of an entity’s operations.

**Environmental, social and governance (ESG)**
A term used to describe the three key elements by which the ethical and environment impact of a company is measured (NZX, 2017c, p. 4).

**Environmental targets**
A climate change reporting term used specifically by the McGuinness Institute in *Project ReportingNZ* to refer to specific goals to reduce the environmental impacts of an entity’s operations.

**Extended External Reporting (EER)**
A reporting term developed by the XRB and adopted by the McGuinness Institute that refers to all information above and beyond what a company is required to provide under law. EER can include information on an entity’s outcomes, governance, business model, risks, prospects, strategies and its economic, environmental, social and cultural impacts.

**External Reporting Board (XRB)**
An independent Crown entity that preparers and issues accounting, auditing and assurance standards in New Zealand (XRB, 2018f).

**Financial filings**
A legal term used in a range of contexts (see ‘regulatory filings’ below).

**Financial reporting standards**
A set of standards defined in s 5 of the Financial Reporting Act 2013 and issued by the XRB for the public and private sectors (XRB, 2018g).

**Financial statements**
An accounting and filing document defined in s 6 of the Financial Reporting Act 2013, and in other legislation, that comprises statements for the period of financial position, profit or loss and other comprehensive income, changes in equity, cash flows, notes, comparative information and a statement of financial position from the beginning of the preceding period (XRB, 2011a, pp. 8–9).

Some large New Zealand, and all large overseas companies, must file annual audited financial statements under the Companies Act 1993. All Financial Markets Conduct (FMC) reporting entities must lodge annual audited financial statements under the Financial Markets Conduct Act 2013. (Companies Office, 2018g)

(See ‘general purpose financial statements’ below).

**Financial Markets Authority (FMA)**

**Financial Stability Board (FSB)**
A Switzerland-based entity that acts as a monitor of the global financial system, making recommendations and co-ordinating national financial authorities (FSB, 2018a).

**FMA Corporate Governance Handbook (FMA Handbook)**
A guidance document prepared by the FMA intended as a guide for a wide range of companies and businesses. It outlines eight principles of corporate governance:
Principle 1: Ethical standards,
Principle 2: Board composition and performance,
Principle 3: Board committees,
Principle 4: Reporting and disclosure,
Principle 5: Remuneration,
Principle 6: Risk management,
Principle 7: Auditors and
Principle 8: Shareholder relations and stakeholder interests (FMA, 2018a, p. 3). The only difference between the principles in the FMA Handbook and the NZX Code (see below) is that the latter does not include stakeholder interests.

FMA reporting entity
An FMA reporting entity is not the same as an FMC reporting entity (see below). The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act) describes a person who needs to comply with the AML/CFT Act as a ‘reporting entity’. The definitions of ‘reporting entity’ can be found in section 5 of the AML/CFT Act and in the Anti-Money Laundering and Countering Financing of Terrorism (definitions) Regulations 2011. An FMA reporting entity is not a defined term under the AML/CFT Act, but is used to described a ‘reporting entity’ that is supervised by the FMA, in its role as an AML/CFT supervisor, under section 130 of the AML/CFT Act. The FMA’s website contains a list of 781 FMA reporting entities as at 31 July 2018 (FMA, n.d.[b]). FMA reporting entities have an obligation to report to the FMA on a regular basis (Personal communication with FMA, 27 September 2018).

FMC reporting entity
An FMC reporting entity, in contrast to an FMA reporting entity, are those persons described in section 451 of the Financial Markets Conduct Act 2013 (FMC Act). An ‘FMC reporting entity’ is required to comply with the obligations contained in Part 7 of the FMC Act. These obligations include keeping proper accounting records, preparing financial statements, having those financial statements audited, and lodging those financial statements and audit report with the Companies Office within four months after the balance date of the FMC reporting entity (Personal communication with FMA, 27 September 2018).

Fonterra Shareholders’ Market (FSM)
‘A private market on which only Fonterra Farmer Shareholders, Fonterra and a specially appointed market maker are allowed to trade Fonterra Shares. The FSM forms part of Trading Among Farmers (TAF)’ (NZX, 2017f).

For-profit entities
‘Reporting entities that are not public benefit entities’ (XRB, 2015c, p. 6). These entities apply NZ IFRS standards. If an entity does not meet PBE criteria, they are for the purposes of reporting, a for-profit entity.

Generally accepted accounting practice (GAAP)
A legal and accounting term defined in s 8 of the Financial Reporting Act 2013. In general, refers to all accounting standards issued by the XRB.

General purpose financial statements
An accounting term used in NZ IAS 1 Presentation of Financial Statements, but usually referred to simply as ‘financial statements’, ‘intended to meet the needs of users who are not in a position to require an entity to prepare reports tailored to their particular information needs’ (XRB, 2011a, p. 6).

Government-related entity
An accounting term defined in NZ IAS 24 Related Party Disclosures as ‘an entity that is controlled, jointly controlled or significantly influenced by a government’ (XRB, 2011e, p. 8).

Green bond
Refers to a bond used to fund a project that has a positive environmental or climate benefit (Edmunds, 2018).
Greenhouse gas emissions (GHG emissions)
‘Gases that trap heat in the atmosphere’ such as carbon dioxide, methane, nitrous oxide, and sulphur hexafluoride, hydrofluorocarbon, and perfluorocarbon (EPA, n.d.).

Greenhouse Gas Protocol (GHG Protocol)
A protocol designed to ‘measure and manage greenhouse gas emissions from public and private sector operations, value chains and mitigation actions’ (GHG Protocol, n.d.[b]).

GRI
An ‘independent international organization’ that provides standards and guidance to preparers (GRI, n.d.[a]).

GRI Sustainability Reporting Standards (GRI Standards)
A set of standards developed to ‘represent the global best practice for reporting on a range of economic, environmental and social impacts’ (GRI, n.d.[c]). Reporting based on these standards ‘provides information about an organization’s positive or negative contributions to sustainable development’ (GRI, n.d.[d]).

Health
A legal term defined in s 16 of the Health and Safety Act 2015 and encompassing both ‘physical and mental health’.

Health and safety policy
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to a written health and safety policy; also sometimes referred to as a ‘charter’, ‘framework’ or ‘system’.

Health and safety practices
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to specific voluntary actions that the company has undertaken to improve health and safety outcomes.

Health and safety target
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to specific goals that are put in place to reduce health and safety issues e.g. ‘zero harm’.

Health and safety statistics
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to existing health and safety data stated in terms of ‘LTIFR’, ‘TRIFR’ and other statistical measures.

Intangible asset
‘An identifiable non-monetary asset without physical substance’, such as goodwill (XRB, 2011f, p. 8). (See also ‘net intangible asset’ below.)

Integrated reporting <IR>
A reporting framework that aims to improve information quality, cohesion and efficiency, both in its collation and presentation. The framework also seeks to ‘enhance understanding’ of the interdependent relationship of the various capitals, which are defined by the IIRC as ‘financial, manufactured, intellectual, human, social and relationship, and natural’ and are distinct from Treasury’s four capitals (IIRC, 2013, p. 2). IR focuses on the production of an integrated report, which is primarily concerned with explaining ‘to providers of financial capital how an organization creates value over time’ in the short, medium and long term (IIRC, 2013, p. 4). Potential audiences of an integrated report include ‘employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers’ (IIRC, 2013, p. 4).

International Accounting Standards (IAS) (an accounting term)
An accounting term that refers to the accounting standards issued by the IASB from 1973–2001 (CCH Tagetik, 2018). (See also ‘IFRS’ below.)

International Accounting Standards Board (IASB)
An independent body that produced IAS and now produces IFRS (FASB, n.d.). (See also ‘International Accounting Standards’ above and ‘International Financial Reporting Standards’ below.)
An accounting term that refers to the accounting standards issued by the IASB since 2001 (CCH Tagetik, 2018). (See also ‘IAS’ above.)

**International Integrated Reporting Council (IIRC)**
A body that promotes and supports research into integrated reporting and its application in the mainstream (A4S & GRI, 2010).

**International Public Sector Accounting Standards (IPSAS)**
A set of standards for public sector entities to use when preparing financial statements, issued by the International Public Sector Accounting Standards Board (XRB, 2015a, pp. 16–17).

**Issuer**

**Key audit matters (KAM)**
Matters determined by the auditor’s professional judgement as being ‘of most significance in the audit of the financial statements of the current period’ (XRB, 2015d, p. 6).

**Legislative Instruments (a legal term)**
Defined in section 4 of the Legislation Act 2012. Legislative Instruments can include Orders in Council, regulations, rules, notices, determinations, proclamations, or warrants. Legislative Instruments are laws made by the Governor-General, Ministers of the Crown, and certain other bodies under powers conferred by an Act of Parliament. Certain resolutions of the House of Representatives are also classed as Legislative Instruments. Before 5 August 2013, legislation of this type was in general known as “Regulations”, or “Statutory Regulations”. (PCO, n.d.)

(See also ‘Other Instruments’ below.)

**Large company**

**Māori enterprise (a statistical term)**
A statistical term defined based on whether an enterprise meets one or more of the following conditions:

- (... it elects to be a Māori authority for tax purposes)
- it is a commercial business that supports the Māori authority’s business and social activities, and sustains or builds a Māori authority’s asset base
- it is a business that is 50 percent or more owned by Māori authorities. (Stats NZ, n.d.[c])

**Material information**
A term used by NZX to refer to information that an Issuer should make public through an announcement on the NZX platform. NZX Rule 1.6.1 states that material information ‘is information that: (a) a reasonable person would expect, if it were generally available to the market, to have a material effect on the price of Quoted Securities of the Issuer’ and which relates to specific securities or issuers (NZX, 2017a, p. 13). Information is considered material if ‘omitting it or misstating it could influence decisions’ made by the users of general purpose financial reports based on those reports (XRB, 2018b, p. 13).

**Material omissions**
An accounting term that refers to misstatements of items that ‘could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances’ (XRB, 2011a, p. 7).

**Market capitalisation (a financial term)**
A financial term that refers to the value of a company’s shares, calculated by multiplying the number of ordinary shares by the current share price (ASX, 2017).
Ministry of Business, Innovation and Employment (MBIE)
A New Zealand government department that is responsible for policy, regulation and advice concerning business growth and productivity (MBIE, 2015b).

National filings
(See ‘regulatory filings’ below.)

Nature of business
A legal term defined in s 211(2)(a)(i) of the Companies Act 1993 that refers to an organisation’s ‘predominant economic activity’ (Stats NZ, n.d.[c]).

Net intangible asset value
An accounting term that refers to the net value of a company’s intangible assets, calculated by subtracting net tangible asset value from market capitalisation (Elsten & Hill, 2017, p. 245). (See also ‘net tangible asset value’ below.)

Net tangible asset value
An accounting term that refers to the net value of a company’s tangible assets, calculated by subtracting intangible assets and liabilities from total assets in the financial statements (ANZ New Zealand Securities, n.d.). (See also ‘net intangible asset value above’.)

New Zealand Business Number (NZBN)
An internationally unique identifier used to register New Zealand businesses, facilitating precision of individual business identity (NZBN, n.d.).

New Zealand Dollar
New Zealand’s legal currency.

New Zealand equivalents to International Financial Reporting Standards (NZ IFRS)
A set of ‘Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise:
(a) International Financial Reporting Standards;
(b) International Accounting Standards;
(c) IFRIC Interpretations; and
(d) SIC Interpretations’ (XRB, 2011b, pp. 6–7).

New Zealand Stock Exchange (NZX)
The body that operates the capital, risk and commodity markets in New Zealand, as indicated in NZX Rule 1.1 (NZX, 2017a, p. 5).

Non-financial information

Non-ASIC
(See ‘Australian Securities Investments Commission’ above.)

Non-GAAP
(See ‘generally accepted accounting practice’ above.)

NZX Alternative Market
‘The marketplace for small to medium-sized, fast growing businesses seeking a safe and efficient capital raising facility’ (NZX, 2017g).

NZX announcements
Components of a continuous disclosure framework, ‘which seeks to ensure the timely release of material information by issuers’ (NZX, 2017h, p. 4). See ‘material information’ above. The announcements ensure integrity and promote ‘fair, orderly and transparent markets’ through the provision of timely, relevant and equally accessible information (NZX, 2017h, p. 4). There is no ‘prescriptive list of information’
that needs to be included in announcements, because this will depend ‘on the content and the reason for
the announcement’, although there is some guidance provided on information that should generally be
disclosed following a material transaction (NZX, 2017h, p. 15).

**NZX Corporate Governance Code (NZX Code)**
A document that sets out eight principles to guide NZX-listed companies:
- Principle 1: Ethical standards/code of ethical behaviour
- Principle 2: Board composition and performance
- Principle 3: Board committees
- Principle 4: Reporting and disclosure
- Principle 5: Remuneration
- Principle 6: Risk management
- Principle 7: Auditors
- Principle 8: Shareholder rights/relations (NZX, 2017b, p. 3).

See also ‘FMA Handbook’ above, which includes stakeholder interests in Principle 8 (FMA, 2018a, p. 3).

**NZX Debt Market (a financial term)**
A New Zealand market ‘designed to expand and grow the existing debt facilities by offering a range of
corporate and government bonds and fixed income securities’ (NZX, 2017i).

**NZ ETS (Emission Trading Scheme) (a legal term)**
The New Zealand Government’s primary climate change policy response, which aims to support
other global GHG emission reduction endeavours by ‘assisting New Zealand to meet its international
obligations [and] reducing New Zealand’s net emissions below business as usual levels’ (MfE, n.d.[d]).

**NZX Main Board (NZSX) (a legal term)**
The ‘original equities market and home for New Zealand’s best known brands and companies’
(NZX, 2017).

**NZX Markets (a legal term)**
A legal term that collectively refers to all NZX boards, including the NZX Main Board (NZSX), NXT
Market (NXT) (for small to mid-sized business), NZX Alternative Market (NZAX), NZX Debt Market
(NZDX), NZX Dairy Derivatives, NZX Equity Derivatives and Fonterra Shareholders Market (FSM)
(NZX, 2017k).

**OECD (Organisation for Economic Co-operation and Development)**
An intergovernmental organisation that seeks to support world trade and economic progress (OECD,
n.d.[c]).

**Office of the Auditor-General (OAG)**
A New Zealand government department that is responsible for all public sector auditing (OAG, n.d., pp.
4–5).

**Officers (Company officers)**
A term defined in NZX Rule 1.6.1 as follows:

A person, however designated, who is concerned or takes part in the management of the Issuer’s business but
excludes a person who does not: (a) report directly to the Board; or (b) report directly to a person who reports
to the Board. (NZX, 2017a, p. 16)

**Opaque organisations**
A term used specifically by the McGuinness Institute in *Project ReportingNZ* to refer to companies and
other organisations that are not transparent in their operations, whether intentionally or as a result of the
current reporting framework; also sometimes referred to as ‘invisible companies’, ‘hidden companies’ or
‘non-transparent companies’.
Other Instruments
A term used by the PCO to refer to ‘instruments that are made under Acts or the Royal prerogative and that may have legislative effect, but are not Legislative Instruments... Examples include most land transport rules, civil aviation rules, and a wide variety of other rules, codes, and instruments’ as well as XRB standards (PCO, n.d.; Personal communication with PCO, 7 September 2018). (See also ‘Legislative Instruments’ above.)

Overseas ASIC companies/overseas non-ASIC companies
Terms used specifically by the McGuinness Institute in Project ReportingNZ to denote the legal status of an overseas company as registered with the Australian Securities and Investments Commission (or not). (See also ‘Australian Securities and Investments Commission’ above.)

Overseas company
A legal term defined in ss 2 and 332 of the Companies Act 1993.

Overseas ownership
A legal term defined in s 207D of the Companies Act 1993. The term overseas ownership/equity is also used by Stats NZ, which assigns enterprise units ‘a percentage between 0 and 100 to indicate their degree of overseas ownership’ (Stats NZ, n.d.[c]).

Performance report/statement
An accounting term for public benefit entities defined as follows:

A set of statements which collectively tell the story of the entity over the financial year. This includes the entity information, statement of service performance, statement of financial performance, statement of financial position, statement of cash flows, statement of accounting policies, and notes to the performance report prepared in accordance with this Standard. (XRB, 2013, p. 49)

For registered charities, performance reports are the financial statements that Tier 3 and 4 charities attach to their annual return, which contain both financial and non-financial information, such as mission or purpose. It is likely that Tier 1 and 2 charities will also have to produce performance reports in the future (Charities Services, n.d.[a], p. 10; n.d.[e]).

Preparers (report preparers)
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to CFOs of significant companies in New Zealand. The term was developed for the 2017 Preparers’ Survey, which focuses on significant companies because of their impact on New Zealand’s economy and because of their potential as drivers of change in EER practices. (See also ‘users (report users)’ below.)

Principles of Responsible Investment
‘A voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice’, established in 2005 by ‘a group of the world’s largest institutional investors’ under the guidance of Kofi Annan, United Nations Secretary-General at the time (PRI, n.d.[b]).

Public accountability (an accounting term)
A legal term defined by the IASB based on whether a company’s ‘debt or equity instruments are traded in a public market’ or ‘it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks)’ (XRB, 2016b, p. 12). Types of FMC reporting entities considered to have higher public accountability are also outlined in s 461K of the Financial Markets Conduct Act 2013, while additional entities with public accountability may also be specified ‘by a notice issued by the FMA under that Act’ (XRB, 2016b, p. 12). (See also ‘tier strategy’ below.)

Public benefit entities (PBEs)
An accounting term to describe an entity ‘whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders’ (XRB, 2015c, p. 6). PBEs include not-for-profit and public sector entities.
Public service
A sector that ‘comprises the departments listed on the 1st Schedule of the State Sector Act 1988 including any departmental agencies listed on Schedule 1A of that same Act’ (SSC, 2018b).

Quantitative breakdown of gender
An NZX reporting requirement outlined in Rule 10.4.5(j), which constitutes ‘a quantitative breakdown, as to the gender composition of the Issuer’s Directors and Officers as at the Issuer’s balance date and including comparative figures for the balance date of the issuer’ (NZX, 2017a, p. 143).

Real GDP growth
An economic term that describes a key indicator of economic growth in New Zealand. ‘It measures the total activity within the country over a given period, excluding price changes.’ (Treasury & NZ Government, 2018b).

Registered office
A registered location or contact point for all company documentation, defined in accordance with s 186 of the Companies Act 1993.

Regulatory filings
A legal term used specifically by the McGuinness Institute in Project ReportingNZ to describe all documents required to be filed publicly. In New Zealand, this includes websites operated by MBIE, charity services and NZX. The term ‘regulatory filings’ is preferred over ‘financial filings’, as the latter can imply simply ‘statutory financial filings’ (filings of the financial statements), which is narrower than current practice. In American law, the term refers to ‘all reports, offering circulars, proxy statements, registration statements and all similar documents filed, or required to be filed, pursuant to applicable state or federal law’ (Law Insider, n.d.).

Related party disclosures
A disclosure requirement outlined in *NZ IAS 24 Related Party Disclosures* and in *PBE IPSAS 20 Related Party Disclosures* that is intended to ‘draw attention to the possibility that [an entity’s] financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties’ (XRB, 2011e, p. 6). The Standard sets out conditions of significant levels of influence, control or association that qualify a person or entity as a ‘related party’ of the reporting entity (e.g. ultimate holding companies or ultimate controlling parties) (XRB, 2011e, p. 7).

Reporting entity
A legal term defined in s 5 of the Financial Reporting Act 2013.

Reporting framework
An accounting concept that refers to globally recognised frameworks of guidelines and standards for best practices in reporting (e.g. GRI Standards, IR, UN Sustainable Development Goals, A4S and CDP).

S&P 500 (a financial term)
An index developed and maintained by S&P Dow Jones Indices, which comprises 500 leading American companies and is ‘widely regarded as the best single gauge of large-cap U.S. equities’ (S&P Dow Jones Indices, n.d.).

Secondary legislation
A legal term used in the Legislation Bill, which is before the House at the time of writing. Section 5 of the Bill defines secondary legislation as ‘an instrument (whatever it is called) that—(a) is made under an Act if the Act (or any other legislation) states that the instrument is secondary legislation; or (b) is made under the Royal prerogative and has legislative effect’. In the UK secondary legislation is defined as the following:

law created by ministers (or other bodies) under powers given to them by an Act of Parliament. It is used to fill in the details of Acts (primary legislation). These details provide practical measures that enable the law to be enforced and operate in daily life. (UK Parliament, n.d.)
Significant companies (a group of companies)
For-profit companies that have a considerable impact on New Zealand’s capital (comprising human, social, natural, and financial/physical capitals) (Treasury, 2018). Examples specific to Project ReportingNZ include companies on the 2017 Deloitte Top 200 or NZSX.

Significant organisations (a group of organisations)
Refers to organisations that have a considerable impact on New Zealand’s human, social, natural, and financial/physical capital. This concept aligns with Treasury’s Living Standard Framework (Treasury, 2018). Refers to significant companies and other significant organisations such as government departments, Crown agents and Crown entities, state-owned enterprises and local authorities.

Stakeholder
Anyone affected by an organisation’s operations including, among others, ‘customers, employees, the public, the government’ (FMA, 2018a, p. 26).

Statement of cash flows
A report that illustrates ‘inflows and outflows of cash and cash equivalents’ governed by NZ IAS 7 Statement of Cash Flows and PBE IPSAS 2 Statement of Cash Flows (XRB, 2011c, p. 7). All Tier 1 And Tier 2 for-profit entities must produce cash flow statements, although Tier 2 companies may adhere to a RDR. Entities are required to report against three types of activity in the Statement of Cash Flows:

- operating activities (‘principal revenue-producing activities’),
- investing activities (‘acquisition and disposal of long-term assets’) and
- financing activities (‘activities that result in changes in the size and composition of the contributed equity and borrowings of the entity’) (XRB, 2011c, p. 7).

State sector
A sector comprising the following:

agencies whose financial situation and performance is included in the Financial Statements of the Government of New Zealand as part of the Government reporting entity under the Public Finance Act 1989. This includes the State Services, tertiary education institutions, State-Owned Enterprises and Mixed Ownership Model companies, as well as a small number of agencies that operate as instruments of the Legislative Branch of Government. (SSC, 2018b)

(See also Figure A3.1.)

State services
The agencies that operate as instruments of the Crown in respect of the Government of New Zealand (i.e. the Executive Branch of Government). This includes the Public Service, most Crown entities, the Reserve Bank, a range of agencies listed on the 4th Schedule of the Public Finance Act 1989, companies listed on Schedule 4A of the Public Finance Act, and a small number of departments that are not part of the Public Service. (SSC, 2018b)

(See also Figure A3.1.)

Summary financial statements
A term used in XRB standards FRS 43 Summary Financial Statements and PBE FRS 43 Summary Financial Statements to refer to a collection of summaries of both financial and non-financial statements required in the full financial report intended to ‘enable a reader to obtain a broad understanding of the financial position and performance of the entity in a manner that is neither misleading nor biased’ (XRB, 2011g, p. 7).

Task Force on Climate-related Financial Disclosures (TCFD) (an international standard-setter)
An international body established in 2016, which published ‘voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders’ in June 2017 (TCFD, n.d.).

Tier strategy
An accounting strategy adopted for for-profit entities and PBEs that establishes different levels of financial
reporting with respect to different classes of reporting entities. The ‘tiered approach is intended to match the benefits with the cost of preparing financial statements, based on the size of the entity’ (XRB, 2018h). (See Tables 8 and 9 below.)

Table 8: For-profit entity tiers and standards as at April 2016
Source: (XRB, 2016b, p. 11)

<table>
<thead>
<tr>
<th>Tier</th>
<th>Tier criteria</th>
<th>Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>• Has public accountability (as defined); or • Is a for-profit public sector entity that has total expenses &gt;$30 million</td>
<td>NZ IFRS</td>
</tr>
<tr>
<td>Tier 2</td>
<td>• Has no public accountability (as defined); and • Is a for-profit public sector entity that has total expenses ≤$30 million and elects to be in Tier 2.</td>
<td>NZ IFRS RDR</td>
</tr>
</tbody>
</table>

Table 9: Public benefit entity tiers and standards as at April 2016
Source: (XRB, 2016b, p. 15)

<table>
<thead>
<tr>
<th>Tier</th>
<th>Tier criteria</th>
<th>Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>• Has public accountability (as defined); or • Has total expenses (including grants) &gt; $30 million</td>
<td>PBE Standards</td>
</tr>
<tr>
<td>Tier 2</td>
<td>• Has no public accountability (as defined); and • Has total expenses (including grants) ≤ $30 million and elects to be in Tier 2.</td>
<td>PBE Standards (RDR)</td>
</tr>
<tr>
<td>Tier 3</td>
<td>• Has no public accountability (as defined); and • Has expenses ≤$2 million and elects to be in Tier 3.</td>
<td>PBE SFR–A (PS) or PBE SFR–A (NFP)</td>
</tr>
<tr>
<td>Tier 4</td>
<td>• Has no public accountability (as defined); and • Has total operating payments of less than $125,000 in each of the previous two reporting periods (i.e. not a ‘specified not-for-profit entity’); and • Is permitted by an enactment to comply with a ‘non-GAAP Standard’ and elects to be in Tier 4.</td>
<td>PBE SFR–C (PS) or PBE SFR–C (PS)</td>
</tr>
</tbody>
</table>

Tax expense (tax income)
An accounting term that refers to ‘the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax’ (XRB, 2011h, p. 7).

Total revenue
An accounting term defined in s 9 of XRB A2 Meaning of Specified Statutory Size Thresholds as ‘all income, revenue and gains that are required to be recognised in profit or loss and excludes the components of other comprehensive income’ (XRB, 2014b, p. 5).

Taxes paid
An accounting term that refers to figures ‘usually classified as cash flows from operating activities’ and therefore disclosed in cash flow statements, albeit with variation (XRB, 2011c, p. 11). For example, some reporting entities refer to a figure for total tax paid, while others provide breakdowns of income tax and GST paid.

Ultimate controlling party
An accounting term used in NZ IAS 24 to refer to a party, whether it is the parent company or another entity, that controls decisions about an entity’s operations and produces publicly available consolidated financial statements (XRB, 2011e, p. 8). (See also ‘related party disclosures’ above and ‘ultimate holding company’ below.)

Ultimate holding company (UHC)
A legal term defined in in s 2 of the Companies Act 1993 that refers to ‘a body corporate that – usually by having a majority shareholding – has control of another company. A UHC is not a subsidiary of
another body corporate’ (Companies Office, 2018e). (See also s 94A of the Companies Act 1993 for the requirements of ‘ultimate holding company information’.)

UN Sustainable Development Goals (UN SDG)
A set of 17 international goals set by the UN as a ‘universal call to action to end poverty, protect the planet and ensure all people enjoy peace and prosperity’ (UNDP Geneva, n.d.). Following on from the Millennium Development Goals, the UN SDG ‘provide clear guidelines and targets for all countries to adopt in accordance with their own priorities and the environmental challenges of the world at large’ (UNDP Geneva, n.d.).

Users (report users)
A term used specifically by the McGuinness Institute in Project ReportingNZ to refer to any interested parties who use the reports of organisations to learn more about their operations.

Water controls
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to existing practices put in place to control water quantity and/or water quality.

Water rights
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to the right to use water.

Water statistics
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to existing water data stated in terms of litres or percentages used and/or location sourced.

Water targets
A climate change reporting term used specifically by the McGuinness Institute in Project ReportingNZ to refer to specific goals put in place to reduce water quantity and/or improve water quality.

XRB standards
Standards created or approved by the XRB that outline what and how entities must report (see Appendix 2), as opposed to the law, which deals with which types of entities must prepare and/or publish financial statements and/or obtain assurance (Personal communication with XRB, 2018).
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Local Government (Financial Reporting and Prudence) Regulations 2014


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Tax Administration (Financial Statements) Order 2014
