Project 2058: Report 17

May 2020

ReportingNZ:

Building a reporting framework fit for purpose

This report forms part of Project 2058, the Institute's flagship project

Please note that *Report 17* is in final draft. Delays to companies publishing their annual reports (due to COVID-19) have meant that some data sets are currently incomplete. When these are available and the final analyses can be completed, *Report 17* will be published in final. It is worth noting that the report's intent and scope remains the same.

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About ‘Project 2058’

Project 2058 is the Institute’s flagship project and is used to drive our focus on New Zealand’s long-term future to the year 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.

Project 2058 is informed by three policy projects and seven research projects. *Report 17* sits under the Institute’s policy project *ReportingNZ*, and is the first in a series of three. The other two reports will explore additional aspects of policy, namely New Zealand’s strategy framework (*StrategyNZ*) and New Zealand’s foresight framework (*ForesightNZ*). The underlying assumption of these reports is that reporting 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. Equally, 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, the nation will not know where it is, where it wants to be and how it might get there.

Foreward

Overview of Report 17 – Building a Reporting Framework Fit for Purpose

Definition of 'reporting framework'

The reporting framework comprises the legislative framework and the financial reporting framework that underpin the preparation and reporting of information to shareholders and other external stakeholders.

A reporting framework provides the basis for investors, policy-makers, researchers and other stakeholders to make current and future decisions. A successful reporting framework is one that is useful, fit for purpose and that enables informed decisions to be made.

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PURPOSE OF REPORT 17:

To review the reporting framework to ensure reported information is relevant, reliable, comparable, timely, cost-effective and accessible, and is fit for purpose now and for the future.

1 DESCRIBE

2.0 Hindsight:
Evolution of the reporting framework – How has the reporting framework changed over time?

3.0 Foresight:
Trends and implications – What issues drive and change the requirements of reporting?

4.0 Insight:
Primary research – What is working and what is not working in the current reporting landscape?

2 ANALYSE

5.0 Policy analysis

What are the operational strengths and weaknesses of the current framework?

Institutions		
DIA	FMA	MBIE
NZX	OAG	PCO
STATS NZ	TREASURY	XRB

Instruments		
Financial statements	Regulatory filings	Annual reports

Information
content, assurance and accessibility

Our research and analysis showed a problem: in its present state, New Zealand's reporting framework is unlikely to be responsive to the needs of current and future shareholders and stakeholders. As a result, we make the following recommendations.

6.0 Policy knots

What areas of policy are unclear, create confusion and hinder the effectiveness of New Zealand's reporting framework?

1. Who should the reporting framework be designed for: shareholders or stakeholders?
2. Who is in control: CEOs, boards, councils or shareholders, and are they held accountable?
3. Which reporting instruments should be used, financial statements, annual reports or regulatory filings?
4. Which institutions should write and regulate policy, and which disclosures should be mandatory?

Tensions over who holds power:	Tensions over who writes and who regulates standards/guidance:	Tensions between reporting instruments:	Tensions between reporting audiences:

3 RECOMMEND

7.0 Climate change reporting recommendations

How can climate-related financial reporting be embedded into the reporting framework?

Key recommendation: embed climate-related financial disclosures into legislation by amending selected legislation to require selected entities to prepare a 'Statement of Climate-related Financial Information'.

8.0 Summary of other key recommendations

What are the other key recommendations of this report?

- Provide clarity over the overarching principles, parameters and strategy that shape the legislative framework and other instruments for external reporting.
- Change legislation to better meet user needs and align with global best practice in relation to the reporting of information to shareholders and external users.
- Create a central register for all external filing requirements (including for Crown entities and registered Charities).
- Review the external financial reporting framework and accounting standards to better meet user needs.

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

Executive summary

This report brings together the McGuinness Institute's research and analysis of the New Zealand reporting framework. The reporting framework is comprised of the legislative framework and the financial reporting framework that underpin the preparation and reporting of information to shareholders and external stakeholders. The reporting framework provides the basis for investors, policy-makers, researchers and other stakeholders to make current and future decisions.

New Zealand's reporting framework was last reviewed in 2011. Over the last ten years, there has been a wide range of diverse pressures challenging report preparers and report users. A review of the reporting framework is therefore important to ensure that reported information is relevant, reliable, timely, comparable, cost-effective and accessible, and is fit for purpose now and for the future.

The aim of this report is threefold. Firstly, it provides an overview of the Institute's research findings and analysis to date, evidencing what is working and not working with the current system. Secondly, it provides observations and recommendations for policy-makers and other interested parties on how the current system can be improved. In undertaking this, the Institute found that the current reporting framework is outdated, stagnant, inflexible and, arguably, costly. In its present state, the reporting framework is unlikely to be responsive to the future needs of shareholders and other stakeholders. Therefore, the third aim of this report is to lay the groundwork for a comprehensive review of New Zealand's reporting framework.

The report has three main parts: 1. Describe, 2. Analyse and 3. Recommend, as summarised below.

1. Describe – Sections 2, 3 and 4

The 'describe' section of *Report 17*, which details the Institute's primary and secondary research, highlights that there is disconnect within the current framework between what users want and what preparers provide, and, owing to new and emerging pressures and trends, there is information and infrastructural gaps that have repercussions on future decision-making.

Section 2 presents a brief overview of the evolution of reporting from a national and global perspective through three eras: exploring international standard setting (1973–1987), strengthening financial accounting practices (1987–1997) and exploring non-financial guidance (1997–ongoing). This historical research shows that recently there has been a move towards more developed forms of non-financial reporting, particularly due to climate change pressures. However, New Zealand's current reporting framework (which was last legislatively changed in 2013) does not provide the breadth of information demanded and/or required from a wide range of users.

Section 3 describes emerging trends and implications that drive and shape the requirements of reporting. Eight key trends are discussed throughout the chapter, including growth in big data and information, new business models, and the increasing focus on wellbeing and the four capitals. Eight key implications of these trends are also discussed, including increasing corporate responsibility, the need for taxation reform, and the need for climate-related reporting obligations. This analysis highlights the importance of reviewing and monitoring the reporting system for emerging issues, and understanding the impact of these.

Section 4 comprises of the Institute's primary research into how New Zealand's current reporting framework works in practice, particularly quantitative research into what information is disclosed in the annual reports and financial statements of New Zealand's most significant organisations. This research is structured under five overarching topics (attitudes of users and specific disclosures made in annual reports (climate-related disclosures, gender diversity, health and safety, political donations and intangible assets), preparers of EER information and TCFD disclosures, mandatory reporting framework, voluntary reporting, and assurance), and utilises numerous data sets, namely Deloitte Top 200, NZXS-listed company data and public sector entity data sets. Through these data sets, the Institute investigates what is and is not working in the current reporting landscape.

2. Analyse – Sections 5 and 6

Section 5 analyses three main components of the reporting framework (institutions, instruments and information) from a policy perspective. The goal of this analysis is to examine the operational strengths and weaknesses of the current framework. The analysis produced the following eleven key findings:

i. Institutions remain consistent, stable and proactive (but there is no overall stewardship or leadership).

ii. The legislation has some built-in flexibility (but ministerial approval is required).

iii. The external reporting framework is fragmented, inconsistent and outdated.

iv. There is no standardised definition or purpose of an annual report.

v. Access to public sector annual reports is problematic.

vi. Access to private sector annual reports is problematic.

vii. User demands for reporting disclosures exceed information currently supplied by preparers.

viii. Information collected by institutions is not always aligned or checked for completeness.

ix. The Companies Register could be better used as a key location for company information.

x. Assurance mechanisms in New Zealand are not sufficient for today's purposes.

Section 6 analyses areas of policy that are unclear and create confusion, thereby hindering the effectiveness of New Zealand's reporting framework. The Institute uses the term 'policy knots' to refer to these high-level tensions because they are complex, interconnected issues that are often difficult to unbundle. Policy knots 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). When policy knots are resolved the system can operate without disruption, and deliver on its purpose in a cost-effective and timely manner.

The four key policy knots identified are:

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

ii. Who is in control: CEOs, boards, councils or shareholders, and are they held accountable?

iii. Which policy instruments should be used: financial statements, annual reports or regulatory filings?

iv. Which institutions should write and regulate the policy, and which disclosures should be mandatory?

3. Recommend – Sections 7 and 8

Section 7 specifically sets out the Institute's proposed standard setting structure for incorporating climate-related financial disclosures into the New Zealand reporting framework. The overarching purpose of this section is to discuss how to improve the quality and consistency of reporting on climate-related financial information to shareholders and other stakeholders of selected entities. The Institute's main climate-related reporting recommendation is to embed climate-related financial reporting into the New Zealand reporting framework by requiring selected entities to prepare a 'Statement of Climate-related Financial Information'.

Section 7 discusses three mechanisms that can be used to achieve this:

Mechanism 1 (climate reporting organisations) is through expanding the breadth of climate reporting organisations (to include for-profit entities and public benefit entities) and requesting additional information under the Climate Change Response Act 2002 (CCRA) (e.g. including a mandatory reporting regime in addition to the reporting powers already provided under ss 5ZW and 5ZX(1)(c) of the Climate Change Response Act 2002. This is explored in greater detail in *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*.

Mechanism 2 (financial reporting standards) is through making changes to the Financial Reporting Act 2013 (e.g. s 17).

Mechanism 3 (publication and location requirements) is through changes to the Companies Act 1993 (e.g. s 211).

Section 8 shares an overview of Report 17 through seven key reflections:

i. The external reporting framework lacks stewardship.

ii. The framework is fragmented, complex and inefficient.

iii. The framework is outdated and not adapting to current trends.

iv. The framework is unbalanced across entity types.

v. The private sector system focuses on shareholders.

vi. Financial statements retain a lot of weight, particularly in the private sector, but do not reflect the increasing importance of intangible asset market value and non-financial information (e.g. climate-related information).

vii. Annual reports are not being used to their full potential and are at risk of being misused as marketing documents.

Section 8 also outlines four other overarching recommendations (in addition to the climate-related reporting recommendations in Section 7). These recommendations take into account the reporting framework's 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), the four strategic policy knots shaping the reporting framework and its purpose (Section 6), and a closer look at the best way to develop climate-related reporting (Section 7). The Institute is not necessarily advocating for all the recommendations, but rather for a review that considers them all. Some recommendations are offered as alternatives to another, while others build on and strengthen the framework over the long-term. The recommendations are:

i. Provide clarity over the overarching principles, parameters and strategy that shape the legislative framework for external reporting.

ii. Change legislation to better meet user needs and align with global best practice in relation to the reporting of information to shareholders and external users.

iii. Create a central register for all external filing requirements (including for Crown entities and registered charities).

iv. Review the external financial reporting framework and accounting standards to better meet user needs.

A successful reporting framework for a country is one that enables its citizens to make informed decisions. This report brings together what the Institute has learnt from researching and analysing New Zealand's reporting framework, and presents recommendations for how the reporting framework can be improved to ensure reported information is relevant, reliable, comparable, timely, cost-effective and accessible, and is fit for purpose now and for the future. Importantly, *Report 17* emphasises the importance for a comprehensive review of New Zealand's reporting framework. The research, observations and recommendations made through *Report 17* should be used in this review as a chronicle of, and suggested best-practice for, New Zealand's reporting framework.

Acknowledgements

The Institute would like to thank the staff from key institutions who helped inform our understanding of the reporting framework. Without their interest and support, this report would not have been possible.

In particular, we would like to thank Andrew Tait, Dr Ramona Zharfpeykan, Gillian McIlraith, Geoff Connor, Karen McWilliams and Zowie Pateman for providing specific technical and comprehensive feedback in response to our invitation to comment on the draft report. We would like to acknowledge the support of BDO (Wellington), Kensington Swan (Wellington), Simpson Grierson (Auckland) and the External Reporting Board (XRB), who answered our questions and ensured that our application of legislation and the accounting standards framework throughout the report is accurate. However, any errors remain our responsibility. Lastly, this report has been built on the knowledge and experiences of a wide range of people; it has been invaluable to learn and share the observations of report users and preparers. To all of you: thank you for challenging our thinking and sharing your wisdom.

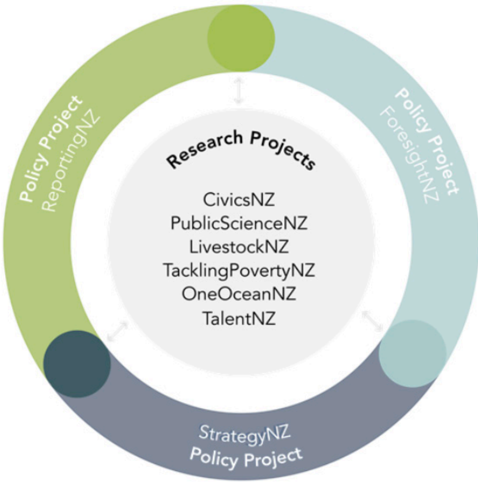
1. Introduction

Report 17 – ReportingNZ: Building a reporting framework fit for purpose forms part of *Project 2058*. The year 2058 anchors the work of the McGuinness Institute. We acknowledge that robust and durable public policy takes time. To be effective, changes in public policy should be developed based on accurate and timely research and critical and inclusive debate. Public policy that is poorly implemented is often costly and can be very harmful. Changes to the reporting framework should be made in a considered and careful way through building on its strengths, and removing and replacing parts of the system that are no longer relevant or useful. This report aims to add to this dialogue: what is working, what is not, and how the existing system can be strengthened so that it is fit for the future.

1.1 Purpose of Project ReportingNZ

This report brings together what the Institute has learnt from researching and analysing New Zealand's reporting framework. *Project ReportingNZ*[1] 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. 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 and what they want to invest in.
The framework also enables citizens 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, such a 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 the needs of users. A successful framework is one where standard-setters and guidance-providers make their rules and guidance simple, clear and relevant, which in turn ensures that the gap between the needs of users and preparers is minimal and the system is future-focused, durable and flexible.

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:

1 For more on *Project ReportingNZ*, please see the *ReportingNZ* website at www.reportingnz.org

- For the purposes of this report, a reporting framework is considered to be made up of policy instruments that, when used together, create a more informed society. In New Zealand these key instruments are financial statements, annual reports and regulatory filing systems. The New Zealand framework also includes voluntary reports (e.g. sustainability reports), but *Report 17* is primarily concerned with regulatory change. The Institute's research indicates that while a large number of reporting frameworks are available for sustainability reporting, their voluntary nature makes them ineffective in terms of driving change and encouraging sustainable practices, as there is not consistent uptake of a single framework across all entities. See Figure 22 in *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* for examples (McGuinness Institute, 2019a, p. 64).
- In this report the Institute uses the term 'stewardship' in the sense set out in s 2 of the State Sector Act 1988: 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 underperforming 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 directors, investors and policy-makers and the operations of those in the private sector. 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 may be unaware of the impact of external environmental risks on them (e.g. sea level rise impacting business operations). Alternatively, other preparers may be 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 from the External Reporting Board (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.

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

- **A legal perspective**
  New Zealand legislation makes a clear distinction between entities that are required to prepare financial statements that comply with XRB accounting standards (often referred to as General Purpose Financial Reports [GPFRs]) and entities that have no legal obligation to prepare financial statements (see Section 5.2.1).
- **An accounting perspective**
  All entities that are required to prepare, file and obtain assurance over financial statements must self-classify as either a public benefit entity (PBE) or a for-profit entity. If a PBE, they can then be classified as a not-for-profit PBE (NFP PBE) or a public sector PBE (PS PBE).

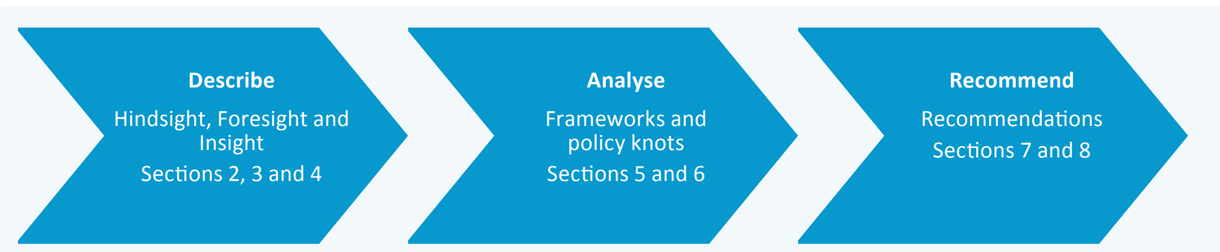
  If an entity does not classify itself as a PBE it is automatically classified as a for-profit entity.

  This may seem confusing as not all for-profit entities focus solely on making a profit. The emergence of social enterprises is a case in point. 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 actions and practices.
- **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 (e.g. investors). 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.
- **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 purposes of this report the Institute has referred to financial statements (including notes) as financial information only, although we acknowledge there is a trend of an increasing number of notes being included in the financial statements.

1.2.1 Structure of this report

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 outline how the current framework works in practice. Sections 5 and 6 are connected; 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 unclear and create confusion. Sections 7 and 8 set out the Institute's recommendations. Section 7 puts forward a package of climate-related reporting recommendations while Section 8 lists four overarching recommendations that aim to 'undo the knots' and make New Zealand's reporting framework more responsive to the needs of society. See Figure 2 below for an illustration of this report's structure.

Figure 2: Illustrating the structure of Report 17



This report also includes a list of abbreviations and glossary. These are included to clarify specific terms as they are used in the context of *Project ReportingNZ*.

A number of supplementary materials are included as appendices at the end of this report.

Appendix 1 provides a timeline of all *ReportingNZ* publications. Appendices 2–4 illustrate how the current framework operates by providing a timeline of the reporting framework, outlining the key institutions and instruments within the framework, and key information about the reporting landscape. Appendices 5–9 illustrate how the reporting requirements operate in practice by providing an overview of the filing requirements for company financial statements, listing relevant reporting legislation and graphs that display the uptake of voluntary reporting and climate-related disclosures of New Zealand's most significant organisations between 2017-2019.

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), broad or specific (e.g. financial/physical, social, human and natural capitals) and be numerical or part of a written narrative (e.g. as financial figures, statistics, timelines or notes).
3. **Timeliness** refers to when information is received and its importance 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 Listing Rules* to prepare an annual report, submit full year and half-year results announcements, and provide continuous disclosures of material information (NZX, 2020a, pp. 21, 23; NZX, 2020b, pp. 1–3).
4. **Cost-effectiveness** refers to compliance costs not exceeding the benefits. Achieving cost-effectiveness can be challenging when those who pay the costs are not necessarily those who benefit from the information.
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). Assurance can take the form of audits, reviews or clarity over roles of responsibility such requiring the director to sign off on the annual report.
6. **Protocols** refers to the legislation, standards, rules and guidance that shape reporting practices. This includes recognised international frameworks that set guidelines and best practice for preparing reports.
7. **Engagement** refers to the communications 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 underlying 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. The following examples illustrate how these assumptions play out in this report:

- 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 licence 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. When businesses make decisions, they should take into account climate change risks and opportunities.
- Gender, ethnic, cultural and age diversity in private and public organisations not only generate greater creativity but also ensure 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 annual reports. This is why the Institute has excluded separate reports such as sustainability reports from its research.

2. Hindsight: Evolution of the reporting framework

Highlights

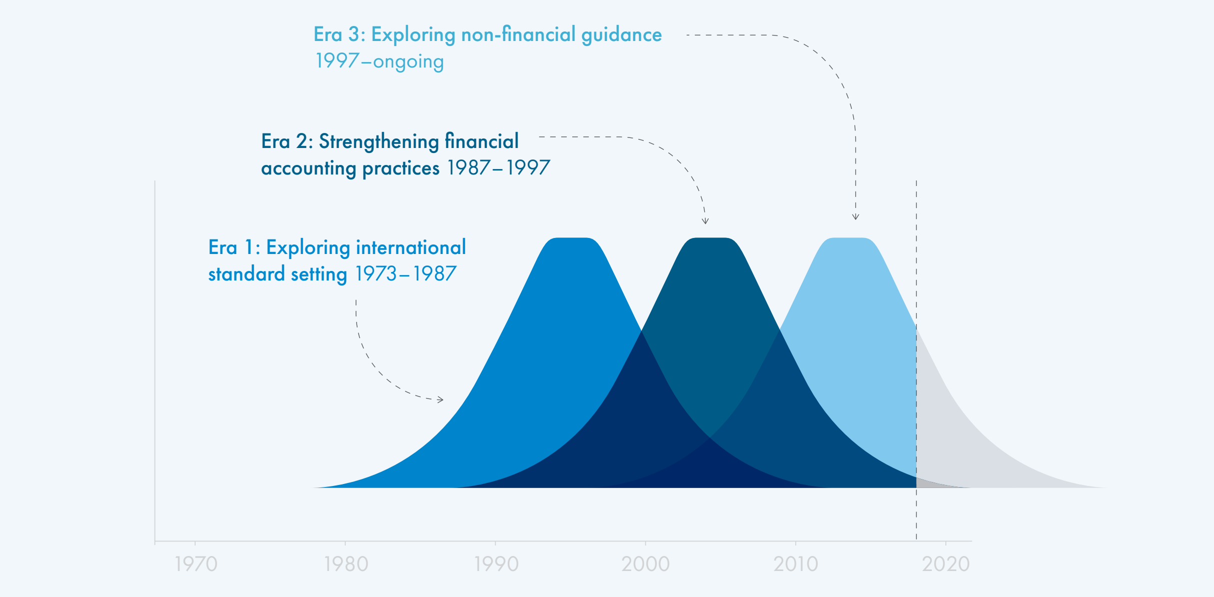
1. The last major comprehensive review of New Zealand's reporting framework was carried out in the 1980s, which led to the financial reforms in the late 1980s. A more specific review of the financial reporting framework was undertaken in 2011, leading to legislative changes in 2013.
2. New Zealand can 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. 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 purpose of the reporting framework in legislation is to inform primary users. 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

What follows is a brief overview of the evolution of reporting from a national and global perspective through three eras (illustrated by Figure 3 opposite): exploring international standard setting (1973–1987), strengthening financial accounting practices (1987–1997) and exploring non-financial guidance (1997–ongoing).

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



2.1.1 Era 1: Exploring international standard setting 1973–1987

The International Accounting Standards Committee (IASC) was established in 1973 and 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 (IAS) (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).

2.1.2 Era 2: Strengthening financial accounting practices 1987–1997

The international stock market crashed on 19 October 1987, hitting the NZSE on 20 October 1987, and became known as Black Tuesday in New Zealand. 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).[2] Four years later, the Financial Reporting Act 1993 moved the control of government accounting from Treasury to the newly established independent Accounting Standards Review Board (ASRB) (Colquhoun, 2010). The Act also sought to strengthen New Zealand's accounting practices more generally by

2 Wendy McGuinness, McGuinness Institute founder, wrote the 1988 report *Implementation of Accrual Accounting for Government Departments* for the New Zealand Treasury (McGuinness, 1988).

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 NZICA 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 of reducing welfare payments and privatising state assets (Te Papa, n.d.). The NZICA changed its name to the Institute of Chartered Accounting of New Zealand (ICANZ) in 1996 (Colquhoun, 2010).

While New Zealand established a new regulatory framework, international leaders were developing best practice guidance for corporate reporting. For example, the Institute of Directors in Southern Africa (IoDSA) published *King Report I* in 1994, which 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.

Following a comprehensive restructuring in 2001, the IASC was renamed the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS) Foundation was established to 'develop a single set of high-quality, globally accepted accounting standards' for for-profit entities (IFRS, n.d.[a]; n.d.[b]).

In 2002, 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 (IFRS, n.d.[a]). Four years later ASRB adopted IFRS to establish NZ IFRS with three additional New Zealand-specific standards to apply to for-profit and public benefit entities (IFRS, 2016, p. 2). As more companies operated across national borders, the need to streamline reporting requirements to facilitate comparability became apparent. Currently, 144 countries require domestic public companies to adopt IFRS (IFRS, 2018a). This does not include the United States, which instead uses US GAAP as set by the Financial Accounting Standards Board (FASB); although, in 2002 the IASB and FASB made a commitment to align the two systems (IFRS, n.d.[a]).

In 2004 the 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 New Zealand Institute of Chartered Accountants (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]).

In the same year, the UK introduced the Companies Act 2006. In s 414C, the Act requires the directors of medium and large companies to produce a strategic report as part of the annual report that includes 'a fair review of the company's business; and a description of the principal risks and uncertainties facing the company' (BDO, 2018, p. 3). Specifically, this requires UK companies to disclose 'information on employee, environmental and social, community and human rights matters', as well as information about the company's strategy and business model (BDO, 2018, p.6).

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, the country entered a recession in early 2008 (Treasury, 2010, p. 3). Business and consumer confidence plummeted, investments decreased and exports declined (Treasury, 2010, p. 11).

Since the 2008 global financial 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), now called the International Integrated Reporting Council, 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 on the IIRC examples database (KiwiRail, New Zealand Post and Sanford Limited) (IIRC, n.d.).

A government 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 gave the ASRB continued existence as an 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 and assurance from NZICA to XRB. In addition, XRB was responsible for setting professional and ethical standards for assurance practitioners. The Amendment Act also removed GPFR requirements for SMEs, required registered charities to report in accordance with accounting standards issued by the XRB, revisited the reporting requirements to ensure they were providing sufficient disclosures 'to external users [who are] unable to demand them' and standardised 'various record keeping and financial reporting requirements, including those that relate to […] the qualifications of auditors' (Foss, 2012).

In a regulatory impact statement from 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, 2011a, p. 5).

The same regulatory impact statement outlined three indicators of financial reporting, which were used to determine the reporting requirements for various classes of entity: public accountability, economic significance and separation of owners from management (MED, 2011a, 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 legislative framework by making substantive changes to 23 other Acts and consequential amendments to another 55 Acts.

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.
- Modification of the definition of GAAP.
- Addition of standard provisions to be cross-referenced 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).

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).

In the last five years, there has been tension and debate over the purpose, audience and content of annual reports. These broadening discussions have given rise to a number of voluntary reporting frameworks. Consequently, governments are beginning to explore ways to reflect these concerns in legislation.

In a move towards integration, 2014 saw the formation of the Corporate Reporting Dialogue, which brings together some of the world's largest reporting institutions: the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Accounting Standards Board (IASB), the International Integrated Reporting Council (IIRC), the International Organisation for Standardization (ISO), and the Sustainability Accounting Standards Board (SASB) (CRD, 2014). The aim of the group is 'to facilitate discussion between the respective participants on their frameworks' in order to 'better understand and align their respective frameworks' (CRD, 2019a, p. 2).

Also in 2014, an EU Directive was introduced to require certain companies operating in Europe to disclose non-financial information on 'policies, risks, and program outcomes related to environmental protection, social responsibility and treatment of employees; respect for human rights; anticorruption and bribery matters; and diversity on company boards, with respect to age, gender, education, and professional background' (Weber et al., 2018). The directive took effect for financial years after 1 January 2017.

In 2018 the Alliance for Corporate Transparency Reporting produced a research report analysing 'the state of corporate sustainability disclosure under the EU Non-Financial Reporting Directive' (Alliance for Corporate Transparency, 2018). The Alliance itself was formed by 'leading civil society organisations and experts' to address what it identified as a failure of the Directive to 'specify in sufficient detail what information and KPIs must be disclosed' and the 'concrete issues to which its requirements relate' (Alliance for Corporate Transparency, 2018, p. 6). Despite the introduction of the EU Non-Financial Reporting Directive, companies persist in providing unclear, vague reporting that 'does not allow readers to understand their impact and by extension their development, performance and position' (Alliance for Corporate Transparency, 2018, p. 7).

In 2018 the Financial Reporting Council (FRC UK) reviewed its guidance on the strategic report to encourage greater future-thinking. The new guidance requires companies 'to consider wider stakeholders and broader matters that impact performance over the longer term' by introducing a 'specific reporting requirement on how directors have had regard to broader matters when performing their duty, including considering the interests of employees, suppliers, customers and other stakeholders as well as impacts on the community and environment' (FRC UK, 2018a). The UK Government also announced in 2019 that it 'expects all listed companies and large asset owners to be disclosing in line with the TCFD [Taskforce on Climate-related Financial Disclosures] recommendations by 2022' (CDSB, 2019). Since the TCFD's inception in 2017 it has already gained endorsement from 'over 600 organizations, with a total market capitalization of US$9 trillion' (Carney, 2019, p. 3).

In 2019 the XRB began exploring the relationship between the audience and content of an annual report, releasing a Position Statement in March 2019 on Extended External Reporting (EER) (XRB, 2019a). The statement outlines the primary users (and therefore the intended audience) of general purpose financial reports (GPFR) of for-profit entities as 'existing and potential investors, lenders and other creditors', and the users of GPFR of public benefit entities as 'resource providers (e.g. taxpayers, ratepayers, donors and grantors), service recipients and their representatives' (XRB, 2019a). The XRB supports the inclusion of EER information in the annual report, but suggests that some information relevant to a wider group of stakeholders should instead be provided outside the annual report (XRB, 2019a).

As awareness around the need for integration and alignment increases, more organisations are seeking to contribute solutions in this area. At the end of 2019, Accountancy Europe 'published a paper describing and calling for a global solution' that can deliver interconnected standards to govern 'reliable, consistent information in non-financial reporting' (IAS Plus, 2019a). Due to its application of nine assessment criteria to four approaches to standard-setting for non-financial reporting, the report is likely to drive discussion around many of the trends, implications and recommendations identified throughout *Report 17* (IAS Plus, 2019a).

3. Foresight: Trends and implications

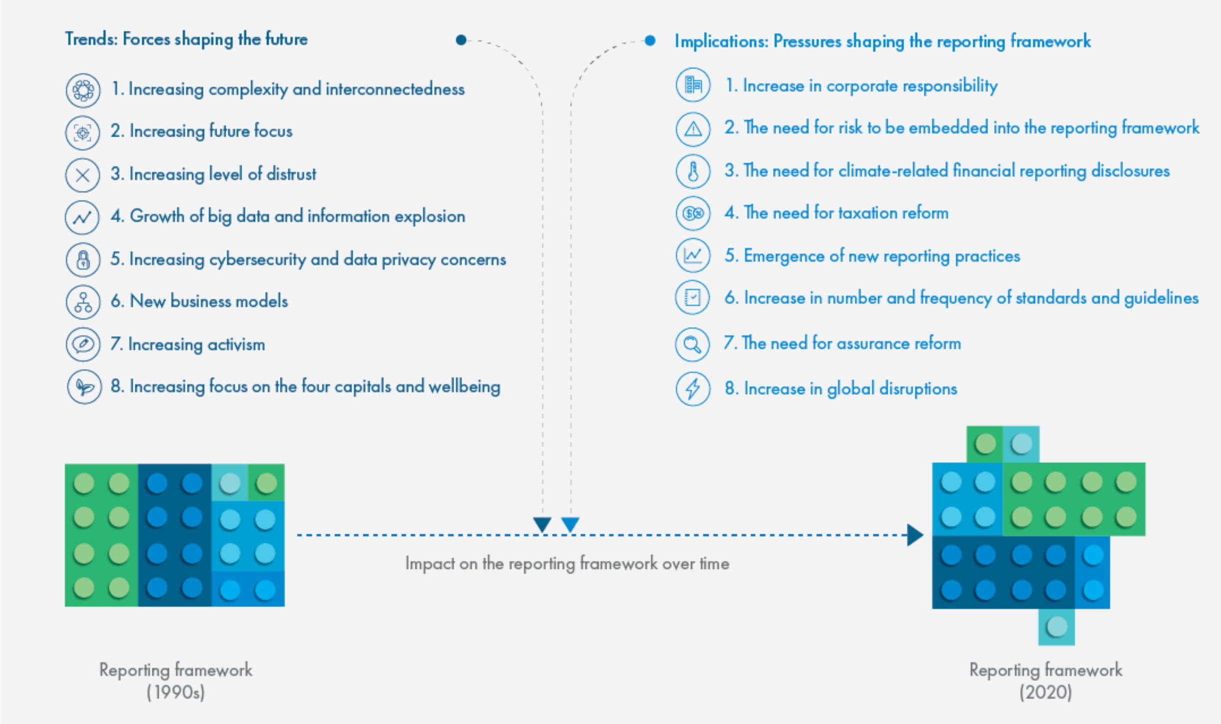
Highlights

1. There is a disconnect between what users want and what preparers provide. This may be due to the pace of change, a general lack of integration between regulators (both at a national and international level), a lack of funds, a bias towards the status quo and/or a lack of clarity over the purpose of each regulator.
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 (e.g. purpose of the organisation, its values and possible risks/disrupters) to operational (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. Comparable information within sectors and over the long-term, linked to a company's value creation and business model, 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 either new or not well understood in the public arena.
7. Many of the pressures shaping the reporting framework are volatile, uncertain, complex and ambiguous (often referred to as 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 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, 2019, p. 99). This section outlines trends and implications 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 eight implications that the McGuinness Institute has identified as shaping the reporting framework, both globally and in New Zealand, are illustrated in Figure 4 overleaf. They are presented as two separate but interconnected groups: trends that shape the future, and the implications of external pressures that are shaping the reporting framework.

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



3.1 Trends

3.1.1 Increasing complexity and interconnectedness

Humanity faces a complex mix of existing and emerging issues that will put pressure on the current global reporting system. *The Global Risks Report 2020* from the WEF saw environmental issues positioned in the top five in terms of the highest likelihood and greatest impact (see Figure 5 overleaf) (WEF, 2020, p. iii). Trends across the *Global Risks Reports* of the last three years highlight that interconnected global risks are causing a 'synchronized slowdown' of the global economy. However, *The Global Risks Report 2020* indicates that fractures in the global community are seeing nationalist outlooks across powers placing individual agendas over those risks that affect the global community, while multilateral pursuits are being sidelined (WEF, 2020, pp. 4, 6).

The report suggests grave, dire and irreversible impacts on society and the economy in the face of global risks, and indicates that 'opting to ride out the current period in the hope that the global system will "snap back" runs the risk of missing crucial windows to address pressing challenges' (WEF, 2020, p. 6).

The Global Risks Report 2019 stated that 'renewing and improving the architecture of our national and international political and economic systems is this generation's defining task' (WEF, 2019, p. 5). As global and national problems become increasingly complex, new approaches are required to manage them. The previous report, *The Global Risks Report 2018,* made 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 are challenging to forecast, as isolated incidents can catalyse domino effects across the globe.

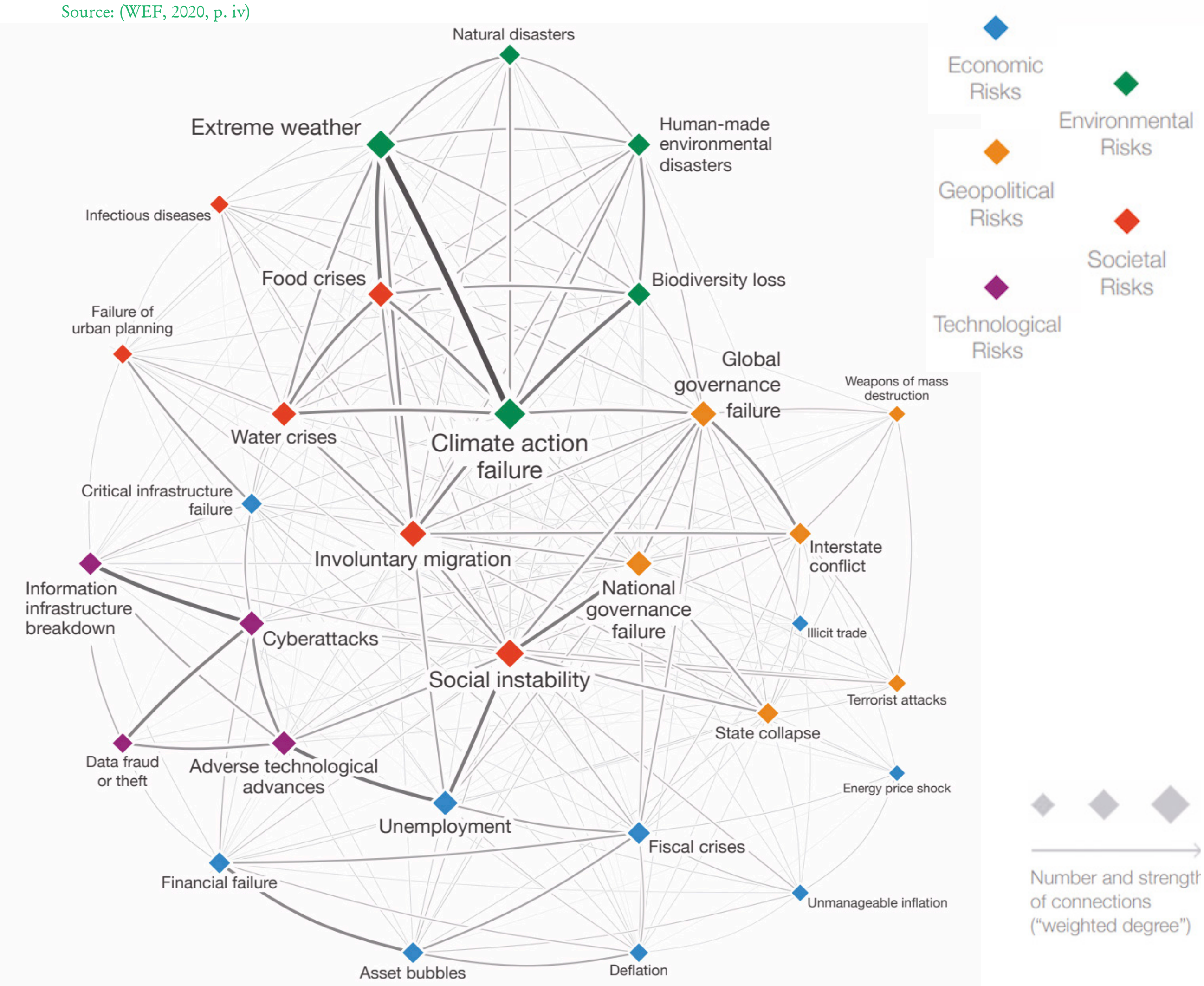
These isolated incidents can have especially negative flow-on effects for infrastructure, business and society. For example, looking at the correlation between events, *The Global Risks Report 2018* notes that 'climate change is linked to the Syrian Civil War, which is connected to heightened concern over immigration, which precipitated Brexit' (WEF, 2018, p. 54). 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). As *The Global Risks Report 2018* comments: '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 managing these issues is to record, review and assess available information. *The Global Risks Report 2019* notes the following:

> for many people, this is an increasingly anxious, unhappy and lonely world [...] Complex transformations— societal, technological and work-related—are having a profound impact on people's lived experiences. A common theme is psychological stress related to a feeling of lack of control in the face of uncertainty (WEF, 2019, p. 7).

The map in Figure 5 below 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 Global Risks Interconnections Map 2020

Source: (WEF, 2020, p. iv)



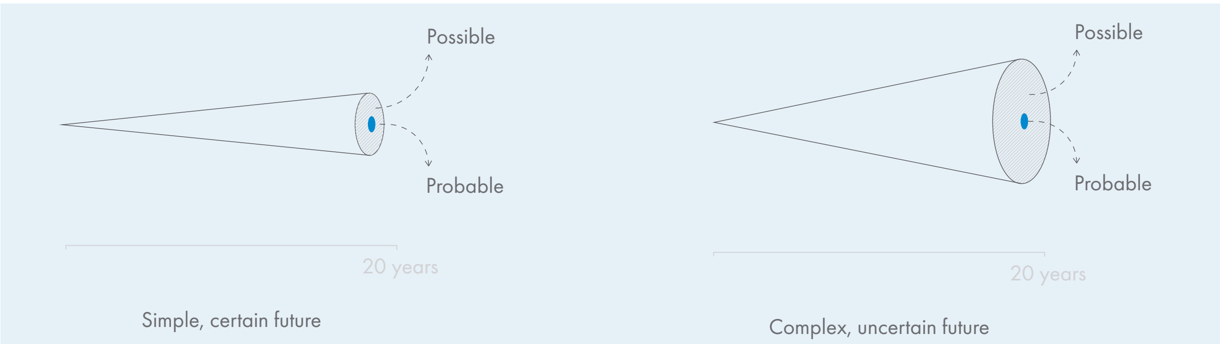
The interconnectedness of risks and trends is also illustrated by the McGuinness Institute in Figure 6 below, which highlights that the more complex and uncertain the future is, the greater the number of possible futures. This in turn raises the issue of supply chain risk, an issue the Institute explored with Roger Dennis and Rick Boven in the 2015 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 its distance from the northern hemisphere, which became evident during the 2020 COVID-19 pandemic.[13]

The following excerpt is from the McGuinness Institute's *Think Piece 33 – The Long Normal: Preparing the National Reserve Supply (NRS) for pandemic cycles*. It was published following concerns over the limited levels of personal protective equipment (PPE) available to the healthcare system in New Zealand. The think piece highlights how pandemics should be viewed as part of a normal global cycle of disruptive infectious disease outbreaks:

> Pandemics are not uncommon. The COVID-19 pandemic is the fifth global pandemic in just over a century (previous pandemics began in 1918, 1957, 1968 and 2009). When looking back over time, pandemics can be seen as part of the normal cycle of events, what the Institute calls 'The Long Normal'. In this context, taking the time to reflect on New Zealand's performance to date may not only reduce further healthcare shocks during this pandemic but also help the country prepare for the next.
>
> The four pandemics in the last century (mentioned above) were all types of influenza. They all come from one family of viruses: technically known as A(H1N1), A(HSN2), A(H3N2) and A(H1N1) respectively. In contrast, COVID-19 is a disease generated by a human coronavirus. Importantly, human coronaviruses have only been around since the 1960s; before that time coronaviruses were only found in animals.
>
> What is concerning is that two smaller human coronavirus outbreaks have occurred over the last 17 years: the 2003 Severe Acute Respiratory Syndrome (SARS) (technically called SARSCoV) and the 2012 Middle East Respiratory Syndrome (MERS) (technically called MERS-CoV).
>
> The COVID-19 pandemic is therefore the third significant human coronavirus outbreak in just under two decades. To date, a vaccine has not been developed for any type of human coronaviruses 'despite the fact that the 2002 SARS and 2012 MERS outbreaks, both caused by viral cousins of the new coronavirus, were warning shots that claimed about 1,600 lives'.
>
> The fatality rate is also an important consideration. The World Health Organization (WHO) believes the SARS mortality rate was in the vicinity of 15% of confirmed cases, while MERS was about 34% of confirmed cases. In comparison, WHO believes COVID-19 mortality rates sit between 3-4% of confirmed cases. Given the increased number of human coronavirus outbreaks in the last 17 years, it is particularly important to build New Zealand's healthcare system now in preparation for another, more deadly, pandemic in the next few years (McGuinness Institute, 2020a, p. 1).

It is particularly concerning that, although the *The Global Risks Report 2020* was published prior to the outbreak of the pandemic, that infectious diseases was not weighted as an important global risk (see Figure 5), yet it is evident how the outbreak has sent ripple effects, including economic impacts, disrupting all aspects of the global community.

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



3.1.2 Increasing future focus

Along with increased complexity and interconnectedness 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,

3 In light of fears of New Zealand's PPE and other medical equipment capabilities, the McGuinness Institute set up the *SupplyNZ* register which enables individuals and organisations to register their capabilities in making, supplying and purchasing medical equipment. For more information visit www.supplynz.org.

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 information about environmental matters such as 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), although the content requirements vary.

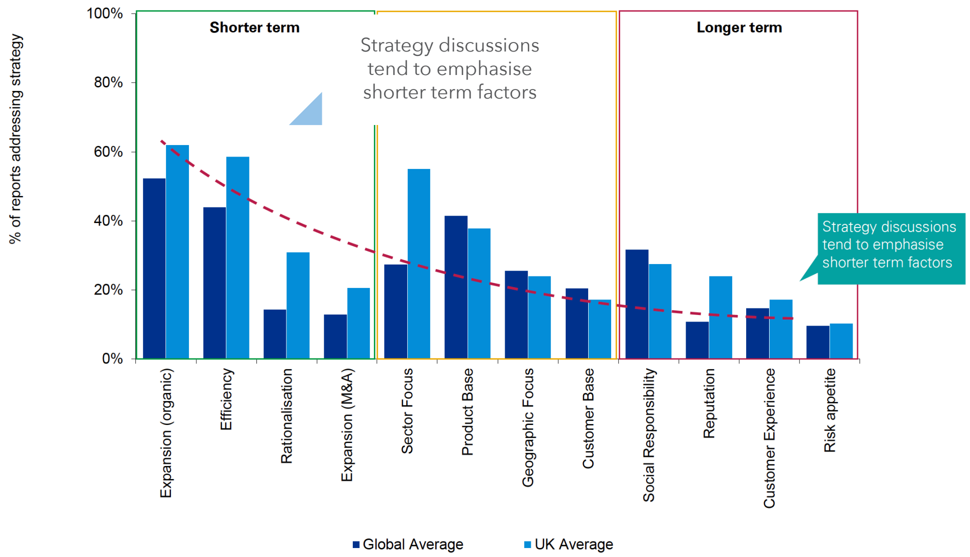
Following an inquiry initiated due to concerns that 'companies were not adequately considering their long-term viability', the UK also introduced the 'viability statement' to their Corporate Governance Code in 2014 as a means of requiring directors to report on this (FRC UK, 2017a, p. 4). The Financial Reporting Council (FRC UK) 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 UK, 2017a, p. 23).

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 organisation's strategy, and how it relates to the organisation'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).

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' (KPMG, 2016a, p. 5). 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.

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

Source: (KPMG, 2016a, p. 5)



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 Act (which passed in May 2019) reinstated the purpose of the Local Government Act 2002 in s 3(d) 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'.

Local authorities are required to publish ten-year plans under law, whereas central government is only required to prepare four-year plans (4YPs), with no legislative requirement for these to be published

(NZ Government, 2016, p. 8).

> The purpose of a 4YP 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. The 4YP is a key strategic planning document, giving assurance that departments are fulfilling their stewardship obligations (under the State Sector Act 1988) and focussed on sustainability (as required by the Public Finance Act 1989) (NZ Government, 2017, p. 7).

Central government appears to lag behind local government and the private sector in producing strategic documents of this nature.

3.1.3 Increasing level of distrust

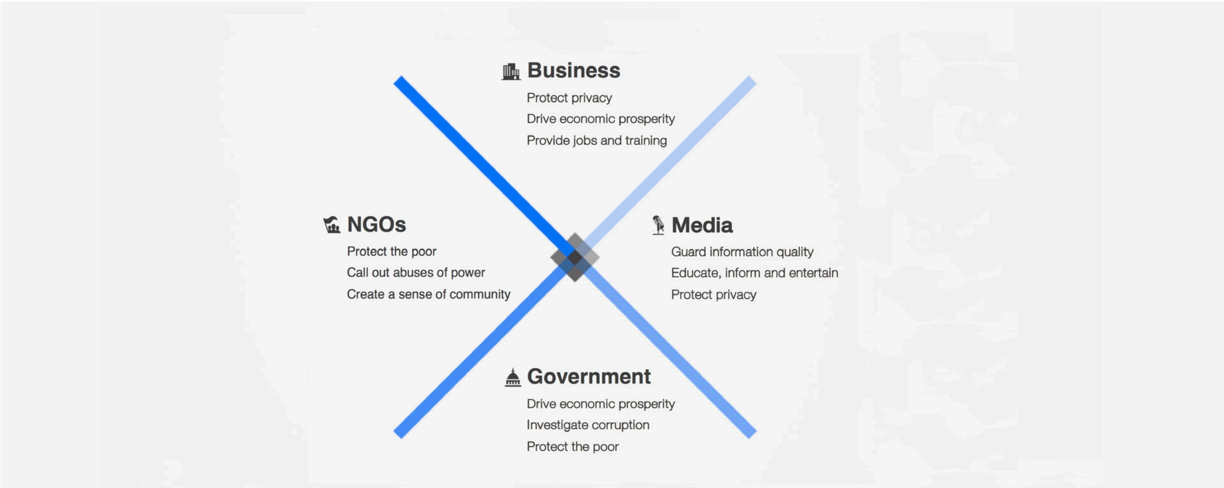
Since 2000 the Edelman Trust Barometer has annually asked respondents ‘How much do you trust an institution to do what is right?’ (Edelman, 2019a, p. 12; Edelman, 2019b, p. 5). The 2019 Trust Barometer, which surveyed 27 countries, found a moderate increase in trust between 2018 and 2019 (Edelman, 2019b, p. 5). However, it also indicates that, in line with the trajectory of the last two decades, there has been ‘a significant destruction of trust in societal institutions’, with one in five respondents believing that the current system is not working for them. The 2019 Trust Barometer notes that ‘[t]raditional power elite figures, such as CEOs and heads of state, have been discredited. The growth of social media platforms fully shifted people’s trust from a top-down orientation to a horizontal one in favour of peers or experts’ (Edelman, 2019a, p. 2).

Interestingly, the 2019 Trust Barometer found that 75% of respondents indicated that their most trusted relationship was with their employer and 73% of the general population saw business as being able to ‘take specific actions that both increase profits and improve the economic and social conditions in the communities where it operates’ (Edelman, 2019b, pp. 23, 34). A further 76% indicated that CEOs should take the lead on change rather than waiting for government to impose it’ (Edelman, 2019b, p. 20).

The 2018 Edelman Trust Barometer also asked respondents what their expectations were 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)



Notably, CEOs such as Mark Zuckerberg (Facebook) and Jamie Dimon (JPMorgan Chase) are looking to the ground level with Zuckerberg’s ‘listening tour’ of America and Dimon’s bus trip around the West Coast of America visiting call centres, operating centres, town halls, regional offices and other company sites to gather ideas for improving the company (Tett, 2018). An article in the *Financial Times* argues that the need for CEOs to empathise and recognise different points of views from all levels is urgent ‘in these paradoxical times’ and that ‘a lack of lateral vision comes at a cost — particularly in a world where technology is giving shareholders, customers, employees and politicians the ability to organize protests at lightning speed’ (Tett, 2018).

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).

3.1.4 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, which stated:

> Data is being produced at an ever 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, pp. 3–4).

As researchers from the Victoria University of Wellington School of Government 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. In 2019 the New Zealand Government put out a public consultation on a draft algorithm charter, for which submissions closed on 31 December 2019. The charter 'commits government agencies to improve transparency and accountability in the use of algorithms over the next five years' (Data.govt.nz, 2020).

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 UK, 2017b, 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 UK, 2017b, p. 43). For example, 'In 2015 the FRC UK 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 UK, 2017b, 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).

3.1.5 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). 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). The *2019 AFP Risk Survey Report* (Association of Financial Professionals) found that 'strategic risks and cybersecurity risks continue to be of significant concern' (Marsh & McLennan Companies, 2019, p. 2).

The New Zealand Government responded to these concerns in the 2016 Budget, providing 'an investment of $22.2 million to set up a new national Computer Emergency Response Team (CERT)' (CERT NZ, n.d.). CERT NZ is part of an international network of CERTs, providing 'trusted and authoritative information and advice', as well as gathering data and reporting on the specific cyber-threat landscape of New Zealand (CERT NZ, 2019). Establishment of the team proved to be an astute decision: CERT NZ received more than 3400 cybersecurity incidents reports in 2018, which accounted for more than $14.1 million in financial loss (Shaw, 2019). Furthermore, according to 2019 research, more than a third of New Zealand businesses had experienced a cyberattack 'in the past 12 months, a 10-percentage point increase' on 2018 (Pead PR, 2019). Despite government action regarding CERT, 42% of New Zealand businesses expect to be the target of a cyberattack in the coming year (Pead PR, 2019).

Colin James, head of cybersecurity for Vodafone, acknowledges the difficulty for organisations to mitigate cybersecurity threats, owing to scammers continually developing novel ways to infiltrate security systems (Shaw, 2019). James recommends that security be 'the DNA of an organisation, part of strategy, and not just the role of the IT department' (Shaw, 2019). Similarly, cybersecurity entrepreneur Kendra Ross states that many New Zealanders are 'oblivious' to potential security breaches, and thus businesses that 'built security into their products and services would have a competitive advantage in the market' (Shaw, 2019).

Results from the McGuinness Institute and XRB 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 cyberattacks were 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. It will be interesting to see if the 'impending Privacy Bill changes on mandatory data breach notification' improves the reporting of cybersecurity breaches. However, the finding that '20 percent of businesses are not prepared to notify customers in the event of a security breach, despite the fact they will soon be legally required to do so', does not seem promising (Pead PR, 2019).

3.1.6 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, both in New Zealand and globally. Such businesses are often called social enterprises because of their intention to achieve a social or environmental mission and have been 'recognised as the "third sector" outside of the private and public' due to their charitable status and profitability (Day, 2017). 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 an estimated 2000–2500 operating in New Zealand (Cropp, 2017). An 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). Another example is Eat My Lunch, a New Zealand business that 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).

While social enterprises represent a positive movement, the current reporting system is not equipped to manage the obligations of these kinds of new businesses. Research by the New Zealand Law Foundation (NZLF) found that all but one of the social enterprises they studied were hampered by the legal structures available to them (Horan, Hosking, Moe, Rowland, & Wilkie, 2019, p. 5). At present, social enterprises can be registered as either a charitable trust (unable to have investors), an incorporated society, or a limited liability company (not eligible for public sector funding) (Moe, 2017). The availability of these structures is based on the assumption that social enterprises exist somewhere on a continuum from a purely not-for-profit charity at one end to a purely for-profit business at the other end. However, this is not necessarily an accurate reflection of what social enterprises are. Instead, the NZLF conceptualises social enterprises as being outside the current capitalist paradigm but part of a broader view of the 'human economy', where capital is understood in line with the Treasury's Living Standards Framework as financial, social, human and natural rather than purely financial (Horan et al., 2019, pp. 10–11). The current options available to social enterprises have resulted in some initiatives creating several related legal entities of different types and structures, which in turn results in significant administration and compliance costs that detract from capacity for innovation (Horan et al., 2019, p. 13).

In regulating these new business models, there are three particular areas that need to be accommodated and addressed. Firstly, social enterprises need a regulatory environment that is capable of recognising their social and environmental goals or missions as occupying a different level of importance than they do for charities. Secondly, social enterprises need support in their pursuit of funding, equity and investment in an economic system dominated by preconceptions about what charities and businesses are capable of.

A better systemic recognition of these issues would also present the opportunity to ensure appropriate tax regulations. Thirdly, 'the level of extraordinary entrepreneurship that is taking place in the [social enterprise] sector in New Zealand' needs to be encouraged and enabled (Horan et al., 2019, p. 28).

New Zealand can look overseas for examples of how other countries have created and implemented new legal frameworks to regulate social enterprises and their new business models. The following examples highlight how several international governments have promoted the development of social enterprises by enacting legislation that identifies how this unique business model departs from the traditional private sector model.

In 2015 Italy followed the US, adopting the Stability Law in 2016, which allows companies to register as Benefit Corporations (Esela, 2017). A Benefit Corporation can have investors and is still subject to taxation. The legislation aims to 'achieve an effective and innovative way to achieve the dual goal of profit and not-for-profit entrepreneurship, drawing strength from the benefits that characterise both types of business' (Esela, 2017).

Also in 2015, the Croatian Government enacted the Strategy for Social Entrepreneurship Development, which sets out a definition of a social enterprise in law as 'a business activity based on principles of social, environmental and economic sustainability where gained profits are entirely or partly reinvested towards the community well-being' (Esela, 2017).

In the UK, the Charities (Protection and Social Investment) Act 2016 aims to clarify the law on social investments made by charities and social enterprises (Esela, 2017). The Act 'gives charities and social enterprises a statutory social investment power', and specifies a definition of social investment which was previously muddied in law (Esela, 2016).

With greater government and legislative support, social enterprises can take a more significant share of the New Zealand market, which will increase innovation within the sector. For example, it would be worth exploring how the requirement for registered charities to prepare a statement of service performance (SSP) alongside the financial statements could be applied to social enterprises which register as for-profit entities. This could be an interim solution to the problem of the new business model blending motives of profit with motives of positive change while alternative options are explored to better foster the social enterprise model. SSPs are made up of non-financial information that sets the context for the financial disclosures. In an SSP, registered charities are required to disclose their outcomes (what impacts they intend to have on society) and outputs (the goods and/or services delivered throughout the year) (Charities Services, 2016). It is worth noting that Tier 4 charities are only required to disclose their outputs (Charities Services, 2016).

3.1.7 Increasing activism

BlackRock, the world's largest asset manager, highlights a link between the emergence of new business models and increasing shareholder activism. Chair and CEO Larry Fink writes an annual letter to the CEOs of companies that BlackRock invests in on behalf of its clients. In his 2019 letter, Fink outlines how BlackRock influences companies to engage with ESG issues and advocates for companies to have clear purposes linked to their business models that go beyond profit to create value for stakeholders and communities (Fink, 2019).

There has been an increase internationally in both whistleblowing 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 practices and reporting. The increase may also be driven by pressure from sustainability campaigners such as ClientEarth, which has 'referred four leading UK companies to the Financial Reporting Council (FRC [UK]) over their failure to discuss climate change trends and risks in their reports to shareholders' as well as writing to the 'Big Four' auditors of these companies (Irvine, 2018).

Historically, shareholder activism has existed in the simple form of divestment from companies the shareholder was not happy with. The 'first known example of a company's "anti-social" actions triggering such an exit from an otherwise attractive investment' was in 1974, when a pension fund sold its shares in a US conglomerate at a 'heavy loss in protest' of its political donations (Edgecliffe-Johnson, 2019).

At present there are two prevalent types of shareholder action:

1. More organised hedge fund-style action such as that of Elliott Management Corporation, which targets companies with the aim of disrupting the board to get board seats and change strategy; they may launch a public campaign '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).

The number of shareholder activism proposals filed has doubled between 1999 and 2013 (Grewal, Serafeim & Yoon, 2016). 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 chief executive received on departure from the company following questionable conduct towards staff (Mines, 2018). See Section 3.3 of the McGuinness Institute's *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* (September 2019) for other examples of litigation and shareholder resolutions.

Shareholder activism is part of a broader context of protest and activism evident in actions such as New Zealand councils declaring climate emergencies independently of central government; the 'School Strike 4 Climate' in September 2019, which saw an estimated 3.5% of the population of New Zealand protest on a single day; and international activism such as the UK Extinction Rebellion group's protest in April 2019 (Desmarais, Tso & Boyack, 2019; RNZ, 2019; Taylor, 2019). 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 company reporting. 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 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.

3.1.8 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 the following:

> 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 those 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 statement reflects an increasing international interest in wellbeing and the four capitals (see Figure 9 later in this section). 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.).

More recently, over 350 organisations have united in a collaboration called the Capitals Coalition that aims to transform 'the way decisions are made by including the value provided by nature, people and society' (Capitals Coalition, 2020). The Capitals Coalition was announced in January 2020 to bring together the Natural Capital Coalition and the Social & Human Capital Coalition. The Capitals Coalition takes an 'integrated and systemic approach' to 'transformative change' and is interested in the social and economic targets of the SDGs (Capitals Coalition, 2020). The Coalition provides a succinct explanation of the capitals approach, noting that it 'provides decision makers with a lens to identify these connections, to contextualise non-financial information for organizations, and to understand where there are synergies, trade-offs and opportunities to generate value for multiple stakeholders' (Capitals Coalition, 2020).

In New Zealand, concerns about social capital resulted in a consultation on the *NZX Listing Rules*. Following the consultation, on 31 December 2012, the NZX introduced a diversity listing rule (3.8.1 (c)) 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, 2020a, p. 26). 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). Former 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 in 2018, the 2019 *NZX Listing Rules* specify that the quantitative breakdown must include 'the number of male and female Directors', and 'the number of male and female Officers' (NZX, 2020a, p. 26). Prior to this amendment, the rule had not been put into practice consistently, with the quantitative breakdown varyingly disclosed as numbers or percentages or both, making comparability difficult.

The New Zealand Government under Prime Minister Ardern has a particular focus on wellbeing, as outlined in a speech she 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 Wellbeing Budget, published in 2019. New Zealand Treasury presented on the budget, which is 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 stronger interest in the long-term impact and breadth of operating processes and decisions. Further, support 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 shares this view: '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).

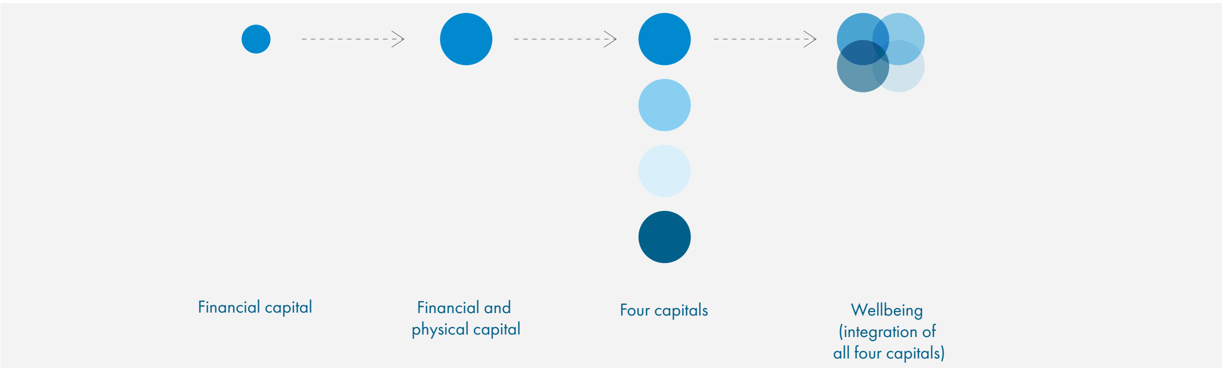
Users are increasingly expressing a desire for more information about the four capitals (see Figure 9 below) (McGuinness Institute, 2018a, p. 16). The four capitals – human, social, natural and financial/physical – are outlined in Treasury's Living Standards Framework, which focuses on achieving a higher living standard for New Zealanders (Treasury, 2018). In a 2017 speech to Treasury, Former Secretary and Chief Executive Gabriel Makhlouf discussed the application of the framework and 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' of policy issues (Makhlouf, 2017, p. 4).

Figure 9: The New Zealand Treasury's Four Capitals

Source: (Treasury, 2018)

Figure 10 below 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'



3.2 Implications

3.2.1 Increase in corporate responsibility

A number of countries are looking at ways to improve transparency surrounding companies' operations. For example, in June 2018, the UK Government introduced The Companies (Miscellaneous Reporting) Regulations 2018, requiring 'all companies of a significant size, that are not currently required to provide a corporate governance statement, to disclose their corporate governance arrangements' in their director's report on a comply or explain basis (see cl 26) (FRC UK, 2018b, p. 5). In December 2018, the FRC UK's report *Wates Corporate Governance Principles for Large Private Companies* acknowledged the following:

> Private companies benefit from the privileges of limited liability status, but are not subject to the same level of reporting and accountability requirements as publicly listed companies. The traditional rationale for this is that private companies stem from private ownership and have no reliance on public equity markets to raise capital. However, many respondents to the Green Paper noted the economic and social significance of large private companies can be as great as publicly listed companies and, when problems occur, there are comparable risks to as wide a range of stakeholders (FRC UK, 2018b, p. 4).

This new reporting requirement applies to all companies that satisfy either or both of the following conditions: (i) more than 2000 employees; and/or (ii) a turnover of more than £200 million and a balance sheet of more than £2 billion. The principles are intended 'to inform and develop [the] corporate practices' of large private companies (FRC UK, 2018c). The six principles underlying the framework are purpose (of a company), composition, responsibilities, opportunity and risk, remuneration, and stakeholders (engagement) (FRC UK, 2018c). In terms of corporate responsibility, it is worth noting the deliberate use of the term 'stakeholders' (rather than the limited term shareholders) (FRC UK, 2018c).

As the notion of corporate responsibility is increasingly incorporated into the fabric of companies around the world, companies are recognising sustainability as the longevity of a company in the face of emerging challenges and rapid changes (MfE, n.d.[a]; BSR, 2017, p. 6). These challenges, according to Business for Social Responsibility (BSR), can be classified into three areas: climate change, technology and structural economic change. The three areas 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 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 general anti-regulation sentiments continue over the coming years, it would appear that the balance between global, national, local and individual goals may be unachievable.

3.2.2 The need for risk to be embedded into the reporting framework

Since the financial crisis, external reporting has included an 'increased focus on risk management' (FRC UK, 2017a, 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 UK, 2017a, p. 3). According to the FRC UK's research, they agree that better engagement and risk reporting 'has improved their understanding of how the board identifies and manages risk' (FRC UK, 2017a, p. 3).

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 UK, 2017a, p. 3). However, the FRC UK research does offer some more specific guidance in terms of risk disclosure. They found that investor views of how many principal risks a company disclosed 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 UK, 2017a, p. 11). Most investors found clear categorisation of principal risks and their likelihood and impact to be helpful (FRC UK, 2017a, 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 UK, 2017a, 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', such as 'cyber-crime and climate change' (FRC UK, 2017a, p. 19).

A company's ability to capitalise on opportunities in a low-emissions economy is becoming an integral consideration in investment decisions. Obligations to report on risks to the bottom line of a company posed by climate change will become the responsibility of all companies across industries and in many cases, industries will need to adapt, redesign processes or be left behind. The market index provider MSCI found that 'at one end of the spectrum [...] energy and utilities sectors were most exposed to "asset-stranding" risks – primarily coal companies and coal-fired power generators' (Sasarean, 2019). Utilities were also found on the opposite end of the spectrum, with those companies 'offering alternative energy [...] well positioned as "solutions" providers' (Sasarean, 2019).

Improvements are being made internationally, as evidenced in FRC UK'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 UK, 2017a, p. 3).

3.2.3 The need for climate-related financial reporting disclosures

The rate of exploration into how climate-related financial reporting should be embedded in the reporting framework internationally continues to accelerate. The McGuinness Institute has been following and assessing this over the last three years through exploring emerging trends in international institutions (such as the IASB), international organisations (such as the FSB's TCFD, Accounting for Sustainability [A4S] and the Corporate Reporting Dialogue), other jurisdictions (such as the UK and the European Union) and ongoing discussions in New Zealand (between government, NZX, XRB, IoD and various law firms). Incorporating climate-related financial risks and opportunities are at the forefront of discussion in every pocket of the private and public sectors.

With climate-related financial disclosures being such a broad and complex area of inquiry, there is further detail and discussion elsewhere in this report. Section 7 summarises findings from previous McGuinness Institute publications and research into climate-related financial reporting trends and details an option for policy-makers. Meanwhile, Section 4.1.3 explores preparer attitudes towards the recommendations of the TCFD and Section 4.4 provides insight on climate-related financial reporting by eight different entities operating in New Zealand (both public and private sector) over three years of research. These sections indicate existing views on the TCFD and its implementation, and what climate-related financial reporting looks like in practice among New Zealand's most significant organisations.

3.2.4 The need for taxation reform

Questionable tax practices

There are a number of examples of questionable tax practices by multinationals operating in New Zealand. One is known as base erosion and profit shifting (BEPS), which 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]). Companies are manipulating their incomes to be low in New Zealand in order to pay little tax but report high profits abroad (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. For example, Google New Zealand reported a $1 million loss despite the company's global profits and $6 billion in tax revenue paid mostly to the US (Nippert, 2018). Similarly, 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 New Zealand 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 used by foreign trusts, of which there are many set up in New Zealand. Loopholes in New Zealand's trust law make New Zealand currently 'complicit in schemes to avoid tax' (*NZ Herald*, 2016). One such loophole results from a rule set up in 1988 that was designed to stop New Zealanders from setting up foreign trusts overseas and involves taxing trusts based on where the settlor lives (Russell, 2016). If the trustee and beneficiary are overseas but the settlor lives in New Zealand, the trust will be taxed in New Zealand (Russell, 2016). Therefore, when the 'settlors 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). This setup becomes problematic because 'most other countries tax based on where the trustee lives' (Russell, 2016). If a trust is set up in New Zealand with a New Zealand-based trustee but the settlor lives overseas, the loophole means the trust will not be taxed at all (Russell, 2016).

Other examples of companies using tax loopholes include Apple New Zealand Limited and Ryman Healthcare. It was reported in March 2017 that Apple New Zealand Limited had not paid income tax to Inland Revenue for the previous decade and their accounts revealed that any income tax paid had been passed to the Australian Tax Office. This is a result of The Avoidance of Double Taxation treaty between Australia and New Zealand, in place since 2007, which permits companies to only pay tax where the company is controlled. As Apple Sales New Zealand is wholly-owned by the Australian parent company, the income tax defaults to Australia (Nippert, 2017b). Also in 2017, Ryman Healthcare's annual report filed with the NZX revealed that the retirement business had 'made $362.9 million annual pre-tax profit' but had legally not paid any tax (Gibson, 2017). This was primarily due to New Zealand's lack of a capital gains tax and the nature of Ryman Healthcare's business as producing non-taxable income from 'fair value movement in investment property' (Gibson, 2017). An *NBR* review of financial statements found that as well as Ryman Healthcare, other retirement care providers Summerset and Metlifecare had not 'paid tax since at least 2007' (*NZ Herald*, 2017).

The beginnings of reform

There is certainly evidence to suggest that the process of taxation reform has begun. The New Zealand Government's 2016 Inquiry into Foreign Trust Disclosure Rules (the Shewan Report) highlighted that 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. 'The Shewan Report concluded that foreign trusts had very limited disclosure requirements and further, the requirements were not effectively policed' (McCrae & Marr, 2017). The Taxation (Business Tax, Exchange of Information and Remedial Matters) Act 2017 was passed to address this, requiring more information to be provided from the trust upon registration and annually (IRD, 2017). 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).

As further measures to equip governments with domestic and international instruments to address BEPS practices, the OECD developed 15 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 July 2018 the New Zealand Government passed the Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018 to 'ensure that multinationals pay tax based on the actual economic activity they carry out in New Zealand' (IRD, 2018). The Act was designed to prevent use of a range of BEPS strategies:

- artificially high interest rates on loans from related parties to shift profits out of New Zealand
- related-party transactions which are intended to shift profits to offshore group members in a manner that does not reflect the actual economic activities undertaken in New Zealand and offshore
- hybrid mismatch arrangements that exploit differences between countries' tax rules to achieve an advantageous tax position
- artificial arrangements to avoid having a taxable presence or a permanent establishment in New Zealand tactics to stymie an Inland Revenue investigation, such as withholding relevant information that is held by an offshore group member (IRD, 2018).

Inland Revenue has estimated that the new legislation could increase tax revenue by $200 million per year (IRD, 2018). However, prior to the Bill's third reading, CA ANZ published a submission arguing that the Bill went further than most other OECD countries, noting that while BEPS is an important issue to tackle, the government response 'is out of proportion relative to the problem being addressed' and that there are areas of significant 'overreach' that may have negative impacts on SMEs and the economy as a whole, especially given the importance of foreign investment to the New Zealand economy (CA ANZ, 2018a, p. v). As at May 2020, there does not appear to have been any research done on the impact of the Act since its implementation.

In 2019, the New Zealand Government laid further groundwork for taxation reform when it 'announced an intention to impose a tax to capture revenue' that tech giants 'currently siphon off-shore' (Greive, 2019). Speaking about the 'revenue-based tax of two or three percent', the Minister of Finance Grant Robertson noted that 'international tax rules have not kept up with modern business developments', which may threaten 'the sustainability of our revenue base and the fairness of the tax system' in the longer term (Greive, 2019). This view is supported by the results of the Tax Working Group, which indicated that charities will also need to be considered as part of reforms; the Group's final report called for periodic review of 'the charitable sector's use of what would otherwise be tax revenue, to verify that intended social outcomes are being achieved' (1 News, 2019).

3.2.5 Emergence of new reporting practices

Sustainability reporting and reporting aligned with the Integrated Reporting (IR) framework have emerged as key reporting practices. This represents a shift from traditional GAAP to looking outside of GAAP as a way to produce more useful information for users. This section discusses the supply side in terms of what financial information preparers are willing to provide 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). 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). An additional trend is emerging 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, 2016b, p. 10).

An XRB survey found that 67.8% of users found multiple APMs useful and 80.2% of users found reconciliation between non-GAAP and GAAP figures '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). 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 UK, 2017b, p. 26). This means that the international status quo for APMs will continue, leaving individual regulators responsible for ensuring disclosures are accurate.

The IASB has not prepared any new 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, 2018b). However, the IASB has begun to revisit management commentary and primary financial statements in new agenda papers and, as a result of stakeholder demands, the XRB has begun to rethink the purpose of the annual report.

The following section looks at two guidance documents and an exposure draft issued by the IASB, and a position statement published by the XRB. These explorative papers discuss the content and audience of the annual report and the new reporting practices discussed in this section.

Practice Statement 1: Management Commentary

In 2010 the IASB explored the idea of management commentary, which it defined as 'a narrative report that provides a context within which to interpret the financial position, financial performance and cash flows of an entity' and 'provides management with an opportunity to explain its objectives and its strategies for achieving those objectives' (IFRS, 2010, p. 5). For the purpose of the document, management refers to 'the persons responsible for decision-making and oversight of the entity' (IFRS, 2010, p. 6). In 2019, IASB chair Hans Hoogervorst explained that the management commentary practice statement is 'basically a non-mandatory guide for how to write the front of an annual report' and used the term 'broader financial information' to refer to any information relevant to the annual report (Hoogervorst, 2019).

The 2010 *Practice Statement* is currently under review, and the IASB has indicated that this review will include updating guidance on 'content elements of management commentary' (IAS Plus, 2019b). However, the IASB recently indicated its intentions to preserve the status quo, stating a 'loss of focus and identity' if the IASB were to 'wid[en] the audience and scope' of their standard-setting (Hoogervorst, 2017). The fact that the IASB staff intend to retain the principle-based approach suggests that revision of the 2010 *Practice Statement* is unlikely to bring about any significant change in terms of developing a global standard for non-financial reporting.

Practice Statement 2: Making Materiality Judgements

The concept of materiality has become a focal point in the problem of managing relevant non-financial information. The IASB appears to rely on this concept to encourage preparers of financial and annual reports to make broader disclosures.

In 2017 the IFRS released *Practice Statement 2: Making Materiality Judgements* noting the following:

> The objective of general purpose financial statements is to provide financial information about a reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. The entity identifies the information necessary to meet that objective by making appropriate materiality judgements (IASB, 2017, p. 5).

In October 2018 the IASB released a new definition of materiality:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity (IFRS, 2018c).

In terms of emerging issues such as disruptive technology and climate change, as well as the rise of ESG reporting, materiality can be applied in forward engagement with longer-term issues. In materiality thinking, issues such as the threat of climate change that might become material in the future must therefore be considered. However, where this information should be disclosed is contentious – whether in the notes to the financial statements, or within the annual report as 'broader financial information'.

Exposure Draft: General Presentation and Disclosures

The *Exposure Draft* forms part of the IASB's work on 'Better Communications in Financial Reporting'. It is out for public consultation until 30 June 2020 and comes as a response to investor demand for more clarity on the financial performance of an entity and 'a more disciplined and transparent approach to the reporting of management-defined performance measures ('non-GAAP'). (IASB, 2019a). The *Exposure Draft* proposes replacing *IAS 1 Presentation of Financial Statements* with a new standard, as well as amend a number of other accounting standards (IASB, 2019b, p. 5). The changes would create three new subtotals in the statement of profit or loss, require an entity to explain in greater detail non-GAAP calculations and how they can be reconciled to a comparable IFRS standard within the notes to the financial statements, and require an entity to disaggregate their financial information to provide more explanation and clarity on the financial information (IASB, 2019a).

XRB Position Statement on EER

The XRB generally adapts the standards issued by the IASB for use by for-profit entities and standards issued by IPSASB for use by public benefit entities in New Zealand. In March 2019, the XRB released a *Position Statement on EER*, citing an observation of 'growing demand from stakeholders, supported by research', for provision of the following:

- increased transparency on material risks (including ESG risks) and strategies for managing those risks;
- forward-looking information about an entity's long-term sustainability;
- information about an entity's key resources and relationships; and
- greater visibility around corporate citizenship (XRB, 2019a).

In line with the IASB, the XRB indicated in their 2019 *Position Statement on EER* that 'the XRB focuses on users' needs for information in general purpose financial reports (GPFR)' and that the users of GPFRs of for-profit entities are 'existing and potential investors, lenders and other creditors', while the users for public benefit entity reports are 'resource providers (e.g. taxpayers, ratepayers, donors and grantors), service recipients and their representatives' (XRB, 2019a). The statement clarifies that 'the XRB considers the primary users of GPFR' to be the same as 'intended users (audience) of annual reports' (XRB, 2019a). In their *Position Statement* the XRB indicates that any other information that might not be relevant to primary users, but is relevant to broader stakeholders should exist outside of the annual report, and that non-financial information that would assist in understanding GPFR should be included in the annual report.

3.2.6 Increase in number and frequency of standards and guidelines

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 UK, 2017b, p. 42).

Given the emergence of new reporting practices identified in this section of *Report 17*, 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 Table A3.1 and A3.2 in Appendix 3). Looking at 71 countries in 2016, KPMG found 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).

Significant players in the reporting landscape have been aware of this issue for some time, as evident in the establishment of the Corporate Reporting Dialogue (CRD) in 2014 (see Section 2.1.3). As part of its work programme, the CRD launched the Better Alignment Project in 2018. This is primarily concerned with facilitating alignment across participants' frameworks for ESG reporting, focusing in the first year on climate change reporting and the recommendations of the TCFD (CRD, 2019b, pp. i–ii). In a 2019 report *Understanding the value of transparency and accountability*, the CRD identified a set of fundamental principles that highlight the existing alignment between the frameworks and indicates that they 'can be used in conjunction with each other' (CRD, 2019a, pp. 3, 8). The principles are materiality, completeness, accuracy, balance, clarity, comparability and reliability (CRD, 2019a, p. 8).

The CRD report is a positive response to the over-saturation of voluntary non-financial frameworks, and indicates the importance of ensuring that, despite that absence of a single framework for all companies to adopt and regardless of differences among various voluntary reporting organisations, the principles and goals remain the same.

3.2.7 The need for assurance reform

Along with 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 two UK parliamentary select committees investigating the collapse of Carillion, a British contracting and building firm and one of the biggest corporate failures in recent British history, released a report. The report warns of '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).

The FRC UK (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. Stephen Haddrill, who was CEO from 2009–2019, 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 scepticism by auditors [...] to meet the legitimate expectation of investors and other stakeholders (FRC UK, 2018d).

Actions taken by the FRC UK 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 UK, 2018d). Furthermore, the UK Government has 'confirmed that a new regulator, to be named the Audit, Reporting and Governance Authority ("ARGA") will be created to replace the FRC' and is intended to provide 'more robust scrutiny of auditors, following several recent scandals' such as the Carillion collapse (ICLG, 2019).

The International Auditing and Assurance Standards Board (IAASB) is also working to address perceived shortcomings in the assurance and audit profession. To this end, they have established a Professional Skepticism Working Group focusing on the importance of applying and documenting professional scepticism (IAASB, 2019a). Perhaps even more significantly, the IAASB is consulting on EER assurance, which it describes as 'similar in concept to an audit' but 'performed on EER reports rather than on financial statements' (IAASB, 2019b, p. 5). Their method for addressing this is to produce a 'non-authoritative guidance document' that enables 'more consistent and appropriate application of ISAE 3000 (Revised) [Assurance Engagements Other than Audits or Reviews of Historical Financial Information] such that users of EER reports will greater trust in the resulting assurance reports' (IAASB, 2019b, p. 5). The proposed guidance includes chapters on 'Considering the Entity's "Materiality Process"', 'Assuring Narrative Information', 'Assuring Future-Oriented Information' and 'Considering the Materiality of Misstatements' (IAASB, 2019b, p. 7).

The International Ethics Standards Board for Accountants (IESBA) has also undertaken reform in this area, consulting on a 'project to review the long association provisions of the International Code of Ethics to ensure they continue to provide robust and appropriate safeguards against familiarity and self-interest threats arising from long association with an audit client' (XRB & NZAuASB, 2017, p. 6). The New Zealand Auditing and Assurance Standards Board (NZAuASB), a sub-board of the XRB, then held its own consultation and released a revised PES 1: *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* effective from June 2019 (XRB, 2018a). The Australian equivalent is *APES 110 Code of Ethics for Professional Accountants* and Australia also has requirements for auditor rotation in ss 324DA(1) and (2) of their Corporations Act 2001 (APESB, 2017; see Appendix 7, Part B).

In December 2019 the FRC issued revised ethical and auditing standards that limit the services that auditing companies are able to provide. The revised standards 'incorporate changes to international ethical requirements, which [...] prohibit auditors from providing recruitment and remuneration services or playing any part in management decision making' (IAS Plus, 2019c). The revised standards will come into force in March 2020 and may be amended further following responses to the *Brydon Report*, also released in December 2019.

Authored by Sir Donald Brydon, former Chair of the London Stock Exchange, the *Brydon Report* is the result of assessing over 120 submissions and minutes from over 150 meetings with 'regulators, auditors, investors, companies and professional services firms' with a view to reforming the auditing industry, following disintegration of trust in the profession in light of audit failures like Carillion (IAS Plus, 2019d, Jewers, 2019). The report offers 64 recommendations, the most disruptive being the recommendation for the auditing industry to break away from the accounting industry. Other key recommendations are as follows:

- A redefinition of audit and its purpose, providing greater clarity about who audit is for and reinforcing its role as a public interest function;
- The creation of a stand-alone and transparent audit profession, rather than as an adjunct to the accounting profession, to be governed by overarching principles;
- An obligation on auditors to inform and the need to be suspicious as well as sceptical;
- The opportunity to extend auditing beyond just examining financial statements, to reflect the wider interests of everyone who depends on the company's ongoing viability;
- Clarification that auditors should endeavour to find corporate fraud and a requirement that they undertake education in forensic accounting and fraud detection;
- A step up in auditor transparency, with new requirements to publish their profitability from audit work and the remuneration of statutory auditors;
- A clarification of the opinion given by auditors and greater granularity of information about estimates;
- Mechanisms to encourage greater interaction for shareholders with the audit process, including the ability to pose questions to auditors at the AGM;

- New reporting requirements for directors about resilience, public interest and audit policy; and
- A responsibility for directors to explain the actions they have taken to prevent material fraud and to report on internal controls (Jewers, 2019).

In 2016, the XRB adopted the *International Standard on Auditing (ISA) 701* as a response to 'demand from users for the auditor to provide more insights about the audit process'. This led to 'the most visible change to the auditor's report in more than 50 years': the introduction of key audit matters (KAMs) (XRB & FMA, 2017, p. 3). KAMs were intended 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). In a 2017 review of the new requirement, XRB and the FMA 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).

Despite this progress, New Zealand economist Shamubeel Eaqub continues to raise the need for reform in the accounting industry. 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).

Scrutiny of political donations disclosures

Amendments to the Electoral Act 1993 were passed in March 2020 with the intent of minimising the possibility of foreign interference in New Zealand elections through political donations (NZ Parliament, 2020). However, there has been increasing scepticism over the integrity of the systems for not only foreign donations but donations made by private individuals and companies in New Zealand as well. To date in 2020, two major political parties and two mayors have been referred to the Serious Fraud Office (SFO). The common problem has been the breaking up of amounts of donations paid to ensure that payment sits below thresholds that then requires that the donors name and address be made public (for political parties the threshold sits at $15,000, for local body elections the threshold is $1500) (*Stuff*, 2020).

An article from The Spinoff outlined three arguments surrounding the issue of individuals and companies avoiding the declaration threshold. The first argument suggested lowering the threshold to $1500 (for party donations), assessing and closing loopholes involving fundraising through charity auctions, trusts and dinners, and ensuring donations disclosed in real time to allow immediate scrutiny. The second argument suggested that mandatory anonymity would enable blind trust to rule the process in which private donors can make donations in total anonymity, including from the parties and individuals they are donating to. The third argument suggested that capping large donations was anti-democratic and would inhibit small parties from progressing up the electoral ladder (Braae, 2020). Since the donations made to the NZ First Foundation were referred to the SFO, Prime Minister Jacinda Ardern has demanded an immediate assessment of the Electoral Act 1993 and the Electoral Regulations Act 1996 (Quinlivan & Prendergast, 2020). While this is an integral step to closing loopholes, there are other mechanism which could enhance transparency. For example, over the last two years Talley's Group Limited and its managing director Sir Peter Talley donated $26,950 to the NZ First Foundation in four amounts (*Stuff*, 2020). This entity is not required to make their annual report public, which is the only legal document that requires amounts of donations paid to be disclosed (under s 211(1)(h) of the Companies Act 1993). In turn, not only are 'donations made' no longer required to be included in the financial statements, but Talley's Group Limited is not required to file their financial statements on the Companies Office. Findings in Section 4.4 and Key Finding 4 in Section 5 of this report go into further detail of the shortcomings of reporting on political donations in practice and the system failures.

The issue as described here is not one of amounts paid, but rather the challenges posed to systems of integrity that ensure transparency. As one commentator wrote, 'there is a wider concern... that New Zealanders lose faith in our democratic processes as a result of the investigations into both National and New Zealand First'

(Sachdeva, 2020). This series of incidents is indicative not of a failure of the individuals and parties that are donating or receiving payments, but rather the reporting frameworks that contains a number of loopholes that undermine the rigor and integrity of the system.

3.2.8 Increase in global disruptions

Major global disruptions like the COVID-19 pandemic cause unprecedented challenges to the global economy, particularly to supply chains, third party relations, and decentralised workplaces; they also cause halts to usual standards and procedures, disruptions to revenue, and the health and capabilities of employees (EY, 2020). We are only beginning to understand how much the pandemic has and will continue to impact on everyday life and the usual flow of business, and the long-term repercussions. This area of inquiry continues to develop.

Companies with existing supply-chain strategies or other crisis strategies will be examining how efficient these processes are and adapting accordingly. Organisations that do not have strategies already in place will likely be planning for the future and searching for best-practice (EY, 2020). Strong governance and future-focused planning can soften the blows of low-probability, high magnitude events. As a result, COVID-19 will play a major role in shaping the role and responsibilities of directors in the years to come.

The COVID-19 pandemic further highlights the need for ensuring quality and timely reporting within New Zealand's reporting framework. This enables organisations and government to recover from major global disruptions as a faster rate. The Financial Markets Conduct (Financial Reporting and Other relief – COVID-19) Exemption Notice 2020 was passed to grant exemptions to FMC reporting entities by extending the deadline to file financial statements and annual reports by two months (FMA, 2020). While the Institute agrees that businesses should be enabled a degree of flexibility in meeting filing deadlines, we believe that the blanket approach to filing extensions for FMC reporting entities should be revisited in the future and that these entities should have to request permission rather than be given the option. In light of the exemption, the NZX released an announcement stating:

> NZX Regulation would be continuing to encourage issuers to complete and release their periodic results and reports as soon as they are able to, so as to ensure the market is able to access recent financial information. Issuers remain subject to their continuous disclosure obligations during the period of relief granted by the class waiver (NZX, 2020c).

This unprecedented disruption further emphasises the Institute's assumption that reporting informs foresight, foresight shapes strategy and strategy requires reporting.

4. Insight: McGuinness Institute research

Highlights

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

2. 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.

3. Financial statements report against a clearly prescribed set of principles, while the content of annual reports is for the most part subjectively determined in relation to a range of principles, guidance and limited legal requirements. However, the increasing amount of non-financial information included in financial statements (especially in the notes) is blurring the distinction between what should be published in financial statements and what should be published in annual reports.

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

5. There are a number of reporting gaps in the framework. Examples of these include no climate change reporting standards or the broader question of how we report on 'low probability/high magnitude' events, no requirements for disclosure of political donations, no distinction between cash paid to the New Zealand IRD versus other nation states' equivalents,

6. No sector is reporting well on climate-related financial information 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 (ETS). Work is urgently required to better inform investors and other stakeholders about vulnerability to climate change risks in terms of how the organisation might be impacted, how it impacts the environment and the wider community, and the steps it is taking to manage and/or adapt to the problems (see Figure 26 in Section 4.2.2).

7. 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.

Overview

The McGuinness Institute first broadly began exploring the New Zealand reporting system in 2011 when we 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 presentation of a company's performance in terms of both financial and non-financial results, then assumed to be in the form of 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* has been ongoing between 2017 and 2020, which has resulted in a series of working papers, discussion papers and think pieces (see Appendix 1 for a timeline of research publications under *Project ReportingNZ*).

Within this report, the research undertaken by the Institute has been corroborated and broken into five overarching topics:

1) Attitudes of users and preparers of EER information and TCFD disclosures;

2) Mandatory reporting framework (reporting requirements, accessibility and content);

3) Voluntary reporting;

4) Content of annual reports:

- climate-related information,
- gender diversity,
- health and safety,
- political donations
- intangible assets and

5) Assurance.

These research topics were designed to assess what is and is not working in the current reporting landscape. Together, the results provide an analysis of the attitudes of users and preparers towards reporting, an analysis of current disclosures in annual reports, an outline of what report disclosures/data 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, the data sets used and the specific research findings is provided in each sub-section.

Note: The results found in this section only include high-level observations and data. Methodologies of data-gathering and analysis have also been deliberately left out of the Section. Each area is explored in much greater detail in the research documents listed in Appendix 1 (where the research publications and other *Project ReportingNZ* are listed in chronological order).

Data sets

Research across each publication under the *Project ReportingNZ* umbrella has inquired into different datasets. While some research has focused specifically on for-profit entities, others have extended to include the public sector. Within each of the five topics we make clear which entity types have been explored. The selectivity and variety in datasets are due to the fact that, at the time of the initial research publication, the Institute had an interest in specific entity types. For example, Section 4.4 – Special topics only reviewed the annual reports of Deloitte Top 200 companies and NZSX-listed companies. Below briefly outlines important information on how data sets were created for the purposes of the research.

Deloitte Top 200 data sets

At the end of every year Deloitte issues the Deloitte Top 200 Index, which ranks companies by revenue, based on a methodology developed by Deloitte. This is released in November of each year and covers the annual reports from the latest financial year available from each company.

We took the latest Deloitte Top 200 list as the basis of our data set for research on companies.

We then took the latest annual report (from date of balance sheet, not date of publication) and used that report for our analysis. For example, an annual report that covered the period from 1 April 2016 to 31 March 2017 was included in the 2017 analysis but one that covered the period 1 January 2016 to 31 December 2016 was included in the 2016 analysis.

NZSX-listed company data sets

NZSX-listed data sets are taken directly from the NZX Main Board website. The Institute then removed trusts and funds, by including only companies with the term ‘Limited’ in the company name. Given that the NZX Main Board shifts over time as companies choose to list and delist, the data set is derived from a specific date. For example, when looking at the 2018 annual reports of NZSX-listed companies, the list of companies will be derived from the list of NZSX-listed companies as at 31 December 2018. NZX Limited is contacted to ensure that, at the time of the research, no entities have been added or removed between 31 December and the date of research.

Public sector entity data sets

Public sector data sets are much simpler to collect given that each of these reporting entities are required to prepare and publish an annual report. Public sector organisations tend not be subject to change. However, if an organisation has been established in 2018, it will not have produced a 2018 annual report, and is therefore not available for the research.

4.1 Topic 1: Attitudes of users and preparers of EER information and TCFD disclosures (the surveys)

Overview

The McGuinness Institute is not only interested in what can be seen in practice (e.g. the contents of an annual report) but also the attitudes and opinions of preparers and users of reports, given that new reporting models often first emerge as 'best practice' before being placed in mandatory disclosure requirements. It is our view that the attitudes towards reporting practices be largely in agreement with the actual practice, and if this is not the case, then disclosure requirements should adapt to meet the needs of users and preparers.

The Institute prepared two surveys in 2017 and 2019 which looked to explore and understand the attitudes of preparers and users of annual reports on emerging reporting practices. The 2017 survey more broadly engaged with EER information, while the 2019 survey explores the TCFD recommendations specifically.

The first surveys, the 2017 *Preparers' Survey* and *Users' Survey,* were a collaboration between the McGuinness Institute and XRB. 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 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.

The second survey was a response to two one-day workshops the McGuinness Institute and Simpson Grierson held in October 2019 in Auckland and Wellington designed to explore attitudes towards the recommendations made by the TCFD, and practical steps to implement them. Participants included individuals from both the public and private sector, investors, assurance providers, policy analysts and regulators. Following the workshops a TCFD survey was prepared and sent to participants, it was also extended to the public. The survey received 63 complete responses in total, and the results were published in *Survey Insights: An analysis of the 2019 Task Force on Climate-related Financial Disclosures (TCFD) survey*.

4.1.1 Research results of the 2017 surveys

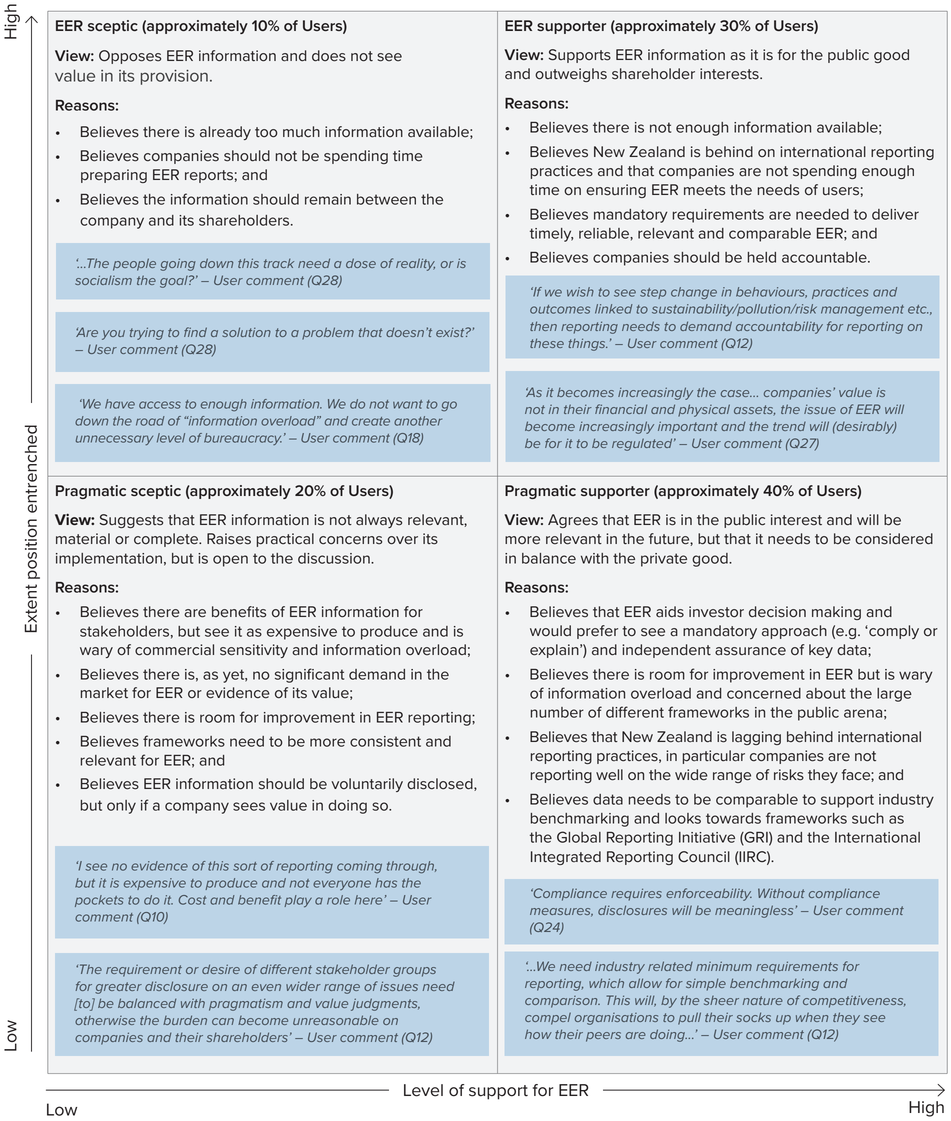
Views on Extended External Reporting (EER)

A 56% majority of users responded to the survey in their capacity as shareholders/existing investors, followed by the next largest group: 32% responding as members of civil society (McGuinness Institute, 2018a, 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 11 below).

Figure 11: Illustrating the four types of respondents that expressed views on EER in the Users' Survey

Source: (McGuinness Institute, 2018a, p. 9)



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).

Figure 12: Comparing views of report preparers with report users on what specific EER information is 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 their needs (McGuinness Institute, 2018a, p. 10).
- The gaps between what information preparers provide and what users want is substantial. See Figures 13–15.
- 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).
- 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 14).
- 53% of preparers and 79% of users indicated that they consider it important or very important to disclose total greenhouse gas (GHG) emissions. 18% of users considered GHG emissions to be 'reported on well' (see Figure 14).
- 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 14).

Figure 13: 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)

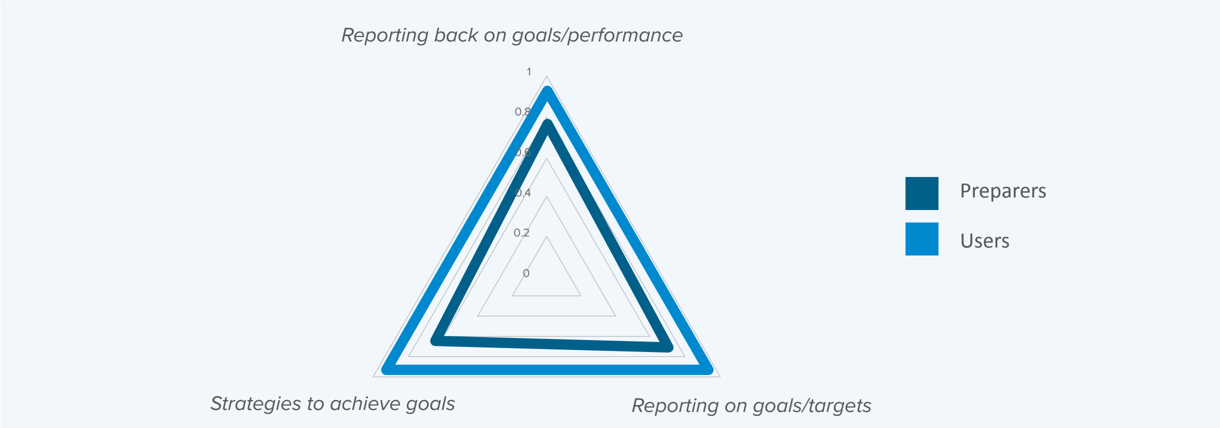


Figure 14: Comparing views of report preparers with report users on what specific EER statistics are important or very important to disclose (and how well users considered information to be reported)

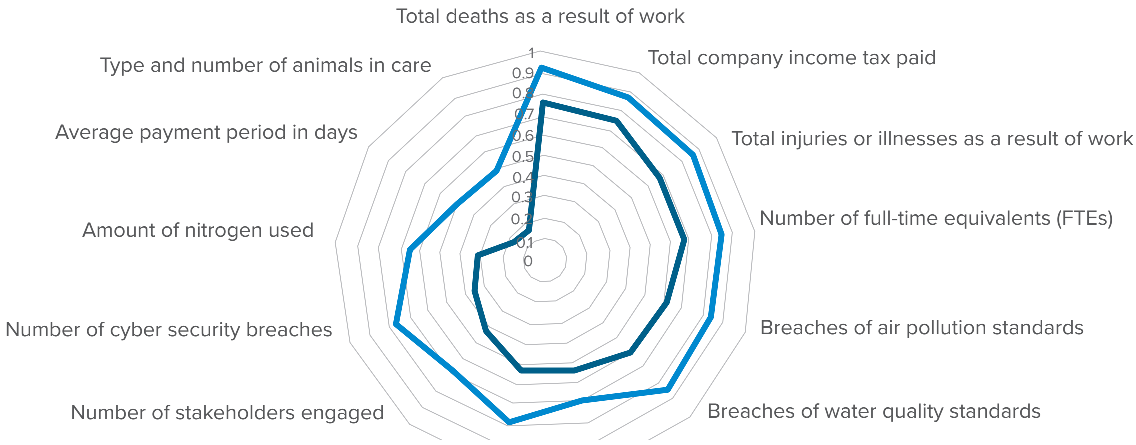
Source: (McGuinness Institute, 2018a, p. 15)

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

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

Figure 15: 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)

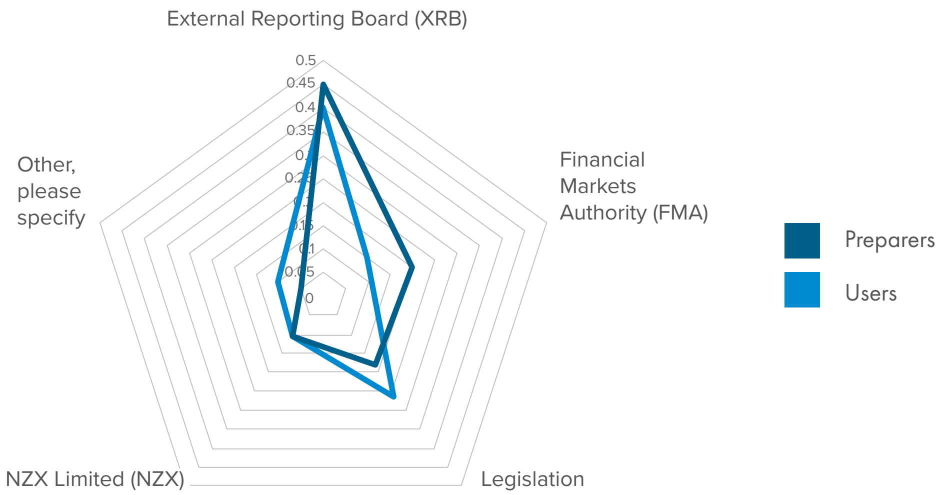


Assurance

- 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 16 below).

Figure 16: 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)



4.1.2 Research results of the 2019 TCFD survey

Overview

Overall, most survey respondents consider that government departments and heavy emitters will be required to prepare disclosures based on the TCFD recommendations before 2022, but considered that private companies would never be required by law to provide these disclosures. Most respondents considered that amount of emissions should be a characteristic that determines whether or not an entity is required to prepare the disclosures. The disclosure that requires the preparer to 'describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets' was considered the most difficult of the 11 TCFD recommendations among the respondents. The below graphs highlight the broadly positive reception of the TCFD recommendations among preparers of reports from a range of industries and sectors. The TCFD recommended disclosures are provided in Figure 17 below for reference.

Figure 17: TCFD Recommendations and Supporting Recommended Disclosures

Source: (TCFD, 2019, p. 2)

Governance	Strategy	Risk Management	Metrics and Targets
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
a) Describe the board's oversight of climate-related risks and opportunities.	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	a) Describe the organization's processes for identifying and assessing climate-related risks.	a) Disclose the metrics used by the organization to assess climate related risks and opportunities in line with its strategy and risk management process.
b) Describe management's role in assessing and managing climate-related risks and opportunities.	b) Describe the impact of climate related risks and opportunities on the organization's businesses, strategy, and financial planning.	b) Describe the organization's processes for managing climate-related risks.	b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas {GHG) emissions, and the related risks.
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°c or lower scenario.	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Observations

The Insights paper classified the survey responses into A) Timeline: expectations for mandatory implementation, B) Characteristics: considerations for respondents determining mandatory reporting and C) Ranking of the 11 TCFD disclosures in order of difficulty to prepare and report against.

A) Timeline: expectations for mandatory implementation

Figure 18: TCFD survey responses to expectations for when/if TCFD will be made mandatory for different types of entities.

(McGuinness Institute, 2019b, p. 2).

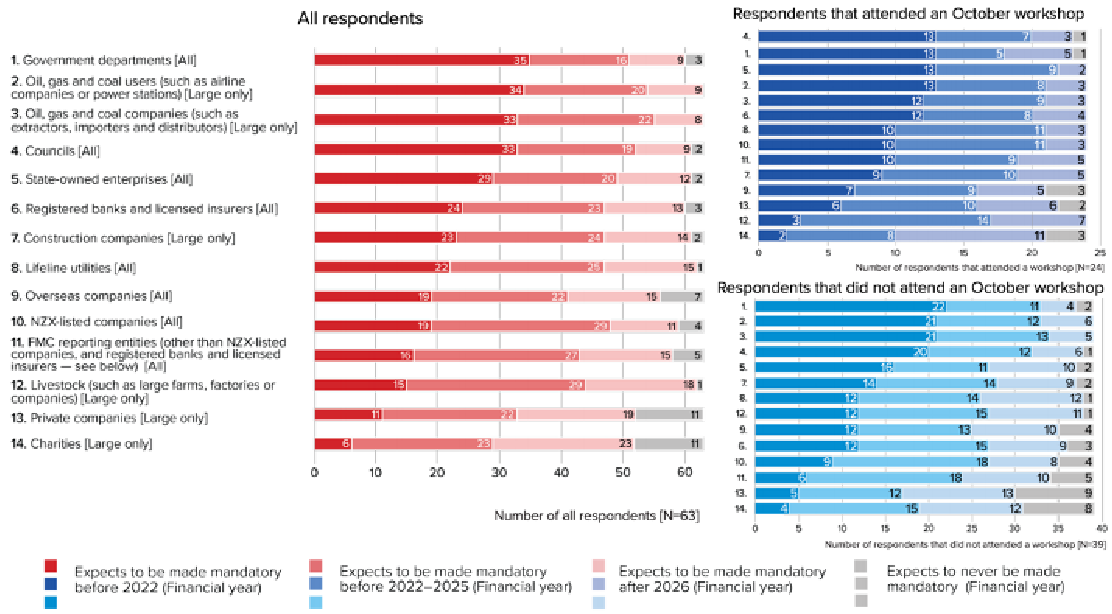
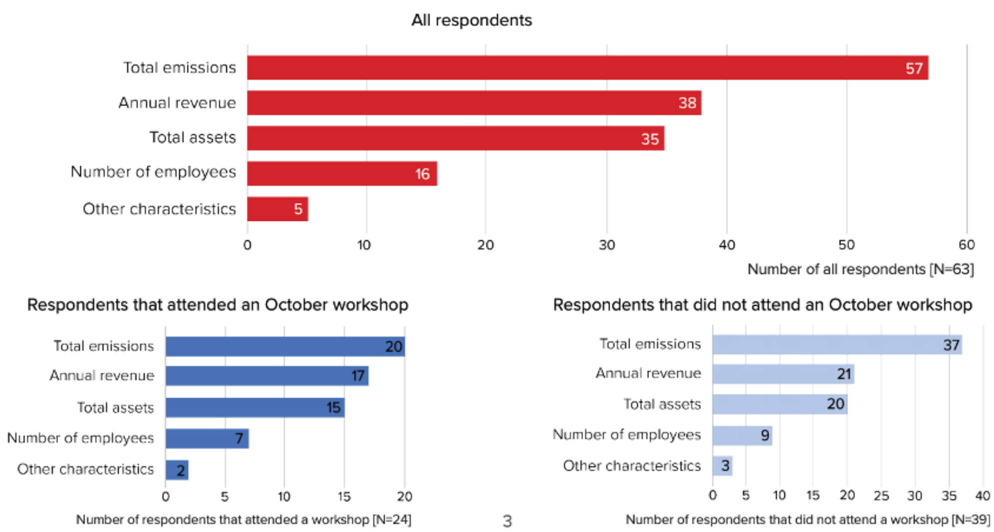


Figure 19: Survey responses for what characteristics should determine whether TCFD disclosures are mandatory for different types of entities

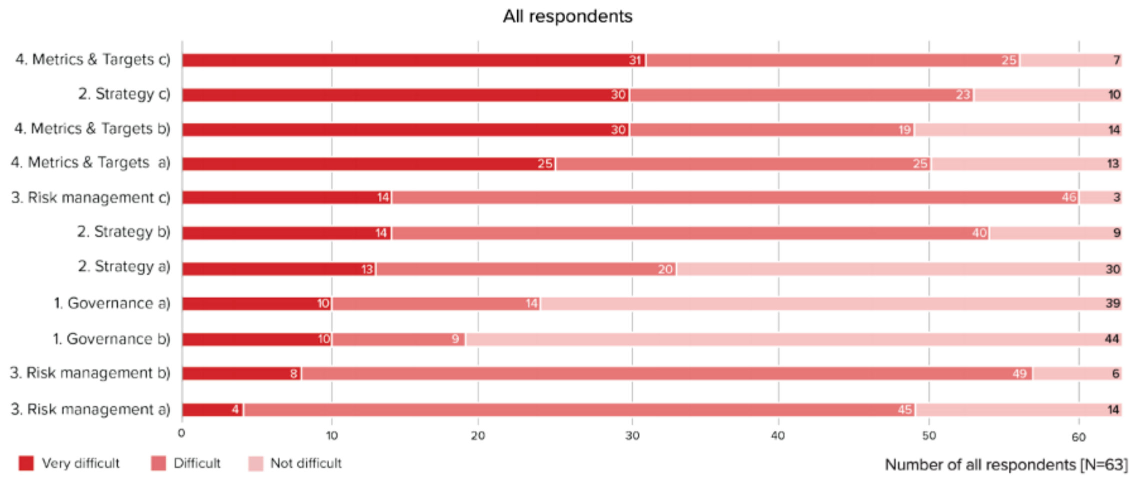
(McGuinness Institute, 2019b, p. 3).



C) Ranking of the 11 TCFD disclosures in order of difficulty to prepare and report against

Figure 20: TCFD survey responses to the difficulty of preparing TCFD disclosures recommendations

(McGuinness Institute, 2019b, p. 5). (Add TCFD table of recommendations)



4.2 Topic 2: Mandatory reporting framework

Overview

This section explores the mandatory reporting requirements that form the basis of the types of instruments (financial statements and annual reports) and information that are accessible to the public. It is broken into three areas:

- Reporting requirements for five types of entities (companies, Crown agents, government departments, local government and registered charities)
- Public accessibility of financial statements and annual reports of Deloitte Top 200 and NZSX-listed companies
- Content of annual reports of Deloitte Top 200 companies and NZSX-listed companies.

4.2.1 Reporting requirements for five types of entities

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. *Working Paper 2020/03 – Reporting Requirements of Five Types of Entities* explores the annual reporting and financial reporting requirements of companies, government departments, Crown agents and Crown entities, local government and registered charities. The Working Paper is presented in a manner that enables the reader to easily compare the requirements for annual reports and financial statements of each entity, as well as comparisons across entity types. It would be useful to visit the Working Paper in order to contextualise the high level observations contained in this section. The appendices of the Working Paper include direct excerpts of the legislation that determines the reporting requirements, e.g. the Companies Act 1993 or the Public Finance Act 1989. *Working Paper 2020/03* has been a core piece of research that has helped form many of the key findings and recommendations found in Sections 5 and 8.

Although 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 observations below, it is important to note that although annual reports in general tend to include financial statements, they are treated as separate publications in law and were treated separately in this research. In contrast to financial statements, annual reports are 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 and statements of performance), whereas private sector legislation tends to focus on financial statements.

There is a distinction between the preparation of annual reports or financial statements and requirements for those reports and statements to be published. This is not always clear in law despite the fact it has significant implications for how the framework operates in practice for report users (McGuinness Institute, 2020b, p. 6).

Specific observations of annual reports

a) Preparation and accessibility (including publishing obligations for selected for-profit entities)

- Public sector organisations are required not only to prepare annual reports but also to make them public. In contrast, private sector organisations are required to prepare annual reports but are generally not required to make them public (the only exception is FMC reporting entities that are e-reporting entities, which are required to keep their annual reports on their websites for five years). Although government departments and Crown entities are required to 'publish' their reports and local authorities are required to make them 'publicly available', there is no specification as to how this should be done (McGuinness Institute, 2020b, p. 6).
- 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 is local government, where a time frame of four months after the end of each financial year is specified in legislation (McGuinness Institute, 2020b, p. 6).
- 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, including the requirement to prepare and file annual returns under s 41 of the Charities Act 2005). However, under *PBE FRS 48 – Service Performance Reporting* (which takes effect in January 2022. Note: the effective date was extended due to COVID-19'). Tiers 1 and 2 registered charities will be required to prepare a Statement of Service Performance which will require entities to provide contextual information on why the entity exists, what it intends to achieve and how it will go about this as well as what it achieved within the reporting period (McGuinness Institute, 2020b, p. 6).

  Tier 3 and 4 registered charities are already required to prepare a Statement of Service Performance within the financial statements which is based on two elements: a) outcomes: what the entity is seeking to achieve in terms of its impact on society; and b) outputs: the goods or services that the entity delivered during the year (McGuinness Institute, 2020b, p. 6).

b) Content

- The content requirements for annual reports in the public sector are far broader than those of the private sector. For example, compare the reporting requirements in s 211 of the Companies Act 1993 with the other legislative requirements in the public sector. The public sector also focusses on comparing 'intended performance' with 'actual performance', whereas companies are not required to do this. The private sector tends to focus only on actual results (McGuinness Institute, 2020b, p. 7).

c) Audit

- Government departments and local authorities are the only entity types (out of the five reviewed) for which annual reports must be audited. However, *ISA (NZ) 720 – The Auditor's Responsibility Relating to Other Information* requires the auditor of a company's financial statements to review whether information in the annual report aligns with the financial statements (McGuinness Institute, 2020b, p. 7).

d) Penalties

- 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. 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' (McGuinness Institute, 2020b, p. 7).

- The size and types of penalty for offences such as failure to prepare an annual report, failure to make an annual report publicly available and failure to provide the required content in an annual report are not consistent when compared across entity types (McGuinness Institute, 2020b, p. 7).

Specific observations on financial statements

a) Preparation and accessibility (including filing obligations for selected for-profit entities)

- For those entity types that have specific timing requirements for preparation of their financial statements, the timing requirement ranges from preparation within four to six months after the balance date or end of financial year.
- Generally, requirements for FMC reporting entities are stricter than for other companies. For example, FMC reporting entities must file within four months after the balance date, rather than the five months required for all other companies (McGuinness Institute, 2020b, p. 7).
- For companies that are required to file financial statements, the cost of filing is $201.25 (inc. GST), but the cost for FMC reporting entities is $256.45 (inc. GST). For more information on the varying filing costs. The Companies Office may also issue infringement notices to directors of a company which carries an infringement fee of $7,000 under the Companies Act 1993 (McGuinness Institute, 2020b, p. 7).
- 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 (McGuinness Institute, 2020b, p. 7).
- There is no filing fee for a registered charity's annual return if its 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 (McGuinness Institute, 2020b, p. 7).
- For listed companies, the NZX annual membership fee is between NZ$38,800 and NZ$76,700 for onshore participants and between US$30,500 and US$60,100 for offshore participants (McGuinness Institute, 2020b, p. 7).

b) Content

- Government departments and Crown entities are required to compare 'actual' financial statements with 'forecast' financial statements while companies are only required to prepare historical accounts.

c) Audit

- Companies can choose to opt out of audit requirements under s 207J of the Companies Act 1993. The approximate number and nature of companies that use this concession is unknown.

d) Penalties

- Companies and registered charities are the only entity types (out of the five reviewed) where penalties apply for failing to prepare financial statements on time and for failure to meet the content requirements for financial statements.
- Charities that do not comply risk being deregistered. 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'.

4.2.2 Accessibility

This section explores the accessibility of annual reports of eight types of entities over three years (2017–2020). We were interested in understanding whether, overtime, there has been an increase or decrease in the accessibility of annual reports, and to explore the legislation that determines the preparing and filing of annual reports and financial statements.

The Institute has also been interested in recording which platforms company annual reports can be found and the number of companies that, despite not being required to file their annual report on the Companies Register, are choosing the file it in place of their financial statements. In our view, given that a number of Deloitte Top 200 and NZSX-listed companies are voluntarily filing their annual report on the Companies Office (in place of the financial statements) it suggests that in practice, amending the Companies Act 1993 to require the annual report to be filed on the Registrar would be a relatively simple and effective mechanism to increasing transparency.

Table 4: Availability of annual report of eight types of entities between 2017-2019

Entity type	2017	2018	2019
Top 200 companies	118 of 200	161 of 200	101 of 200
NSZX-listed companies	126 of 129	123 of 124	120 of 132
Crown entities and Crown agents	63 of 63	63 of 63	57 of 63
Government departments	29 of 31	30 of 32	32 of 32
Crown research institutes	7 of 7	7 of 7	7 of 7
State-owned enterprises	13 of 14	12 of 14	9 of 14
Local authorities	78 of 78	78 of 78	78 of 78
District Health Boards	20 of 20	20 of 20	20 of 20
Totals	**454 of 542**	**494 of 538**	**424 of 546**

Company requirements

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. Under cl 61C of the Financial Markets Conduct Regulations 2014, an FMC reporting entity:

> is an e-reporting entity for an accounting period if the entity— (a) is a company that is required by section 208 of the Companies Act 1993 to prepare an annual report for that period; and (b) is an issuer of equity securities that are regulated products

or 'is a company that is required by section 208 of the Companies Act 1993' and 'has elected under section 209C(3) of the Companies Act 1993 to comply with regulations 61D to 61F in relation to that annual report'.

NZSX-listed companies are FMC reporting entities. This means that they have additional reporting obligations due to their higher levels of public accountability. The following research was undertaken to assess the extent to which access of company annual reports is dependent on entity type.

In 2017, 54% of New Zealand's most significant companies (see Glossary definition) 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 20 below).

In 2019, 53.5% 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. This means that these entities are not required to make their annual reports public, and in some cases, are not required to file their financial statements on the Companies Office.

Figure 21: Comparing Deloitte Top 200 companies with NZSX-listed companies in 2017 and 2019

Source: (Deloitte, 2017; Personal communication with NZX, 3 May 2018)

NZSX-listed and Top 200 companies			
	NZSX-listed companies only	Deloitte Top 200 companies only	Both NZSX and Deloitte Top 200
2017	76 [27.5%]	149 [54%]	51 [18.5%]
2019	84 [29.6%]	152 [53.5%]	48 [16.9%]

Annual reports filed on the Companies Register for Companies listed on the Top 200

Even though there is no mandatory requirement to file annual reports on the Companies Office:

- 57.5% of 2017 Deloitte Top 200 companies filed their annual reports (instead of just their financial statements) on the Companies Register (see Figure 21 below).
- 50.5% of the 2019 Deloitte Top 200 companies filed their annual reports (instead of just their financial statements) on the Companies Register.

Figure 22: Overview of accessibility of 2017 Deloitte Top 200 annual reports and financial statements on the Companies Register

Source: (McGuinness Institute, 2018b, p. 8)

Deloitte Top 200 companies				
	Annual reports found on Companies Register or the company's website	Annual reports consisting of two documents found on Companies Register or the company's website	No annual reports, but financial statements were found on Companies Register or the company's website	No annual reports or financial statements found on Companies Register or the company's website
2017	115	3	68	14
2019	101	0	16	83

'Find' function for softcopy versions of annual reports

It is important to be able to search key words in annual reports, particularly given their length (see Figure 23 overleaf). Given this, we found the following: 50.5% of the documents provided by the 2017 Deloitte Top 200 were not searchable using the 'find' function and needed to be converted into searchable documents (see Figure 22 below).

10.9% of the documents provided by the 2019 Deloitte Top 200 were not searchable using the 'find' function and needed to be converted into searchable documents

Figure 23: Illustrating the usability of the 'find' function when searching the 2017 and 2019 annual reports of Deloitte Top 200 companies

Source: (McGuinness Institute, 2018b, p. 9)

Deloitte Top 200 companies		
	Documents that were searchable using 'find' in the PDF	Documents that were not searchable using 'find' in the PDF
2017	92	94
2019	90	11

4.2.3 Content

Content refers to the basic reporting requirements set out in legislation that requires entities to disclose certain information in the annual report. This section explores whether Deloitte Top 200 companies have been applying additional disclosure concessions and whether certain disclosures are being reported on at a quality level (clear and concise).

Application of reporting concessions by Deloitte Top 200 companies

Under s 211(3) of the Companies Act 1993, companies whose shareholders together hold 95% of the voting shares need not comply with the disclosure requirements under ss 211(1)(a) and (e)-(j). This significantly reduces the already limited disclosure requirements in the annual report.

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).

Of the 2019 Deloitte Top 200, 13 companies applied disclosures concessions when preparing their 2019 annual reports, electing to report under Tier 2 (NZ IFRS RDR) and limiting their requirements to provide certain legally required non-financial information.

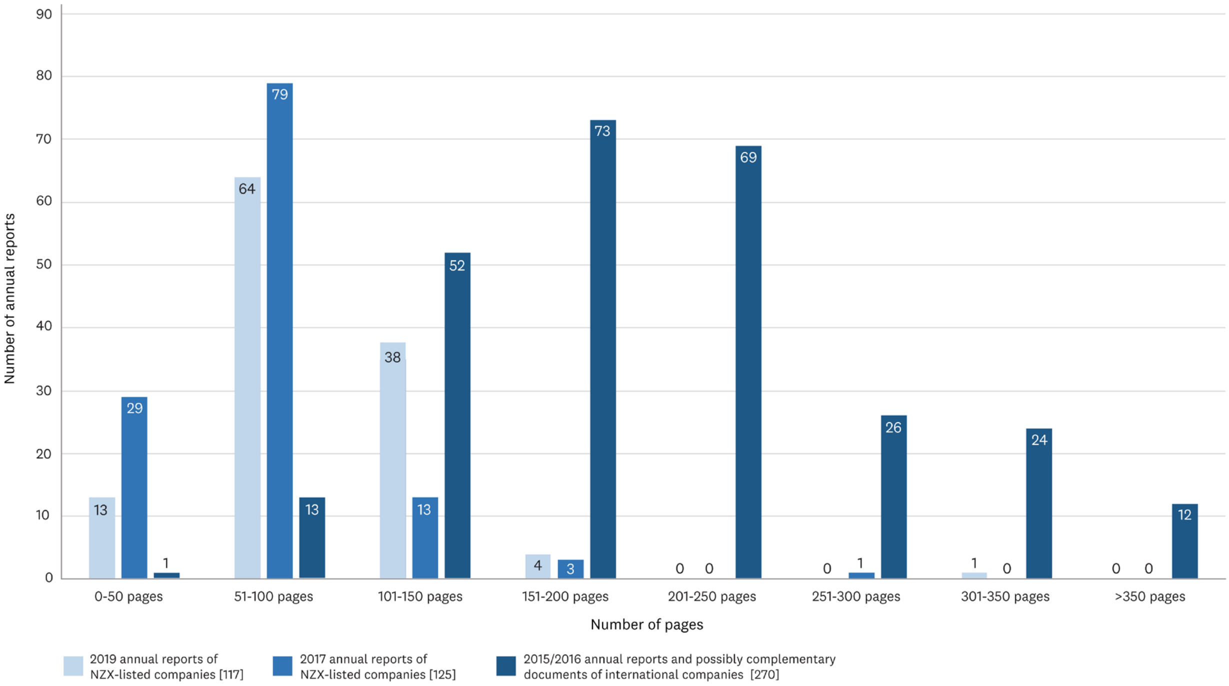
Report length

The average annual report length of 2017 NZSX-listed companies was between 50–100 pages (see Figure 23 opposite). Research conducted by KPMG on 270 of the 2015/2016 annual reports and possibly complementary documents of international companies indicated an average length of 204 pages (KPMG, 2016b, p. 6).

The average annual report length of 2019 NZSX-listed companies was between 51-100 pages.

Figure 24: Comparing the 'average page length' of the 2017 and 2019 annual reports of NZSX-listed companies with the average page length of 2015/16 annual reports of international companies

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



Nature of business

Section 211(1)(a)(i) of the Companies Act 1993 requires companies to disclose 'any change during the accounting period in... the nature of the business of the company or any of its subsidiaries'. It is difficult to be able to gauge whether a company may or may not have had any changes in the nature of business, however we found:

In 2017, 42% of NZSX-listed companies were difficult to classify in terms of nature of business by looking at their 2016 annual report.

This area of research was difficult to complete given that it is highly subjective. Given this, the Institute chose not to repeat this research for the 2019 annual reports of NZSX-listed companies. However, we consider this area to be very important and are pushing forward the need to be more specific in terms of the nature of business in *Working Paper 2020/02 – The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries*.

4.3 Topic 3: Voluntary reporting

This section explores the uptake of internationally recognised voluntary reporting frameworks in the annual reports of various entities. This research was initially undertaken on a small scale when the Institute first began to explore the contents of annual reports. *Working Paper 2018/01 – NZSX-listed companies* looked at mentions of voluntary reporting frameworks in the 2016 annual reports of NZSX-listed companies. This exercise was broadened and further refined between 2017–2020 to include the annual reports of eight types of entities and a search of 21 different reporting frameworks using Adobe Acrobat Pro to identify which entities mentioned or adopted the frameworks.

The initial research undertaken in *Working Paper 2018/01* has been deliberately excluded from *Report 17* given that it is not comparable with the findings across the research undertaken between 2018-2020. The annual reports mentioned in Table 4 in Section 4.2.3 were used to undertake the 2018-2020 research.

The research results for each entity type can be viewed individually in Appendix 10 if you are interested in comparing levels of voluntary reporting uptake across the different entity types between 2017-2020.

Observations:

Overall, compared to 2018 annual reports, there have been 9 frameworks that have had increased mentions/applications and 12 frameworks where mentions/applications have either decreased or stayed the same in the analysed 2019 annual reports.

Most commonly mentioned or applied frameworks/instruments among analysed 2019 annual reports:

- IIRC (International Integrated Reporting Council) [48]
- UN SDGs (United Nations Sustainable Development Goals) [43]
- ISO14000 family [40]
- CEMARS (Certified Emissions Measurement and Reduction Scheme) [37]
- GRI (Global Reporting Initiative) [36]

Least commonly mentioned or applied frameworks/instruments among analysed 2019 annual reports:

- FTSE4GOOD (FTSE Russell Index Series) [4]
- PRI (Principles of Responsible Investment) [4]
- UNFCCC (United Nations Framework Convention on Climate Change) [3]
- NGER (National Greenhouse and Energy Reporting scheme) [2]

Frameworks/instruments with no mentions among analysed 2019 annual reports:

- CDSB (Climate Disclosure Standards Board) [0]
- SASB (Sustainability Accounting Standards Board) [0]
- GLEC framework (Global Logistics Emissions Council Framework) [0]
- Ceres [0]

Multiple frameworks

Overall, entities operating in the private sector (NZSX and Top 200 companies) employed more frameworks in their reporting practices than public sector entities. This was similar for 2017 and 2018 when each framework/instrument was mentioned by more private sector entities than public sector entities (except for PRI and UNFCCC).

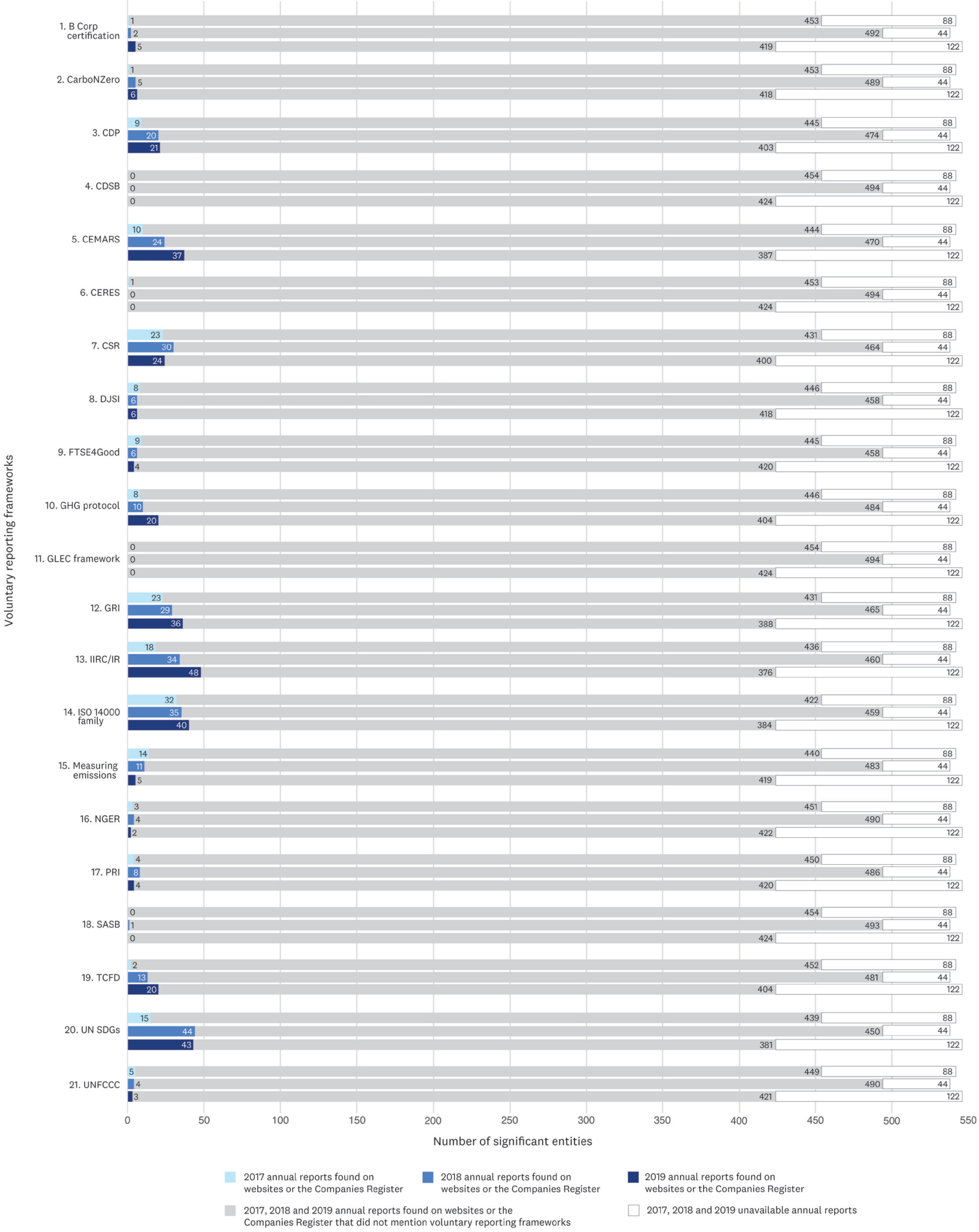
A number of entities mentioned more than one framework within their annual reports. Among the for-profit entities 2019 annual reports, the highest numbers of different frameworks/instruments were mentioned by Contact Energy Limited [7], Fisher & Paykel Healthcare Limited [8], The Warehouse Group [6] and Westpac Banking Corporation [6].

TCFD (Task Force on Climate-related Financial Disclosures)

Despite the extensive international support for the recommendations of the TCFD, there has only been a small increasing trend of the framework being mentioned within analysed annual reports. 20 entities mentioned the TCFD framework within their 2019 annual report (compared to 8 mentions in 2018 annual reports, and 2 in 2017 annual reports.)

Uptake of voluntary reporting frameworks between 2017-2019

Figure 25: Mention of 21 reporting frameworks in the 2017, 2018 and 2019 annual reports of eight types of entities



Notes:

1. Trusts and funds were removed from the total number of entities listed on the NZSX. This was the result of a methodological decision to only include companies that contained the term 'Limited' in their title.
2. DHBs and CRIs were treated as separate data sets rather than being included in the Crown agents and Crown entities data set.
3. Some companies are NZSX listed as well as on the Deloitte Top 200. There are also entities that are both state-owned enterprises and listed on the Deloitte Top 200 and therefore have been double counted.
4. COVID-19 has had a significant impact on the availability of Deloitte Top 200 companies' 2019 annual reports – 101 2019 annual reports were available in comparison with 162 2018 annual reports at the same time last year (a decrease of 37.7%).

4.4 Topic 4: Other specific issues

When undertaking the surveys (mentioned in Section 4.1), the Institute became interested in understanding how the content of annual reports changed over time. This section explores specific content found within the annual reports of various entities. The types of information within this section are not necessarily required by entities to prepare, however, given the rise in EER in recent years, and based on the responses of users in the EER and TCFD Surveys (See Section 4.1), companies are increasingly expected to disclose these types of information. This section is divided into five issues:

1. Climate-related information;
2. Gender diversity;
3. Health and safety;
4. Political donations; and
5. Intangible assets.

These types of content were initially explored in *Working Paper 2018/01 – NZSX-listed Company Tables*. The analysis involved reviewing the 2016 annual reports of NZSX-listed companies 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 working paper to ensure the analysis was transparent, objective and data-driven. Given that annual reports of companies are not always publicly available, the Institute focused on the annual reports of NZSX-listed companies. Since the publication of *2018/01 – NZSX-listed Company Tables*, the Institute has since expanded on and refined the research as well as extended the datasets to include other entities.

It is important to note that the datasets for each issue differs and this is due to what the Institute was interested in at the time of publication. For example, specific issue 1 – climate-related information, explores eight data sets using the annual reports of the entities listed in Table 4 in Section 4.2.3 while specific issues 2, 3 and 4 only explore NZSX-listed companies.

4.4.1. Climate-related information

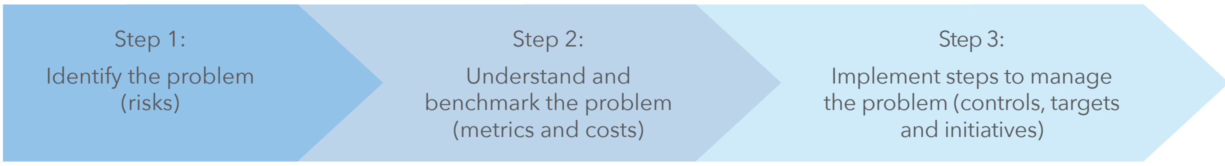
Overview

When writing up the findings of *Working Paper 2018/01 – NZSX-listed Company Tables*, it became apparent that New Zealand has a climate-related reporting problem. The research found that 28.6% of NZSX-listed companies' 2016 annual reports disclosed information on environmental practices or targets and 24.6% of these annual reports disclosed carbon emissions information (McGuinness Institute, 2018c, pp. 164, 169). In 2019, the Institute chose to put *Report 17* on hold in order to write and publish *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*. This Discussion Paper was a response to recognising how urgent this area of reporting is, and to understand where the significant gaps in information and data are, and what this meant for New Zealand.

Results in this section are a collection of the research undertaken and published in *Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors*, *Working Paper 2019/06 – Analysis of Climate Change Reporting in the Public and Private Sectors,* and *Working Paper 2020/04 - Update: Analysis of Climate Reporting in the Public and Private Sectors*.

The focus of this research has been to compare climate-related information found in the annual reports of significant organisations operating in New Zealand. The organisations include Deloitte Top 200 companies, government departments, Crown agents and Crown entities, state-owned enterprises and local authorities. Figure 25 provides an overview of the methodology used to determine how well significant organisations in New Zealand are publishing climate-related information in the annual report. The Institute chose to analyse climate-related information in three steps; each step is made up of the six disclosure types.

Figure 26: Illustrating the three steps of problem solving in climate change reporting



- Analysing disclosures of risk indicates firstly if an organisation is identifying a problem.
- Analysing disclosures of metrics and costs indicates secondly what data the organisation is collecting to understand and benchmark the problem.
- Analysing disclosures of controls, targets and initiatives indicates thirdly how the organisation is trying to manage the problem.

The research results for each entity type can be viewed in *Working Paper 2020/05 - Update: Analysis of Climate Reporting in the Public and Private Sectors Mentioned in 2019 Annual Reports* if you are interested in comparing levels of voluntary reporting uptake across the different entity types between 2017-2020. If you are interested in seeing how each entity type has progressed between 2017-2019, Appendix 8 of this report includes separate graphs for each entity type.

Observations

- The climate-related analysis has reviewed 2019 annual reports of 304 entities. These include both public and private sector entities: Deloitte Top 200 companies, state-owned enterprises, government departments, local authorities, Crown research institutes, Crown agents and Crown entities, and district health boards.
- Of the 304 annual reports, 123 [40.5%] did not disclose information for any of the six climate-related information categories: climate-related risks, emission metrics, emission costs, emission controls, emission targets and climate-related initiatives. Figure 26 illustrates the types of climate-related information disclosures made by the remaining 181 [59.5%] entities.
- In comparison, 231 [55.8%] of the 414 analysed 2018 annual reports did not disclose information for any of the six climate-related information categories. This means approximately 15% (55.8% in 2018 less 40.4% in 2019 annual reports) more entities are reporting climate-related information in their 2019 annual reports than in their 2018 annual reports.
- The most disclosed climate change information categories in 2019 annual reports were climate-related initiatives [35.5%] and climate-related risks [28.0%]. The percentage of climate-related risks disclosed in 2019 (28.0%) had increased from 20.5% in 2018 and 9.7% in 2017.
- There was an overall increase in disclosures across all climate change information categories expect for emission costs (14.7% in 2019 compared with 13.0% in 2018 and 17.7% in 2017).
- Despite the implications arising from COVID-19 (which has had a significant impact on the availability of Deloitte Top 200 companies' 2019 annual reports – 101 2019 annual reports were available in comparison with 162 2018 annual reports at the same time last year), there has still been an overall increase of climate-related disclosures across all significant organisations.
- Looking at the 101 2019 annual reports from Deloitte Top 200 companies, there appears to have been an increase in information provision for four climate information categories and a decrease for two.

Climate information categories that have increased are:

- emission targets (12.5%), up 6% from 2018 annual reports;
- climate-related risks (17%), up 3% from 2018 annual reports;
- emission costs (6.5%), up 2% from 2018 annual reports; and
- emission metrics (16%), up 1% from 2018 annual reports

Those that have decreased are:

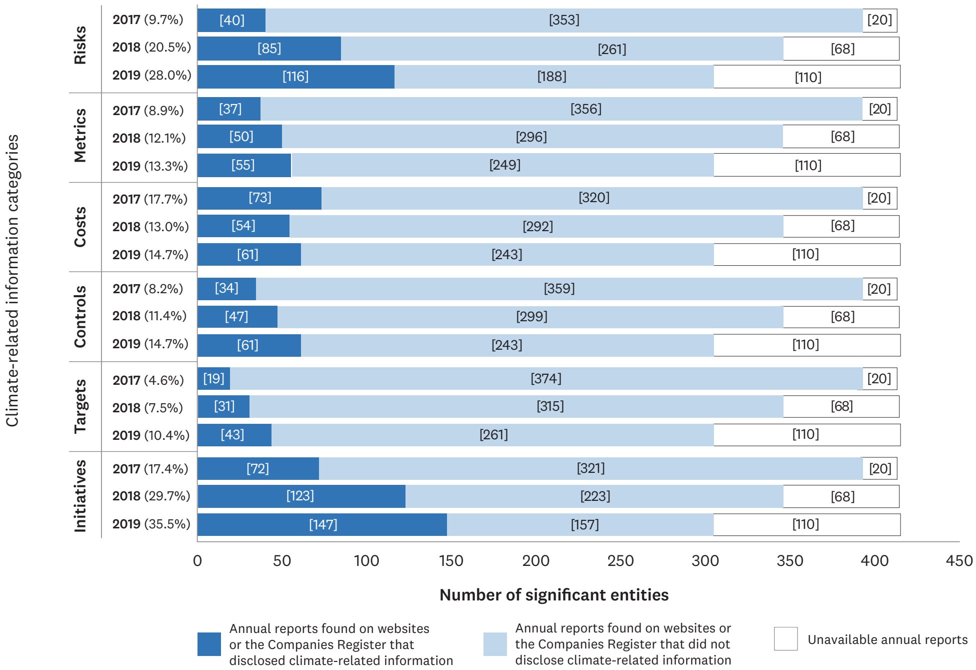
- emission controls (12%), down 0.5% from 2018 annual reports
- climate-related Initiatives (23%), down 11.0% from 2018 annual reports

When interpreting these results, it should be kept in mind that a very low threshold was applied when deciding whether information constituted climate-related information or not.

This low level of information disclosed illustrates the extent to which New Zealand is vulnerable to the risks of climate change. These results also indicate that voluntary reporting has not delivered the necessary information to drive public policy or effective investment to deliver a zero emissions economy.

Figure 27: Overview comparison of climate change information disclosed in the 2017, 2018 and 2019 annual reports of significant organisations

Source: (McGuinness Institute, 2019a, p. 19)



Notes:

1. A set of financial statements on its own does not meet the definition of an annual report (see s 211 of the Companies Act 1993).
2. The percentages in round brackets refer to the percentage of actual disclosed climate-related information against the number of possible annual reports. This means in Row 1, for example, 40 divided by 413 equals 9.7%.
3. The numbers in square brackets refer to the number of annual reports (including those that disclosed, did not disclose and unavailable annual reports).
4. Disclaimer: When interpreting these results, it should be kept in mind that a very low threshold was applied when deciding whether information constituted climate-related information or not.
5. COVID-19 has had a significant impact on the availability of Deloitte Top 200 companies' 2019 annual reports – 101 2019 annual reports were available in comparison with 162 2018 annual reports at the same time last year (a decrease of 37.7%).

4.4.2. Gender diversity

Overview

This specific issue explores gender diversity disclosed in the annual reports of NZSX-listed companies. The focus of this research is twofold; to explore the existing gender ratios in leadership roles in some of New Zealand's most significant companies, and to explore the extent to which the information across entities is comparable and meaningful. NZSX-listed companies were the chosen data set given that they are required under Section 3.8.1(c) of the *2020 NZX Listing Rules* to disclose this information (NZX, 2020a, p. 26).

It is important to note that the initial scope of this area undertaken in *Working Paper 2018/01 – NZSX-listed Company Tables* found that diversity information was difficult to compare across companies given that the particular rule in the *NZX Listing Rules* did not specify how the information should be presented, it simply stated that the information must be 'quantitative' (NZX, 2017, p. 143). Since this research was undertaken, the NZX has amended the rules to the following requirement:

> 3.8.1 Further to the requirements of Rule 3.7.1, the annual report of an Issuer of Quoted Equity Securities must also contain: [...]
>
> (c) a **quantitative breakdown** as to the gender composition of the Issuer's Directors and Officers as at the Issuers' balance date, including comparative figures for the prior year, which, at a minimum, must include:
>
> (i) the **number** of male and female Directors, and
>
> (ii) the **number** of male and female Officers
>
> at the relevant balance date and with comparative figures for the prior balance date (if any) [bold added] (NZX, 2020a, p. 26).

The research has been undertaken again for the 2019 annual reports of NZSX-listed companies and comparisons have been significantly less difficult since the clarification of presentation was incorporated into the *Listing Rules*. The lack of comparability prior to changes in the *NZX Listing Rules* can be seen in Figure 28 overleaf.

Figure 28: Overview of how the gender diversity of 'company directors' and 'company officers' is disclosed in 2016 annual reports of NZSX-listed companies

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

2017 NZSX-listed companies				
	In both numbers and percentages	In numbers only	In percentages only	Not disclosed at all
Company directors	43% [54]	44.4% [56]	6.3% [8]	6.3% [8]
Company officers	42.1% [53]	43.7% [55]	7.1% [9]	7.1% [9]

Observations

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). Comparisons between 2016-2019 will be added in 2020.

35% of boards have only male 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 only female directors. Representation was higher for female directors on boards than for female officers on the executive team; eight companies had equal or majority female directors compared to four companies with equal or majority ratio of female officers (see Figure 28).

Figure 29: Comparing the gender diversity ratios of 'company boards' and 'company executive teams' reported in the 2016 and 2019 annual reports of NZSX-listed companies

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

Company boards					
NZSX-listed companies	Male directors only	Majority male directors	Equal male/ female directors	Majority female directors	Female directors only
2017	35% [41]	58% [51]	4% [5]	3% [3]	[0]
2019	21.7% [26]	72.5% [87]	5.8% [7]	[0]	[0]

Company executive teams					
NZSX-listed companies	Male officers only	Majority male officers	Equal male/ female officers	Majority female officers	Female officers only
2017	28.7% [32]	67.9% [76]	1.7% [2]	1.7% [2]	[0]
2019	25.3% [20]	63.3% [50]	5.1% [4]	5.1% [4]	1.2% [1]

4.4.3. Health and safety

Overview

This specific issue explores health and safety information disclosed in the annual reports of NZSX-listed companies. This data set was chosen given that the *NZX Corporate Governance Code* recommends that '[a]n issuer should disclose how it manages its health and safety risks and should report on its health and safety risks, performance and management (NZX, 2020b, p. 30).

Observations

Content – Health and safety

40% of the 2016 annual reports mentioned specific health and safety information (classified here as statistics, practices and/or targets) (see Figures 29 and 30). Furthermore, 55% of these companies mentioned a health and safety policy (McGuinness Institute, 2018e, p. 3).

82% of the 2019 annual reports mentioned specific health and safety information (classified here as statistics, practices and/or targets.

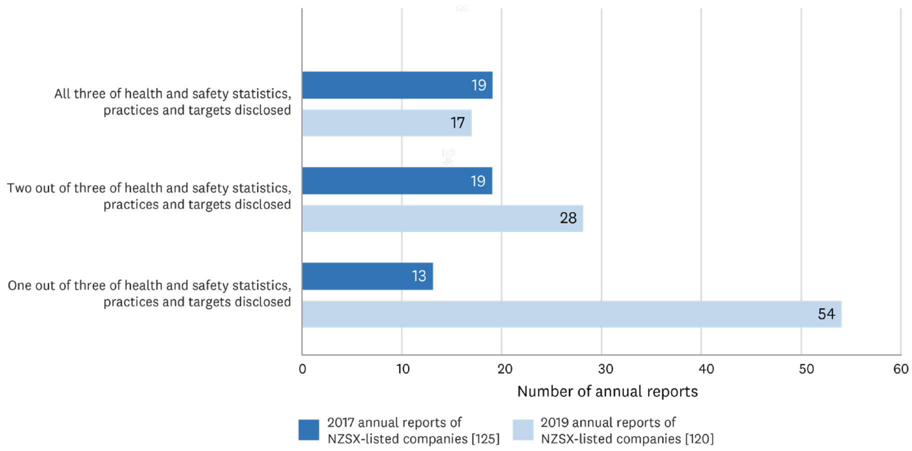
Figure 30: Illustrating the disclosure of 'health and safety information' in the 2016 and 2019 annual reports of NZSX-listed companies Note: The two figures below will be updated with 2019 health and safety information in 2020.

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

Health and safety information		
NZSX-listed companies	**Annual reports that did not mention health and safety statistics, practices and/or targets**	**Annual reports that mentioned health and safety statistics, practices and/or targets**
2017 [126]	75 [60%]	51 [40%]
2019 [117]	21 [18%]	96 [82%]

Figure 31: Illustrating the types of 'health and safety information' disclosed in Figure 29.

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



4.4.4. Political donations

Overview

Donations made by companies that are required to prepare an annual report under ss 207D and 207E of the Companies Act 1993 must disclose the amounts paid in donations in the contents of the annual report. The Institute has been particularly interested in the manner of which donations are disclosed within annual reports and financial statements for a number of years and, in light of the increasing amounts of attention this area has had in the last twelve months, the research here is particularly pertinent (see Key Finding 4). This section only explores the donations made by NZSX-listed companies, however, we are looking to explore this more broadly among other for-profit entities.

Observations

Content – Political and non-political donations

102 out of 126 NZSX-listed companies made a general disclosure regarding donations (see Figure 31(i)).

12 companies specifically disclosed a statement on political donations. All 12 companies reported zero political donations (see Figure 31(ii)). Interestingly, two of the 12 companies did not disclose any other form of donation (McGuinness Institute, 2018c, pp. 129, 133).

Figure 32: Overview of how 'donations' and 'political donations' are disclosed in the 2016 annual reports of 2017 NZSX-listed companies Note: The figure below will be updated with 2019 donations information in 2020.

Source: (McGuinness Institute, 2018c, pp. 128–129, 132–133)

(i) Donations		
NZSX-listed companies	Annual reports that did not disclose non-political donations made	Annual reports that disclosed non-political donations made
2017	26 [20.6%]	100 [79.4%]
2019	27 [22.5%]	93 [77.5%]

(ii) Political donations		
NZSX-listed companies	Annual reports that did not disclose political donations	Political donations disclosed (all $0)
2017	114 [90.5%]	12 [9.5%]
2019	110 [91.7%]	10 [8.3%]

4.4.5. Intangible assets

Overview

This section analyses the tangible and intangible asset values of 110 companies listed on the NZSX in 2017. The Institute found that, as a group, NZSX-listed companies have followed international trends, in that the asset value shown in their balance is increasingly out of line with the market value of the company. This disparity has arisen primarily because of the requirements of current accounting standards where only certain intangible assets are recorded in the financial statements (e.g. goodwill) while others are not (e.g. the value of the company's brand), which 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. Firstly, market capitalisation (market cap) is calculated at the balance date of the financial statements by multiplying the total ordinary shares issued 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). This method was applied to the 2017 financial statements of 110 NZSX-listed companies.

Observations

(a) Comparison of New Zealand and international equity markets

Figure 32 (vi) presents the 2017 tangible and intangible asset values of NZSX-listed companies, enabling comparisons with other international equity markets using Ocean Tomo's 2015 data. The NZSX had an average tangible asset value of 41% and average intangible asset value of 59%. 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 32 (i) and (ii) indicate that the percentage of NZSX's average tangible asset value is higher than the American and European equity markets in 2015 and 2017 respectively. The NZSX aligns more closely with the Asian markets (Figures 32 (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 and/or may be due to New Zealand companies tending to revalue their assets more frequently.

(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 32 opposite). 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 total assets to be more accurately represented.

The US market is becoming significantly less dependent on tangible assets (see Figure 33).

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 33: 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

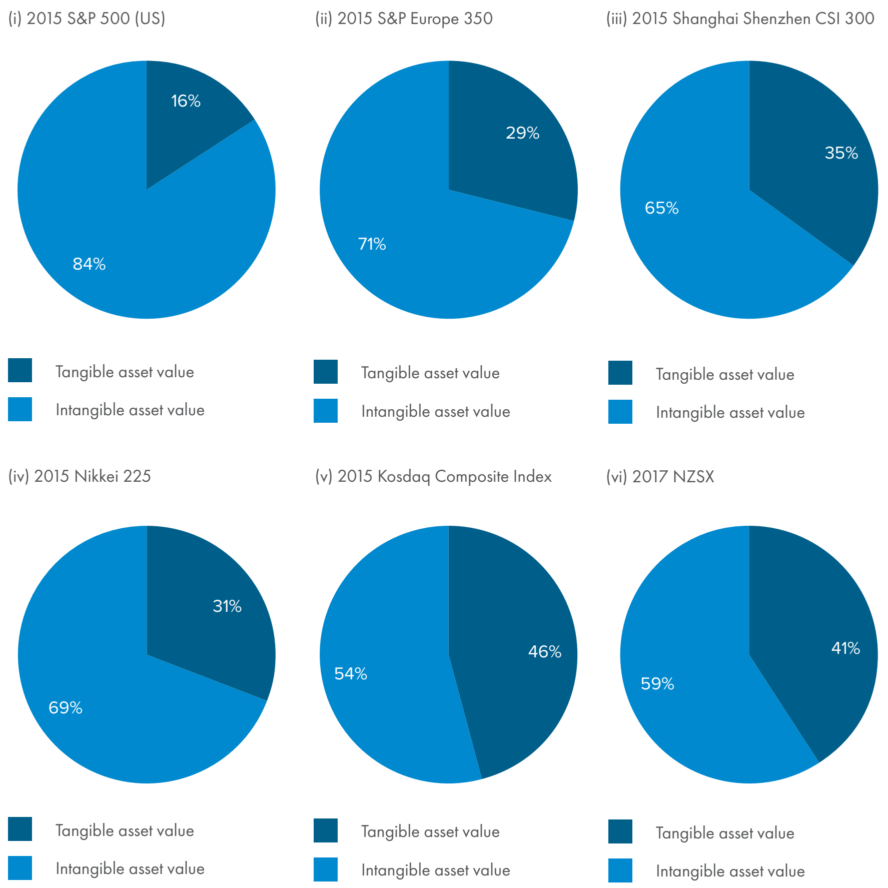
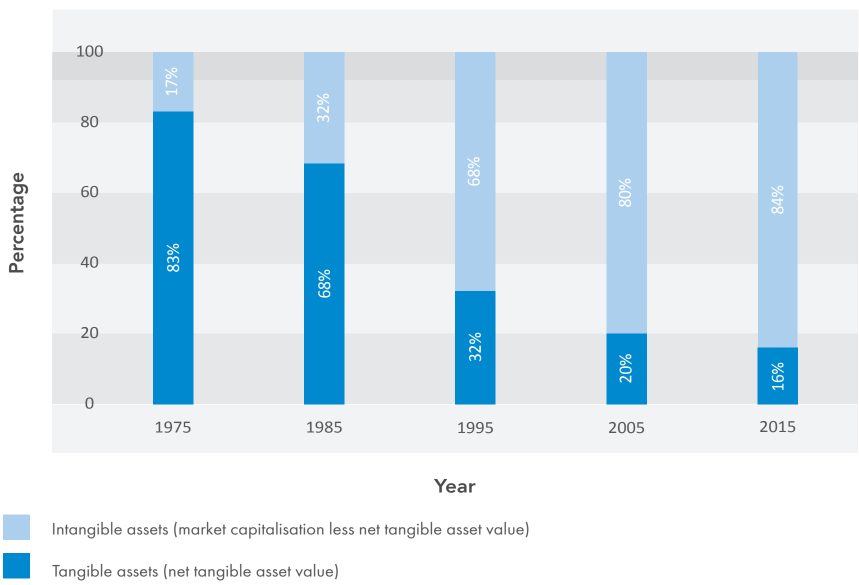


Figure 34: Illustrating the changes in intangible asset market values of US S&P 500 over time (1975–2015)

Source: (Elsten & Hill, 2017, p. 245)



4.5 Topic 5: Assurance

Overview

Ensuring information is independently assured and trustworthy is critical to the reporting framework. Breakdowns in trust have been occurring globally and the accounting profession has been looking into redressing the profession following a number of corporate failures in assurance, see discussion in Section 3.2.7. Under the Professional and Ethical Standard (PES) 1 – Audit or Review Clients that are Public Interest Entities, auditors cannot act as an auditor or any other form of assurer for a public interest entity for longer than seven years before a rotation is required (XRB, 2019, p. 108). A public interest entity is any entity that is required to comply with Tier 1 for-profit accounting standards or Tier 1 PBE accounting standards (XRB, 2019, p. 181). Our observations found that most companies listed on the NZX in 2017 had the same auditing firm audit their financial statements over a five year period.

Observations

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 34 below).

Figure 35 (i): Illustrating the audit firms that 72% of NZSX-listed companies have engaged for five consecutive years (2012-2016)

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

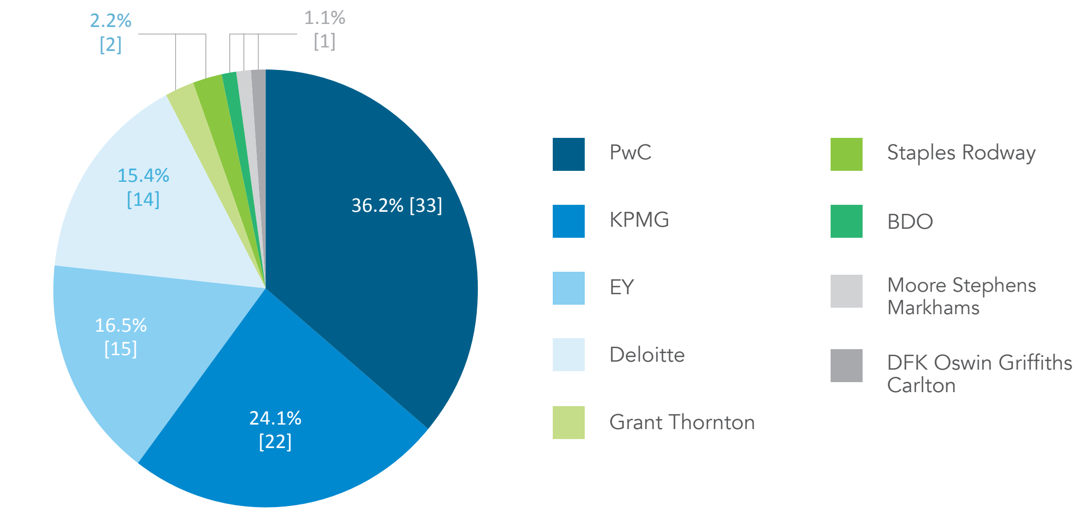
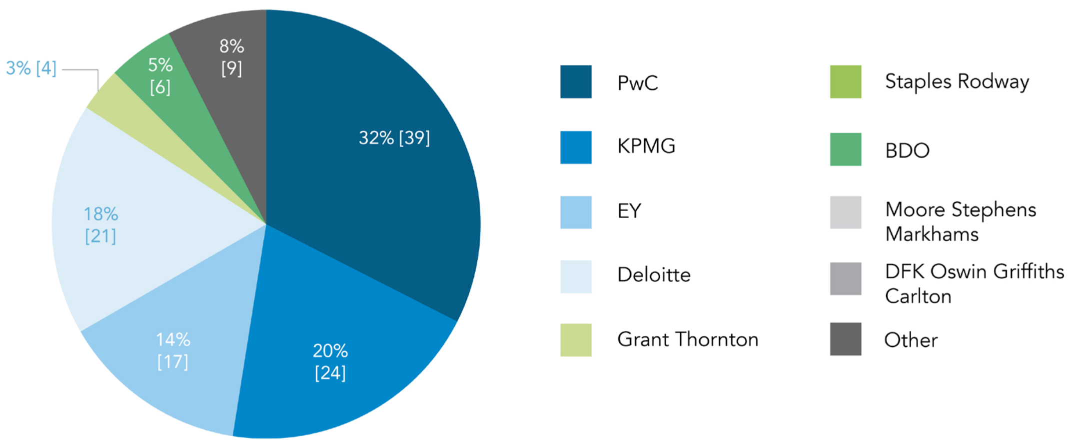


Figure 35 (ii) Illustrating the audit firms that NZSX-listed companies engaged stated in their 2019 annual reports



5. Analysis of the reporting framework

Highlights

The New Zealand reporting framework is currently managed by nine different institutions, which are shaped by at least 11 pieces of legislation and three policy instruments. The three main components of the policy framework are institutions, instruments and information (for which there are approximately 20 registers that hold the annual reports and financial statements of the different types of entities operating in New Zealand). There were ten key findings from the McGuinness Institute's analysis:

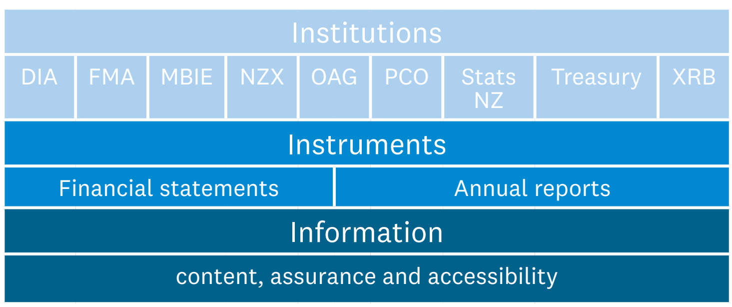
1. Institutions remain consistent, stable and proactive, but there is no overall stewardship or leadership.
2. The legislation has some built-in flexibility, but ministerial approval is required for further reform.
3. The framework is fragmented, inconsistent and outdated.
4. There is no standard definition for the purpose of annual reports.
5. Access to private sector annual reports is problematic.
6. Access to public sector annual reports is problematic; there is no central register of annual reports or financial statements for 'public sector entities'.
7. The Companies Register is not being used to its full potential.
8. Data collected by institutions is not always aligned or checked for completeness.
9. User demands for reporting disclosures exceed information supplied by preparers. E.g. donations, in particular political donations, require urgent attention.

This section examines the operational strengths and weaknesses of the reporting framework. As defined throughout this report, the reporting framework comprises of the legislative framework and the financial reporting framework that underpin the preparation and reporting of information to shareholders and external stakeholders. The reporting framework provides the basis for investors, policy-makers, researchers and other stakeholders to make current and future decisions. It does not discuss strategic policy issues; these are discussed in Section 6 as 'policy knots'.

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, using the lens of five entity types: companies, Crown entities, government departments, local government and registered charities. The lens determines the emphases of this analysis. This analysis is also 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 35 below illustrates how the components interrelate with one another. Analysing public policy in this way enables flaws in the system to be identified, weak linkages to be strengthened and alternative policy solutions to be examined. This section contains opinion and sets up the context for the recommendations in later sections of this report.

Figure 36: Illustrating the relationship between institutions, instruments and information



5.1 Institutions

Table 3 below provides an overview of the reporting framework 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 fewer than 200 to over 27,000) or the types of information they primarily deal with (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 of this report and excerpts in *Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation*).

Table 1: Comparing the roles of key reporting institutions

Please note all oversight entity numbers are approximate.

Institution	Role	Oversight (approx.)	Relevant appendix
DIA	Regulator	27,000 registered charities	See Table A4.3
		78 local authorities	See Table A4.5
FMA	Regulator	800 FMA reporting entities, including some FMC reporting entities	See Table A5.1 and glossary
MBIE	Collator (Registrar for 20 registers, including the Companies Register and the NZBN Register)*	528,000 companies and various other entities	See Tables A4.6 and A4.7
NZX	Regulator	200 NZX-listed companies	See Table A4.1
OAG	Auditor**	4000 public sector entities plus local government	See Figures A4.1, and Tables A4.4 & A4.5.
PCO	Collator (publishes legislation and XRB standards)***	550,000 entities	See tables in Appendices 4 and 5
Stats NZ	Collator (publishes statistics on enterprises and maintains the business register)	528,000 enterprises	See Tables A4.6 and A4.7
Treasury	Regulator for state service organisations (also publishes government's financial statements)	2800 state sector entities (not including local government)	See Figure A4.1 and Table A4.4
XRB	Standard-setter of accounting, auditing and assurance engagement standards	550,000 entities	See tables in Appendices 4 and 5

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, 2018b).

** The OAG is also able to publish auditing standards for public sector entities under s 23 of the Public Audit Act 2001.

*** 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 reporting framework able to issue financial reporting standards for the public and private sectors. The Ministry of Economic Development (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' (Foss, 2012, p. 12). This led to the new clarification in s 17 of the Financial Reporting Act 2013 'explicitly stating that the XRB has the power to make standards covering related non-financial matters' (Foss, 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 the McGuinness Institute's suggested amendments to s 17.

(i) Non-financial information

There is no current policy-maker for the oversight of wider non-financial information disclosed by for-profit entities of the type specified in s 17(2) of the Financial Reporting Act 2013. This means that voluntary guidance issued by regulators such as the NZX and the FMA are sometimes the only guidelines preparers have for non-financial information. The voluntary nature of this guidance has, to some degree, led to repetition of guidance. For example, the NZX and the FMA publish separate corporate governance documents.

(ii) Financial information

The XRB is an 'independent Crown entity responsible for [preparing and issuing] accounting and auditing [and] assurance engagement standards' (XRB, 2018b). The XRB states on its website that it is 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).

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, 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 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. Other examples are 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).

The XRB could be seen as the closest institution the system has to an overall steward, given its specific remit to manage financial reporting strategy in New Zealand, but this remit does not currently include wider non-financial information for for-profit entities of the type specified in s 17(2) of the Financial Reporting Act 2013. (XRB, 2019b, p. 4). The XRB's 2019 annual report clearly outlines its organisational goals and links them to the broader goals of government (XRB, 2019b, p. 10).

Given the complexity and uncertainty of many reporting issues, the reporting framework requires ongoing management. It was therefore surprising to find little specific reporting 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 Affairs' (DIA's) annual report, which did not mention the Charities Register at all, despite the department's role in administering it. Additionally, we could not find an annual report for Charities Services. To reach these conclusions we searched recent DIA annual reports for the words 'register,' 'companies office,' 'charities services,' and 'charity'.

In contrast, NZX regularly releases a brief document titled *Quarterly Regulation Metrics*. However, this is published as an announcement and cannot be located from a central landing page on the NZX website. Although announcements from the last quarter of 2019 make reference to 'Investigations begun in relation to Issuers' and 'Complaints received concerning Issuers', the document does not provide comprehensive or particularly detailed information (NZX, 2019a). Additionally, the FMA is 'required to review, at least annually, how well a licensed market operator is meeting its obligations' and 'to publish a written report' to the effect (FMA, 2019a, p. 10). In their 2019 report, the FMA indicated that the NZX had 'complied with its licensed market operator obligations during the review period' of the 2018 calendar year, focusing on 'frontline market surveillance' and 'technology and systems' based respectively on concerns from previous reviews and a significant trading system incident in the period (FMA, 2019a, p. 3).

In further attentiveness to its role as a market regulator, the FMA commissioned research 'to measure New Zealanders' attitudes towards and confidence in New Zealand's financial markets', with a particular focus on 'public and investor levels of confidence', 'perceptions of the FMA' and 'attitudes to investment materials' (FMA, 2019b, p. 3). The research found that '65% of investors are either fairly or very confident in the New Zealand financial markets' and '60% of investors are confident that New Zealand's financial markets are effectively regulated' (FMA, 2019b, pp. 4, 6). The research also indicates that a lack of awareness about the role and activities of the FMA may contribute to lower confidence in the market (FMA, 2019b, p. 6).

Lack of formal stewardship means there is no body or individual focused on either the strategic outcomes of the existing external reporting framework as a whole, 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. For example, NZX-listed annual reports (including financial statements) are required to be placed on the NZX website but only financial statements (for those same companies) are required to be filed on the Companies Register. Another example is the inability to search registered charities that are also registered on the Companies Office (e.g. Sanitarium). This raises a number of questions surrounding the searchability of central registers and the levels of transparency required of private companies.

Of further concern was the lack of an overarching purpose or set of principles to guide decision-making. Although the 2009 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, p. 5). International frameworks offer ample examples for some of the principles that could be adopted for an effective external reporting framework. For example, the FRC UK 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 UK, 2017b).

In their 2016/2017 corporate reporting review the FRC UK also discusses the importance of following 'the spirit as well as the letter' of any reporting standards (FRC UK, 2017b).

What is needed is an institution to monitor the framework for strengths, weaknesses, opportunities and threats, and a set of principles to shape 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' (Foss, 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. This is discussed in greater detail in key recommendation 1 of Section 8.

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

Some flexibility is provided through legislation in the form of delegated authority for standard-setting to the XRB and 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 discussion in key finding 1). Its inclusion in law is a way of future-proofing the legislation. This flexibility became a key platform for the New Zealand Productivity Commission, which recommended the following in its final report *Low-emissions Economy:*

> 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).

The XRB also sees the need for reporting standards on non-financial information at some time in the future. XRB states its 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; considering and implementing a strategy for EER in response to user demands; and adopting a collaborative approach with other key stakeholders to EER (XRB, 2018d, p. 7).

Key finding 3: The external reporting framework is fragmented, inconsistent and outdated.

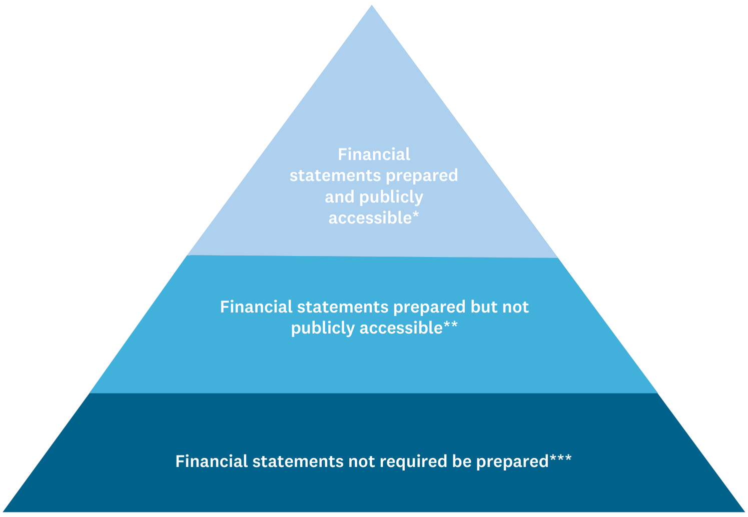
Amendments to reporting legislation over the years have resulted in a fragmented, inconsistent and outdated legal framework upon which current reporting requirements are based. This may be due to when legislation has been passed, with recent legislation reflecting more modern values and practices. Given the emerging trends discussed in Section 3 and the results from the Institute's research on intangible assets in Section 4.4 (Phase 4 research), the Institute has questions about whether certain organisations should have higher transparency requirements than others. These questions are 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 (indicated by Figure 36 opposite). All three instruments are regulated by legislation.

5.2.1 Financial statements

Figure 37: Illustrating financial statements in terms of public accessibility [new]



* Publicly accessible means required to be available to the general public (for example, either mandatory on the company's website (NZX requirements) or the Companies Register.

** For example companies that opt out of preparing financial statements under the law (i.e. s 207I of the Companies Act 1993)

***For example SMEs (no requirements to prepare financial statements other than for tax purposes)

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 develop and come into force.

Financial statements are generally governed by international standards adopted and reissued by the XRB. 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). It is worth noting 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 for-profit entities] between the various regulations which are in force around the world' (Melville, 2017, p. 6).

The application of specific accounting standards depends 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 (XRB, 2015b).

In the public benefit entity sector, accounting standards are based on those issued by the International Public Sector Accounting Standards Board (IPSASB). 'The objectives of financial reporting by public benefit entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes and for decision-making purposes (hereafter referred to as "useful for accountability and decision-making purposes"). [...] Financial reporting is not an end in itself. Its purpose is to provide information useful to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs' (XRB, 2016a, p. 13).

The XRB has adopted the IASB's objective for the financial statements of for-profit entities 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, 2018e, 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 noting that 'the usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable' (XRB, 2018e, 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, 2018e, p. 15).

Accounting standards are often supplemented by additional requirements in law. In the past, financial statements were primarily concerned with 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 is included in the notes to the financial statements under UK law (see Appendix 7, Part A, s 411 of the UK Companies Act 2006).

(i) Public sector

Under the Public Finance Act 1989, Treasury 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'.

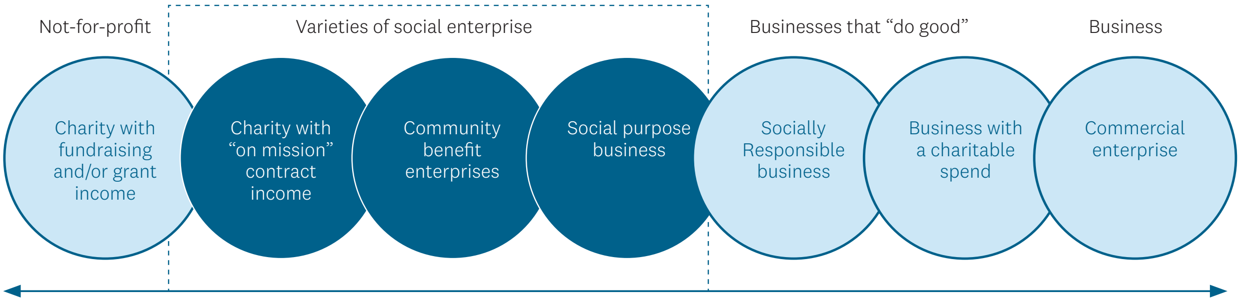
(ii) Private sector

NZ IFRS is a suite of IFRS standards (developed by the IASB) that have been adopted by the XRB and adjusted for domestic purposes. New Zealand for-profit entities that are required by law to prepare financial statements must comply with XRB accounting standards (XRB, n.d.[a]).

XRB accounting standards are separated into for-profit or public benefit standards. The current structure of XRB standards does not cater for social enterprises, which may be operating somewhere between for-profit and public benefit entities. There appears to be limited data available on how social enterprises are structuring their businesses in New Zealand. However, a 2012 paper from the Department of Internal Affairs found that, out of 421 respondents, 52% indicated they were set up as a charitable trust, 37% were incorporated societies and 7% were limited liability companies (Moe, 2017). An article from 2019 found there are over 3500 social enterprises operating in New Zealand (Mandow, 2019a). The McGuinness Institute believes it is worth exploring how to better cater to the new social enterprise business model in order to not only ensure that large charities such as Sanitarium are incorporated into the tax system, but so that social enterprises who incorporate as a for-profit entity are recognised for their social services (see discussion in Section 3.1.6). The figure below illustrates the way emerging business models fit along a continuum between charities and for-profit entities. The current framework requires charities to prepare financial statements and Statements of Service Performance (SSP) while for-profit entities prepare financial statements and annual reports. In an SSP, registered charities are required to disclose their outcomes (what impacts they intend to have on society) and outputs (the goods and/or services delivered throughout the year) (Tier 4 entities are only required to prepare outputs) (Charities Services, 2016). We explore how to define social enterprises and how (if they register as a limited liability entity) they could be required to prepare an SSP in Section 8.4.

Figure 38: The social enterprise continuum

Source: (Ākina, 2020).



Most entities not required by law to prepare GPFR still need to prepare special purpose financial reports (SPFR), required by Inland Revenue (IRD) under the Tax Administration (Financial Statements) Order 2014.

Of those entities that are required to prepare GPFR, only a small portion are required to file them. Importantly, there is a large group of entities that are not required to file financial statements. Of those entities that are required to file financial statements, only a small portion are required to make an annual report public. These are either entities with public accountability or FMC reporting entities.

Entities required to prepare SPFR 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, 2018b, p. 8). Other than relative 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 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, 2018b, 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, 2018b, p. 18). The statement of cash flows is listed as an optional non-core component; *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, 2018b, p. 18).

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

In general, 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). *ISA (NZ) 720: The Auditor's Responsibilities Relating to Other Information (ISA (NZ) 720 (Revised))* provides 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, 2015d, pp. 6–8).

(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. This statement is also audited.

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 and SMEs were therefore not required by the accounting standards 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, require urgent attention.

While the call for more meaningful reporting of business practices over the past decade has led to incremental changes in reporting habits, the lack of transparency in government and corporate relations, particularly concerning political donations, is yet to be addressed with any real change to corporate reporting practices.

There does not appear to be a 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 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, clearer rules are needed 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 to trace the relationship between the corporate sector and the community or civic spheres.

The relationship between organisations and political parties and representatives is of particular interest in terms of ensuring an organisation's interests do not conflict with the public interest. This is especially true of 'a democracy "where we're entrusting political parties and their representatives with a great deal of public power"' (Espiner & Newton, 2020). While it is clear that a close relationship between business and government can be indicative of financial success for a particular 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.

In New Zealand, there are currently issues of transparency on the part of both donors and recipients. For example, the Institute found that while some companies did make a statement about political donations, most did not (McGuinness Institute, 2018c, p. 128). There have been recent concerns regarding New Zealand political parties – in one instance of a party leader 'hiding a NZ$100,000 donation from a Chinese businessman to avoid declaring it' and in another instance of a party using a foundation that received a number of donations 'just under the threshold at which the donors' names would normally be made public' to then pay bills for the political party (Roy, 2019; Espiner & Newton, 2020). In contrast, Ireland set legislation in 2013 that requires corporations to announce all political donations over $200 to all their members, shareholders or trustees, 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 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).

New Zealand is engaged in a similar conversation. At the end of 2019 the government announced the introduction of legislation 'banning donations over NZ$50 [...] to political parties and candidates by foreigners' amid concerns about 'the risk of foreign interference in elections' (Roy, 2019). However, experts have criticised the scope of the Bill, noting that donations from companies registered in New Zealand are not considered foreign donations 'even if the company is wholly owned by a company or people outside New Zealand' (Roy, 2019). Furthermore, the Electoral Commission is investigating the handling of donations made to a foundation closely linked to a political party, indicating recognition of the fact that donations made to a foundation 'run by people involved in the party's administration' would need 'to be declared as party donations', or if it was a separate entity, bills 'paid on the party's behalf should be declared as donations to the party' (Espiner & Newton, 2020).

There are, therefore, a number of specific issues for consideration regarding donations. 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 the accounting standard *NZ IAS 1 Presentation of Financial Statements* in 2016 (XRB, 2011a, p. 13; 2011b, p. 34). Furthermore, 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. Secondly, it was unclear to the Institute when researching *Working Paper 2018/01 – NZSX-listed Company Tables* 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. For example, the 2016 annual report of Synlait Milk Limited states 'this year we gave away more than $15,000 in donations and sponsorships' (cited in McGuinness Institute, 2018f, pp. 47–48). However, the notes to the financial statements referred to 'donations $3[000]' 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 required content of an annual report is different for each type of entity and is set out in legislation (see Section 4.2.1). There are no New Zealand standards for annual reports (other than for financial statements). To add to the inconsistency, 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 (e.g. if an entity has opted out of audit requirements under s 207J of the Companies Act 1993).

It is not always clear what is included in an international annual report. The UK often refers to 'annual reports and accounts', indicating inclusion of financial statements. The UK introduced requirements for 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 range of corporate reports have been introduced to annual reports, such as directors' reports, governance reports and sustainability reports – which further adds to the confusion as to the content of an annual report. In contrast to financial statements, therefore, annual reports tend to be under-regulated.

New Zealand content requirements for company annual reports are outlined in s 211 of the Companies Act 1993 and *NZX Listing Rules* 3.7.1(a) requires compliance with this section, removing the possibility of companies opting out under s 211(3) (NZX, 2020a, p. 24). There are no penalties for non-compliance with either of these requirements, other than a possible reprimand by NZX.

The Institute has engaged in numerous personal communications with various different reporting institutions and regulators to ascertain who oversees s 211 of the Companies Act 1993 to ensure that companies are complying with content requirements for annual reports. The Companies Office does not oversee this provision, as annual reports are not required to be filed with the Registrar of Companies. The NZX Regulation team does monitor compliance with the *NZX Listing Rules*, in which Rule 3.7.1(a) stipulates that companies' annual reports must include 'the information required by section 211 of that Act' (Personal communication with NZX, 3 August 2018; NZX, 2020a, p. 24). However, this only applies to NZX-listed companies. It remains unclear from our communications what institution or regulator, if any, has oversight for compliance with this provision across all entities it applies to.

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. 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 3.6.1(b)(i) of the *NZX Listing Rules* to deliver an annual report 'to NZX by release through MAP' (market announcement platform, which electronically processes releases and stores announcements), making the report temporarily public on the NZX website (NZX, 2020a, p. 23). 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 the annual reports are first published.

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 A3.1 in Appendix 3). 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 24 (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 'carpet bombing syndrome' and to the conceptual challenge for corporate reporters posed by materiality (Elkington & Kuszewski, 2004, p. 34). This is particularly evident in relation to climate-related disclosures, as discussed in Section 3.2.3, and risk reporting. The UN Environment Programme (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 (Elkington & Kuszewski, 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' (Elkington & Kuszewski, 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 (Elkington & Kuszewski, 2004, p. 34). McGuinness Institute research found that the average length of the 2016 annual reports of NZSX-listed companies was 76 pages; other research indicates 'the average page-length of printed reports has soared 45% in just two years – with little change in report quality' (McGuinness Institute, 2018c, p. 38; Elkington & Kuszewski, 2002, p. 2).

Key finding 5: No standardised definition or purpose of annual report.

The absence of a standardised definition or purpose 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 ways.

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

This is best illustrated in *Working Paper 2020/03 - Reporting Requirements of Five Types of Entities* (discussed in Section 4.2 of *Report 17*).

(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' but does not set 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. 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, assuring 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 content of a concise annual report is governed by cl 11 of the Companies Act 1993 Regulations 1994 and the requirement for any concise annual report to include either financial statements or summary financial statements is set out under s 209(5) of the Companies Act 1993. However, use of the term is confusing because s 2 of the Companies Act 1993 states that an annual report 'does not include a concise annual report', but exceptions are made for FMC reporting entities in s 209C(5) whereby 'annual report means a report prepared under s 208 and includes a concise annual report (if any)'. The fact that other countries use the term 'concise financial reports' to refer to summary financial statements adds further confusion (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 relevant and useful.

(d) Use of the term 'annual financial statements'

The term 'financial statements' sometimes becomes 'annual financial statements' (to differentiate from interim 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).

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

The term 'annual return' is used by the Companies Office 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, 2018b). However, this still leaves the term 'annual return' open to confusion with annual reports (see the glossary for definitions of each). 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 reporting framework for users, preparers, policy-makers, regulators and auditors.

5.3 Information

The institutions and instruments discussed in subsections 5.1 and 5.2 of this report provide the foundations of the reporting infrastructure upon which information in the public arena is built. The types of information and how they are managed determine the success of a reporting framework and it is this third component that is the most volatile, complex and subject to gaps and weaknesses.

An anti-fragile reporting infrastructure for complex times should include 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).

In this section, information is divided into three elements: accessibility, content and assurance. Accessibility refers to which platforms or mediums are used to enable information to be filed and made publicly available. In the private sector this includes the Companies Register. Content refers to the kind of information disclosed by key external reporting instruments (annual reports and financial statements) and the reporting platforms information is found on. Assurance refers to the systems in place that ensure information available in the public arena is reliable and trustworthy.

5.3.1 Accessibility

The Institute uses the term 'regulatory filings' to refer to policy instruments that are required to be made public. 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, transparency is the goal of regulatory filings, with the main concern being what information an entity should be required to make public. Although this idea is discussed further in Section 6.3, this subsection briefly describes the current framework.

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 provides the public a register of annual reports on their website. This system leads to duplication. For example, NZX and the Companies Register will both have a company's annual report available on their websites at the same time (many companies upload their annual reports instead of just their financial statements). Additionally, FMA requires FMC e-reporting entities (which includes NZSX-listed companies) to make their annual reports available on their own websites for five years. This means companies might have to 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. Another example is the requirement for annual reports of Crown entities and government departments to be presented to the House of Representatives (a form 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, which does not necessarily facilitate easy public access to this information. See *Working Paper 2020/03 - Reporting Requirements of Five Types of Entities*.

Figure A5.1 in Appendix 5 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 such as number of employees and size of a company's carbon footprint. 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 should therefore have a greater responsibility to be transparent about its operations. Furthermore, the current definition of 'large' does not function in such a way that companies on the Companies Register can be analysed in terms of their size. This became apparent after an OIA request in 2018 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 A5.2, 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 reporting system is operating in a cost-effective, integrated manner.

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

There are significant weaknesses in the public sector's external reporting system. Based on Institute research (see Section 4 of this report) that explores the reporting and filing requirements of government departments, Crown entities and local government authorities, the Institute knows that the issue lies not in the preparation of the annual reports, but in the ease of access to this publicly available information. Misalignment in filing requirements across public sector entities demonstrates the shortcomings of the existing regulatory filing requirements. For example, government departments and Crown entities are required to present their annual reports to the House of Representatives as well as make the annual report public (although there are no specifications as to where the reports should be published) while local government authorities are required to prepare an annual report and file it in the Parliamentary Library. The absence of a Crown register makes the filing and accessing of these key documents messy, disjointed and difficult to manage.

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).

Key finding 7: Access to private sector annual reports is problematic.

Legislation distinguishes between requirements to 'prepare' and to make 'publicly available', with only NZSX-listed companies required by legislation to make their annual reports publicly available. There is no requirement 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' (Foss, 2012, p. 1). This change was aimed at 'improving the quality of reporting', but seems to have instead resulted in varied requirements for registered charities' annual returns, which in some cases include quite extensive information (Foss, 2012, p. 1). Given the Charities Act 2005 is under review (public consultation closed May 2019), it is timely to reconsider public access to the annual reports of registered charities (Charities Services, 2018). Registered charities are only required to file financial statements and annual returns. 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 limited amount of information available about significant 'for-profit entities', which is why the annual report can be such a useful instrument for both preparers (it can be used to communicate with stakeholders) and users (it can be used to learn more about what the company has done, is doing or is planning to do).

Access is limited because 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), annual reports (unless the company decides to file them as their 'financial statements') and/or additional reports (such as sustainability reports).

Clause 61D of the Financial Markets Conduct Regulations 2014 is the only legislation, to the McGuinness Institute's knowledge, that requires a for-profit entity to make its annual report publicly available. The annual reports of FMC e-reporting entities are required to be published on their individual website for five years, rather than on a public register. Many company websites (and therefore annual reports) were hard to find, particularly when entities use a number of variations of company names (i.e. operating/trading names, official/legal names and marketing names). This multiplicity of names is further complicated by the fact that entities are only required by XRB standards to disclose 'the name of the reporting entity' and NZ IAS 1 Presentation of Financial Statements does not specify whether this name should align with any of the operating/trading, official/legal or marketing names of the entity (XRB, 2011b, p. 15).

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

In February 2019, the Commonwealth Registers Bill 2019 was introduced in the Australian House of Representatives with 'the aim of making business data current, accurate and accessible' (Australian Treasury, 2019). There are currently 34 registers managed by the Australian Securities and Investments Commission (ASIC) and the Australian Business Register (ABR); the new regime was designed to create a singular streamlined platform with a single register and to 'improve the user experience and simplify the way people interact with government registers' (KPMG, 2019; Australian Treasury, 2019). In April 2019 the Bill lapsed with the dissolution of the Australian Parliament, and is not proceeding (Parliament of Australia, n.d.).

5.3.2 Content

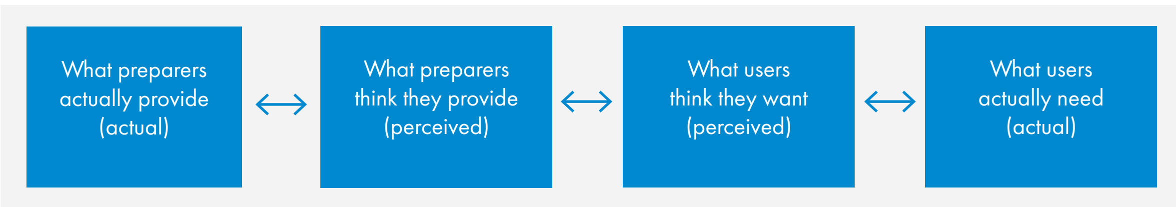
As shown in Section 2 and in the emerging trends and implications discussed in Section 3 of this report, information that is considered to be important and relevant changes over time as society, its values and issues of the day, shift and unfold. What types of information is considered important to be included within the external reporting instruments should adapt and adjust alongside these emerging trends and issues. The reporting framework in New Zealand has not yet adjusted to emerging issues such as climate-related financial disclosures, diversity within an organisation or the rise in intangible assets.

Key finding 8: 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 there is a gap between the needs of report users and what is published by preparers, international demand of report users seems greater. This may be due to New Zealand's market being smaller, large investment funds being less demanding, users being less informed and/or company failures less frequent.

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. As research phases 1 and 2 suggest (see Section 4), there are gaps between what information preparers perceive themselves to be providing and what they are actually reporting. The research also suggests that there may be gaps between what users want and what they think they want, illustrated in Figure 41 below.

Figure 39: Illustrating the gap between what report preparers provide and what report users need



The 2017 User and Preparer Surveys yielded a number of specific insights around the perceived quality of current reporting practices. The results indicated that, overall, both preparers and users consider most annual report content to be important (see Figure 13 in Section 4 of this report). However, users considered each content type in annual reports to be more important than preparers did. In addition, users did not believe the information contained in the annual report was well-reported on (see Figure 15 in Section 4). Users indicated particularly poor disclosure areas included climate-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’) (see Figure 15). With climate change and technological disruptions posing the two greatest risks to businesses globally (see discussion in Section 3.1, especially in Trend 1 ‘Increasing complexity and interconnectedness’), this is a cause for concern as it relates to how well companies are recording, assessing and managing practices sustainably.

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

Figures on the registers and official statistics do not always align. This appears to be due to different definitions of similar words. For example, across a similar time period the Institute found that the number of registered companies on the Companies Register was 649,771 in 2019, but the number of enterprises according to Stats NZ was 546,732 (see Tables A4.2 & A4.6 in Appendix 4). 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 investigation the Institute found this was due to the different definitions 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 based on private data from Inland Revenue rather than from the Companies Register; only the composite 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’ (Stats NZ, n. d.[b]). 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 consider another term to distinguish between the two registers.

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, 2018c). 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.

Key finding 10: The Companies Register could be better used as a key location for company information.

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 identified over the course of our research; some are small and should be easy to rectify while others are more complex.

(a) Searchability

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; and registered address (Companies Office, 2018c). 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. MBIE currently makes 20 separate registers public, yet one might suffice if it could use a sophisticated enough search engine (see Table 3 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 that enables Stats NZ to identify the number of enterprises within each industry. The ANZSIC system was developed in the 1990s by Stats NZ (known then 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 7,500 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 companies completing their New Zealand Business Number (NZBN) registration, 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 is the equivalent of an annual return (Companies House, 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. the construction industry consumes 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, et cetera, 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 their nature of business (or a subsidiary's business) in their annual report under s 211(1). 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*, the Institute 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 the Institute was 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. As a result, the only way to reconcile the company name on the 2016 Deloitte Top 200 list with the correct corresponding company on the Companies Register, for research in *Working Paper 2018/01 – NZSX-listed Company Tables* was to reconcile the revenue figures on the list with those in the financial statements. This, coupled with the fact that NZBNs are not yet universally adopted, causes unnecessary difficulty when identifying companies.

(e) Ownership structure and taxation

Companies are required to disclose their 'ultimate holding company' on the Companies Register (Companies Office, 2018d). However, the Phase 2 research of NZSX-listed companies in 2017 (discussed in Section 4.2 of this report) 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 Companies Register summary page. For example, some companies would disclose a parent company in their annual report but not on the Companies 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 question of ownership structure is also linked to the issue of taxation, raising questions of whether a company pays tax to New Zealand and whether or not its 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.

Bank directors with conflicts of interest provide an interesting example of these issues. Governor of the Reserve Bank, Adrian Orr has recently raised concerns about the interests of directors who 'sit on the boards of both and Australian parent bank and a New Zealand subsidiary' (Mandow, 2019b). The complications arise in this specific example due to the differing conditions for banks in New Zealand as compared to their Australia parents. In New Zealand, the 'big four' banks 'made more than $5 billion profit between them' in 2018 and are under pressure from their New Zealand regulators to reinvest profits in better data management and 'customer-enhancing technology' (Mandow, 2019b). Conversely, the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry in Australia is resulting in significant remediation costs for Australian-owned parent banks, creating tension between the needs of the subsidiaries and their parent companies (Mandow, 2019b).

For companies in general, there is a provision in s 131(2) of the Companies Act 1993 that allows directors of a wholly-owned subsidiary to 'act in a manner which he or she believes is in the best interests of that company's holding company even though it may not be in the best interests of the company' as long as they are 'expressly permitted to do so by the constitution of the company'. However, the Reserve Bank expressly prohibits registered banks from allowing this in their constitutions, with the intention of ensuring that 'directors of a wholly-owned subsidiary bank [...] always act in the best interests of the subsidiary, not the parent' (Mandow, 2019b). Furthermore, subsidiary companies are considered separate legal entities and 'cannot be seen as an extension of the parent company' (Mandow, 2019b).

(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, 2018e).

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).

(g) Filing due dates and fees

'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 5). 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. 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. Keeping interested external parties informed is an important aspect of good governance. The filing due dates seem unnecessarily generous, particularly in comparison to public sector requirements.

It is also worth noting that, despite the recommendation in a 2012 MED Cabinet paper, entities other than the classes discussed above', penalties remain inconsistent across the framework (Foss, 2012, p. 9). This indicates that filing files and late penalties should be revisited in terms of an 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 administration may outweigh the costs of revenue collected (see Tables A3.3–A3.5 in Appendix 3). Furthermore, financial transactions with the Companies Office and all late fees and penalties should be documented on the company's profile on the Companies Register for transparency

5.3.3 Assurance

Key Finding 11: Assurance mechanisms in New Zealand are not sufficient for today's purposes.

The assurance framework evolves continuously as it responds to new and updated reporting standards and user needs. There are two key areas the Institute is interested in exploring in terms of future-proofing assurance standards to meet emerging needs. This section focuses on how assurance practices can accommodate for disclosures that are not typical to the auditing profession:

1. Assuring future-focused information; and
2. Assuring 'other information' that sits outside of the financial statements.

1. Assuring future-focused information

The accounting profession is typically backward looking (i.e. concerned with historical accounting periods), hence it is difficult to find ways to provide assurance over future-focused information. In the suite of New Zealand assurance standards the XRB has adopted, *ISAE (NZ) 3000 – Assurance Engagements Other than Audits or Reviews of Historical Financial Information* deals with 'limited' or 'reasonable' assurance of information that carries varying degrees of uncertainty in order to 'obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information' (XRB, 2014x, p. 9). The standard creates degrees of assurance based on the need to verify information that is not historical in nature, particularly future-focused information and broader EER information that may have an impact on the accounts of the entity. The standard also allows for the auditor to engage an 'expert' who is '[a]n individual or organisation possessing expertise in a field other than assurance, whose work in that field is used by the assurance practitioner to assist the assurance practitioner in obtaining sufficient appropriate evidence' (XRB, 2014x, p. 10). The principles of assessment of other assurance engagements require the auditor to check the information for:

(a) Relevance

(b) Completeness

(c) Reliability

(d) Neutrality

(e) Understandability (XRB, 2014, p. 15).

In 2018, IAASB released *Project Proposal—Guidance on Key Challenges in Assurance Engagements Over Emerging*

Forms of External Reporting ("EER") in response to submissions made on a discussion paper that explored 10 emerging issues for assurance engagements (IAASB, 2018a). The IAASB is currently requesting public feedback on proposed guidance of EER assurance. The consultation closes in mid-July 2020 (IAASB, 2020). New Zealand in turn should be reviewing the NZ ISAE 3000 standard, which is currently an exact replica of the international standard, to adapt it to meet emerging reporting trends in New Zealand, and cater to the needs of users and preparers of EER information.

2. Assuring 'other information' that sits outside of financial statements

Assurance of non-financial information typically refers to the auditing of any information that sits outside of the financial statements (sustainability reports, directors' reports or, in the case of the UK, strategic reports). New Zealand currently has one assurance standard that focuses on non-financial information: *NZ ISA 720 – The Auditor's Responsibilities Relating to Other Information*. The standard requires the auditor to review any additional information that sits outside of the financial statements (usually within the annual report) to ensure that there is no misrepresentation or inaccuracies between the financial information and the other information that provides context for the accounts (XRB, 2015d, p. 6). Currently, the *NZ ISA 720* is identical to the international standard (*ISA 720*) relating to 'other information' and has not been adapted to meet the context of the New Zealand. See Working Paper 2020/02: *The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries.*

At present, selected New Zealand entities are only subject to non-financial requirements contained in s 211 of the Companies Act 1993 (as well as the *NZX Listing Rules* if the company is listed). Given how basic these disclosure requirements are, it is not surprising that the accounting standard have not been adapted to meet New Zealand disclosure requirements. However, in order for the accounting and assuring standards to remain relevant, it is timely to review *NZ ISA 720* and tailor the standard to reflect emerging non-financial reporting trends. In the UK, the *ISA (UK) 720* standard has been adopted and adapted to align with legislation and ensure that the disclosure requirements under the Companies Act 2006 (UK) are captured within the assurance process (FRC UK, 2019, p. 13).

What is evident is the existing assurance framework contains two assurance engagement standards that can be harnessed to assure emerging trends in reporting. A review of the standards is required to tailor them to the needs of users and preparers of annual reports as broader EER requirements emerge.

6. Policy knots shaping the reporting framework

Highlights

If the following overarching questions were answered by government, they 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 the McGuinness Institute uses 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). When policy knots are resolved the system can operate without disruption and deliver on its purpose in a cost-effective and timely manner.

Figure 40 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 40: Illustrating the policy knots creating uncertainty in the reporting framework

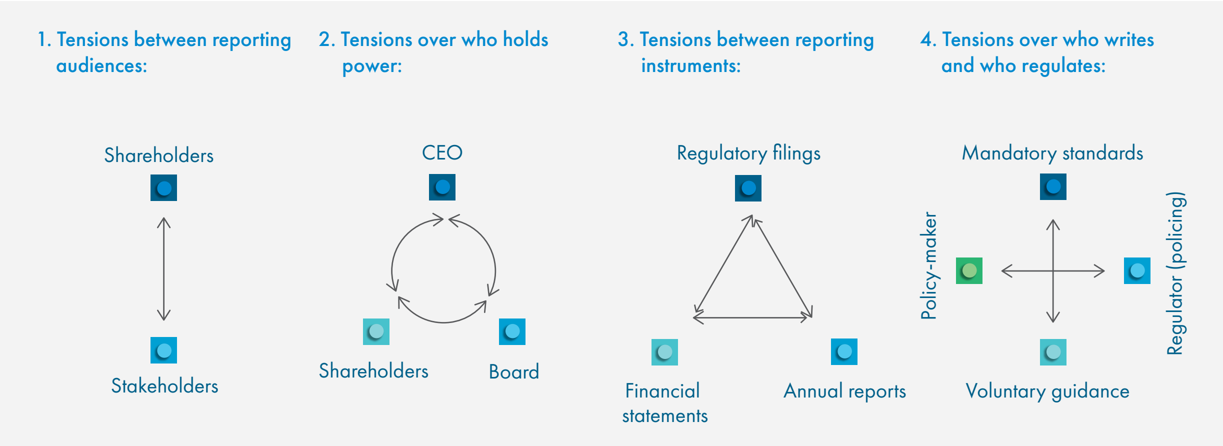


Figure 41: Comparing shareholders and stakeholders as the key users of the reporting framework

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 in terms of structure and strategy. Figure 41 on the previous page compares 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. The term stakeholder first started appearing in the early 1960s in reference to 'groups without whose support the organization would cease to exist' (Freeman & Reed, 1983, p. 89). Over time the types of users 'who have ideas about what the economic and social performance of the enterprise should include' have expanded to include a wide range of parties other than shareholders, including employees, suppliers, neighbours, bankers, insurers and government (Freeman & Reed, 1983, p. 90). The remainder of this policy knot explores who the existing framework was designed for and whether there are emerging audiences with different needs.

The existing framework was designed for shareholders; 'a doctrine of shareholder primacy [...] has defined Anglo-Saxon capitalism for almost 50 years and shaped a world that is increasingly driven by corporations' (Edgecliffe-Johnson, 2019). This can be evidenced in a number of ways. For example, the term 'shareholder' is recognised in law in relation to reporting, while the term 'stakeholder' is not (see Table 2 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 respectively mention the term stakeholder in relation to consultation requirements or in the preamble.

Table 2: Mentions of shareholder and stakeholder in legislation as at 22 August 2018

Source: (PCO, 2018)

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

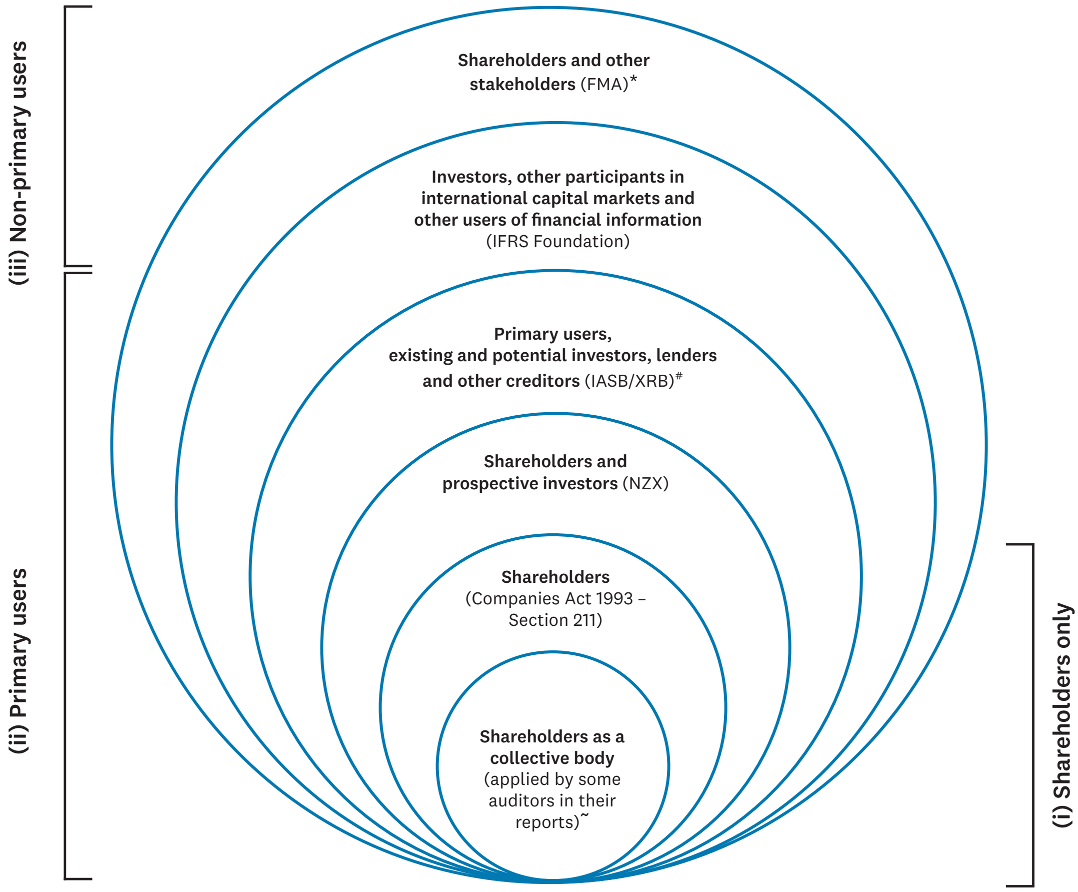
Shareholder and creditor bias is also evident in the XRB's *NZ Conceptual Framework* for for-profit entities, which identifies primary users and other users as follows:

> 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, 2018e, p. 9).

Figure 42 below illustrates the distinction between users, primary users, and non-primary users/stakeholders.

Figure 42: Illustrating six types of users in New Zealand's regulatory regime

Source: (McGuinness Institute, 2019a, p. 33)



* The FMA's *Corporate Governance Handbook* includes 'shareholder relations and stakeholder relations' as one of the eight principles of good governance (FMA, 2018, p. 3).

\# In the PBE sector, primary users are a wider group including service recipients and resource providers.

~ Referring to shareholders 'as a body' or 'as a collective body' is not terminology required by the XRB or the IAASB.

Shareholder bias also extends to guidance documents; for example, the *NZX Code* only includes 'shareholder rights/relations' as a principle but makes no mention of stakeholder rights/relations (NZX, 2020d, p. 33). 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. 4). This may have been in response to the 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%)' (FMA, 2016, p. 5).

Shareholders and stakeholders can be considered in terms of their interest or stake, and the type of power they have. While a historical model would indicate a simple division ('shareholders and directors have formal or voting power; customers, suppliers, and employees have economic power; and government and special interest groups have political power'), shifts over time have resulted in a much more complicated array of stakes and powers (e.g. government also has economic power in terms of 'import quotas or the trigger price mechanisms' and some regulators have 'formal power in terms of disclosure and accounting rules') (Freeman & Reed, 1983, pp. 93–94). As 'stakeholders have begun to exercise more political power and [...] marketplace decisions have become politicized', the current model has become less useful and relevant (Freeman & Reed, 1983, p. 96).

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 have had to report to shareholders on how they 'take employee and other stakeholder interests into account' and what their 'responsible business arrangements' are (Department for Business, Energy & Industrial Strategy, 2018). In addition, the FRC UK has updated their *Guidance on the Strategic Report* 'to recognise the increasing 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).

The UK is a clear leader in this area, with 'a growing emphasis on engagement by UK boards and management with stakeholders other than shareholders (as well as, not instead of, continued engagement with shareholders)', which is accompanied by 'an increased focus on public reporting' beyond financial information on matters such as ESG issues (ICLG, 2019). Under the UK *Corporate Governance Code*, this specifically takes the form of 'workforce-engagement methods' and directors' duties to have regard to matters such as long-term consequences of decisions, 'impact of the company's operations on the environment and the desirability of the company maintaining a reputation for high standards of business conduct' (ICLG, 2019).

A number of factors and trends support the UK's attention to these matters. For one, the current and historical shareholder focus of the framework does a disservice to the emerging subset of investors who concern themselves with stakeholder interests in their investment practices, despite being 'the very people who seem most at risk in any shift from shareholders' interests' (Edgecliffe-Johnson, 2019; see also discussion of shareholder activism in Section 3.1.7 of this report). Such practices are 'driven in part by millennials', who are 'twice as likely as older generations to want their pensions to be invested responsibly' in terms of social and environmental impacts (Edgecliffe-Johnson, 2019). This demographic significance suggests that the trend is only likely to increase as a new generation of investors enter the market.

The trend is also being driven by the erosion of trust in government and other public institutions as stakeholders, like consumers and employees, 'find it easier to influence brands than elected officials' (Edgecliffe-Johnson, 2019; see also Section 3.1.3 of this report). Stakeholder interest in exerting influence can be linked to an expanded understanding of capital (see discussion of this trend in Section 3.1.8 of this report): 'elevating shareholder's interests above those of employees, the environment or communities may have made sense when financial capital was scarce [...] but now finance is abundant while human, natural and social capital are in short supply' (Edgecliffe-Johnson, 2019).

Furthermore, there is increased recognition that consideration of stakeholder interests does not necessarily have adverse effects on profit, and in many cases the opposite can be true. For example, ESG issues and sustainability are connected to long-term profitability and 'if the board sees itself as responsive only to the shareholder in the short term, senior management will continue to manage towards economic decline' (Freeman & Reed, 1983, p. 96). Especially in times of heightened uncertainty, considering stakeholders strengthens strategy development and implementation by enabling 'analysis of all external forces and pressures whether they are friendly or hostile' (Freeman & Reed, 1983, pp. 91–92). Such strategy development might be informed by the following 'regulative principles':

- Generalize the marketing approach: understand the needs of each stakeholder, in a similar fashion to understanding customer needs, and design products, services and programs to fill those needs.
- Establish negotiation processes: understand the political nature of a number of stakeholders, and the applicability of concepts and techniques of political science, such as coalition analysis, conflict management, and the use and abuse of unilateral action.
- Establish a decision philosophy that is oriented towards seizing the initiative rather than reacting to events as they occur.
- Allocate organizational resources based on the degree of importance of the environmental turbulence (the stakeholders' claims) (Freeman & Reed, 1983, p. 92).

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 has serious implications for those interested in tackling public issues such as climate change, poverty, water quality and gender equality. Ultimately, 'all companies "are embedded in a political and socioeconomic system whose health is vital to their sustainability"' (Edgecliffe-Johnson, 2019).

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 and by whom those parties are held accountable for their decisions. 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 there are questions of whether this is appropriately balanced); conversely, it is not clear who exactly is accountable for public sector entity decision-making.

Private sector

In the private sector, 'the separation of governance and management provides clear lines of accountability', with the management of a company being accountable to the board of directors (IoD & MinterEllison RuddWatts, 2019, p. 25). The board of directors is then accountable to the company under s 131 of the Companies Act 1993, which places a duty on 'directors to act in good faith and in [the] best interests of company'. Directors are also held accountable through their signing off of the annual report as required under s 211 of the Companies Act 1993.

To a certain extent, this means the board is also accountable to shareholders, but tensions can arise when the best interests of the company are not necessarily in the best interests of the shareholders. 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). Shareholders' rights are protected by the Takeovers Panel. The Panel published the *Takeovers Code, 2000* 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, n.d.).

The balance of powers between CEO, board and shareholders was discussed 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).

Overseas, the onus of responsibility 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 actions of Boeing's board in 2019 offer another example. The chief executive of the airplane manufacturing company, Dennis Muilenburg was also the chair of the board of directors. However, after a decision was reached by the board of directors without him, the two roles were split and he was removed as chair (Kitroeff & Gelles, 2019). The decision came after many months of strife for the company, including multiple shareholder proposals to split the roles that were voted down and 'more than $8 billion in costs' after 'two crashes of its 737 Max jet killed 346 people' (Kitroeff & Gelles, 2019). The move can be seen as an attempt by the board to 'assert its independence' in light of increasing scrutiny from lawmakers and regulators, and constitutes an exercise of an accountability mechanism available to the board (Kitroeff & Gelles, 2019).

The Boeing example raises interesting questions about the differing roles of CEOs who are not board members and CEOs who are, given that 'one of the challenges facing all boards is ensuring strong oversight of senior management while still preserving an appropriate separation from managerial responsibilities' (IoD & MinterEllisonRuddWatts, 2019, p. 25). 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, 2018a, p. 90).

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, 2018a, p. 90). In international discussions about remuneration, '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 UK, 2017b, p. 31). Discussions about remuneration link into broader ESG issues such as working conditions and fairness.

The increasing role of shareholder activism (discussed above by Franklin and in Section 3.1.7 of this report), 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).

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. For example:

- 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).

New Zealand could follow the UK example and work on improving the disclosure of relationships and dependencies between key institutions as part of contributing to effective and transparent external reporting (FRC UK, 2017b, p. 24).

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. The financial statements are filed in most instances. However, Tier 3 and 4 entities are required to prepare performance reports which contain financial information (Tier 4 Performance Reports only include a Statement of Receipt and Payment) (XRB, 2018f, p. 7; XRB, 2018g, p. 5). As noted above, this contrasts completely with the private sector, where that same responsibility is placed on two directors to sign off annual reports.

As noted in Section 4 of this report, there are many situations in the public sector where annual reports are presented or published with little 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 to a 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.

Key observations

There is a lack of clarity in the tripartite system of checks and balances in the public and private sectors, which raises questions of whether it is as 'balanced' as it should be. However, each sector has its own unique issues. The private sector arguably places too much responsibility on the board of directors, has allowed shareholders to gain power without responsibility, and grants CEOs (particularly non-board member CEOs) operational power with limited accountability.

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 than 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. To ensure that the reporting framework is fit for purpose, these checks and balances in the public sector should be revisited and clarified so that decision-making power can be balanced and monitored.

Government must revisit whether the current framework ensures that those who have control can also be held to account. 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 in the relationships between them.

6.3 Which policy instruments should be used: financial statements, annual reports and/or regulatory filings?

The third policy knot discusses the three policy instruments (see Section 5.2 of this report for more detail) in terms of what instrument should be used to deliver which information to the public. The differences between requirements to prepare reporting and requirements to make that reporting public set the context for the distinction between these instruments. Below is a brief summary of each instrument, followed by a discussion of how they have been improved over time, and which policy instruments should be used for which type of organisation.

- Financial statements are generally required for filing purposes. Sometimes the terms 'annual financial statements' or 'Statement of Service Performance' (in addition to financial statements for PBEs) are used in its place. They are often audited or reviewed (see Section 4.2.2 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 exception is NZSX-listed companies, which must deliver annual reports to the NZX for uploading onto its website (until the next announcement is received) (NZX, 2020a, p. 23). These companies are also required to make their annual reports available on their own website for five years under cl 61D of the Financial Markets Conduct Regulations 2014.
- Regulatory filings are any reporting (most often financial statements) that is required to be both prepared and made public on a register. Regulatory filings in New Zealand are filed in one of four places: Companies Register (administered by MBIE), Charities Register (administered by Charities Services), NZX announcements (administered by the NZX) or, in the case of FMC reporting entities, on the entity's own website (regulated by the FMA).

Initiatives to improve financial statements

Both the XRB and the FMA have undertaken work to improve 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, 2018b, p. 2). The FMA found that only 24% of companies had made 'substantial observable 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, 2018b, p. 2).

In 2018 the FMA also published an information sheet on the *Disclosure of significant accounting estimates*, noting the 'lack of disclosure in significant accounting estimates and assumptions, particularly those containing high levels of uncertainty' (FMA, 2018c). They go on to list the following 'common areas of concern':

- 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, 2018c).

These areas of concern raise further questions as to why external reporting has not yet evolved to meet user needs. This signals an urgent requirement for central stewardship and broader regulatory oversight.

Initiatives to improve annual reports

Although the XRB is New Zealand's standard-setter, it cannot set reporting standards for wider 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. Similarly, although the NZX monitors compliance with the content requirements specified in s 211 of the Companies Act 1993 through Rule 3.7.1(a) of the *NZX Listing Rules* (as part of the process of uploading the annual reports of NZX-listed companies), there is no standard-setter or regulator for annual reports of other private sector non-NZX-listed companies (Personal communication with NZX, 3 August 2018; NZX, 2020a, p. 24).

In addition, 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 3), but it is fragmented and does not have provision for penalising non-compliance This lack of stewardship, compounded by the lack of a standardised definition and/or purpose of annual reports, has resulted in annual reports largely becoming a marketing exercise, particularly in relation to sustainability information. 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 increasingly attractive, glossy annual reports that 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 and 2014, University of Auckland Business School's Graduate School of Management lecturer Ramona Zharfpeykan found that companies tend to 'cherry-pick [...] sustainability measures that make them look good'. Zharfpeykan 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 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'. Zharfpeykan 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 of 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.

The 2018 *FMA Handbook* and 2020 *NZX Code* have provided some guidance which 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 'environmental, economic and social sustainability factors and practices' as well as explaining 'how operational or non-financial targets are measured' while remaining 'informative, [including] forward looking assessments, and [aligning] with key strategies and metrics monitored by the board' (NZX, 2020d, p. 23).

The *NZX Code* also suggests aligning companies' ESG reporting with international reporting initiatives such as GRI and IIRC (NZX, 2020d, p. 24). The *NZX ESG Guidance Note* can be voluntarily adopted and is the first guidance prepared by a New Zealand regulator that encourages non-financial reporting (NZX, 2019b). 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).

The UK Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, 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 UK *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 UK, 2018e, pp. 3–4).

Listed entities in Australia are also required to prepare directors' reports to accompany their financial reporting, under s 292(1) of the (Australian) Corporations Act 2001 (ASIC, 2019, p. 4). Within the directors' report the required information about the entity's operations, financial position and 'business strategies, and prospects for future financial years' is collectively referred to as the 'operating and financial review (OFR)' (ASIC, 2019, pp. 4–5). The OFR is also considered 'part of the annual report' and is sometimes also referred to as 'management commentary' (ASIC, 2019, pp. 5–6). (See discussion of *IFRS Practice Statement 1: Management commentary* in Section 3.2.5 of this report.)

The tensions discussed above raise the question of responsibility for providing standards and guidance on disclosures for stakeholders that might not be 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 are the only instrument that ensures the permanent availability of information, but in New Zealand this option is only available to companies legally required to make financial filings. Both financial statements and annual reports can be placed on the organisation's own website, but there is no guarantee 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. 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 a number of issues directly related to regulatory filings in New Zealand. Two were previously discussed in Section 5 of this report: that there are too many registers and that there is no central register for public sector entities. Another issue is that mandatory filing regimes can disadvantage those companies outside its requirements but that want to hold themselves to a higher level of transparency in order to support their brand and enhance their reputation. The remainder of this policy knot looks at two strategic questions: which entities should be required to file and what should they file? The evidence suggests that centralised mandatory filing of annual reports for certain entities and the option to voluntarily file for those entities that don't meet mandatory filing requirements (e.g. large private New Zealand-owned companies) would be the best option.

Which entities should be required to file?

The first strategic question concerns the types of thresholds that are used for application of requirements. 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 companies. Obvious ones include lower profile (particularly if the company is operating in a business that is not aligned to current values) and fewer compliance costs (although this is arguably less relevant given the latest technologies). The biggest advantage to opaque companies 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).

It is interesting to explore how many opaque companies are 'significant companies' (see the glossary). 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 two types of opaque companies that provide minimal information in the public arena:

- Large New Zealand-owned and operated companies. These companies are required to prepare but are not required to file their financial statements with the Companies Office (see ss 211 and 207 respectively).[4]
- Large companies can choose to opt out of preparing certain 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

4 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) made their financial statements public on the company's website (McGuinness Institute, 2018b, p. 8).

companies currently in operation. This means there is no record for the total number of companies operating in New Zealand that are defined as 'large', nor is there an understanding of the total number of companies that apply the opt-out concession of s 211(3) of the Companies Act 1993 (Personal communication with MBIE, 23 April 2018). The Institute found 83 companies on the 2016 Deloitte Top 200 chose to opt out of providing basic non-financial information required under s 211(1) of the Companies Act 1993 in their 2016 annual report under s 211(3) (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, 2018f).

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

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

1. Financial size: 'large' companies are determined by the amount for total revenue or total assets in each of the two preceding accounting periods, with a lower threshold set for overseas companies (see s 45 of the Financial Reporting Act 2013).
2. Overseas ownership: companies with 25% or more 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(3) of the Companies Act 1993).
5. Entity type: entities defined as having 'public accountability', FMA reporting entities (including FMC reporting entities with higher or lower levels of public accountability), central government and charities that 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. For example, 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 registered 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 s 46 Charities Act 2005.

Requirements for large companies, as defined in s 45 of the Financial Reporting Act 2013, also incorporate thresholds for overseas companies. There is a regulatory provision to review the thresholds at least every eight years (see s 48 of the Financial Reporting Act 2013), which would mean on or before the year 2021. Collectively these requirements illustrate 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 against which to review and measure the effectiveness of the framework system. 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 below for clarity by 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 was passed.

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.

What reports should they file?

In the UK, the requirement to file annual documents applies to all companies, including small companies such as 'flat management companies' (Companies House, 2019). The main legislation forming the filing framework in the UK includes: the UK Companies Act 2006, the UK Small Companies and Groups (Accounts and Directors' Report) Regulations 2008, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, the Partnerships (Accounts) Regulations 2008, the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012 and the Small Companies (Micro-Entities' Accounts) Regulations 2013. As well as the above, the UK Companies (Miscellaneous Reporting) Regulations 2018 requires all companies of a significant size that are not currently required to provide a corporate governance statement to disclose this information in a director's report (see cl 26[1]). Discussion of UK companies that could be considered to be 'a significant size' is set out in Section 3.2.1 of this report.

The *Company accounts guidance* (as at September 2019) outlines the UK content requirements for company accounts:

> Generally, accounts must include:
>
> - a profit and loss account (or income and expenditure account if the company is not trading for profit)
> - a balance sheet signed by a director on behalf of the board and the printed name of that director
> - notes to the accounts
> - group accounts (if appropriate)
>
> And accounts must generally be accompanied by;
>
> - a directors' report signed by a secretary or director and their printed name, including a business review (or strategic report) if the company does not qualify as small
> - an auditors' report stating the name of the auditor and signed and dated by him (unless the company is exempt from audit).
>
> There is no requirement for companies to use a professional accountant to prepare their accounts. However, directors should be aware of their legal responsibilities regarding accounts and if they are uncertain about the requirements they may consider seeking professional advice (Companies House, 2019).

Furthermore, the guidance outlines provisions for smaller and dormant companies omit some account details:

> All private limited and public companies must file their accounts at Companies House.
>
> You must file a copy of the accounts that you have already prepared for the members/shareholders at Companies House. However small companies and micro-entities may prepare an abridged version of those accounts which has less detail by omitting certain balance sheet items – more details are given in our guidance on small company accounts and micro-entity accounts.
>
> Qualifying dormant companies can deliver even simpler annual accounts to Companies House – more details are given in our guidance on dormant company accounts. (Companies House, 2019)

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 fourth policy knot shaping the reporting framework concerns responsibility for writing and regulating the policy underpinning the framework. The tensions in this policy knot are especially evident when it comes to non-financial information and voluntary guidance. This is because the XRB is already delegated power under s 12 of the Financial Reporting Act 2013 to issue New Zealand's mandatory accounting and assurance standards (referred to as 'other instruments', rather than 'legislative instruments') based on international standards. Given the 'substantial institutional infrastructure in place' for financial reporting and assurance, it seems reasonable to raise the question of whether well-established standard-setting organisations should 'extend their remit' (Barker & Eccles, 2018, p. 19).

In New Zealand, the *NZX Code* (2020) and *FMA Handbook* (2018) are both written guidance on corporate governance and non-financial information. The FMA originally published their handbook in 2014, targeting it at both listed and unlisted companies. It then refocused its own guidance on 'non-listed companies and entities, many of which have a significant impact on New Zealand's financial markets' when the NZX published its first *NZX Code* in 2017 (FMA, 2018d, p. 5). This was an effective way to minimise repetition and overlap, recognising the *NZX Code* as the primary guidance for listed companies. However, it may also create confusion in the market if not all entities are aware of the various relevant guidance documents and not all users are aware of the differences.

International reporting organisations such as the IIRC are also adding to the system's complexity with protocols and guidance that respond to increasing demand for information that is not currently required under IFRS (see Table A3.2, Appendix 3). Voluntary guidelines are 'in contrast with the relatively concentrated and mature domain of accounting standard-setting' and can be problematic in that most of the resulting disclosures fall outside the financial statements, meaning they are not audited (Barker & Eccles, 2018, p. 21). *Final Report: Recommendations of the Task Force on Climate-related Financial Disclosure* is an interesting example of voluntary guidance due to its international reception and its interest in integrating climate-related disclosures with financial information (see discussion in Section 7 of this report and in *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*). 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 Financial Stability Board (FSB), preparing recommendations for those industries. The recommendations, although generally useful, are unregulated.

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). However, those determined to 'game' their results will still find a way, even in a mandatory framework. For example, 'cooking the decisions, not the books' – the 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).

As part of ongoing debates about short-termism, the US Securities and Exchange Commission (SEC) issued 'a request for comment soliciting input on the nature, content, and timing of earnings releases and quarterly reports made by reporting companies' in 2018 and then reopened the solicitation period again in 2019 (SEC, 2018; McKenna, 2019). '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). Responses so far have indicated that 'companies and auditors largely support the status quo' (Henderson & Edgecliffe-Johnson, 2019). 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). Warren Buffett (CEO of Berkshire Hathaway) and Jamie Dimon (CEO of JPMorgan Chase), alongside the Business

Roundtable (an association of nearly 200 CEOs from major US companies), are also encouraging public companies to move away from quarterly reporting. They state that quarterly reporting that it 'leads to an unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability' (Dimon & Buffett, 2018). A move to producing reports every six months instead of every quarter would be in-line with the EU and Australia (Reuters, 2018).

Along a similar trajectory, following the restructuring of the NZX and changes to all of its rules and guidelines, listed issuers are no longer required to produce a separate half-year report. Instead, companies are required to submit certain information in the form of a half-year announcement on the NZX website. The NZX indicated that 'core to these changes was the aim of making it easier for companies to list, while making it simpler and faster for our current companies to raise more capital' (NZX, 2019c).

These arguments mirror broader discussions about the costs and benefits of external reporting. In its 2009 work on the financial reporting framework, MED (now MBIE) asserted the importance of the system weighing 'the benefits of financial reporting against the associated compliance costs' (ASRB, 2009, p. 18). This argument 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 in 2011 was intended to remove GPFR requirements for small and medium companies, explicitly to 'reduce compliance costs, particularly for medium-sized companies' (Foss, 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).

That there has been 'an inexorable evolution from an absence of standards, to relatively "light-touch" self-regulation, to independent, regulatory standard-setting, to the development of governance mechanisms to ensure that the standard-setter is itself held to account' may suggest that mandatory disclosures are the logical end point (Barker & Eccles, 2018, p. 31). However, it may also be that 'an effective regulatory solution might not be possible in the existing regulatory and political environment,' leaving voluntary frameworks developed by various NGOs as the only alternative (Barker & Eccles, 2018, p. 35).

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 the user wants to compare between organisations, industries or over time, mandatory reporting is the only way to deliver on the user's needs.

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 the opportunity to become a leader in developing a flexible and robust reporting framework fit for the future. For this to happen, the New Zealand Government needs to decide which types of 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

The climate-related reporting framework for New Zealand should be:

1. Simple, coherent and easy for preparers to apply and for investors to understand and trust;
2. Cost-effective – provides value in terms of (i) the costs of preparation, assurance, compliance and regulation and (ii) the urgency in addressing the challenges facing New Zealand and the planet; and
3. Durable and 'future-proofed' – stands the test of time by balancing certainty with the necessary flexibility to deliver on its purpose for preparers and users of climate-related financial disclosures.

Given the above, the Institute proposes that New Zealand should:

1. Require mandatory reporting for selected entities where the benefits of disclosure outweigh the costs of preparing and reporting;
2. Set out a clear purpose for the framework which outlines what disclosures an entity must comply with and why;
3. Build on existing legislative and external reporting frameworks, design features and terminology;
4. Utilise New Zealand's international standing in standard-setting. New Zealand, through the XRB and Office of the Auditor-General (OAG), has world-leading and proven reporting and assurance standard capabilities and expertise;
5. Utilise the expertise of the XRB, with a view to the XRB developing domestic standards to support entities to meet legislative requirements;
6. Align the reporting requirements of both for-profit and public benefit entities. This will not only benefit shareholders and other users by providing comparable information across both sectors, but will also benefit preparers and assurance providers as they move between the public and private sectors; and
7. Allow entities that are not subject to mandatory reporting to report voluntarily and to file their report in the same location as mandatory reporting entities. There will be reputational advantages of reporting in terms of attracting/retaining staff and growing supplier and customer loyalty. These advantages should be made available to all other entities (e.g. SMEs and other large private entities).

In this section the Institute explores three linked mechanisms in which climate-related financial reporting, through requiring selected entities to prepare a 'Statement of Climate-related Financial Information', could be embedded into the New Zealand reporting framework. A 'Statement of Climate-related Financial Information' would improve the quality and consistency of reporting on climate-related financial information to shareholders and other stakeholders of selected entities. This would be achieved by a mandatory reporting framework that centres on ensuring adequate material information is contained in annual reports (or as standalone document if the entity does not prepare an annual report). Material climate-related financial information would be along the lines of the TCFD voluntary reporting framework.

Mechanism 1 (climate reporting organisations) is through expanding the breadth of climate reporting organisations (to include for-profit entities and public benefit entities) and requiring additional information under the Climate Change Response Act 2002 (CCRA) (e.g. including a mandatory reporting regime in addition to the reporting powers already provided under ss 5ZW and 5ZX(1)(c) CCRA.

Mechanism 2 (financial reporting standards) is through making changes to the Financial Reporting Act 2013 (e.g. s 17).

Mechanism 3 (publication and location requirements) is through changes to the Companies Act 1993 (e.g. s 211).

The Institute's preference is for climate-related financial information to be part of the existing reporting framework (as seen in the above three mechanisms). The Institute's view is that each mechanism on its own is insufficient; instead, limitations of each mechanism can only be overcome by aligning all three mechanisms. For example, Mechanism 1 sets out the selected organisations in s 5ZW (1) required to prepare climate-related information on request. It also sets out a description of the type of content required of (which aligns with the TCFD) and makes clear why that information is important for the Minister, the Climate Change Commission and other stakeholders (not just shareholders). However, it is not sufficient on its own to ensure, for example, that this information is reported in the annual report (Mechanism 3), or to ensure that consistent information is made by entities across all sectors (Mechanism 2).

7.1 Introduction

This section sets out the Institute's proposed standard setting structure for incorporating climate-related financial disclosures into the New Zealand reporting framework. The overarching purpose here is to improve the quality and consistency of reporting on climate-related financial information to shareholders and other stakeholders of selected entities. This would be achieved by a mandatory reporting framework that centres on ensuring adequate material information is contained in annual reports (or other documents if the entity is not required to prepare an annual report). Material climate-related financial information would be provided along the lines of the TCFD voluntary reporting framework.

The McGuinness Institute suggests three interrelated mechanisms to achieve this purpose:

Mechanism 1 (climate reporting organisations) is through expanding the breadth of climate reporting organisations (to include for-profit entities and public benefit entities) and requiring additional information under the Climate Change Response Act 2002 (CCRA) (e.g. including a mandatory reporting regime in addition to the reporting powers already provided under ss 5ZW and 5ZX(1)(c) CCRA. This is explored in greater detail in *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*.

Mechanism 2 (financial reporting standards) is through making changes to the Financial Reporting Act 2013 (e.g. s 17) (explored in this section of this report).

Mechanism 3 (publication and location requirements) is through changes to the Companies Act 1993 (e.g. s 211) (explored in detail in sections 5.2.2, 6.3 and 8.2 of this report).

Based on extensive research in this area, and after exploring a number of mechanisms available to policy-makers, the Institute is of the view that the XRB would be the most appropriate institution to ensure preparation and assurance of climate-related disclosures is in line with international best practice (e.g. TCFD).

7.2 Institute research

The key findings and conclusions of *Discussion Paper 2019/01* and the Institute's submission on the New Zealand Government's *Climate-related financial disclosures* discussion document (2019) are summarised below. These summaries provide context for the Institute's proposed standard setting structure for climate-related reporting in New Zealand.

7.2.1 Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study

Published in October 2019, *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* forms part of the Institute's *Project ReportingNZ* and explores the existing reporting framework from a climate change perspective. It details the New Zealand context for climate reporting in terms of international commitments, Te Tiriti o Waitangi and te ao Māori, existing institutions and instruments and private sector developments. It reviews and discusses the existing New Zealand reporting regime through the lenses of legislation, the mandatory reporting regime and the uptake of voluntary reporting frameworks.

In reviewing the international accounting context and the protocols that form the basis of New Zealand's accounting and assurance standards, the Institute aimed to answer three research questions:

1. What international protocols does New Zealand currently follow and to what extent do these protocols set standards or guidance for climate-related financial reporting?
2. How might international protocols be influenced or strengthened to improve climate-related financial reporting and how likely is it for an international standard to be developed in the short term? This question assumes that New Zealand can influence the quality of climate-related financial reporting standards through consultation with the international standard-setters.
3. Given the current situation, what direct changes could New Zealand policy-makers and standard-setters make to improve climate-related financial reporting in New Zealand? This question assumes that New Zealand actively pursues other ways to strengthen the framework.

The Institute concluded that in terms of climate-related financial disclosures, there is a significant gap between what users want and what preparers provide. This gap is due mainly to a lack of infrastructural response to a complex and critical issue facing existing and future generations. The Institute noted that international accounting standard setters generally do not have a strong platform for developing non-financial, future-focused reporting for wider users (other than primary users). Accounting standards are usually designed to respond to financial reporting issues that are generally backward-looking and, when forward-looking, only address risks with a high level of certainty.

The Institute also concluded that if international accounting standard setters are not going to progress a climate-related disclosure regime in the immediate future, countries like New Zealand will be left with the challenge of developing a national regulatory solution to improve climate-related financial reporting.

The Institute also proposed a framework in *Discussion Paper 2019/01* for climate-related financial reporting in New Zealand. This framework is based on four design goals that should drive decision-making in this area:

- Goal 1: Improve the quality and accessibility of climate-specific information in New Zealand.
- Goal 2: Ensure those who are responsible for governance in New Zealand think long-term and are future-focused.
- Goal 3: Cater to the disclosure needs of broader stakeholders in New Zealand.
- Goal 4: Improve the existing international framework of reporting standards to cover climate-related financial information.

7.2.2 Submission on New Zealand Government Discussion Document 'Climate-related financial disclosures: Understanding your business risks and opportunities related to climate change'

The New Zealand Government's discussion document *Climate-related financial disclosures: Understanding your business risks and opportunities related to climate change* (hereafter referred to as New Zealand Government's discussion document) contained a number of proposals in response to the Productivity Commission's recommendation 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'.

The New Zealand Government's discussion document was focused broadly on for-profit entities (listed issuers, banks, general insurers, asset owners and asset managers). A key proposal, among others, was that the TCFD reporting framework would be the default 'comply'. 'Comply' would also be met by disclosing climate-related information under other reporting frameworks that are TCFD-aligned.

The Institute's key recommendation in its submission to MfE and MBIE was that the government develop a proposed strategy for determining which entities should be required to make mandatory climate-related financial disclosures and when these entities should be required to do so.

The Institute considers it important that a climate-related financial reporting regime and framework for New Zealand be:

1. Simple, coherent and easy for preparers to apply and for investors to understand and trust;
2. Cost-effective – provides value in terms of (i) the costs of preparation, assurance, compliance and regulation and (ii) the urgency in addressing the challenges facing New Zealand and the planet; and
3. Durable and 'future-proofed' – stands the test of time by balancing certainty with the necessary flexibility to deliver on its purpose for preparers and users of climate-related financial disclosures.

Given the above principles, the Institute proposed in its submission that the framework should:

1. Require mandatory reporting for selected entities where the benefits of disclosure outweigh the costs of preparing and reporting;
2. Set out a clear purpose for the framework which outlines what disclosures an entity must comply with and why;
3. Build on existing legislative and external reporting frameworks, design features and terminology;
4. Utilise New Zealand's international standing in standard-setting. New Zealand, through the XRB and OAG, has world-leading and proven reporting and assurance standard capabilities and expertise;
5. Utilise the expertise of the XRB, with a view to the XRB developing domestic standards to support entities to meet legislative requirements;
6. Align the reporting requirements of both the for-profit and public benefit entities. This will not only benefit shareholders and other users by providing comparable information across both sectors, but will also benefit preparers and assurance providers as they move between the public and private sectors; and
7. Allow entities that are not subject to mandatory reporting to report voluntarily and to file their report in the same location as mandatory reporting entities. There will be reputational advantages of reporting in terms of attracting/retaining staff and growing supplier and customer loyalty, and these advantages should be made available to all other entities (e.g. small and medium-sized entities [SMEs] and other large private entities).

Based on these principles, the Institute's specific recommendations in its submission on the New Zealand Government's discussion document were:

1. Use the existing legislative and financial reporting frameworks for determining who has to disclose climate-related financial disclosures and what they have to disclose (in this case to prepare, publish and file a 'Statement of Climate-related Financial Information');
2. Require for-profit and public benefit entities to report on climate change mitigation and adaptation using the same reporting framework and applying common standards and guidance;
3. Implement a reporting framework as follows:
   - **Who:** Require the following groups of entities (the 'external climate reporting organisations') to disclose a 'Statement of Climate-related Financial Information' in their annual report:
     - Group 1: Participants of the New Zealand Emissions Trading scheme (ETS) (under s 54 of the Climate Change Response Act 2002);
     - Group 2: Reporting organisations (under s 5ZW of the Climate Change Response Act 2002); and
     - Group 3: External Reporting Board (XRB) Tier 1 for-profit entities and Tier 1 public benefit

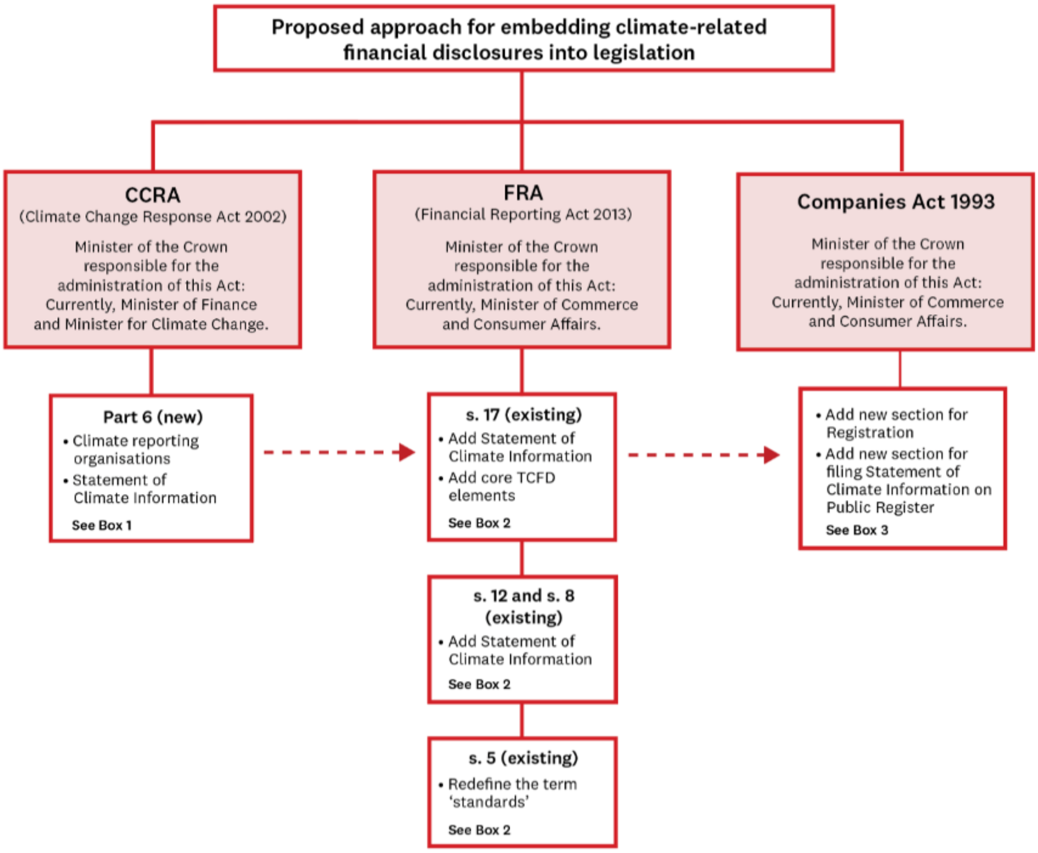
entities.

- **What:** Require a 'Statement of Climate-related Financial Information' to be signed (by the number of directors required in legislation or by alternative authorities if the entity does not have directors) and be audited
- **When:** Require an annual 'Statement of Climate-related Financial Information' to be prepared by all 'external climate reporting organisations'.
- **Where:** Require the 'Statement of Climate-related Financial Information' to be located in the annual report and require selected entities to file the annual report on the Companies Register. Where an entity is not required to prepare an annual report, the statement should then be a standalone document.
- **Why:** Require a clear purpose and an understanding that the benefits exceed the costs for primary users and other stakeholders. Primary users, wider stakeholders and government need timely, reliable, useful and comparable information over the risks and opportunities that exist now and in the future.
- **How:** Require the XRB to prepare NZ TCFD-based reporting standard(s) and an assurance standard (as well as guidance) for all 'external climate reporting organisations'.

To implement the recommendations, the Institute proposes embedding climate-related financial disclosures into legislation by amending selected legislation, as set out in Figure 52: *Proposed approach for embedding climate-related financial disclosures into legislation* (reproduced below from the Institute's Submission on the New Zealand Government's discussion document).

Figure 43: Proposed approach for embedding climate-related financial disclosures into legislation

Source: (McGuinness Institute, 2019c, p. 6)



Other key publications that have influenced this chapter include:

1. *Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study* (October 2019);
2. *Submission on the NZ Government's consultation document Climate-related financial disclosures Understanding your business risks and opportunities related to climate change* (December 2019);
3. *Special topic newsletter: External Reporting: Climate-related Financial Reporting* (March 2020);
4. *Working Paper 2020/02 – The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries*;
5. *Working Paper 2020/03 – Reporting Requirements of Five Types of Entities* (in press);
6. *Working Paper 2020/04 – Update: Analysis of Climate Reporting in the Public and Private Sectors* (in press); and
7. *Working Paper 2020/05 – Update: Reviewing Voluntary Frameworks Mentioned in 2019 Annual Reports* (in press).

Each publication fits within a certain timeframe of dialogue around climate-related financial reporting. While the Institute's overarching goals remain the same, there has consistently been new and emerging debates around what kinds of climate-related financial disclosures should be prepared, which institution(s) should have oversight of the framework, where the information should be filed and how it can be assured.

7.3 Overview of mechanisms

The Institute proposes three interrelated mechanisms to achieve its proposed approach to embed climate-related financial disclosures into legislation:

Mechanism 1 (climate reporting organisations) is through expanding the breadth of climate reporting organisations (to include for-profit entities and public benefit entities) and requesting additional information under the Climate Change Response Act 2002 (CCRA) (e.g. including a mandatory reporting regime in addition to the reporting powers already provided under ss 5ZW and 5ZX(1)(c) CCRA.

Mechanism 2 (financial reporting standards) is through making changes to the Financial Reporting Act 2013 (e.g. s 17).

Mechanism 3 (publication and location requirements) is through changes to the Companies Act 1993 (e.g. s 211).

The Institute's overarching recommendation involves all three mechanisms.

It is the Institute's preference for climate change information to be part of the existing reporting framework (i.e. through reporting material information to shareholders/stakeholders in an annual report). Ideally, all three mechanisms would be progressed to achieve this purpose without having to replicate legal requirements under each mechanism.

The Institute's view is that each mechanism on its own, with potentially substantial amendments and duplication in reporting structure and reporting requirements, could be used to require the mandatory reporting of climate change information by entities. However, each mechanism on its own is insufficient and its limitations can only be overcome by substantially replicating the requirements proposed in the other mechanisms. For example, Mechanism 1 sets out the selected organisations in s 5ZW (1) required to prepare climate change information on request. It also sets out a description of the type of content required of (which aligns with the TCFD) and makes clear why that information is important for the Minister, the Climate Change Commission and other stakeholders (not just shareholders). However, is not sufficient on its own to ensure, for example, that this information is reported in the annual report (Mechanism 3), or to ensure that consistent information is made by entities across all sectors (Mechanism 2).

The Institute considers that whichever way climate-related financial reporting is incorporated into the framework, it has to enable alignment across all climate-reporting entities by requiring and achieving the following:

- Entities to prepare a Statement of Climate Information;
- Annual report as key document for all external information (or if not relevant to an entity, the Statement of Climate Information as a separate stand-alone document);
- Reporting framework alignment:
    - across for-profit entities and public benefit entities;
    - with TCFD recommendations;
    - with New Zealand's trading partners (e.g. aligns where possible with corporate law of other Commonwealth jurisdictions);
- Clear roles of shareholder, board and management;
- Stakeholder focus (the board has responsibility to shareholders and wider stakeholders);
- Balance between transparency and privacy;
- Balance between usefulness and cost-effectiveness ensuring disclosed information is:
    - Materiality (i.e. we manage what we measure);
    - Accuracy and assurance (trust);
    - Complete information;
    - Consistency of data (benchmarking across entities and over time); and
    - Future-focus.

Where the mechanisms could diverge is where the climate change information is published. Given that a number of the reporting entities are not required to prepare and publish an annual report, the Institute considers that these entities (including public sector entities) should prepare a separate Statement of Climate Information that is filed on the Companies Office as a standalone document. This would require extending the remit of the Companies Office to include filing by public benefit entities or creating a separate Register, kept by the Crown. It would also require the Companies Office to enable entities to upload more than one document onto the Companies Register.

Context for the mechanisms

7.3.1 Relevance of the directors' report in New Zealand company law to climate change reporting

The reason for New Zealand proposing to adopt a mandatory reporting regime is set out in the New Zealand Government's discussion document (MfE & MBIE, 2019, p. 8)

It is a view of the TCFD, and shared by the Institute, that in order to allow for more adequate pricing of climate risks into assets and hedge against market instability, material climate-related financial information must be publicly available.

There is a clear distinction between preparing a report, distributing a report (to a specific group of individuals such as shareholders), filing a report (as a matter of public record) and assuring a report (as a means of providing independent verification to external parties) (McGuinness Institute, 2020c, p. 9). The Institute notes that the Productivity Commission recommended that disclosures should be audited and accessible to the 'general public' (New Zealand Productivity Commission, 2018, p. 199) and that the Government was seeking feedback on proposals for how we would give effect to this recommendation.

The McGuinness Institute has made the following observations in relation to the directors' report:

i. What is the status of a directors' report in New Zealand company law?
New Zealand law does not have a specific requirement for a "directors' report" along the lines of that stipulated in the UK (s 415 of the Companies Act 2006 UK) and in Australia (s 298 of the Corporations Act 2001). Section 211(1)(k) of the New Zealand Companies Act 1993 requires two directors to sign the contents

of the annual report, and best practice in New Zealand indicates this is often presented as a 'Directors' responsibility statement' (see, for example, page 37 of the EBOS Group 2019 annual report). It is unclear to the Institute whether this is a directors' report or simply relates to delivering the financial statements to shareholders alongside the other required content of the annual report.

The Institute prefers a clear definition of a "directors' report" in New Zealand law that is based around our understanding of the UK law. Section 415 of the Companies Act 2006 (UK) sets out a 'duty to prepare directors' report'. Section 416 sets out the contents, which can be expanded through the 'provision by regulations as to other matters that must be disclosed in a directors' report'. Recent regulatory changes in the UK have introduced new reporting requirements in the directors' reports for large companies. These include requirements on reporting on corporate governance arrangements and carbon and energy reporting.

The Institute's understanding is that, in UK company law, the directors' report forms only part of the annual report and must be filed on the Company House (Registrar) by all companies with a few exceptions. For example, companies that are subject to the small companies regime under s 444 (1)(b) of the Companies Act 2006 (UK)) are required to file the profit and loss account and the Directors Report (but are not required to file an annual report).

In contrast, in New Zealand, only FMC e-reporting entities are required to make public their annual report on their website (see cls 61D(2) and (3) of the Financial Markets Conduct Regulations 2014). Part 12 of the Companies Act 1993, 'Disclosure to shareholders', does not require those companies to prepare an annual report, or to file it on the Companies Office (Registrar). This line of thinking, in the Institute's view, is narrow given today's needs, and arguably reflects the age of the legislation (it was written nearly 30 years ago, in 1993, and has not changed since). In addition, New Zealand law does not have a mechanism (like in UK law) to change the content requirements of the annual report through regulations; instead a change to the Act is required.

ii. How can we ensure that the contents of an annual report includes material climate-related financial disclosures?

Currently, the contents of an annual report is set by what the board believes is material in order for shareholders to have an appreciation of the 'state of the company's affairs' in terms of the 'changes in the nature of the business' or 'the classes of business'. However, there is a proviso; the board can decide not to disclose if such information is harmful to the business. This means, other than the financial reports and certain items listed in s 211 Companies Act 1993, the contents of an annual report are disclosed at the discretion of the directors.

The only potential climate-related financial disclosure requirement available under New Zealand legislation in relation to disclosures by directors is found under ss 208 and 211(1)(a) of the Companies Act 1993 (McGuinness Institute, 2020c, p. 10).

The Institute sought advice from a legal expert who states:

> Section 208 is the starting position. The section applies to almost all companies subject to the opt in and opt out provisions in s 208(1)(d)&(e).
>
> Section 208(2) requires the board of every company to which the section applies to prepare an annual report 'on the affairs of the Company during the reporting period.'
>
> Section 211(1) prescribes particular content of the annual report (again subject to the opt out provisions of s 211(3)) but in my view this is read alongside s 208 (and does not read down the general obligation to report 'on the affairs of the Company').
>
> Note, s 211(1)(a) requires the directors to describe changes in the nature of the business or the classes of business – but leaves to the discretion of the directors the ability to determine what changes are material, and what disclosure might be harmful to the business. The balance is between informing shareholders and keeping commercially sensitive information confidential.
>
> Section 211(1)(a) does not itself require disclosure or discussion of the business itself and its state of affairs if there have been no changes, nor emerging risks. That is what s 208(2) requires.
>
> While 'affairs of the Company' is a broad concept, I think a Court will be slow to impose particular new disclosures, and will be inclined to leave to directors any decision of the extent to which the affairs of the Company are reported. The view would be that it is for Parliament to make that decision by way of an amendment to the Act.
>
> Boards are of course free to report on whatever they wish, or may otherwise be obliged to.

The legal advice received by the Institute would suggest that s 211 of the Companies Act 1993 needs to be amended to include specific climate change reporting requirements if such information is to be included in a directors' report and/or in an annual report.

The conclusions from *Working Paper 2020/02 – The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries* which explores the role of the Directors' reports in the disclosure regimes of selected other Commonwealth countries are as follows:

(i) New Zealand does not use the term 'directors' report' in legislation.

It is clear that New Zealand is behind at least two other Commonwealth jurisdictions: UK and Australia (and possibly Canada), despite sharing many structural commonalities. A Directors' Report is becoming a useful mechanism to improve reporting to shareholders and wider stakeholders. For example, in regard to reporting on emissions, UK quoted companies, large unquoted companies and large limited liability partnerships (LLPs) are required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 to disclose key information on annual emissions and their intensity ratio in the directors' report (in a New Zealand context this requirement would cover listed companies and other selected for-profit entities). The 2018 Regulations came into force on 1 April 2019. Directors' reports form part of UK company filing obligations with the Companies House (DEFRA & BEIS, 2019, p. 35). See further in the Institute's *Discussion Paper 2019/01 – The Climate Reporting Emergency* (McGuinness Institute, 2019, pp. 86–88).

(ii) New Zealand places 'weak' information obligations on directors.

The ability for directors not to disclose material strategic information to shareholders if they believe it would 'be harmful to the business of the company' should be a concern to shareholders (see s 211 (1)(a) of the Companies Act 1993). Given that it is up to the directors to make this decision, it is hard to see a situation where a shareholder could challenge a company over a lack of strategic information. This also raises questions of how these obligations are reviewed (e.g. by the FMA) and who is working to ensure shareholders obtain useful and timely information from directors.

(iii) New Zealand is slow to adopt the directors' report as an instrument to inform shareholders and wider stakeholders about the strategic operations of a company.

Internationally, the directors' report complements the financial statements and is a key platform for directors to share reliable information about their business model to a wide range of interested parties. In New Zealand, legislation specifies that the audience of the annual report is shareholders only. This is evident in Part 12 of the Companies Act 1993 (s 208–218) that 'Disclosure by companies' are designed to be a 'Disclosure to shareholders'. Therefore the obligation on directors is to only consider shareholders.

This is particularly concerning given that COVID-19 and climate change will significantly impact the viability of many businesses.

7.3.2 Method for ensuring TCFD recommendations are incorporated in a consistent manner in requirements for organisations across all sectors

To improve the quality and consistency of reporting on climate-related information to shareholders and other stakeholders (including the Minister and the Climate Change Commission), the Institute considers that the XRB should set standards based on the TCFD reporting framework (which is voluntary) for mandatory application by selected for-profit entities and public benefit entities in New Zealand. A mandatory reporting framework would ensure consistency of information from the entities.

If the XRB decided to establish a separate climate-related financial disclosures Board (e.g. CRFDB) that consults on and sets standards for Tier 1 for-profit entities and Tier 1 public benefit entities, invoking the provisions of s 17(2) of the Financial Reporting Act 2013 may be a necessary and sufficient means for the XRB to set the necessary TCFD-based climate-related standards.

Section 7.4 onwards sets out the Institute's views and proposals for the XRB to establish a separate climate-related financial disclosures Board to consult on and set standards.

7.3.3 Who should apply climate-related disclosures?

It should be noted that the XRB's functions are limited to setting standards outlining "what" requirements entities need to apply: the XRB does not have the mandate to determine "who" should apply its standards. Legislation needs to specify which entities would need to apply any climate-related standards that may be issued by the XRB.

In terms of the selected entities that any climate-related disclosures should apply, the summary of submissions received by the Ministry of Business, Innovation and Employment and the Ministry for the Environment the on their Climate-related financial disclosures discussion document reveals that:

> While most submitters agreed the disclosure requirements should apply to banks, insurers, listed issuers, asset managers and asset owners (subject to a size threshold) as proposed in the discussion document, many submitters also expressed support for expanding the scope to other entities. This included large non-listed entities and companies in sectors highly at risk from the impacts of climate change (MfE & MBIE, 2020, p. 11).

The Institute is of the view that any disclosure requirements should also apply to public benefit entities.

In conjunction with any change to the Financial Reporting Act 2013 to enable the XRB to set standards that cover climate-related information, the regulations referred to in s 5ZX (1) of the Climate Change Response Act 2002 could potentially be used as a means to direct selected directors (and boards) of for-profit entities and public benefit entities to report, in their annual report, climate-related financial information.

If it were to be decided that banks, insurers, listed issuers, asset managers and asset owners would be the only organisations that prepare climate-related disclosures, the Institute considers that it may be feasible to amend the Financial Markets Conduct Act 2013 to require climate-related financial disclosures of those entities to be included in the annual report. The Institute believes material climate-related information must be made public to support the transition to a low-carbon economy.

7.4 Creating a committee/board to develop and issue climate-related financial reporting standards

The Institute is of the view, in the absence of any moves by international accounting standard setters to progress a climate-related financial disclosure regime in the immediate future, that New Zealand needs to rise to the challenge of developing its own solution to improve climate reporting. The Institute considers the best way forward is to build on existing legislative and external reporting frameworks, design features and terminology and utilise New Zealand's international standing and reputation in standard-setting.

The rest of this chapter explores how a committee/board[5] could be created by the XRB to develop and issue climate-related financial reporting standards for both the public and the private sectors.[6]

7.4.1 Proposal for a separate committee/board under the XRB

The Institute proposes that a new separate committee/board be set up under the XRB to set up climate-related reporting standards, similar to the NZASB (for setting accounting standards) and the NZAuASB (for setting assurance and ethical standards) (See Step 2 of Section 7.4.3 for further detail on the logistics of setting up a separate board/committee).

The Institute considers having a new committee/board, separate from the NZASB, to set climate-related reporting standards is necessary for the following reasons:

1. There is a capacity issue – there are still ongoing and global accounting issues (outside of climate reporting) that needs to be addressed by the NZASB. If the NZASB was also required to take on the additional work of setting climate-related reporting standards, it may disrupt its existing work programme.

5 The term 'committee/board' is used to reflect the Institute's understanding that all XRB boards are in reality committees under s 14 of the Crown Entities Act 2004 (see Appendix 1).

6 If assurance standards were to be developed, the Institute envisages that these would be developed by the existing NZAuASB.

2. There is a skills and expertise issue – climate-related financial reporting will require a significant amount of work to ensure the standards align with New Zealand law, with climate change science and with international best practice (e.g. the TCFD recommendations). A new committee/board can be established with a range of different skills and experience which might not be available within the existing NZASB.
3. It allows the XRB, as the overarching board for governance and external reporting strategy, to continue to ensure that all external reporting (and assurance) standards are cohesive and are consistent with the XRB's strategic intentions and reporting strategy for all New Zealand entities that have legislative requirements to prepare an external report. If the XRB does not undertake this work, another institution will either need to be established or an existing institution instructed to create the necessary standards. In either case, the Institute believes another external reporting body will compromise user and preparer needs (through no central external reporting body), add additional costs, and put at risk the XRB's licence to operate as the body responsible for external reporting.

7.4.2 The relevant legal requirements

The Institute understands that s 17(2) of the Financial Reporting Act 2013 was put in place to future-proof standard setting without causing any major change to the legislation in the short to medium term. This was a forward-thinking mechanism put in place by officials to enable the emerging need for non-financial information to be implemented.

However, the Institute considers that 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. Moreover, the entity's performance is mentioned in both ss 17(1)(a) and 17(2)(a)(iv), raising the question of what the difference is between the two sub-sections.

We recommend the below recommendations to clarify 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.

Section 17 – Financial reporting standards may cover non-financial [information]

(1) The Board is authorised to prepare financial reporting standards on the following
  (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.

A 2002 report from the Institute of Chartered Accountants of New Zealand's Taskforce on Sustainable Development Reporting made the comment that '...information needs of users are not static but dynamic over time, so the continuing relevance of external reporting requires on-going attention' (NZICA, 2002, p. 8). The Institute's view is that, in order to remain relevant, external reporting needs to respond to and provide users with timely and useful information for decision-making. The impact of climate change on entities is foreseeable, expected and unavoidable. Climate-related financial disclosures are necessary so that users can routinely consider the impacts when making their decisions. The Institute's view is that it is now time to trigger s 17(2) of the Financial Reporting Act 2013 so that external reporting can remain relevant. See Appendix 9 for other legislation extracts that are relevant to the climate-related financial reporting recommendations made in this section.

7.4.3 Key stages of the process

To implement the Institute's proposal, the Minister of Commerce and Consumer Affairs needs to recommend to the Governor-General to authorise the XRB to issue standards on non-financial reporting under s 17(2) of the Financial Reporting Act 2013.

By doing this, the XRB has the ability to issue standards on non-financial reporting through the existing instrument of a financial reporting standard. Once authorised, a financial reporting standard would be able to contain 'non-financial information requirements'. The individual steps to achieve this are outlined below.

Step 1: Invoke s 17(2) of the Financial Reporting Act 2013

Section 17 of the Financial Reporting Act provides for financial reporting standards to cover certain non-financial reporting matters. Section 17(1)(d) states that financial reporting standards may relate to other non-financial matters authorised by an Order in Council made under s 17(2).

It is therefore necessary for an Order in Council under s 17(2) to be made authorising the XRB to set standards that would relate to climate matters. For this to happen, under s 17(3), the Minister needs to be 'satisfied that it is desirable' for standards referred to in s 17(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'.

The Institute's view is that it is no longer desirable but necessary for standards under s 17(2) to be issued for the following reasons:

1. Climate change is an urgent issue that will impact all entities and therefore:
    a) It is important that this impact is properly disclosed to users of financial statements and director reports (both of which should be included in the annual report), particularly given the potential impacts on the 'bottom-line'. Given its importance, entities should be required to disclose how climate will impact on the entity.
    b) Existing financial reporting standards do not have specific requirements for climate-related financial reporting although some climate risks may be disclosed under certain existing financial reporting standards. Even if this information is published in the financial statements (or more broadly in an annual report) it is not always easy to find or locate.
    c) Climate-related disclosures need context and the contextual information is not necessarily always financial in nature. The full implication of the impact on organisations requires the integration of financial and non-financial information.
2. The Institute notes that the New Zealand Government's discussion document elicited a total of 75 submissions. Analysis of the submissions shows that most respondents supported the proposals on the whole, with 77% of respondents either supporting or largely supporting the proposals, while only 9% either opposed or largely opposed them (MfE & MBIE, 2020, p. 10). Most submissions favoured a new mandatory, principles-based (comply-or-explain) disclosure requirement, aligned with TCFD's recommendations which were viewed as international best practice. This feedback and evidence, gathered during consultation meetings, will be used by MBIE and MfE as part of the evidence to inform their advice on the proposals to the Minister for Commerce and Consumer Affairs and the Minister for Climate Change with a view to developing a draft Bill.

    It is also important to note that any reporting standards issued for entities in the for-profit sector can be used to support legislation already passed into New Zealand law for certain public entities to disclose climate-related information on request. For example, s 5ZW of the Climate Change Response Act 2002 sets out the type of information certain public entities may be asked to provide on request. While the TCFD recommendations are not specified in s 5ZW, information on climate change adaptation that an entity may be requested to provide is consistent with the core elements of the TCFD recommendations: information relating to governance, strategy, risk management, and metrics and targets.
3. Users of external reports of for-profit entities require a set of common standards to inform climate-related financial information in order for them to make decisions about the entity's development, performance and position. This applies equally to the users of external reports of public benefit entities who also need

the information to hold public benefit entities to account.

It is important that the XRB is the organisation and standard setter that is responsible for setting a common or consistent set of standards for both for-profit entities and public benefit entities. Besides ensuring that it will align with the XRB's strategy and strategic intentions for external reporting in New Zealand, common or consistent standards across the two sectors are important to ensure that disclosures are coherent, consistent with existing accounting requirements and avoid duplication and information overload. Common or consistent standards across both the for-profit entity and the public benefit entity sectors are also important to enable:

a) Users to have a common or consistent basis to interpret information from entities.

b) Regulators to have a common or consistent basis to review the information provided by entities to ensure it is complete and compliant.

c) Auditors to have a common or consistent basis against which to verify the information.

d) Preparers, such as accountants, to move between the public and private sectors and therefore be experts in a common or consistent set of standards.

e) The Government to ensure that comparable information is elicited from both sectors to inform and meet international climate-related obligations.

f) Educators/trainers to teach and examine good reporting practices for all entities.

4. Furthermore, it is important to note that s 5Q of the Climate Change Response Act 2002 sets out the target for emissions reduction (the 2050 target). Section 5Q requires that:

e) net accounting emissions of greenhouse gases in a calendar year, other than biogenic methane, are zero by the calendar year beginning on 1 January 2050 and for each subsequent calendar year; and

f) emissions of biogenic methane in a calendar year— (i) are 10% less than 2017 emissions by the calendar year beginning on 1 January 2030; and (ii) are 24% to 47% less than 2017 emissions by the calendar year beginning on 1 January 2050 and for each subsequent calendar year.

This means New Zealand must find practical ways to incentivise entities to work toward the 30-year goal. Reporting, as implied in the common adage 'we manage what we measure', is one such mechanism that can be actioned within this proposal. In this case, emissions data (e.g. scopes 1 and 2) can be included as part of the climate-related reporting standards, to ensure preparers make this information available to users so that users can make informed investment and consumption decisions. This approach is in line with the UK reporting requirements for emissions. Quoted companies, under the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013, are required to report their annual emissions in their Directors' Report.

5. There is a range of other stakeholders (other than investors) who have a vested interest in timely and reliable non-financial information (e.g. bankers, lenders, insurers, suppliers and consumers) who are demanding better consistent and comparable information so they can make better decisions on how to invest, trade and build effective relationships with entities. Of note, the Reserve Bank of New Zealand has already developed its own climate change strategy (RBNZ, n.d.).

Which provisions to 'invoke'?

Under s 17(2)(a) of the Financial Reporting Act 2013, the Minister may authorise the XRB to issue financial reporting standards that relate to reporting on one 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.

The Minister may also specify conditions to the authorisation.

In the Institute's view, the Minister would need to 'invoke' all the provisions of s 17(2)(a)(i)–(iv) of the Financial Reporting Act 2013 to enable the core elements and recommended disclosures of the TCFD to be included in any standard on climate-related disclosures. The TCFD's 11 disclosures sit under the core elements: governance, strategy, risk management, and metrics and targets.

A 2019 survey undertaken by the McGuinness Institute with Simpson Grierson found that most of the respondents expect the TCFD recommendations will become mandatory by 2025 for a wide range of entity types (McGuinness Institute, 2019b, p. 2). The internationally recognised TCFD framework requires both an integrated approach (the 11 disclosures require both financial and non-financial information) and a public accountability approach (the information is expected to be made available in the country's mainstream (public) annual financial filings).

A further reason that all the provisions of s 17(2)(a)(i)–(iv) should be invoked is that, as per s 12 of the Financial Reporting Act 2013, one of the XRB's functions is 'to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards'. The impact of climate change is pervasive and, at this point of time, its likely impact or relationship with other types of reporting is still unclear. Invoking all the provisions of s 17(2)(a)(i)–(iv) allows the XRB some flexibility to decide what is relevant and what is not through its 'financial reporting strategy' function and to decide what is in (and what is out) without needing to go back to the Minister (over grey areas).

Lastly, the XRB has acknowledged the emerging area of EER. This adds further weight for the need for the Minister to 'invoke' all the provisions of s 17(2)), the XRB noted:

> Extended External Reporting (EER) is an umbrella term adopted by the XRB to refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements. EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.
>
> The XRB has a significant interest in EER, given its role as an independent Crown Entity responsible for financial reporting strategy and the development and issuance of accounting and auditing and assurance standards in New Zealand.
>
> The XRB has observed growing demand from stakeholders, supported by research, for entities to provide: increased transparency on material risks (including ESG risks) and strategies for managing those risks; forward-looking information about an entity's long-term sustainability; information about an entity's key resources and relationships; and greater visibility around corporate citizenship (XRB, 2019a).

Under s 17(2)(b), the Minister, through 'invoking' s 17(2)(a)(i)–(iv)), may choose to add a condition/s to limit the scope of the work the XRB can undertake. For example, the condition/s could limit the Minister's 'recommendation' to climate-related financial disclosures only or even just specific aspects of climate-related financial disclosures. In the Institute's view, the Minister should not 'specify conditions to which the authorisation is subject'. It is the Institute's view that conditions of this nature would constrain the ability of the XRB to develop cohesive and consistent standards that meet existing users' needs and the needs of preparers.

The last step in the legal process requires the Governor-General to issue an Order in Council in the form similar to other 'Orders in Councils'. In practice this means a draft Order is prepared for the Executive Council (which the Governor-General presides over) and, if agreed, is given legal force.

Step 2: XRB creates a new committee/board

Once the legal steps have been actioned, the XRB will need to action the subsequent steps.

Step 2a: Obtain funding

The XRB will need to obtain some additional funding to establish and run the new committee/board.

Step 2b: Decide name of committee/board

The XRB is responsible for setting up committees and boards as it sees fit.

The Institute considers the XRB should establish a Climate-related Financial Standards Board (Option 1 in the table below), with a focus on developing public and private sector standards and related guidance (along the lines of the 11 TCFD disclosures).

An alternative approach is to create a broad-based committee and then require it to focus on climate change first (as envisaged in options 2–5 in the table below).

The pros and cons of each option for consideration are explored in Table 3 below.

Table 3: Pros and cons of committee/board name options

Options	Pros	Cons
Option 1: (Institute's preference) New Zealand Climate-related Financial Disclosures Standards Board (NZ CFDSB)	• Aligns with recent changes in legislation, in particular climate reporting and emission targets and the establishment of the Climate Change Commission • Focused and specific for members of the board and those that approach the board for ongoing engagement (that is, its purpose will not be confused)[7] • Makes clear that it is leading this work in New Zealand (and globally) which means the new committee/board will find it easy to communicate with other bodies who are focused on this issue (e.g. the FSB-TCFD, the UK-based Climate Disclosure Standards Board [CSDB] and the US-based Sustainability Accounting Standards Board [SASB]). • Will possibly be the first in the world (which is great for New Zealand's brand) • Using the term 'financial' in the title helps position the purpose within the remit of the XRB	• Limits the committee/board's work to climate-related financial disclosures • Other committees may need to be created to deal with other topics (however, these other topics are not as complex or urgent and may simply be able to be dealt with through the normal work of the NZASB) • In this sense, it does not future-proof the title of the board to address anything else that comes along

7 McGuinness Institute founder Wendy McGuinness was a member of the Institute of Chartered Accountants of New Zealand (ICANZ) taskforce that published the 2002 Report of the Task force on Sustainable Development Reporting. In 2003 she went on to Chair the Sustainable Development Reporting Committee (members included Greg Schollum and Kevin Simpkins). Within a few years the committee was disestablished. In her view, this was because the purpose of the committee was too broad for the resources available. Given this experience, Wendy would advocate that a narrow and specific purpose be attributed to the establishment of a new committee/board. Over time new committees could be established or the existing purpose be expanded. Any new committee or board will need a great deal of resources and support from the XRB and the wider community, hence a narrow purpose sets the scope and deliverables, ensuring expectations are easier to manage and outputs are easier to deliver.

Option 2: New Zealand Extended External Reporting Standards Board (NZ EERSB)	• Aligns with existing XRB terminology • Provides a way to future-proof the title of the board to address anything else that comes along	• The word 'extended' has connotations of 'additional' information (and adding to the information overload problem) rather than the inclusion of 'relevant' information where non-financial information is a necessary part of (and integrated into) financial information to ensure all necessary information is disclosed to users • The name is very close to XRB's name and may be confusing • The title is too broad and may confuse board members and misrepresent the purpose to those in the wider community
Option 3: New Zealand Non-Financial Reporting Standards Board (NZ NFRSB)	• Follows the EU Model (the EU Non-Financial Directive) and therefore the terminology is internationally recognised and accepted • Future-proofs the board to address anything else that comes along • Complements the existing NZASB's role as a setter of financial reporting standards	• The line between financial and non-financial information is not very clear cut (this is illustrated by the overlap in existing requirements in financial reporting standards) • This title may further cause confusion as TCFD also contains financial information • The title is too broad and may confuse board members and misrepresent the purpose to those in the wider community
Option 4: New Zealand Sustainable Development Reporting Standards Board (NZ SDRSB)	• Well-recognised	• Often used and misused by a range of people • Not a great brand (e.g. often related to green washing or seen as a political term) • Is usually associated with the impact of the entity's activities (on, for example, climate) rather than the impact of external risks on the entity (for example, the impact of climate on the entity) • May cause confusion with the SDGs (of which there are 17). People may expect it will cover all 17 issues, either concurrently or over time • The title is too broad and may confuse board members and misrepresent the purpose to those in the wider community

Option 5: New Zealand Integrated Reporting Standards Board (NZIRSB)	• Gives a sense of integrating non-financial information into financial information	• The term <Integrated Reporting> now refers to the IIRC's Framework and having a board with this name may be confusing if it is setting standards based on TCFD's disclosures • The title is too broad and may confuse board members and misrepresent the purpose to those in the wider community

Step 3: Decide whether an interim committee should be established first

As the establishment of the committee/board (which will include assessing and inviting board members) could take some time, it may be useful to consider whether an interim committee should be established, such as for 12 months. Given that this is the first of its kind and therefore a trial period with a specific purpose may be particularly useful (e.g. to provide a shared public and private sector guidance on implementing TCFD recommendations and/or provide a discussion paper for consultation). An interim committee/board could also prepare and address matters, including operating protocols and terms of reference.

Step 4: Decide whether a science advisory committee be established to support and advise the board

The Institute proposes a science advisory group also be established to support and review the thinking of the committee/board on an ongoing basis. This will enable the committee/board access to the latest science and ensure the standards use scientific terms correctly (e.g. GHG). The Institute would suggest members of the advisory group could be from the following groups:

- A member of the Antarctic Research Centre at Victoria University.
- A member of the Climate Change Commission.
- A member/s of the 'Deep South Challenge: Changing with our Climate'. Their role is to enable New Zealanders to adapt, manage risk and thrive in a changing climate.
- A member of NIWA.

Step 5: Decide membership of the committee/board

Members of the committee/board should have a diverse range of skills, background, experience and interests in accounting, assurance and external reporting. They should represent preparers and users with a strong interest in climate-change reporting. The committee/board may need to be approximately 14 or 15 in number.

In addition to having a representative from the existing NZASB and NZAuASB and the XRB (who would be Chair), the Institute believes the new committee/board should include members with a practical background. Examples include public policy (e.g. MfE), two preparers (e.g. perhaps a CFO from the public benefit entity sector and a CFO from the for-profit entity sector, both of whom have experience in reporting against TCFD), accounting firm representation, assurance (e.g. OAG), banking (e.g. RBNZ), insurance (e.g. Insurance Council), investment (NZX), directors (e.g. IoD), regulators (e.g. FMA), emission reporters/reviewers (EPA/Toitū) and academics/researchers.

8. Comprehensive list of recommendations

Highlights

The research in this report can be summarised under 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 and non-financial information (e.g. climate-related information).
7. Annual reports are not being used to their full potential and are at risk of being misused as marketing documents.

Specific recommendations	
1. Provide clarity over the overarching principles, parameters and strategy that shape the legislative external reporting framework	Appointa steward to clarify the following: - Define the purpose of the annual report. - Ensure that the annual report is the key instrument to report to external users on the performance of an entity. - Ensure that disclosure requirements aim to meet user needs by ensuring information is relevant (useful) and reliable (trustworthy). - Clarify the role of Directors, shareholders and management. - Ensure that the size criteria for mandatory external reporting is appropriate. This requires a review of the size criteria in the legislative framework. - Clarify the parameters of the system (the system includes XRB, FMA, Charities Services, Treasury, OAG, all registrars and other entities such as NZX and IoD). The steward must annually review and publicly report on: - The extent compliance and penalty systems align across entities and are sufficient to change behaviour. - External reporting statistics across entities and any failures that exist in the system. - A comparison of the New Zealand system with major trading partners to ensure we are up to date with international best practice.
2. Amend legislation and other instruments to better meet user needs and align with international best practice	Parliament to amend legislation to: - Expand s 211 of the Companies Act 1993 to state what is included in the annual report. - Require a Directors Report to be prepared by all entities that are currently required to prepare financial statements (for-profit Tier 1 and 2 entities). - Invoke s 17(2) of the Financial Reporting Act 2013. - Require a *Statement of Climate Information* for all climate reporting entities.

3. Create a central register for all external filing requirements (including for Crown entities and registered charities)	The Registrar must: - Manage all external filing on one website (a central register). - Extend existing filings requirements to require annual reports (including a directors' report and a *Statement of Climate Change* for all climate reporting entities). - Allow voluntary filing for entities that have no mandatory filing obligations.
4. Review the external reporting framework and standards	The XRB must: - Improve the quality of disclosure requirements to meet the needs of users. - Align public and private sector reporting requirements. - Work with international standard setters. - Ensure annual report content is aligned to accounting and assurance standards.

The reporting framework is a key foundation of New Zealand's democracy as it provides invaluable evidence on how investors, policy-makers, researchers and other stakeholders make decisions. An effective, efficient reporting framework drives foresight in terms of analysing trends and implications and identifying risks and opportunities. Foresight shapes effective strategy to guide individuals and organisations to their goals. In turn, clear strategy informs what kind of disclosures will be needed in reporting. In times of rapid change, it is imperative to review systems regularly to ensure that they are adaptive and responsive and that risks are managed. This means looking at the reporting framework as a whole and includes possibly re-evaluating its purpose.

This report aims to lay the groundwork for a comprehensive review of New Zealand's reporting framework. The Institute has found the current framework to be outdated, stagnant, inflexible and, arguably, costly. This is likely the result of a series of ad hoc solutions over time to situations where the reporting framework has not functioned as it was intended to, which has added further complexity and compliance costs to an already overloaded system. In short, the reporting framework 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. It does not meet current user needs in that investors need access to quality information on climate-related risks and opportunities, and other emerging and urgent issues. There is much greater emphasis on disclosing financial information for New Zealand for-profit entities than other Commonwealth countries (e.g. company law in both Australia and the UK requires preparation of directors' report which contains non-financial information, see Section 4 of this report). Currently, there is no requirement in New Zealand for directors to publish a report to shareholders or other users in an annual report. Instead, the legislation narrowly requires directors to prepare a directors' 'responsibility statement' in the entity's annual report which is largely financial in nature. Under s 211(1)(k) of the Companies Act 1993 the annual report must be signed on behalf of the board by two directors of the company or, if the company has only one director, by that director. A great deal of work, much of it urgent, is required to ensure our current framework meets user needs and aligns with international best practice.

This section sets out four specific recommendations we propose should be considered and ideally implemented to strengthen the existing framework. It includes a wide range of detailed possible recommendations (that all fit under the four overarching recommendations), which were developed during the *Project ReportingNZ* research process. These recommendations take into account the reporting framework's historical context (Section 2), emerging trends (Section 3), the Institute's research (Section 4), analysis of how the existing reporting framework operates in practice (Section 5), the four strategic policy knots shaping the reporting framework and its purpose (Section 6), and a closer look at the best way to embed climate-related reporting into the existing framework. (Section 7). The Institute is not necessarily advocating for all the recommendations, but rather for a review that considers all of them. Some recommendations are offered as alternatives to another, while others build on and strengthen the framework over the long term. Overall the aims of the recommendations is to achieve the following:

1. **Centre the annual report as the key instrument for external reporting.**

   The recommendations that build towards this deal with improving the accessibility of information with measures such as voluntarily filing of annual reports on the Companies Register and improving the centralisation and function of registers across all sectors more generally.

2. **Improve the quality of disclosures.**

   The recommendations that build toward this goal might require standard-setters and regulators to revisit what information is useful in the current context. Disclosures across many forms of capital (e.g. climate-related disclosures and water quality in relation to environmental capital; diversity, political donations and governance in relation to social capital; and intangible assets in relation to financial capital) and with more of a future-focus are increasingly in demand, in addition to more established areas of interest such as past movements of financial and physical capital. These recommendations are about improving the content of reporting and include measures like amending s 211 of the Companies Act 1993 and broadening the remit of the XRB under s 17(2) of the Financial Reporting Act 2013. Assurance will also enter into this goal as part of ensuring that disclosures can be trusted.

3. **Ensure stewardship across the system.**

   The recommendations that build towards this goal involve strengthening the institutions that uphold the reporting framework through measures such as requiring the Companies Office to regularly publish an operational report on the Companies Register. It also includes applying checks and balances in the system, such as penalties for non-compliance.

8.1 Recommendation 1: Provide clarity over the overarching principles, parameters and strategy that shape the legislative external reporting framework

1. **Aggregate all reporting legislation into a single Act.**

   This could be achieved by replacing the word ‘financial’ in the Financial Reporting Act 2013 with ‘external’ and rewriting the Act to bring together all external 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 in 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 established) and MBIE (Treasury, 2019). However, the Institute’s preference is for one appointed body to standardise and streamline (but not centralise) reporting by acting as an independent appointed steward.
   - 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 appointed 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 the following:
     - compliance costs;
     - the needs of users in terms of balancing costs to preparers;
     - accessibility of reports and their content/format;
     - 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 the New Zealand Government is carrying out and will enable citizens to act as an accountability check on these activities.

- Require government departments to replace their four-year plans with 10-year plans. These plans should align with local government and with annual reports, and should consider citizens as their audience. 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 to be written for ministers.
- Require a consolidated 'Financial Statements of Local Government' and an 'Annual report of Local Government'.
- Add a new section along the lines of s 211(1)(l) of the Companies Act 1993 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).

Furthermore, the new External Reporting Act would 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 require them to also prepare a consolidated annual report. Unlike the content of financial statements in the for-profit sector, which are in effect, determined by the IASB (through New Zealand's adoption of IFRS), 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.

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

   An appointed 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 promote 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 such as contacting many different agencies to determine who had oversight over s 211 of Companies Act 1993, discovering that the NZX only monitors compliance through the *NZX Listing Rules* for listed companies and no agency has oversight across the whole system, nor did they seem to be aware of this.

3. **Reconsider annual report filing requirements and the definition of 'large.'**

   Our first consideration is that 'large' companies should be required to file not only 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 that the definition of 'large' should be changed. 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 operating in New Zealand'; however, the McGuinness Institute's view is that there are not many (possibly in the hundreds rather than the thousands).[8]

   In the past, a focus on the total assets of a company made sense, but with business models 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 threshold should be reconsidered.

   The Institute's 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 separate financial statements (and ideally

8 See footnote above and Table A5.2. A more definitive number of 'large' companies was not available (Personal communication with MBIE, 2018a).

annual reports) for their New Zealand operations. The Institute appreciates 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 require revisiting the existing system as outlined in Figure A5.1, Appendix 5. 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 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 early information on this transition should help inform effective public policy.
- There should be a threshold of reporting obligations for types of entities that have unique negative impacts on New Zealanders and the wider environment. This could be managed through a regular list produced by MfE. Such entities are likely to include tobacco and alcohol companies, and entities with sugary products (social health impact); and agriculture, energy and phosphate companies (environmental impacts).
- Total assets should also be retained as a financial threshold. Standard-setters should also recognise Intangible Asset Value (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.
- The Institute considers that revenue as a threshold should take into account the wide range of business models operating today (e.g. social enterprises). The Institute considers the total inflows and outflows presented in a statement of cash flows to be extremely useful. Perhaps the inclusion of expenses might make a threshold more useful, as is done for PBE Standards.

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

   The process of collating data for Appendix 4 highlighted to the Institute 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 from 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, the revenue earned from registering a company, the number of economically significant enterprises and any issues or emerging issues for consideration. This change would allow changes over time to be analysed.

5. **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. 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. However, for entities that are to have the financial statements audited, ISA 720 (NZ) requires the auditors to audit other information included in the annual report. Changes to s 211 of the Companies Act 1993 will not deliver significant improvements if the annual reports of non-FMC reporting entities continue to go unregulated. This is discussed further in the legislative recommendations below.

   Furthermore, guidance for preparing annual reports for charities and government organisations was not always clear or aligned. See Table A3.1 in Appendix 3 for a list of guidance documents relevant to this research and the observations in Section 4.2.1 to understand the nuances in the existing reporting framework.

8.2 Recommendation 2: Change legislation to better meet user needs and align with global best practice in relation to the reporting of information to shareholders and external users

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

   The Minister should recommend that the Governor-General authorise the XRB to issue reporting standards for non-financial information under s 17(2) of the Financial Reporting Act 2013. Three areas should be urgently addressed by such standards: financial statements, annual reports and climate-related reporting. (See Section 8.4 for recommendations on what could be included in the standard).

2. **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 1, 2 and 3 in Section 8.4, which proposes that the XRB prepares three new reporting standards. 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. Amendments to subsections of s 211 are 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)(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.

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

   (d) 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.

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

   This should also be applied to the public sector.

   (f) 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.

   The definition for political donations should be broad enough to cover donations to local authority candidates.

   (g) Amend s 211(1)(k) to require the annual report to also be signed by the CFO (or another executive if there is no CFO) (if the financial statements are not audited and/or do not include an audit report to ensure credibility).

   Another option would be to incorporate this requirement into s 211(1)(c) (see suggested amendment above).

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

   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.

4. **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, the system currently sends the message that it is not what is filed, but filing on time that matters.

   Furthermore, the current penalties and fees for late filing should be significantly increased, as they do not currently act as a deterrent (see Section 4.2.1 for discussion on current penalties). The penalty for late filing of financial statements should be increased 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.

   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 currently 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 the Institute's *Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation*). Appendix 3 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 5 indicates that such a change would have a significant impact in terms of simplifying the system.
   - All external climate reporting organisations (new). The Institute has used the term external climate reporting organisations in relation to the package of climate reporting recommendations in Section 7 to refer to entities as determined by MfE to either be connected to infrastructure vulnerable to climate change, or to be significant carbon emitters or emitters of other pollutants such as phosphates. In relation to the creation of an aggregate reporting act, the term 'significant entity' could be expanded to include all entities not captured by the other requirements that have a significant impact on one or more of the capitals (financial, human, natural or social). These entities are distinct from companies defined as large. The thresholds for definition as a 'significant entity' should be outlined in regulations, as the government may want to change them over time. Entities should receive 12 months advance warning of their classification as a 'significant entity' and an outline of their corresponding filing requirements.

5. **Either replace the term 'concise annual reports' in the Companies Act 1993 with 'concise financial reports' (as is international practice) or remove it completely.**

   New Zealand's use of the term is not in line with international practices and, given the increasing importance of cash flow statements and notes to the financial statements, and that both are required under GAAP financial statements, it is questionable whether a summary is useful if read in isolation.

6. **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.

7. **Amend the FMA Handbook and NZX Code to include the following disclosures in the corporate governance statement:**

   (a) More robust disclosures surrounding gender and other forms of diversity, including wage disparities and diversity of representation among board members, officers and employees.

   (b) Disclosure of 'shareholder rebellions' as discussed in Section 4, Trend 7. The Companies Register should keep a public record of shareholder rebellions by 20% or more shareholders. These should include shareholder disagreements over a company's environmental or social records as well as rebellions regarding executive pay.

8.3 Recommendation 3: Create a central register for all external filing requirements (including Crown entities and Charities entities)

1. **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 companies voluntarily made their annual reports (not just their financial statements) available on the Companies Register (McGuinness Institute 2018b, p. 50).[9]
   - A *Statement of Climate Information* to 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).

   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, similar to the single platform ASIC and ABN have put forward to the Australian Government (see Key Finding 6 in Section 5). 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.

2. **Companies Office to improve searchability on its website.**

   This could be achieved in a variety of ways:

   - Only accepting searchable PDFs of documents for upload to the website;
   - Compiling the registers into a single search function to address the fragmentation of the registers on the website; and
   - Increasing the range of possible searches to include information such as location (including the 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).

9 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).

3. **Companies Office to incorporate the NZBN register into the Companies Register.**
4. **Companies Office to allow any registered company to have the option to voluntarily file if they do not meet mandatory filing requirements e.g. large private New Zealand-owned companies.**

   Extending the register to make voluntary filing an option would retain its original purpose in law but make it a more comprehensive resource.
5. **Treasury to establish a Public Sector Register to centralise access to public sector annual reports and clarify the purpose of the public sector reporting framework, including by providing a set of principles.**

   This could be done immediately without legislation, but in the longer term it should be set out in law (see also Recommendation 2k in Section 8.2 of this report). The creation of a central register would enable citizens to understand government entities as part of a whole system. Additionally, a central register 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 New Zealand Government's annual Budget. While the 2019 Wellbeing Budget illustrated where public funds were intended to be spent, a Public Sector Register would work in tandem to show where money is actually spent. Users of the system would be able to reconcile the two, thereby developing trust in and awareness of government activities.
6. **Treasury or DIA to prepare combined annual financial statements of local government and make this publicly available (ideally on a central public sector register).**

8.4 Recommendation 4: Review the external reporting framework and standards

Please note that recommendations 3–5 in Section 8.4 are dependent on s 17(2) of the Financial Reporting Act 2013 be invoked (see Section 8.2, recommendation 1) to authorise the XRB to issue reporting standards related to non-financial information.

1. **XRB to improve the content and presentation of financial statements.**
   - Include in a domestic reporting standard specific information on each of the following to improve transparency
     - 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 2h in Section 8.2 of this report).
     - Specify the placement of the audit report.
2. **XRB to issue a reporting standard to improve the content and presentation of annual reports, including clarifying their focus/audience.**
   - Require disclosure of nature of business.
   - Require disclosure of company purpose to make it clear how companies define success.
   - 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 the publication of strategic reports (the UK model and similar to Australia's OFR).

- Require disclosure of health and safety policy as well as breaches of that policy.
- Require the disclosure of pollution.

3. XRB to issue a reporting standard to improve the content and presentation of climate information in the annual report.

- Require principles-based, materiality-focused disclosures in line with the phases of problem solving outlined in Figure 28 (see Section 4 in this report):
    - 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.

4. XRB to prepare guidance on the content of annual reports for all entities operating in the state services.

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 A3.1 in Appendix 3). Creating a single guidance document for all public sector entities would give 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.

5. XRB to issue a standard that requires for-profit entities which identify as a social enterprise to prepare a Statement of Service Performance (SSP)

This could be an interim mechanism for adapting the existing reporting framework to account for the role of social enterprises in the economy. The XRB could replicate the existing Statement of Service Performance standards to require for-profit entities who identify as a social enterprise to prepare a Statement of Service Performance for each accounting period. This would include (for Tiers 1, 2 and 3 entities) disclosures on their outcomes (what impacts they intend to have on society) and outputs (the goods and/or services delivered throughout the year) (see Section 3.1.6). Identifying as a social enterprise may require a legislative mechanism that defines the nature of the organisation, similar to the definitions that define a company as 'large' in the Financial Reporting Act 2013 which outlines the financial size requirements that determines which accounting Tier a company should report against. This new section could establish a definition of a 'social enterprise' which would in turn determine whether or not the entity has to prepare a 'statement of service performance'.

6. XRB to continue to work with all international accounting and assurance (including ethics) institutions to improve the usefulness and relevance of financial statements.

International standard setters must evolve in response to emerging trends (see Section 3). In the for-profit sector, areas where improvement to international standards or guidance would be helpful include:

- 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 for investors.

7. XRB to review existing assurance standards in line with emerging accounting standards

Recommendations 1-5 of Section 8.4 will require the existing assurance standards and assurance engagement standards to adapt to reflect changes in reporting practices. In this case, it is important that the following standards (at least) be reviewed to ensure it aligns with future non-financial reporting standards:

- ISA (NZ) 720 – At present this standard is an exact replica of the international standard and has not been adapted to meet New Zealand reporting practices. The recommendations made in Sections 8.2 and 8.4 (if implemented) will require ISA (NZ) 720 to adapt to meet additional reporting requirements outlined in legislation and accounting standards.
- ISAE (NZ) 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information: The Auditor's Responsibility Relating to Other Information. The IAASB has been exploring assurance of EER information over the last number of years. ISAE (NZ) 3000 has been deemed by the organisation to be a key instrument in assuring that reporting information has some degree of uncertainty, e.g. future-focused information and narrative reporting. The XRB should review and apply this assurance engagement standard as means of providing levels of assurance for the recommendations made in Sections 8.2 and 8.4.
- ISAE (NZ) 3410 Assurance Engagements on Greenhouse Gas Statements. If the XRB issues requirements to prepare climate-related financial information, this assurance engagement standard could be reviewed and/or extended to not only include GHG emissions information but other climate-related disclosures.

If s 17(2) of the Financial Reporting Act 2013 is triggered to enable XRB to prepare new non-financial reporting standards, new assurance standards may need to be prepared to mirror these requirements. This standard could be broad (i.e. cover multiple areas of non-financial reporting) or narrow (i.e. as best practice in certain areas of EER reporting emerge globally, new standards may develop that pertain to specific disclosure types).

Appendix 1: Timeline of ReportingNZ publications from 2017

Table A1.1: *ReportingNZ* publications listed by chronological order

Year	Month	Publication
2017	10 April – 3 July 2017	2017 Preparers' Survey
	29 May – 21 August 2017	2017 Users' Survey
2018	March	*Survey Insights: An analysis of the 2017 Extended External Reporting Surveys*
	March	*Survey Highlights: A summary of the 2017 Extended External Reporting Surveys*
	March	*ReportingNZ Overview Worksheet: An analysis of the state of play of Extended External Reporting*
	March	*Working Paper 2018/01 – NZSX-listed Company Tables*
	July	*Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors*
	September	*Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation*
	October	*Think Piece 30 – Package of Climate Change Reporting Recommendations*
2019	July	*Submission to Ministry for the Environment on the Climate Change Response (Zero Carbon) Amendment Bill*
	August	*Oral Submission to Select Committee on Climate Change Response (Zero Carbon) Amendment Bill*
	September	*Working paper 2019/05 – Reviewing Voluntary Reporting Frameworks Mentioned in 2017 and 2018 Annual Reports*
	September	*Working Paper 2019/06 – Updated Analysis of Climate Change Reporting in the Public and Private Sectors*
	September	*Think Piece 32 – Exploring Ways to Embed Climate Reporting in the Existing Framework*
	October	*TCFD Workshops: Practical steps for implementation (Auckland and Wellington)*
	October	*Discussion Paper 2019/01 – The Climate Reporting Emergency: A New Zealand case study*
	December	*Survey Insights: An analysis of the 2019 Task Force on Climate-related Financial Disclosures (TCFD) survey*
	December	*Submission on Climate-related financial disclosures: Understanding your business risks and opportunities related to climate change*

2020	May	*Working Paper 2020/02 The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries*
	May	*Working Paper 2020/04 - Reporting Requirements of Five Types of Entities*
	May	*Working Paper 2020/04 - Update: Analysis of Climate Reporting in the Public and Private Sectors*
	May	*Working Paper 2020/05 - Update: Reviewing Voluntary Frameworks Mentioned in 2019 Annual Reports*

Table A1.2: Selected *ReportingNZ* publications and data sets listed in Chapter 4

Special topics	Research document	Data set
Topic 1: Attitudes of users and preparers of EER information and TCFD disclosures	2017 Preparers' Survey (10 April – 3 July 2017)	92 responses from CFOs of NZSX-listed companies and companies listed on the 2016 Deloitte Top 200
	2017 Users' Survey (29 May – 21 August 2017)	104 responses from users of annual reports. The survey was open to the public and sent to a range of potentially interested parties including investors, industry organisations, NGOs and universities.
	Survey Insights: An analysis of the 2019 Task Force on Climate-related Financial Disclosures (TCFD) survey (December 2019)	63 responses from attendees of the Auckland and Wellington TCFD workshops (October 2019) and other interested parties.
Topic 2: Mandatory reporting framework (reporting requirements, accessibility and content)	*Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018)	NZSX-listed company annual reports 2016 [126]
	Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation (September 2018) *Working Paper 2020/03 – Reporting Requirements of Five Types of Entities* (March 2020)	New Zealand legislation
	Working Paper 2020/02 – The Role of a Directors' Report: An analysis of the legislative requirements of selected Commonwealth countries (February 2020)	New Zealand legislation Australia legislation UK legislation Canada legislation
		Topic 2 also used data from the two Working Papers in Topic 3 (number of annual reports that are publicly available for eight different entities, see Topic 3 below).
Topic 3: Voluntary reporting framework	*Working paper 2019/05 – Reviewing Voluntary Reporting Frameworks Mentioned in 2017 and 2018 annual reports* (September 2019) *Working Paper 2020/05 – Update: Reviewing Voluntary Frameworks Mentioned in 2019 Annual Reports* (May 2020)	NZSX-listed company annual reports 2017 [126] 2018 [123] 2019 [XX] Deloitte Top 200 company annual reports 2017 [118] 2018 [161] 2019 [XX] Government department annual reports 2017 [29] 2018 [30] 2019 [32] Crown agents and Crown entities annual reports 2017 [63] 2018 [63] 2019 [57] District Health Board annual reports 2017 [20] 2018 [20] 2019 [20] Crown research institute annual reports 2017 [7] 2018[7] 2019 [7]

Special topics	Research document	Data set
		Local authorities annual reports 2017 [78] 2018 [78] 2019 [78] State-owned enterprises annual reports 2017 [13] 2018 [12] 2019 [9]
Topic 4: Content of annual reports a) Climate-related information	*Working Paper 2018/03 – Analysis of Climate Change Reporting in the Public and Private Sectors* (July 2018) *Working Paper 2019/06 – Updated Analysis of Climate Change Reporting in the Public and Private Sectors* (September 2019) *Working Paper 2020/04: Update: Analysis of Climate Reporting in the Public and Private Sectors* (May 2020)	Crown agent and Crown entity annual reports 2017 [63] 2018 [63] 2019 [57] State-owned enterprise annual reports 2017 [10] 2018 [12] 2019 [9] Local authority annual reports 2017 [78] 2018 [78] 2019 [78] District Health Board annual reports 2017 [20] 2018 [20] 2019 [20] Crown research institute annual reports 2017 [7] 2018 [7] 2019 [7] Deloitte Top 200 company annual reports 2017 [118] 2018 [161] 2019 [XX] Government department annual reports 2017 [29] 2018 [30] 2019 [32]
b) Gender diversity	*Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018) Research undertaken specifically for *Report 17* looking at 2019 annual reports of NZSX-listed companies.	NZSX-listed company annual reports 2016 [126] 2019 [XX]
c) Health and safety	*Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018) Research undertaken specifically for *Report 17* looking at 2019 annual reports of NZSX-listed companies.	NZSX-listed company annual reports 2016 [126] 2019 [XX]
d) Political donations	*Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018) Research undertaken specifically for *Report 17* looking at 2019 annual reports of NZSX-listed companies.	NZSX-listed company annual reports 2016 [126] 2019 [XX]
a) Intangible assets	*Research undertaken specifically for Report 17 looking at 2017 annual reports of NZSX-listed companies*	Existing international research NZSX-listed company financial statements 2017 [110] 2019 [XX]
Topic 5: Assurance	*Working Paper 2018/01 – NZSX-listed Company Tables* (March 2018)	NZSX-listed company annual reports 2016 [126]

Appendix 2: Timeline of key events that have shaped the reporting framework from 1973

This timeline illustrates changes over time (1970s to today) and changes by thread (stock exchange, international, financial reporting and legislation). The summary provided by the timeline supports the three eras of the reporting framework's recent evolution, as discussed in Section 2.

Threads			
Stock Exchange	International	Financial reporting	New Zealand Legislation

1970s	
1973	New Zealand Society of Accountants began formalising accounting standards following international trends (Colquhoun, 2010).
1973	International Accounting Standards Committee established to formulate and publish standards for audited accounts and financial statements (FASB, n.d.).
1978	Securities Act 1978.
1979	New Zealand Securities Commission (NZSC) established following the Securities Act 1978 (Fitzsimons, 1994).

1980s	
1981	Sharebrokers Amendment Act 1981.
1983	New Zealand Stock Exchange (NZSE) established by the Sharebrokers Amendment Act 1981, amalgamating most regional exchanges (Grant, 2010).
April 1983	International Organisation of Securities Commissions (IOSCO) established to bring together the world's securities regulators (IOSCO, 2018).
1984	Snap election led to 'Rogernomics' and the subsequent deregulation of the financial markets and foreign exchange (MCH, 2018).
1986	State-Owned Enterprises Act 1986.
1987	The financial market grew until the 1987 international stock market crash (Grant, 2010).
1987	Securities Commission tightened company law (Grant, 2010).
1988	NZSE enforced new rules for listed companies (Grant, 2010).
1988	Securities Amendment Act 1988.
1988	*Implementation of Accrual Accounting for Government Departments* written (McGuinness, 1988).
1989	Market Surveillance Panel established to gather more information about listed companies (Grant, 2010).
1989	Public Finance Act 1989 made New Zealand 'a world leader in government accounting' with the introduction of accrual accounting (Colquhoun, 2010).

1990s	
1993	Stockholm Stock Exchange became the first demutualised stock exchange (OECD, 2017, p. 47).
1993	Companies Act 1993.
1993	Financial Reporting Act 1993.
1993	Accounting Standards Review Board (ASRB) 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).
29 November 1994	King Committee on Corporate Governance produced the first King Report (King I) (IoDSA, n.d.).
1996	Securities Amendment Act 1996.
1996	New Zealand Institute of Chartered Accountants Act 1996.

Threads			
Stock Exchange	International	Financial reporting	New Zealand Legislation

1990s	
1996	Over half of New Zealand broking firms had overseas connections (Grant, 2010).
1996	Institute of Chartered Accounting of New Zealand (ICANZ) replaced the New Zealand Society of Accountants in the New Zealand Institute of Chartered Accountants Act 1996.
1997	Global Reporting Initiative (GRI) 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 established (IFRS, n.d.[a]).
2001	International Accounting Standards Committee (IASC) restructured to become the International Accounting Standards Board (IASB) (FASB, n.d.).
2001	New Zealand Shareholders' Association 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 demutualised and became a limited liability company (NZX, 2019d).
2003	NZSE changed its name to New Zealand Exchange Limited (NZX) (NZX, 2019d).
2004	Prince's Accounting for Sustainability Project established to develop 'resilient business models and a sustainable economy' (A4S, n.d.[a]).
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 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) 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 published (IoDSA, n.d.).

Threads

Stock Exchange | International | Financial reporting | New Zealand Legislation

2010s	
March 2010	Companies 'listed on the Johannesburg Stock Exchange (JSE) 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.
2011	Financial Markets Authority Act 2011.
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.
2011	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 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, 2014b, p. 7).
November 2011	IIRC renamed the International Integrated Reporting Council (IIRC, 2011).
2012	Sustainable Business Council established by merging New Zealand Business Council for Sustainable Development and the BusinessNZ Sustainable Business Forum (Sustainable Business Network, 2012).
April 2012	Minister of Commerce approved XRB's new Accounting Standards Framework (XRB, 2014b, p. 9).
2013	Accounting Standards Advisory Forum (ASAF) established (IFRS, n.d.[a]).
2013	Section 414A of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 in the United Kingdom requires the preparation of a strategic report.
2013	Financial Markets Conduct Act 2013.
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, n.d.[b]).
November 2013	PBE standards apply to NFP entities for periods beginning on or after 1 April 2015 (XRB, n.d. [c]).
December 2013	IIRC published *The International <IR> Framework* (IIRC, 2013).
2014	Financial Reporting Amendment Act 2014.
2014	Global Sustainability Standards Board (GSSB) established to set standards for sustainability reporting (GRI, n.d.[b]).
December 2014	FMA published *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, 2015e, p. 1).
28 July 2015	NZ Corporate Governance Forum established by a group of institutional investors to 'improve corporate governance in New Zealand companies' (NZCGF, 2015a).

Threads

Stock Exchange | International | Financial reporting | New Zealand Legislation

2010s cont.	
December 2015	FSB formed the 'Task Force on Climate-related Financial Disclosures (TCFD) to develop recommendations on climate-related financial disclosures' (FSB, 2018b).
December 2015	Accounting Standards Framework updated to reflect legislative changes since 2012 and new descriptions of the Tier requirements (XRB, 2015a, pp. 12–13).
2016	GRI launched the first global sustainability reporting standards, developed by the GSSB (GRI, n.d.[b]).
27 September 2016	Luxembourg Stock Exchange launched the first green exchange (LGX) 'for issuers who dedicate 100% of the raised funding to green investments' (Medland, 2016).
1 November 2016	King Report IV published (IoDSA, n.d.).
18 April 2017	NZX announced that 'it is joining' the SSE (SSE, 2017b).
2017	NZX published *Corporate Governance Code* (NZX, 2017b).
2017	ACCSR published annual review of CSR in Australia and New Zealand (ACCSR, 2017).
June 2017	Judith Collins, Minister of Revenue, signed 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).
June 2017	TCFD publish final report of recommendations (TCFD, 2017, p. i).
August 2017	UK Department for Business, Energy & Industrial Strategy published *CORPORATE GOVERNANCE REFORM: The Government response to the green paper consultation* (Department for Business, Energy & Industrial Strategy, 2017).
1 October 2017	NZX published *NZX Limited: Main Board/Debt Market Listing Rules* (NZX, 2017a).
October 2017	Business for Social Responsibility (BSR) published *The Future of Sustainable Business: New Agenda, New Approach, New Advocacy* on their 25th anniversary (BSR, 2017).
October 2017	KPMG published *The Road Ahead: KPMG's Survey of Corporate Responsibility Reporting 2017* (KPMG, 2017).
11 December 2017	NZX published *Environmental, Social and Governance Guidance Note* (NZX, 2017c).
2018	FMA published an updated *Corporate Governance in New Zealand: Principles and Guidelines* handbook (FMA, 2018d).
27 June 2018	Taxation (Neutralising Base Erosion and Profit Shifting) Act 2018.
1 January 2019	*NZX Listing Rules*, *NZX Corporate Governance Code* and *NZX ESG Guidance* all updated (NZX 2019e; 2019f, 2019b).

Appendix 3: Existing institutions and instruments as at May 2020

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

- Table A3.1: Key New Zealand institutions and their instruments as at August 2018
- Table A3.2: Key international institutions and their instruments as at August 2018
- Table A3.3: Companies Office schedule of fees as at April 2020
- Table A3.4: NZX schedule of fees as at July 2019
- Table A3.5: Charities Services schedule of fees as at April 2020.

Table A3.1: Key New Zealand institutions and their instruments as at August 2018

Institutions		**Instruments**		
Government				
Standard/ guidance-setter	Focus	Rules (mandatory)	Comply or explain	Guidance (voluntary)
DIA	Registered charities	XRB reporting standards		*Annual Reporting to Charities Services – A Guide for Tier 3 Charities* (Charities Services, n.d.[a]) *Annual Reporting to Charities Services – A Guide for Tier 4 Charities* (Charities Services, n.d.[b])
FMA	FMC reporting entities*			*Corporate governance in New Zealand: Principles and guidelines* (*Corporate Governance Handbook*) (FMA, 2018d) Note: Other guidance documents can be found on the FMA website
MBIE	CRIs			'Section 2: Planning and reporting requirements' (MBIE, 2018a)
MfE	'New Zealand -based organisations wishing to self-report their greenhouse gas emissions' (MfE, 2019)			*Measuring Emissions: A guide for Organisations* (MfE, 2019)
OAG	Local authorities			*Local government: Improving the usefulness of annual reports* (OAG, 2011)
Treasury	All state services			*Year End Reporting: Departmental Annual Reports and End-of-Year Performance Information on Appropriations* (Treasury, 2017a) *Public Finance Act: Strategic Intentions Guidance* (Treasury, 2015) *Preparing the Annual Report and End of-Year Performance Information on Appropriations: Guidance for Crown Entities* (Treasury, 2017b) Note: Other guidance documents will be produced for other entities.
XRB	All public and private sector organisations	For-profit accounting standards (NZ IFRS, NZ IAS, FRS) and interpretations (NZ IFRIC, NZ SIC) Not-for-profit and public sector standards (PBE IPSAS, PBE IFRS, PBE IAS, PBE FRS, PBE SFR)		

Institutions		Instruments		
Non-government				
Enviro-Mark	All public and private sector organisations			Carbon Programmes and Certification (CEMARS and CarboNZero) (Enviro-Mark Solutions, n.d.)
New Zealand Corporate Governance Forum	NZ companies operating in the capital market			*Guidelines* (NZCGF, 2015b)
NZX	Listed companies	*NZX Limited: Main Board/ Debt Market Listing Rules* (NZX, 2020a)	*NZX Corporate Governance Code* (NZX, 2020d)	*Guidance note: Diversity Policies and Disclosure* (NZX, 2019g) *Environmental, Social and Governance: NZX Guidance note* (NZX, 2019b) Note: Guidance documents can be found on the NZX website**

Notes to be read in conjunction with Table A3.1

* 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).*

** Guidance notes include *Approval of Appraisers* (January 2019)*, Backdoor and Reverse Listings* (January 2019), *Continuous Disclosure* (January 2019), *Diversity Policies and Disclosure* (January 2019), *Governance* (January 2019), *Issuer Engagement* (January 2019), *Major and Related Party Transactions* (January 2019), *NZX ESG Guidance* (January, 2019), *Spread* (January 2019) and *Trading Halts and Suspensions* (January 2019) (NZX, 2019b).

Table A3.2: Key international institutions and their instruments as at August 2018

Institutions		Instruments		
Standard/ guidance-setter	Focus	Rules (mandatory)	Comply or explain	Guidance (voluntary)
The Prince's Accounting for Sustainability Project (A4S)	Companies			*Natural and Social Capital Accounting* (A4S, 2016)
Carbon Disclosure Project (CDP)	All public and private sector organisations			Various guidance documents found on CDP website (CDP, n.d.)
Financial Reporting Council (FRC UK)	UK companies			*Guidance on the Strategic Report* (FRC UK, 2014)
Greenhouse Gas (GHG) Protocol	All public and private sector organisations			*A Corporate Accounting and Reporting Standard* (GHG Protocol, n.d.[a])
Global Reporting Index (GRI)	All public and private sector organisations			Various standards found on GRI website (GRI, n.d.[c])
International Accounting Standards Board (IASB)	All private sector organisations	IFRS (once standards have been reviewed and reissued by XRB)		*Practice Statement 1: Management Commentary* *Practice Statement 2: Making Materiality Judgements*
IFAC (Independent Boards)	All private sector organisations	IAS (once standards have been reviewed and reissued by XRB)		
International Integrated Reporting Council (IIRC)	All public and private sector organisations			*The International <IR> Framework* (IIRC, 2013)

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

Note to be read in conjunction with Table A3.2:

* 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 A3.3: Companies Office schedule of fees as at April 2020

Source: (Companies Office, 2020a)

Service	Companies Office fee	FMA levy	XRB levy	Total excl. GST	GST	Total incl. GST
Company name reservation	$10.00	N/A	N/A	$10.00	$1.50	$11.50
Company incorporation	$90.00	$9.00	$6.00	$105.00	$15.75	$120.75
Company annual return	$21.00	$9.00	$6.00	$36.00	$5.40	$41.40
Company annual return API*	$18.00	$9.00	$6.00	$33.00	$4.95	$37.95
Company amalgamation	$350.00	N/A	N/A	$350.00	$52.50	$402.50
Company restoration	$150.00	N/A	N/A	$150.00	$22.50	$172.50
Financial statement filing (under the Companies Act 1993)	$175.00	N/A	N/A	$175.00	$26.25	$201.25
Financial statement filing (under the FMC)	$175.00	$48.00	N/A	$223.00	$33.45	$256.45

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

* This refers to Application Processing Interfaces which ‘allows customers to build software that connects directly to [the Companies Office’s] systems’ (Companies Office, 2020a).

Table A3.4: NZX schedule of annual membership fees for cash markets as at 1 July 2019

Source: (NZX, 2019g, pp. 5–6)

Participants	Onshore Participant (NZD)	Offshore Participant (USD)
Advising Participant		
NZX Adviser [1]	$430	$350
Advising Firm - Cash Market [2]	$9,700	$7,750
Distribution and Underwriting Sponsor	$16,150	$12,600
NZX Sponsor - NZDX and NZX Main Board	$16,150	N/A
Trading Participant		
Cash Market - Bank Only [3]	$38,800	$30,500
Cash Market - Principal Book Only [3]	$38,800	$30,500
Cash Market - Trading and Advising [4]	$76,700	$60,100

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

1. NZX Advisers with an existing accreditation in either the cash market or the derivatives market will not pay an additional membership fee to be an NZX Adviser in the alternative market.
2. NZX Advising Participants with an existing accreditation in either the cash market or the derivatives market only pay an annual fee of $5,000 for accreditation in the alternate market.
3. NZX Bank Only and NZX Principal Book Only Participants with an existing accreditation in either the cash market or the derivatives market only pay an annual fee of $15,000 for accreditation in the alternate market.
4. NZX Trading & Advising Participants with an existing accreditation in either the cash market or the derivatives market only pay an annual fee of $20,000 (USD$15,730) for accreditation in the alternate market (NZX, 2019h, p. 6).

Table A3.5: Charities Services schedule of fees as at April 2020

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

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

Notes to be read in conjunction with Table A3.5:

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 4: Information on how the reporting framework works in practice as at May 2020

The reporting framework can be broken down in a number of ways, including into different types of reporting entity. Tables A4.1–4.8 provide an insight into how the reporting framework operates in practice:

- Table A4.1: NZSX issuer numbers by calendar year 2010–2017
- Table A4.2: Companies Register by entity type as at 25 July 2018, 16 December 2019 & 13 May 2020
- Table A4.3: Charities Register by entity type as at 31 December 2019
- Table A4.4: State service agencies by entity type as at 9 April 2020
- Table A4.5: Local government sector by authority types as at 30 April 2020
- Table A4.6: Enterprises by employee numbers as at February 2016, February 2017, February 2018 & February 2019
- Table A4.7: Enterprises operating in New Zealand by industry as at February 2019
- Table A4.8: New Zealand financial reporting standard types.

Table A4.1: NZSX issuer numbers by calendar year 2010–2017

Source: (McGuinness Institute, 2018c, p. 10; Personal communication with NZX, 2018)

Year end	Number of issuers
31 December 2010	147
31 December 2011	148
31 December 2012	145
31 December 2013	146
31 December 2014	151
31 December 2015	168
31 December 2016	166
31 December 2017	159

Table A4.2: Companies Register by entity type as at 25 July 2018, 16 December 2019 & 13 May 2020

Source: (Companies Office, 2018h–m, Companies Office, 2019a–f & Companies Office 2020b–g).

Entity type	2020		2019		2018	
	Number of entities	Percentage	Number of entities	Percentage	Number of entities	Percentage
NZ limited company	648,609	99.6%	647,076	99.6%	602,413	99.6%
NZ unlimited company	384	0.1%	385	0.1%	388	0.1%
NZ co-operative company	127	0.0%	127	0.0%	130	0.0%
Overseas ASIC company	1694	0.3%	1691	0.3%	1589	0.3%
Overseas non-ASIC company	521	0.1%	520	0.1%	498	0.1%
Total number of registered companies	**651,353**	**100%**	**649771**	**100.0%**	**605,018**	**100%**

Table A4.3: Charities Register by entity type as at 31 December 2019

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

By sector	Number of registered charities	Percentage
Accommodation/housing	479	1.8%
Arts/culture/heritage	2,637	9.6%
Care/protection of animals	310	1.1%
Community development	2,255	8.2%
Economic development	133	0.5%
Education/training/research	6,331	23.2%
Emergency/disaster relief	729	2.7%
Employment	52	0.2%
Environment/conservation	927	3.4%
Fundraising	1,069	3.9%
Health	2,178	8.0%
International activities	101	0.4%
Marae on reservation land	331	1.2%
Other	26	0.1%
People with disabilities	890	3.3%
Promotion of volunteering	84	0.3%
Religious activities	5,343	19.5%
Social services	2,143	7.8%
Sport/recreation	1,963	7.2%
Total number of registered charities	**27,353**	**100.0%**

Notes to be read in conjunction with Table A4.3:

1. The Charities Register includes the following information about each charity:
    - name, address and unique registration number,
    - 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 certain information and documents to be restricted 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.

Figure A4.1: State Services Commission's Public Sector Map

Source: (SSC, 2018)

Note to be read in conjunction with Figure A4.1:

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).
2. MOM companies are 'Mixed Ownership Model' companies listed in Schedule 5 of the Public Finance Act 1989.

Table A4.4: State service agencies by entity type as at 9 April 2020

Source: (SSC, 2020)

Agency Type	Number of agencies in the public sector	Number of agencies in the State Services	Number of agencies in the State sector	Percentage
Public service				
Departments	32	32	32	1.1%
Departmental agency	4	4	4	0.1%
Non-public service departments				
In the State services		3	3	0.1%
In the wider State sector		2	2	0.1%
Crown entities				
Crown agents (excluding District Health Boards)		26	26	0.9%
District Health Boards		20	20	0.7%
Autonomous Crown entities (ACEs)		16	16	0.6%
Independent Crown entities (ICEs)		18	18	0.6%
Crown entity companies:				
Crown research institutes		7	7	0.2%
Crown entity subsidiaries		150	150	5.3%
School boards of trustees		2416	2416	85.9%
Other companies		4	4	0.1%
Crown Entity Subsidiaries of The New Zealand Institute of Skills & Technology (NZIST)		16	16	0.6%
Tertiary education Institutions			12	0.4%
Universities			8	0.3%
New Zealand Institute of Skills & Technology			1	0.0%
Wānanga			3	0.1%
Public Finance Act 1989 Schedule 4 organisations				
Fish and game councils		13	13	0.5%
Reserves Boards		20	20	0.7%
Trusts		7	7	0.2%
Other (Bodies corporate)		4	4	0.1%
Other (Unincorporated)		1	1	0.0%
Public Finance Act 1989 Schedule 4 companies		11	11	0.4%
Reserve Bank of New Zealand			1	0.0%
Offices of Parliament			3	0.1%
State-owned enterprises			12	0.4%
Mixed ownership model companies			3	0.1%
Total number of state service agencies	36	2750	2813	100%

Notes to be read in conjunction with Table A4.4:

1. There is no register for public sector agencies other than a list on the NZ Government website (NZ Government, n.d.).
2. The number of Crown entity subsidiaries and school boards of trustees are both approximations (SSC, 2020).

Table A4.5: Local government sector by authority types as at 30 April 2020

Source: (LGNZ, 2020)

Authority type	Number of authorities
Regional councils	11
Territorial authorities (11 city councils and 50 district councils)	61
Unitary councils (territorial authorities with regional council responsibilities)	6
Total local authorities (also called local council)	**78**

Notes to be read in conjunction with Table A4.5:

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 '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 A4.6: Enterprises by employee numbers as at February 2016, February 2017, February 2018 & February 2019

Source: (MBIE, 2017; Stats NZ, 2019)

Number of enterprises by employee size	2016 number	2016 percentage	2017 number	2017 percentage	2018 number	2018 percentage	2019 number	2019 percentage
Zero employees	364,518	70.4%	374,901	70.5%	378,309	70.5%	388,323	71.0%
1–5 employees	99,243	19.2%	101,199	19.0%	101,751	19.0%	100,662	18.4%
6–9 employees	21,261	4.1%	21,945	4.1%	22,506	4.2%	22,809	4.2%
10–19 employees	17,271	3.3%	17,874	3.4%	18,282	3.4%	18,507	3.4%
20–49 employees	9,801	1.9%	10,071	1.9%	10,335	1.9%	10,536	1.9%
50–99 employees	2,988	0.6%	3,054	0.6%	3,195	0.6%	3,225	0.6%
100 or more employees	2,352	0.5%	2,463	0.5%	2,559	0.5%	2,670	0.5%
Totals	**517,434**	**100.00%**	**531,507**	**100.00%**	**536,937**	**100%**	**546,732**	**100.00%**

Note to be read in conjunction with Table A4.6:

1. '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, 2011b, p. 66).

Table A4.7: Enterprises operating in New Zealand by industry as at February 2019

Source: (Stats NZ, 2019)

Industry	Enterprises	Percentage of total enterprises	Employees	Percentage of total employees
Agriculture, forestry & fishing	64,779	11.8%	123,800	5.4%
Mining	690	0.1%	5,200	0.2%
Manufacturing	21,528	3.9%	250,700	11.0%
Electricity, gas, water & waste services	1,146	0.2%	19,100	0.8%
Construction	65,322	11.9%	177,000	7.7%
Wholesale trade	17,127	3.1%	114,400	5.0%
Retail trade	27,759	5.1%	219,400	9.6%
Accommodation & food services	22,845	4.2%	168,800	7.4%
Transport, postal & warehousing	16,419	3.0%	99,900	4.4%
Information media & telecommunications	6,039	1.1%	31,000	1.4%
Financial & insurance services	37,758	6.9%	58,400	2.6%
Rental, hiring & real estate services	118,557	21.7%	35,600	1.6%
Professional, scientific & technical services	62,433	11.4%	167,100	7.3%
Administrative & support services	18,984	3.5%	118,400	5.2%
Public administration & safety	1,230	0.2%	141,700	6.2%
Education & training	8,922	1.6%	190,600	8.3%
Health care & social assistance	20,349	3.7%	246,500	10.8%
Arts & recreation services	10,272	1.9%	41,600	1.8%
Other services	24,570	4.5%	75,500	3.3%
Totals	**546,729**	**100.0%**	**2,284,700**	**100.0%**

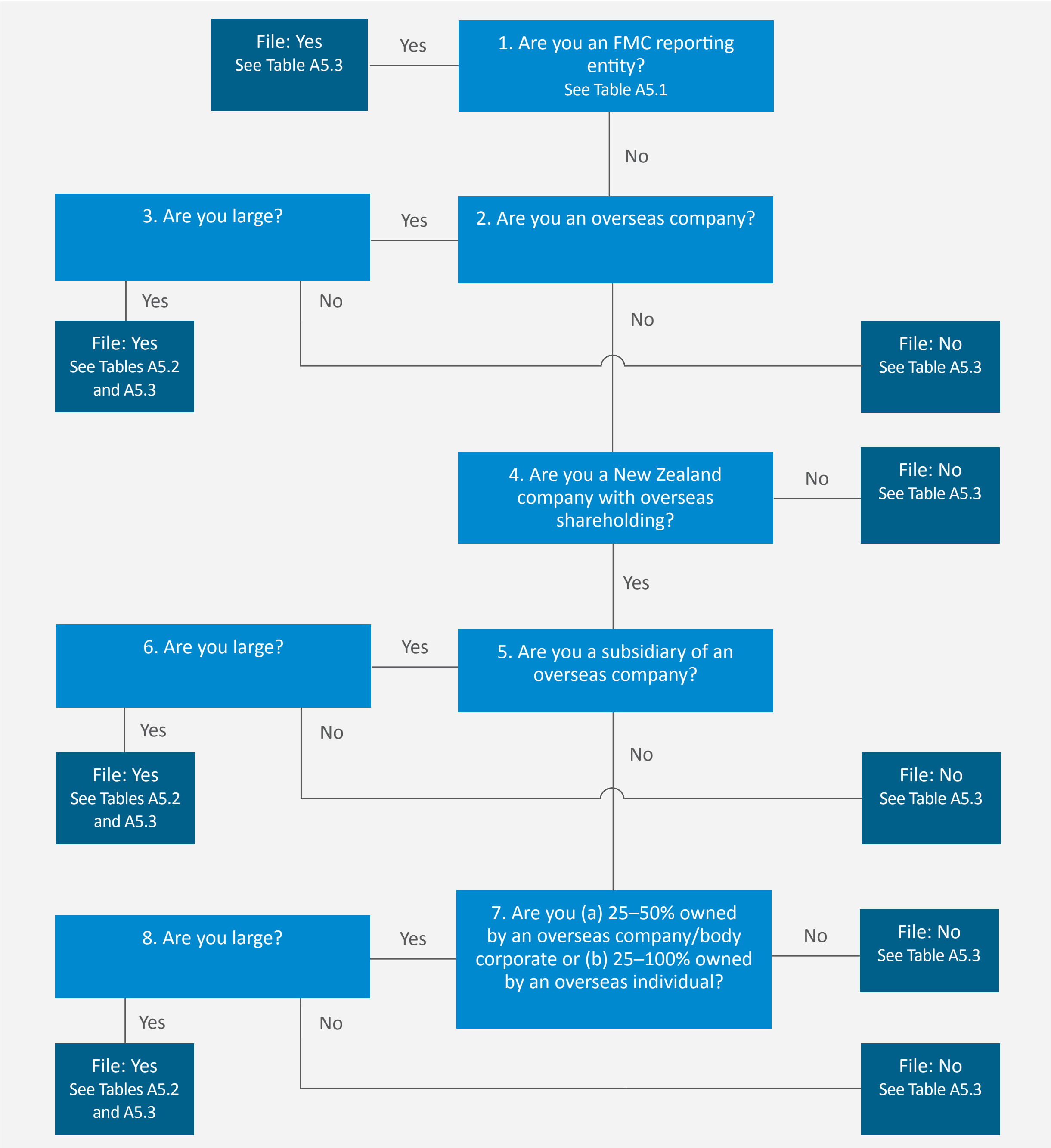
Table A4.8: New Zealand financial reporting standard types

Type of standard	Relevant section of FRA 2013	Standard prepared by	Example
GAAP financial reporting standard	ss 8 and 9(2)	Adopted for IASB/ IFRS	All XRB standards apart from Tier 4 PBE Accounting Requirements
Non-GAAP financial reporting standard	ss 9(1)(b) and 18	XRB	PBE SFR-C (PS) – Tier 4: Public Benefit Entity Simple Format Reporting – Cash (Public Sector)
Reporting standard including non-financial information (narrow)	s 17(1)	XRB	PBE FRS 48 – Service Performance Reporting and PBE IPSAS 30 – Financial Instruments: Disclosures
Reporting standard including non-financial information (broad)	s 17(2)	XRB	None currently (requires Minister approval)
Auditing and assurance standards	s 12	XRB	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)

Appendix 5: Financial statement filing requirements for companies as at May 2020

Figure A5.1: Illustrating the regulatory financial statement filing requirements for companies

Sources: (Companies Office, 2018f; FMA, n.d.[a])



Note to be read in conjunction with Figure A5.1:

1. See *Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation* for the following:
   - The meaning of 'FMC reporting entity' in s 451 of the Financial Markets Conduct Act 2013.
   - The meaning of 'large' in s 45 of the Financial Reporting Act 2013.
   - The meaning of 'overseas company' in s 2 of the Companies Act 1993.
   - A discussion of 'New Zealand company with overseas shareholding' in s 207D of the Companies Act 1993.

Table A5.1: FMC reporting entities by type as at 31 July 2018

Source: (FMA, n.d.[a]; Personal communication with FMA, 2018a)

FMC reporting entity types	Specifically	Filing requirements	Number of entities
Issuers of financial products under regulated offers	Those who make regulated offers under the FMC Act 2013 – except closely-held companies that are only FMC reporting entities as equity issuers	Financial statements on Companies Register	Not known
Market services licensees (except independent trustees of restricted schemes)	MIS managers, DIMS providers, derivatives issuers, providers of peer-to-peer lending and crowdfunding service providers	Financial statements on Companies Register	185
Licensed supervisors	Under the Financial Markets Supervisors Act 2011	Financial statements on Companies Register	6
Listed issuers	Those listed on a market licensed under the FMC Act 2013	Financial statements on Companies Register	Not known
Operators of licensed markets	Except overseas-regulated markets	Financial statements on Companies Register	1
Recipients of money from conduit issuers	Recipients of funds from regulated offers under the FMC Act 2013	Financial statements on Companies Register	Not known
Registered banks	Under the Reserve Bank of New Zealand Act 1989	Financial statements on Companies Register	26
Licensed insurers	Under the Insurance (Prudential Supervision) Act 2010	Financial statements on Companies Register	90
Credit unions	Under the Friendly Societies and Credit Unions Act 1982	Financial statements on Companies Register	13
Building societies	Under the Building Societies Act 1965	Financial statements on Companies Register	3
People specified under cl 27A of Schedule 1 of the FMC Act 2013	People that have gained more than 50 shareholders through small offers under Schedule 1 of the FMC Act 2013	Financial statements on Companies Register	Not known
Total FMC reporting entities in New Zealand			Not known

Table A5.2: Large companies (other than FMC reporting entities) by type as at 31 March 2018

Source: (Personal communication with MBIE, 23 April 2018)

Entity type	Filing requirements	Number of entities
i. Large overseas companies	Financial statements on Companies Register	493
ii. Large New Zealand companies that are subsidiaries of overseas companies	Financial statements on Companies Register	1198
iii. Large New Zealand companies that are at least 25% overseas-owned	Financial statements on Companies Register	42
Total large companies operating in New Zealand		**1733**

Companies registered under the Companies Act 1993 are required to prepare financial statements in compliance with generally accepted accounting practice (i.e. they are required to prepare GPFR), and have those financial statements audited. They must then file those audited financial statements in the manner outlined below:

Table A5.3: GPFR preparation and auditing requirements for companies as at August 2018

Type of company	Required to prepare financial statements in compliance with generally accepted accounting practice?	Required to have its financial statements audited?	Required to file its financial statements?
FMC reporting entity	Yes	Yes	Yes (within 4 months)
Large company (revenue > $30m or assets > $60m as at the balance date of each of the two preceding accounting periods)	Yes (within 5 months)	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)	No
Large company (revenue > $30m or assets > $60m as at the balance date of each of the two preceding accounting periods) with 25% or more overseas ownership	Yes	Yes	Yes (within 5 months)
Large overseas companies / subsidiaries of overseas companies (revenue > $10m or assets > $20m as at the balance date of each of the two preceding accounting periods)	Yes	Yes	Yes (within 5 months)
Non-large companies with 10 or more shareholders	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)	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)	No
Non-large companies with fewer than 10 shareholders	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)	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)	No

Notes to be read in conjunction with Table A5.3:

1. See *Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation* for the following:
   - Financial reporting requirements in ss 200 to 202, and 204 of the Companies Act 1993.
   - Audit requirements in ss 206 to 207 of the Companies Act 1993.
   - Filing requirements in ss 207D and 207E of the Companies Act 1993.
   - Size criteria in s 45 of the Financial Reporting Act 2013.
   - Opt-out and opt-in time frames in ss 207H to 207K of the Companies Act 1993.
2. Where a company is required to prepare financial statements in accordance with GAAP, the specific accounting standards that it must apply will depend on whether it is large and whether it is classified as a public benefit entity or a for-profit entity. 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 GAAP, it must prepare financial statements sufficient to meet the requirements of the Tax Administration (Financial Statements) Order 2014.

Appendix 6: Relevant New Zealand Legislation as at May 2020

This appendix lists 18 different acts, legislative instruments, secondary legislation and bills that form the legal basis for the reporting framework. This list is by no means comprehensive. Reporting requirements for other entity types outside the scope of this report are included in various other pieces of legislation, such as the Limited Partnerships Act 2008, Partnership Act 1908, Industrial and Provident Societies Act 1908, Friendly Societies and Credit Unions Act 1982, Retirement Villages Act 2003, Māori Trust Boards Act 1955, etc. Relevant excerpts from the legislation and instruments listed below are outlined in *Working Paper 2018/04 – Legislation Shaping the Reporting Framework: A compilation*.

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').

Part A: Acts

1. Charities Act 2005*
2. Companies Act 1993*
3. Crown Entities Act 2004*
4. Climate Change Response Act 2002*
5. Environmental Reporting Act 2015*
6. Financial Markets Conduct Act 2013*
7. Financial Reporting Act 2013*
8. Incorporated Societies Act 1908*
9. Local Government Act 2002*
10. New Zealand Business Number Act 2016*
11. Public Finance Act 1989*
12. Public Records Act 2005*
13. State Sector Act 1988*

Part B: Secondary Legislation

i. Legislative Instruments

14. Financial Markets Conduct Regulations 2014
15. Local Government (Financial Reporting and Prudence) Regulations 2014
16. Tax Administration (Financial Statements) Order 2014

ii. Other Instruments

17. XRB standards

Part C: Bills

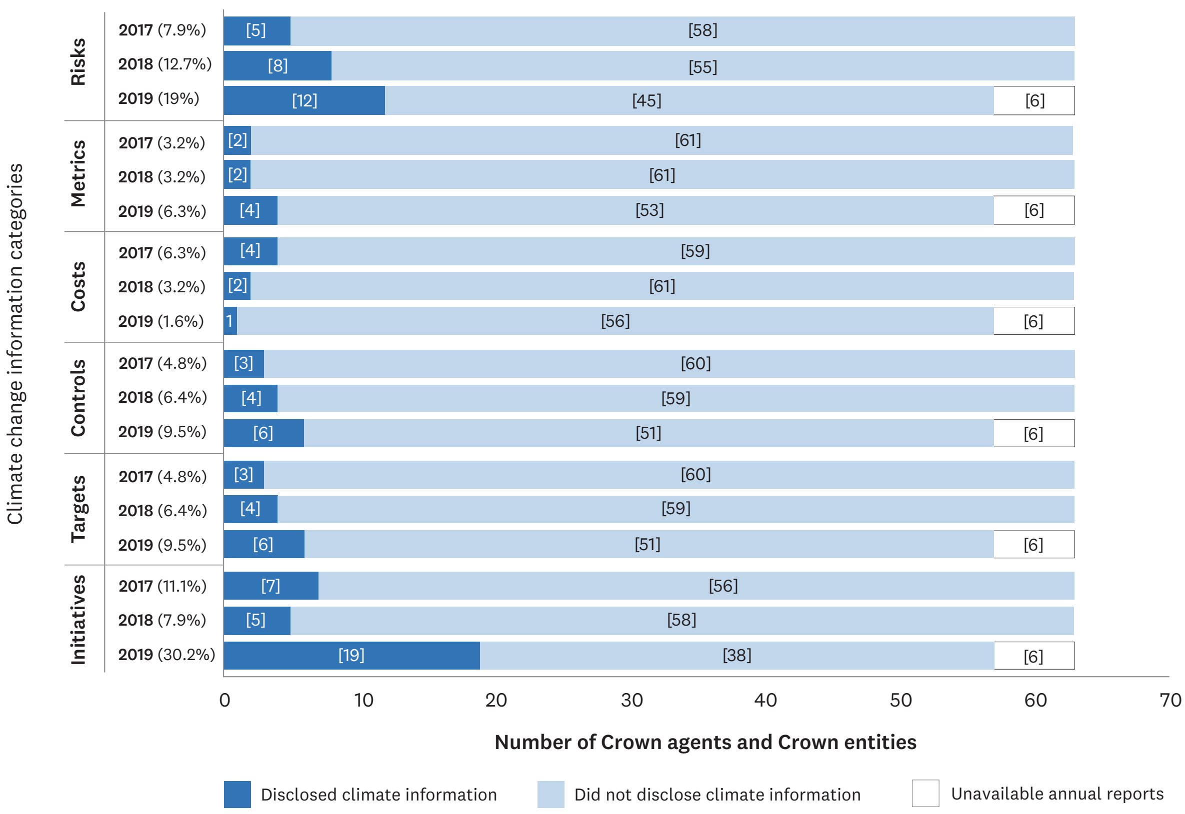
18. Legislation Bill
19. Local Government (Community Well-being) Amendment Bill

Note to be read in conjunction with Appendix 6:

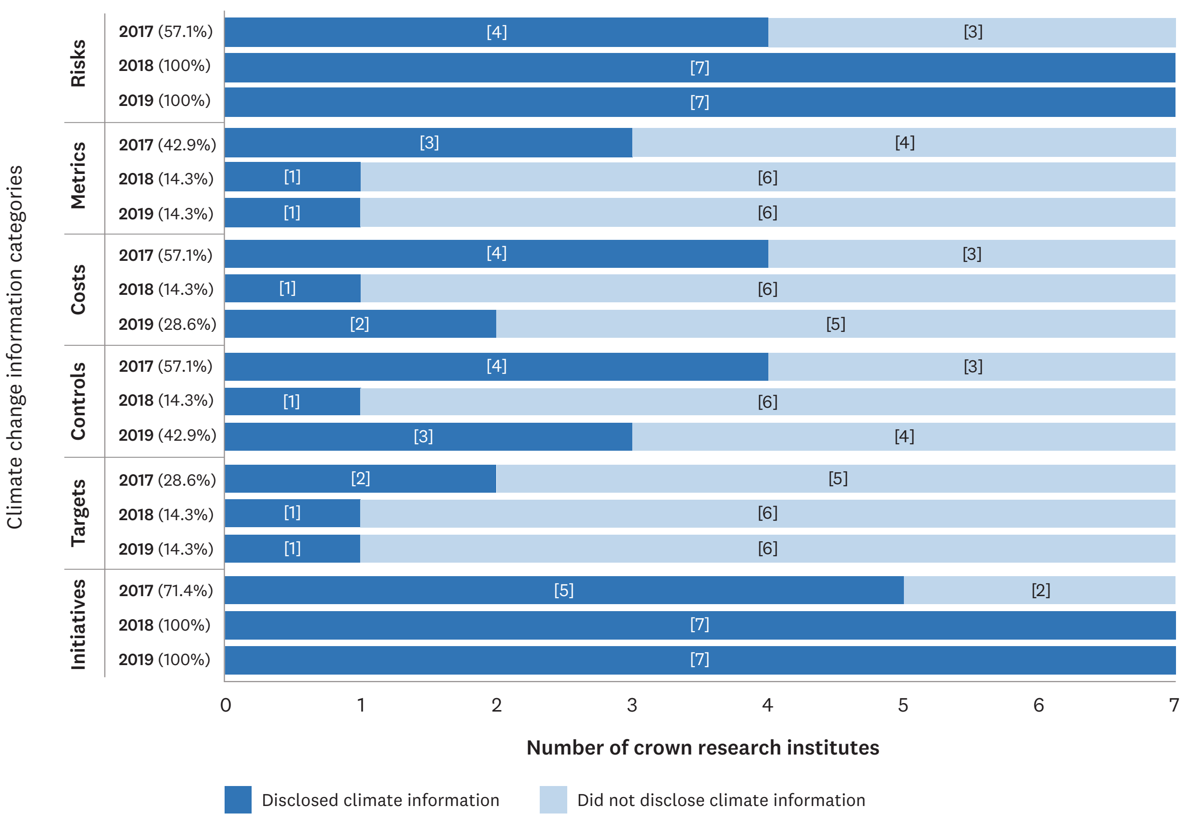
* Indicates legislation that may require further amendment if the government decided that climate change information should become mandatory and that this information should be published in annual reports.

Appendix 7: Uptake of voluntary reporting frameworks in the annual reports of eight types of entities between 2017-2019

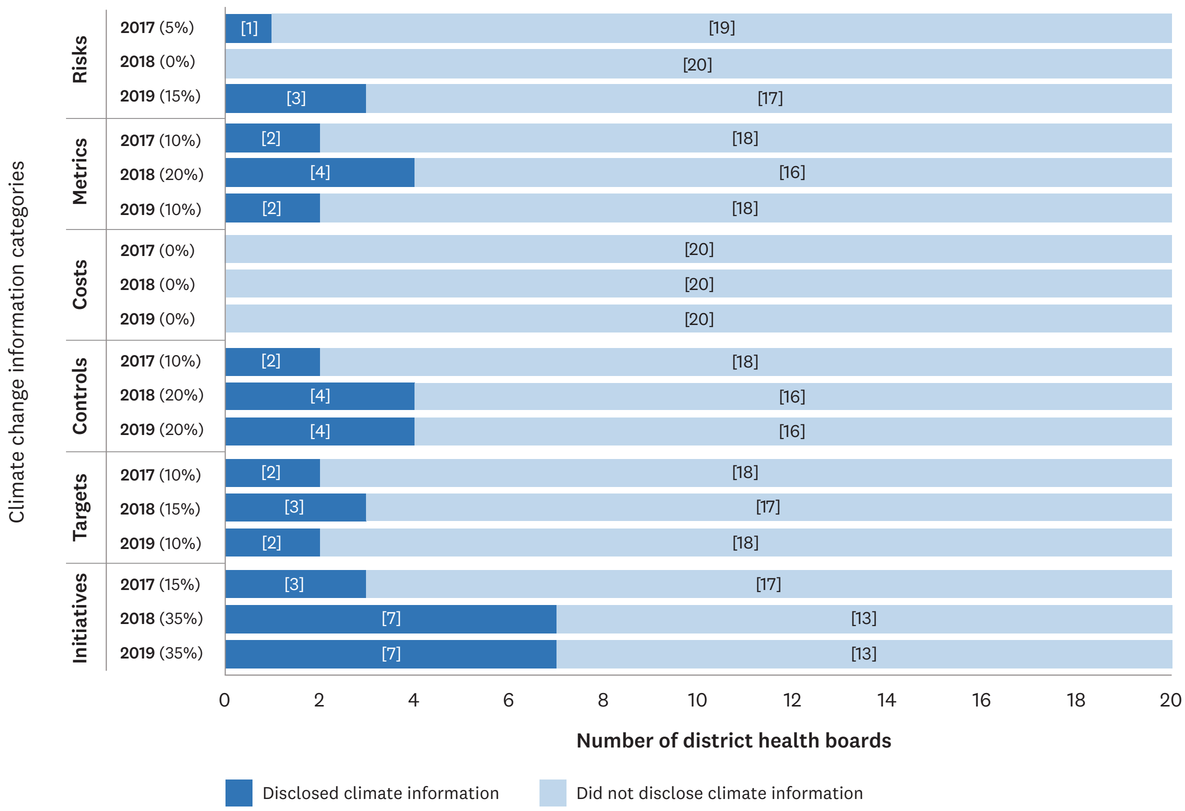
Crown agents and Crown entities



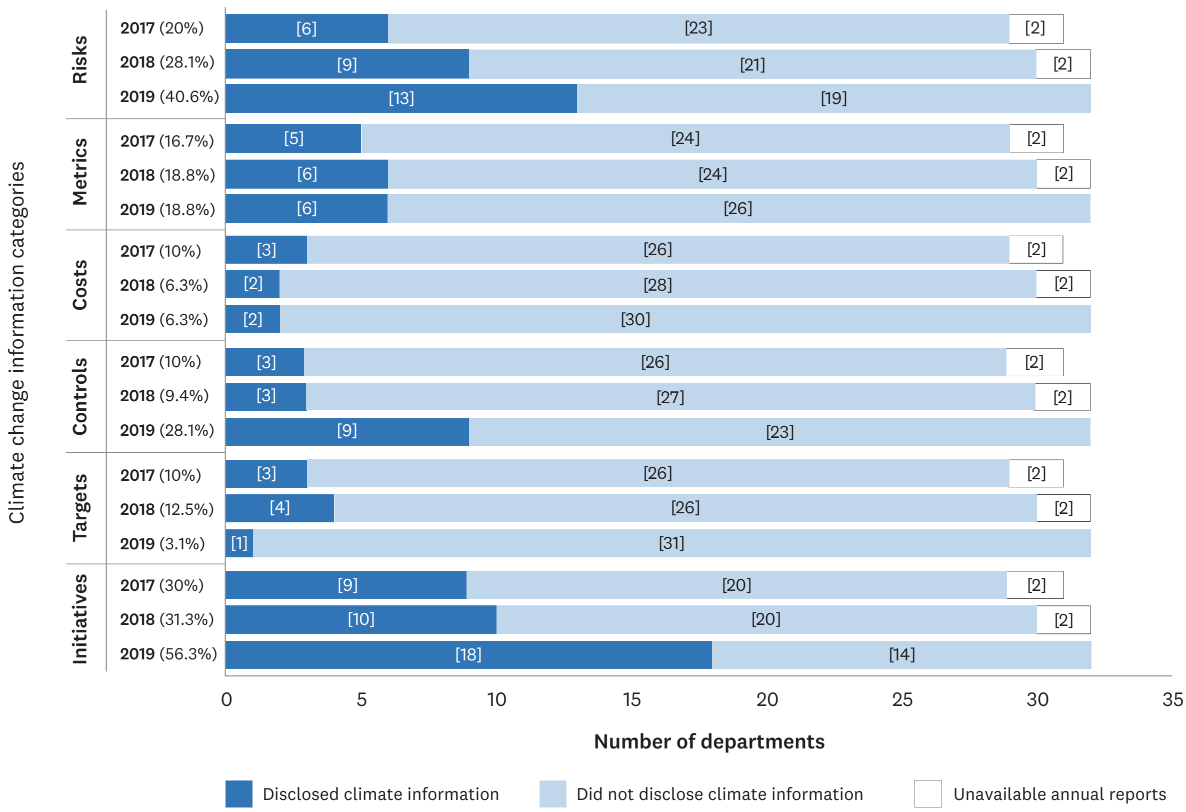
Crown Research Institutes



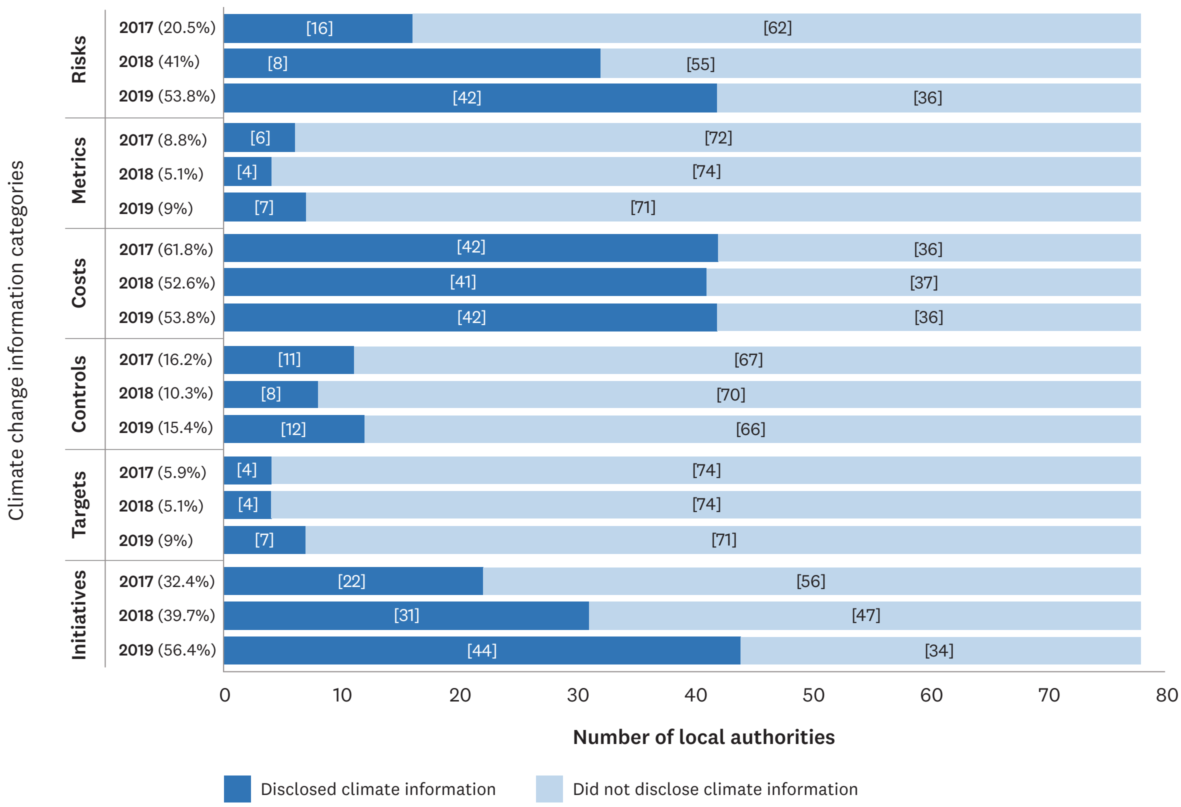
District Health Boards



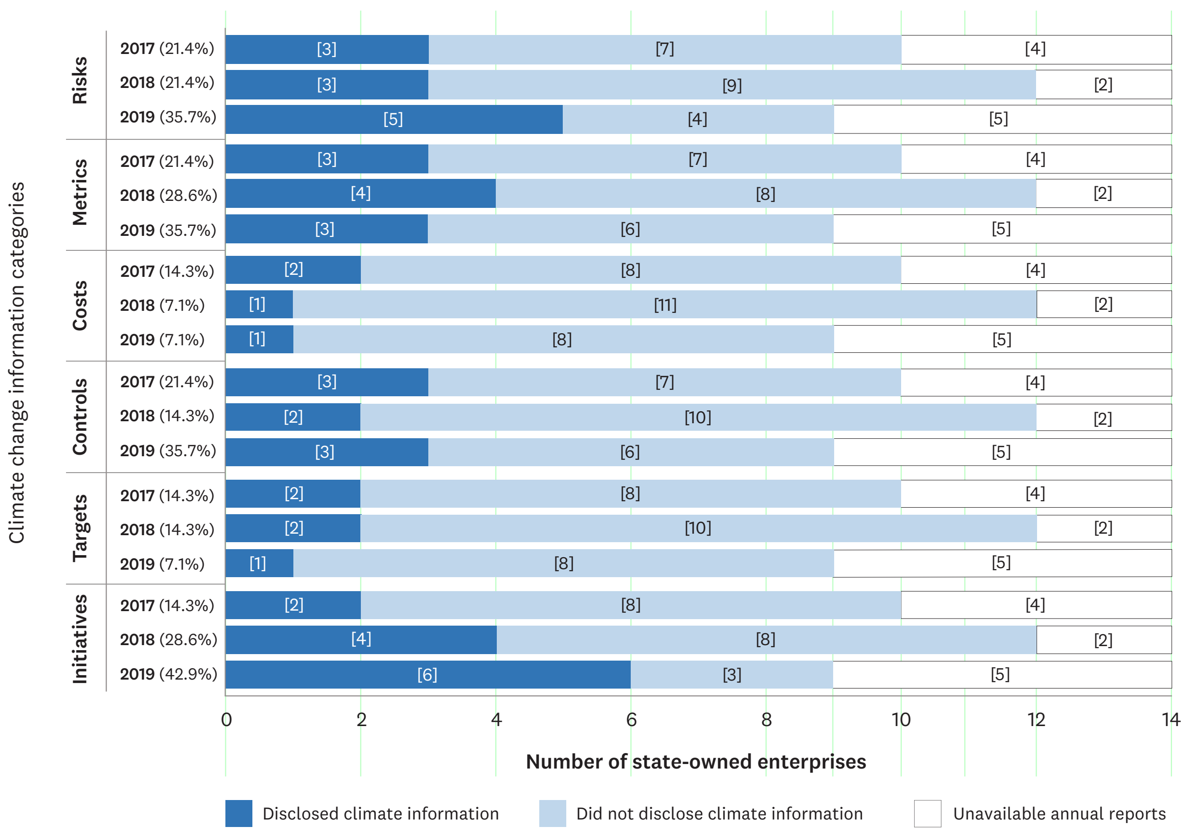
Government departments



Local Authorities



State-owned enterprises



Appendix 8: Uptake of climate-related information in the annual reports of eight types of entities between 2017-2019

Appendix 9: Key New Zealand legislation extracts relevant to the McGuinness Institute's climate-related financial reporting recommendations

Table A9.1: Key New Zealand legislation extracts relevant to the McGuinness Institute's climate-related financial reporting recommendations

Legislation title	Section and extract
Financial Reporting Act 2013	Section 12 Functions of Board The Board has the following functions: *(a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—* *(I) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or* *(II) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:* *(b) to prepare and, if it thinks fit, issue auditing and assurance standards for—* *(I) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or* *(II) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or* *(III) any other purpose approved by the Minister by notice in writing to the Board:* *(c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:* *(d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):* *(e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:* *(f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments.* ... Section 17 Financial reporting standards may cover non-financial reporting *(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.*
Crown Entities Act 2004, Schedule 5	Section 14 Board may appoint committees *(1) The board [of a Crown entity] may, by resolution, appoint committees—* *(a) to advise it on any matters relating to the entity's functions and powers that are referred to the committee by the board; or* *(b) to perform or exercise any of the entity's functions and powers that are delegated to the committee, if the committee includes at least 1 member of the board and any other person or persons that the board thinks fit.* *(2) A person must not be appointed as a member of a committee unless, before appointment, he or she discloses to the board the details of any interest the person may have if he or she were a member of that committee.*
Climate Change Response Act 2002	Part 1B Emission reduction Subpart 1—2050 target Section 5Q Target for 2050 *(1) The target for emissions reduction (the 2050 target) requires that—* *(a) net accounting emissions of greenhouse gases in a calendar year, other than biogenic methane, are zero by the calendar year beginning on 1 January 2050 and for each subsequent calendar year; and* *(b) emissions of biogenic methane in a calendar year—* *(I) are 10% less than 2017 emissions by the calendar year beginning on 1 January 2030; and* *(II) are 24% to 47% less than 2017 emissions by the calendar year beginning on 1 January 2050 and for each subsequent calendar year.*

	(2) The 2050 target will be met if emissions reductions meet or exceed those required by the target. *(3) In this section, 2017 emissions means the emissions of biogenic methane for the calendar year beginning on 1 January 2017.* … Part 1C Adaptation Section 5ZW Minister or Commission may request certain organisations to provide information on climate change adaptation *(1) The Minister or the Commission may, in writing, request that a reporting organisation provide all or any of the following information:* *(a) a description of the organisation's governance in relation to the risks of, and opportunities arising from, climate change:* *(b) a description of the actual and potential effects of the risks and opportunities on the organisation's business, strategy, and financial planning:* *(c) a description of the processes that the organisation uses to identify, assess, and manage the risks:* *(d) a description of the metrics and targets used to assess and manage the risks and opportunities, including, if relevant, time frames and progress:* *(e) any matters specified in regulations.*

Abbreviations

A4S	Accounting for Sustainability
AASB	Australian Accounting Standards Board
AML/CFT	Anti-Money Laundering and Countering Financing of Terrorism
ANZSIC	Australian and New Zealand Standard Industrial Classification 2006
APM	Alternative performance measures
ASIC	Australian Securities and Investments Commission
ASRB	Accounting Standards Review Board (now known as the XRB)
ASX	Australian Stock Exchange
AUD	Australian Dollar
BDSS	Business Demographic Statistics System (Stats NZ)
BEPS	Base erosion and profit shifting
BR	Business Register (Stats NZ)
CA ANZ	Chartered Accountants of Australia and New Zealand
CDP	Formerly 'Carbon Disclosure Project'
CEMARS	Certified Emissions Measurement and Reduction Scheme
CFO	Chief Financial Officer
CR	Corporate responsibility
DIA	Department of Internal Affairs
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EC	Employee Count
EC	European Commission
EER	Extended External Reporting
ESG	Environmental, Social and Governance
ETS	Emission Trading Scheme
EU IFRS	European Union International Financial Reporting Standards
FMA	Financial Markets Authority
FMC	Financial Markets Conduct
FRC Aust.	Financial Reporting Council (Australia)
FRC UK	Financial Reporting Council (UK)
FSB	Financial Stability Board
FSM	Fonterra Shareholders' Market
GAAP	Generally accepted accounting practice
GBP	Great British Pound
GHG	Greenhouse gas

GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IAV	Intangible asset value
IoDSA	Institute of Directors in Southern Africa
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IR	Integrated Reporting
KAM	Key audit matters
LSE	London Stock Exchange
LTIFR	Lost time injury frequency rate
LuxSE	Luxembourg Stock Exchange
MBIE	Ministry of Business, Innovation and Employment
MfE	Ministry for the Environment
NIAV	Net intangible asset value
Non-ASIC	Not on an ASIC register (see ASIC above)
Non-GAAP	Not compliant with GAAP (see GAAP above)
NFP	Not-for-profit
NRS	National Reserve Supply
NTAV	Net tangible asset value
NXT	NXT Market
NYSE	New York Stock Exchange
NZAX	NZX Alternative Market
NZBN	New Zealand Business Number (MBIE)
NZCGF	New Zealand Corporate Governance Forum
NZD	New Zealand Dollar
NZDX	NZX Debt Market
NZ ETS	New Zealand Emissions Trading Scheme
NZ FTS	New Zealand Funds Transfer Scheme
NZICA	New Zealand Institute of Chartered Accountants
NZ IFRS RDR	NZ IFRS Reduced Disclosure Regime
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZSX	NZX Main Board (also NZX Equity Market)

NZX	New Zealand Stock Exchange
NZX Listing Rules	NZX Limited: Main Board/Debt Market Listing Rules
OAG	Office of the Auditor-General
OECD	Organisation for Economic Co-operation and Development
PBE	Public benefit entity
PPE	Personal protective equipment
PCO	Parliamentary Counsel Office
PRI	Principles for Responsible Investment
RDR	Reduced Disclosure Regime
S&P 500	Standard & Poor's 500
SDG	Sustainable Development Goals
SME	Small and medium-sized enterprises
SPFR for FPEs	Special Purpose Financial Reporting Framework for use by For-Profit Entities
SR/SDR	Sustainability Reporting/Sustainable Development Reporting
SSC	State Services Commission
SSE	Sustainable Stock Exchanges Initiative
TCFD	Task Force on Climate-related Financial Disclosures
TPEx	Taipei Exchange
TRIFR	Total Recordable Injury Frequency Rate
UHC	Ultimate holding company
UK GAAP	United Kingdom Generally Accepted Accounting Practice
USD	United States Dollar
XRB	External Reporting Board

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. To minimise 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, n.d.).

Accounting for Sustainability (A4S)
An international standard-setter that provides preparers with guidance. 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.[a]).

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. Contents of an annual report are specified in s 211 of the Companies Act 1993 and *NZX Listing Rule* 3.7 and 3.8 (NZX, 2020a, pp. 24–26). For further information, please see p. 7 in ISA (NZ) 720 (Revised) (XRB, 2015b).

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, 2018b). 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 subject to an assurance engagement.

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, 2016b). 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 measure and 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, 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, 2020d, 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, 2018e).

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 3.8.1(a) and (b) 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, 2020d, p. 25–26).

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, 2020a, Glossary).

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 tax environment and/or financing decisions (EBITDA, 2018).

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 CO_2/m^2 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)
There are three elements that help socially conscious businesses measure their sustainability and the ethical impact of an investment in their company or business. These are:

- 'Environmental criteria (looks at how a company performs as a steward of the natural environment);
- Social criteria (considers how a company manages its relationships with stakeholders [i.e. employees, impact on the broader community and/or suppliers]);
- Governance (includes a company's leadership, executive pay and shareholder rights amongst other matters)' (NZX, 2019b, p. 5).

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)
Extended External Reporting (EER) is an umbrella term adopted by the XRB to refer to broader and more detailed types of reporting beyond the types of information presented in an entity's statutory financial statements. EER can include reporting information on an entity's governance, business model, risks, opportunities, prospects (including forward-looking financial information), strategies and economic, environmental, social and cultural impacts.

EER encapsulates integrated reporting, sustainability reporting, non-financial reporting, pre-financial reporting, management discussion and analysis, management commentary, ESG reporting (environmental, social and governance), corporate responsibility reporting, community and environmental reporting and more.

External Reporting Board (XRB)
An independent Crown entity that preparers and issues accounting, auditing and assurance standards in New Zealand (XRB, 2018b).

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, 2018i).

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)
A government agency for enforcing financial regulation in New Zealand (XRB & FMA, 2017, p. 2).

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, 2018d, 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 s 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 AFT/CMT Act, but is used to describe a 'reporting entity' that is supervised by the FMA, in its role as an AML/CFT supervisor, under s 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 s 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, 2019i).

For-profit entities
'Reporting entities that are not public benefit entities' (XRB, 2015b, 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, hydro fluorocarbon, 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, n.d.). (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.)

International Financial Reporting Standards (IFRS) (an accounting term)
An accounting term that refers to the accounting standards issued by the IASB since 2001 (CCH Tagetik, n.d.). (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
A legal term defined in s 11 of the Financial Markets Conduct Act 2013.

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, 2015f, 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
A legal term defined in s 45 of the Financial Reporting Act 2013.

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
Unless otherwise stated, this report defines material information (materiality) broadly in line with the European Union Guidelines on non-financial reporting: Supplement on reporting climate-related information. Although it is applied to climate change here, it is our view it can be applied to all other material information. Two other definitions of material information (materiality) used in the Report is the legal definition in s 231(1) of the Financial Markets Conduct Act 2013, which is referred to in the *NZX Listing Rules* glossary (NZX, 2020a, Glossary) and the XRB definition in which 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, 2018e, 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 Limited, n.d.).

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'.)

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 Limited, 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 (Companies office, 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 NZX is a licensed market operator as defined in s 6 of the Financial Markets Conduct Act 2013.

Non-financial information
An accounting term defined in s 17 of the Financial Reporting Act 2013.

Non-ASIC
(See 'Australian Securities Investments Commission' above.)

Non-GAAP
(See 'generally accepted accounting practice' above.)

NZX announcements
Components of a continuous disclosure framework, 'which seeks to ensure the timely release of material information by issuers' (NZX, 2019j, 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, 2019j, 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, 2019j, p. 23).

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, 2020d p. 3).

See also '*FMA Handbook*' above, which includes stakeholder interests in Principle 8 (FMA, 2018d, p. 3).

NZX Debt Market (a financial term)
New Zealand's flagship market for listed debt securities, providing access to a diverse range of New Zealand and Asia-Pacific corporate and government debt (NZX, 2019k).

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 NZX Equity Market (NZSX) is the premier market for NZX's listed equities and funds in New Zealand and is home to some of New Zealand and Asia-Pacific's most successful and dynamic companies (NZX, 2019l).

NZX Markets (a legal term)
Refers to all NZX boards, including the NZX Main Board (NZX), the NZX Debt Market (NZDX), NZX Dairy Derivatives, NZX Equity Derivatives (NZCX), Fonterra Shareholders Market (FSM) and S&P/NZX Indices (NZX, 2019l).

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 *Listing Rule* 3.8.1(c) 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, 2020a, p. 26).

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.[d]).
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' (PRI, n.d.[a]), 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, 2015b, 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, 2020).

Quantitative breakdown of gender
An NZX reporting requirement outlined in Rule 3.8.1(c), which constitutes 'a quantitative breakdown, as to the gender composition of the Issuer's Directors and Officers as at the Issuer's balance dare and including comparative figures for the balance date of the issuer' (NZX, 2020a, p. 26).

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, 2018d, 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, 2020).

(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, 2020).

(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, 2018j). (See Tables 9 and 10 overleaf.)

Table 6: For-profit entity tiers and standards as at April 2016

Source: (XRB, 2016b, p. 11)

Tier	Tier criteria	Standards
Tier 1	• Has public accountability (as defined); or • Is a for-profit public sector entity that has total expenses >$30 million	NZ IFRS
Tier 2	• 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.*	NZ IFRS RDR

Table 7: Public benefit entity tiers and standards as at April 2016

Source: (XRB, 2016b, p. 15)

Tier	Tier criteria	Standards
Tier 1	• Has public accountability (as defined); or • Has total expenses (including grants) > $30 million	PBE Standards
Tier 2	• Has no public accountability (as defined); and • Has total expenses (including grants) ≤ $30 million *and elects to be in Tier 2.*	PBE Standards (RDR)
Tier 3	• Has no public accountability (as defined); and • Has expenses ≤$2 million *and elects to be in Tier 3.*	PBE SFR–A (PS) or PBE SFR–A (NFP)
Tier 4	• 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.*	PBE SFR–C (PS) or PBE SFR–C (PS)

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, 2014c, 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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