



Corporate Reporting

FY20 challenges, investors and other stakeholders drive the ASX200 to apply integrated reporting principles

A review of corporate reporting trends in the year to 30 June 2020 across the ASX 200 and beyond



November 2020

[KPMG.com.au](https://www.kpmg.com.au)

Foreword

By Charles Tilley

COVID-19 has become a social, health and economic emergency that will take the global business community, in both the private and public sectors, time to rebuild. The crisis re-enforced the importance of policies and practices that support multi-capital thinking so that health, employment, innovation and resource access are at the forefront of decision-making.

While arguably, as a global community, we should have been better prepared for such a pandemic, the joint COVID-19 response by many governments, regulators, reporting organisations, financial institutions and communities has been encouraging, and we have seen real leadership from countries such as Australia and New Zealand. What we have witnessed is integrated thinking coming to life. Organisations around the world have pulled together to re-focus their business to meet the demands of this new normal.

It has also put to rest the debate regarding the distinction between financial and non-financial information. We have seen that desired financial outcomes cannot be achieved unless the underlying fundamentals are in place and operating effectively. We need a healthy workforce, secure technology, an environment fostering innovation, robust supply chain, good products and eager customers.

As people all over the world pull together to drive this new approach to business, there has been, in parallel, increased co-operation in the world of corporate reporting.

Financial reporting is a mature process with a conceptual framework and clear standards using International Financial Reporting Standards (IFRS) or the Generally Accepted Accounting Principles in the United States (US GAAP). However, reporting material

pre-financial information has seen a proliferation of organisations set up over the last 20 years to advocate for increased transparency over specific social and environmental issues. Many have been successful in driving changes in government and business activity, but the market has also been clear that it has also led to confusion, duplication, omission and a lack of integration. This is changing fast.

In 2014, the International Integrated Reporting Council (IIRC) established the Corporate Reporting Dialogue (CRD) to bring together all the major parties involved in corporate reporting (Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), International Accounting Standard Board (IASB), Global Reporting Initiative (GRI), International Organization for Standardisation (ISO), Sustainability Accounting Standards Board (SASB) and the Financial Accounting Standards Board (FASB) (as an observer) to promote greater coherence, consistency and comparability between corporate reporting frameworks and standards.

A landscape map was developed as a common reference point for demonstrating alignment through the lens of integrated reporting and over the last six years the major parties have been working closely to advance understanding and alignment.

The International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework (<IR> Framework) has been identified as the basis for a conceptual framework to bridge the current reporting standards. It was robustly developed through public comment and piloting over three years, and is currently being reviewed and updated, again through a robust global consultation process. It has been adopted by governments, their stock exchanges and major corporations as good governance and business practice. It is the only reporting framework that focuses on the whole business, and how that business uses key resources and relationships to create value over the short, medium and long term for shareholders and other stakeholders. As a principles-based, holistic framework, it provides a roof for the

reporting standards that businesses use to provide detailed metrics to their report users such as IFRS Standards, GRI and SASB. The IIRC is working closely with these partners to provide clarity on how this works in practice to provide a comprehensive corporate reporting system.

This 2020 KPMG Australia (KPMG) report highlights how organisations in Australia are moving to adopt the principles of integrated reporting, with a growing number now referencing the <IR> Framework, and a few obtaining assurance on whether their integrated reports are in accordance with the <IR> Framework.

The COVID-19 disclosures of most companies have not only focused on the financial impacts of the pandemic, but also its implications for their employees, customers, suppliers and the broader community and how they have provided support where possible. Regulatory and other market-led initiatives have also driven an improvement in reporting on climate change risk and opportunity.

Australian companies have demonstrated this year that they understand the importance of providing quality and balanced information on the underlying drivers of their business when explaining their business, and its performance, position and prospects. They are now increasingly presenting integrated reports.

I commend this report to you.



Charles Tilley

CEO, International Integrated Reporting Council

Contents

Introduction	4
Key themes and insights	8
Investor interviews: Illustrating the growing importance of broader reporting to attract longer term investment capital.	22
Cbus	24
Colonial First State	26
Inspire Impact	28
Melior Investment Management.....	30
Redpoint	32
How KPMG can help.....	34
KPMG Report Benchmarker.....	36
Appendix 1: Integrated reporting education and research methodology	37
Appendix 2: Global developments in integrated reporting.....	38



Thanks to the Deakin Integrated Reporting Centre (DIRC) for providing valuable research support for this survey. The DIRC was the initial Chair of the Oversight Body of the IIRC's Global Academic Network. From October 2020 the DIRC has become host of the Australian Business Reporting Leaders Forum (BRLF), taking over from KPMG. Further details are provided in Appendix 1.

Introduction

Welcome to KPMG's seventh survey of ASX 200 Corporate Reporting

As a result of COVID-19 and a push from both regulators and investors for enhanced disclosures on climate and other non-financial risks, most of Australia's largest listed companies and many large scale non-listed organisations have adopted integrated reporting principles when drafting their 2020 annual reports. They have of course provided detail on the financial impact of the pandemic on their revenues, cost base, asset valuations and funding, but the focus of their discussion has been on the actions taken to protect all the fundamental value drivers of the business for short term business continuity and survival; whilst adapting their business models and strategic priorities, as required, to support medium to longer term recovery and growth.

Thirteen organisations explicitly reference the <IR> Framework (2019: Eleven). Most of these organisations have restructured the front half of the annual report to align with the <IR> Framework, whilst still complying with the *Corporations Act 2001* requirements and the Australian Securities & Investments Commission's (ASIC) revised Regulatory Guide 247 *Effective disclosure in an Operating and Financial Review* (OFR) (RG 247).

The <IR> Framework facilitates the ability for an organisation to clearly explain how it implements strategy and manages risks and opportunities in line with its Purpose (the *What of the business*), uses its scarce resources and relationships (the *With*) through governance and the business model (the *How*) to deliver value for the organisation's investors and other stakeholders over the short, medium and long term (the *Why*).

Global developments

In Charles Tilley's Foreword you will note the work that is being undertaken globally to improve the governance and standard setting over 'Non-Financial Information'¹(NFI), and the positioning of the <IR> Framework potentially as the 'connected-reporting' bridge in company reporting used to integrate Financial Information and what Charles calls 'pre-financial information'. These are welcome developments as many organisations are confused by the multitude of some 400+ sustainability and other frameworks, standards and surveys, which have resulted in significant reporting inefficiency.

In addition, the International Accounting Standards Board's (IASB) Practice Statement 1 *Management Commentary*, which is substantively equivalent with the <IR> Framework, will be released in early 2021, as will the International Auditing and Assurance Standards Board's (IAASB) guidance on assurance over Extended External Reporting (including integrated reports.)

More details on these global developments are provided in Appendix 2.

This report explains what is driving the adoption of integrated reporting in Australia beyond these global developments and the progress that is being made, which is summarised in the insights and detailed findings from our review of the ASX 200 annual 'flagship' reports.

Non-financial information needs of investors

Last year we undertook interviews with directors and senior executives from organisations at different stages in their integrated reporting journey. Their insights and advice on the internal and external business benefits of moving to adopt integrated reporting are still relevant and may help as other business leaders develop their business case for change. Broadly, they said that their 'ah hah' moment came with the realisation that integrated reporting is as much a business improvement initiative as a reporting initiative. Integrated reporting is a process grounded on integrated thinking. The integrated report is an outcome of the process, providing a window into the quality of the organisation's integrated thinking.

This year, we have turned our attention to the users of corporate reporting and have interviewed investment managers and asset owners that are using broader business information, including Environmental, Social and Governance (ESG) data, to inform their investment philosophy, strategy and decisions. Our questions focused on the following.

- The investment strategy, and how investors take account of non-financial risk and opportunity
- The critical datasets systematically built into investment models
- The quality and availability of NFI
- How asset owners manage and influence their investment managers
- Views on integrated reporting and assurance over broader business information.

¹ This term is used in this report given its common usage today. It is recognised that matters which are non-financial in nature in the short term, will almost always have financial consequences in the medium to long term.

Common themes from these interviews include:

Impact investing

- Impact investing is emerging, where companies are included in the investment universe because they have a 'positive net impact' on society and/or the environment; negative screening is also used as a first step to remove companies that undertake specific activities from the potential universe.

Data overload

- Investors are frustrated with the lack of quality and inconsistency of ESG and other broader business disclosures. They would like to see common Key Performance Indicators (KPIs) and definitions used across sectors/ markets.
- One area where company reporting and NFI data collection is difficult relates to innovation and Research & Development (R&D) activities, where investors are left to use high-level historic proxy information in their assessments (e.g. revenue growth).

ESG matters

- ESG integration is an investment strategy that is used as an additional investment lens to give greater insight into the potential value/ risk in company performance. Understanding management's strategic response to key ESG issues is a critical indicator.
- The ESG research team is still, for the majority, an advisor to mainstream financial analysts at many investment institutions, rather than core to the investment philosophy and decision making, although this is changing.
- Investors prefer to undertake their own detailed research on a company's impact and/or other ESG measures, using third party data as a comparison and potentially to fill gaps.

Investor decision-making processes

- There are organisations embedding ESG and other broader business disclosures into their quantitative algorithms; traditional investors incorporating ESG considerations often rely on qualitative, bespoke datapoints in making their assessment.
- Asset owners require their investment managers to deliver on specific ESG requirements, and many are in the early stages of determining and implementing their own ESG strategies at the portfolio level, including a move towards internalising some investment management and direct company involvement.

Integrated reporting

- Few investors know about integrated reporting, but in discussions companies that provide integrated reports were singled out for the quality of their strategic thinking and reporting.
- Cbus is an exception, applying 'integrated thinking' when analysing investment proposals, as it helps them apply a more holistic and longer-term business and member value lens.

Assurance

- All investors interviewed saw value in having broader business disclosures, including material ESG matters, independently assured, as the quality of this data to date is often well below financial disclosures; however not if it restricts increased transparency.

The interviews provide thought-provoking insights for boards and executives of corporates and financial institutions to consider when assessing the importance of broader business disclosures, with an immediate focus on quality ESG strategy and data.

What is next?

The findings in this report show that Australian listed companies understand the critical importance of managing, monitoring and reporting on their success in protecting and enhancing their fundamental business value drivers in order to deliver financial outcomes now and into the future. They have adopted the principles of integrated reporting. The COVID-19 experience has clearly driven home the importance of this broader business reporting.

Leading organisations have used recent regulatory and good practice guidance to revisit their reporting strategies, remove irrelevant and immaterial reporting and focus on one 'flagship' report using the principles of the <IR> Framework. They are also aligning their internal systems, processes, controls and accountabilities to more effectively define, capture, manage and report on key business information and related performance measures required for the integrated report.

In our recent publication [*Finance evolution – Insights from Australian CFOs and finance leaders on the impact of COVID-19 and their new reality*](#), we found that over 80% of CFOs agree that they must take ownership for the quality, timeliness and depth of all reported performance information, not just financial information, and the effectiveness of controls over underlying systems and processes. Reported NFI, including ESG data, must be accurate. This will be very important in 2021 as companies prepare to report for the first time on how they have verified

the integrity of their periodic corporate reporting in accordance with the new Recommendation 4.3 in the 4th Edition of the ASX Corporate Governance Principles and Recommendations.

KPMG has focused on better business reporting for more than 20 years. In the section 'How KPMG is helping' we provide further information on how KPMG supports organisations, including investing organisations, implement integrated reporting. We continue to provide independent assurance over integrated reports that have adopted the <IR> Framework, and where management has developed a robust basis of preparation.

The KPMG Report Benchmarking service is available again this year which provides individual company benchmarking of its primary 'flagship' report against components of the <IR> Framework and against the ASX 200. (See page 36 for details.)

If you would like more information on a practical approach to improve your corporate reporting, please contact us:



Andrew Yates
National Managing Partner Audit, Assurance & Risk Consulting



Nick Ridehalgh
National Leader, Better Business Reporting

Key themes and insights

96%

of organisations with year-end dates falling between 31 March and 30 June 2020 have explained the actions taken to protect employees and/or customers and the financial impact of COVID-19 on current year performance.

51%

of whom have also explained actions taken to protect other key relationships, for example suppliers and communities.

60%

of organisations have recognised climate change as a material risk and/or reported in line with the requirements of the Taskforce for Climate-related Financial Disclosures (TCFD).

Overview

This report is KPMG's seventh review and analysis of ASX200 Corporate Reporting, following on from our 2019 report *Corporate Reporting – Good governance driving Australian organisations to adopt integrated reporting*.

This year we saw a continued increase in the number of organisations using at least some of the principles of integrated reporting to prepare their primary report to shareholders (flagship report). The impacts of COVID-19 have helped speed up this transition, as well as the push from regulators and investors on the reporting of climate change and other non-financial risks.

There are now thirteen ASX200 companies (compared to 11 in 2019) that reference the application of the <IR> Framework in their flagship report. Nine of these are in the ASX50. This year Appen, Spark NZ and Skycity Entertainment Group have joined A2 Milk, AGL, ANZ, Brambles, Dexus, Lendlease, NAB, Stockland, Transurban and Vicinity Centres in preparing integrated reports. Other organisations such as NBN Co, Australia Post, Cbus, CPA Australia, NRMA, Camp Quality and Intrepid Travel also report in accordance with, or with reference to, the <IR> Framework. All new integrated reporters are making changes in the front half of their annual report (i.e. the OFR). We are also aware of several other ASX200 companies who reviewing their reporting strategy and moving towards adoption of integrated reporting for FY21.

Consistent with last year, over 70 per cent of ASX200 companies focused reporting on longer-term value for investors and other stakeholders, rather than just short-term financial earnings. This jumps to over 90 per cent for ASX50 companies.

Most ASX200 companies, and all ASX50 companies, are now at the upper end of Stage 2 in the Reporting Continuum (see page 10) focusing on explaining their performance in managing the fundamentals of their business to deliver value – this year and into the future. Of the ASX200 reporting from March 2020 onwards 96 per cent have detailed the actions taken by the board and executive management to respond to COVID-19, these have included protecting employees, supporting customers and communities, strengthening supply chains and accelerating technology-use and innovation. These companies have focused their reporting on short-term actions taken to protect the fundamental value drivers of their business for short term business continuity and survival.

This approach has been necessary to effectively explain current year financial performance and subsequent year-end position, which is the underlying premise of integrated reporting. At the same time, companies have explained how they are adapting their business models and strategic priorities to support medium to longer term recovery and growth. Again, they are applying the integrated reporting lens of not only reporting on their past to present performance, but also demonstrating how the organisation is positioned to create value over the medium to longer term – a focus on the present to future.

In addition, ASIC's revised RG 247 has focused directors' attention on the management and disclosures relating to material non-financial risks, including climate change. This year 60 per cent of ASX200 (and 85 per cent of the ASX50) companies have recognised climate change as a material risk and over half of these companies, in both the ASX200 and ASX50, have increased the quality of their disclosures on the potential transitional and physical climate change risks and opportunities, the potential impact on their business activities and their responses, including any current financial impacts, in line with the Taskforce for Climate-related Financial Disclosures (TCFD) disclosure requirements. ASIC has highlighted that information on underlying drivers of results, risks, strategies and future prospects in the OFR is more important than ever given COVID-19 conditions. ASIC is focusing on the quality of these disclosures in its risk based surveillance of annual reports for year ends 30 June 2020 to 31 December 2020.

Governance and the quality of non-financial information

In our 2019 report we highlighted the changes made in the 4th Edition of the *ASX Corporate Governance Recommendations and Principles (4th Edition)* as the tipping point for listed organisations to rethink their reporting strategy and, in our opinion, for many to reduce the volume of reporting while increasing its relevance. Listed companies must apply or explain each recommendation of the 4th Edition this year (i.e. for reporting periods starting on or after 1 January 2020), so required actions should be well underway.

The changes in the 4th Edition require boards to focus more on the company's systems and processes to manage, monitor and report on non-financial risks and to ensure that there are adequate processes and controls in place to check the integrity of all periodic corporate reports. The <IR> Framework supports presenting such risks in the context of the external environment, business model, strategy and availability of key resources and relationships.

The investor interviews in this report highlight the importance of broader business reporting, and the difficulties many investors have in obtaining relevant, consistent and quality ESG and broader business information to build into their investment analysis.

79%

of organisations surveyed focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings (2019: 74%).

98%

of organisations surveyed use the Annual Report as the 'Flagship Corporate Report' (2019: 94%).

46

The average number of pages in the Flagship Corporate Report, excluding statutory financial statements and remuneration report (2019: 41).

Recommendation 4.3 (R4.3) requires the board to disclose how it “verifies the integrity of all periodic corporate reporting” where the information has not been subject to independent external audit or review. It is important to focus reporting and verification on matters that are material to business value, while removing superfluous and immaterial matters. R4.3 commentary also confirms that the principles of integrated reporting can be used in preparing existing reports, for example the directors’ report or the OFR.

We were pleased to see that 25 per cent of ASX200 companies (33 per cent of ASX50 companies) have adopted the recommendations of the 4th Edition early. These changes impact policies, systems and processes and will take time to design, implement, test and report. These changes also provide the perfect time for boards and management to rethink reporting strategies to reduce volume and increase the relevance of their reporting.

Early adopters of integrated reporting have already revisited their corporate reporting strategies to focus on one flagship integrated report, supported by supplementary reports and on-line

disclosures to address the information requirements of specific important stakeholders. These early adopters have reduced volume in their periodic corporate reporting thereby freeing up board and management time during the reporting season and have focused their efforts on providing information that is material, with respect to the company’s performance, position and prospects.

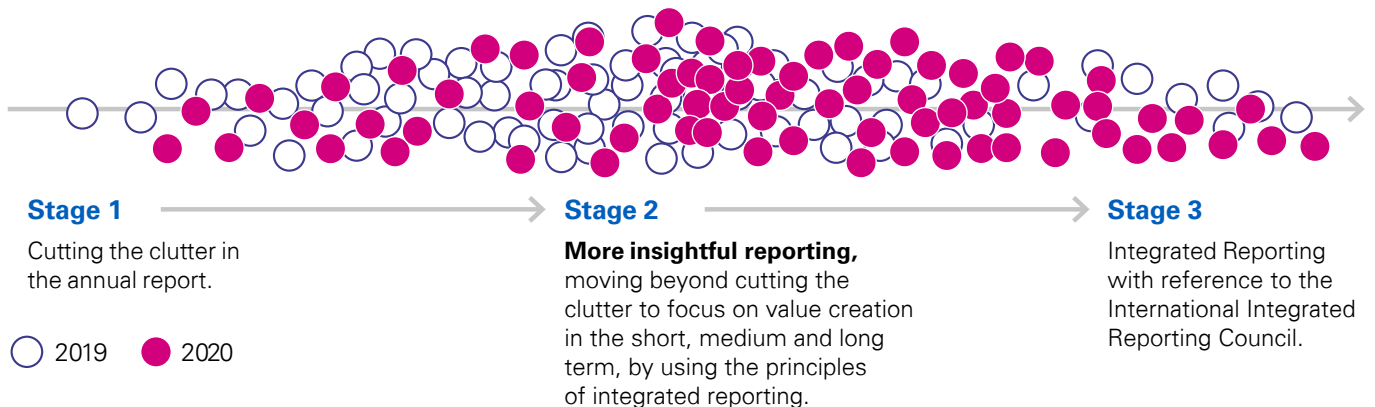
Integrated report assurance

There is also growing discussion on the need for assurance over the integrated report. KPMG is still the only Australian firm to have delivered an assurance report on the integrated reports of Cbus and CPA Australia; however, as a result of R4.3 in the 4th Edition, we are undertaking additional procedures to review and assess the audit readiness of non-financial claims and disclosures made throughout our clients’ revised reports portfolio. Many companies have their sustainability information independently assured, but the board needs to have comfort over the integrity of all material disclosures. In an integrated report this will include disclosures on governance practices, business model, strategic priorities,

key risks and opportunities and use of key resources and relationships (including material financial and broader business metrics, if not already assured).

These audit readiness reviews also highlight the extent to which the company has been able to embed integrated thinking and reporting throughout the organisation’s systems, processes, accountabilities and internal reporting. It takes time, but a key benefit of a move towards adoption of integrated reporting is whole-of-business alignment to strategy, management of key risks and the effective use of resources and relationships. Leading organisations are now systemising integrated reporting through their Integrated Reporting Management Systems (IRMS) to better support their people to apply integrated thinking and action at an operational level.

An illustration of the ASX200 advancing along the Reporting Continuum



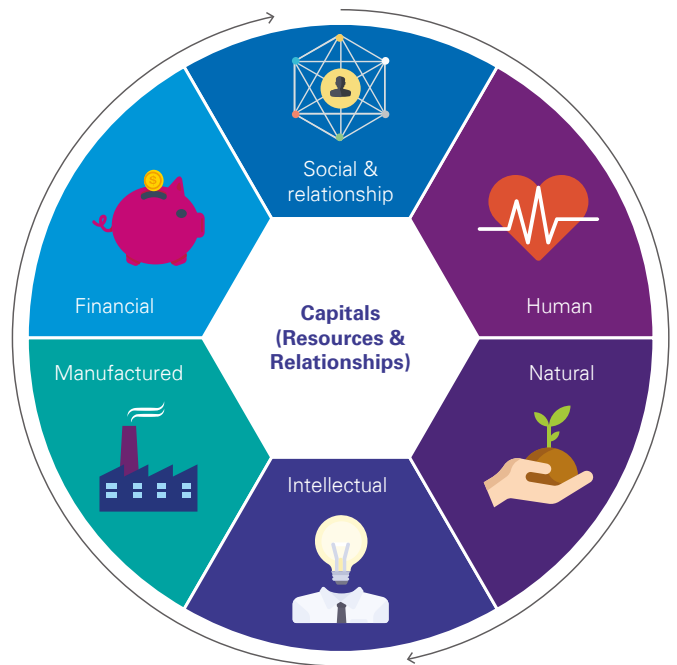
Detailed findings

The detailed findings examined the progress made by ASX200 companies in disclosing information required by the eight key content elements of the <IR>Framework, as well as the fundamental concepts of the six capitals and value creation. In assessing the quality of disclosures, we also considered the guiding principles which underpin the preparation of an integrated report.

This year we have also highlighted the year-on-year improvements made by ASX50 companies. As shown below, these companies are moving at a faster pace than the rest of the ASX200 in enhancing their reporting. They are making changes to report on climate change and other non-financial risks and providing more insightful information to their shareholders and other stakeholders, but not necessarily increasing the volume of reporting. Indeed, many have been able to reduce the volume of reporting by focusing on what is material to their key stakeholders.

The capitals (resources and relationships)

Integrated reporting aims to provide insight on how resources and relationships (the capitals) have been used and affected by an organisation in its creation of value. The <IR> Framework identifies six capitals that should be considered but requires organisations to only focus on those capitals that are important to their own value creation process now and into the future.



ASX 50



ASX 200

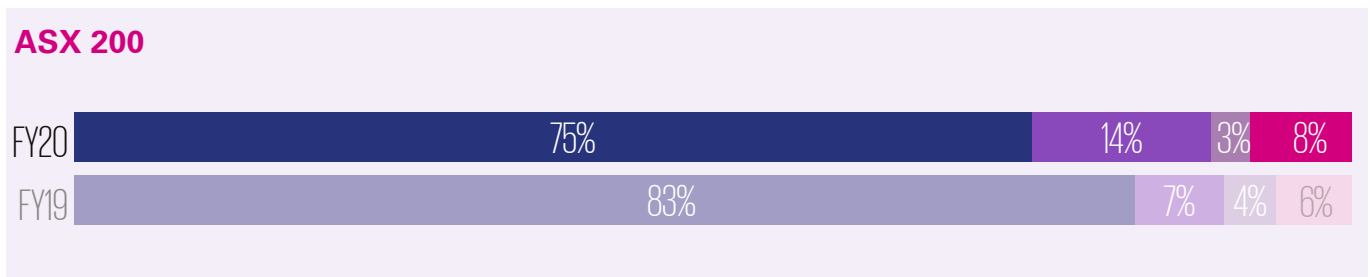
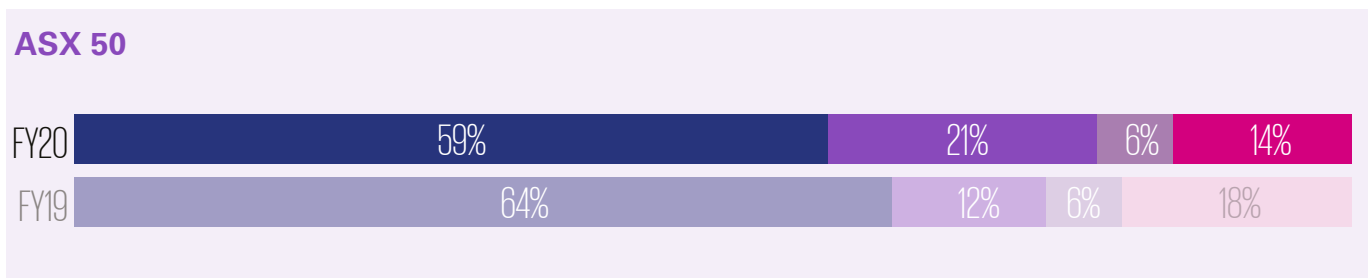


- The capitals are not clearly identified or defined
- The capitals are clearly identified within the report
- The capitals are clearly identified and there is basic connectivity between the capitals and selected sections of the report (e.g. strategy, risk, performance or outlook)
- The capitals are clearly identified and there is good connectivity between the capitals and all key sections of the report, including the value creation process, business model, performance, outlook and outcomes

Value creation

Clear articulation of how the organisation creates value, its value creation process, is critical in helping the reader understand how the organisation’s resources and relationships are used through its business model and governance framework to execute strategy, manage risks and opportunities to deliver its products and services (outputs) while at the same time maintaining or enhancing required resources and relationships (outcomes) for future value creation.

A Value Creation Model diagram is often used in an integrated report to help explain the value creation process and to align the board, executive, staff and key stakeholders on how the organisation creates value.



- Limited or no discussion of how value has been created
- Individual elements of the value creation process are described but with no connectivity
- An overview of the end-to-end value creation process is included, showing the capitals as the inputs but no connectivity with the rest of the report
- An overview of the end-to-end value creation process is included, showing the capitals as the inputs and with good connectivity to the rest of the report

ASX50

24%

of organisations included a Value Creation Model diagram in the flagship report (2019:24%)

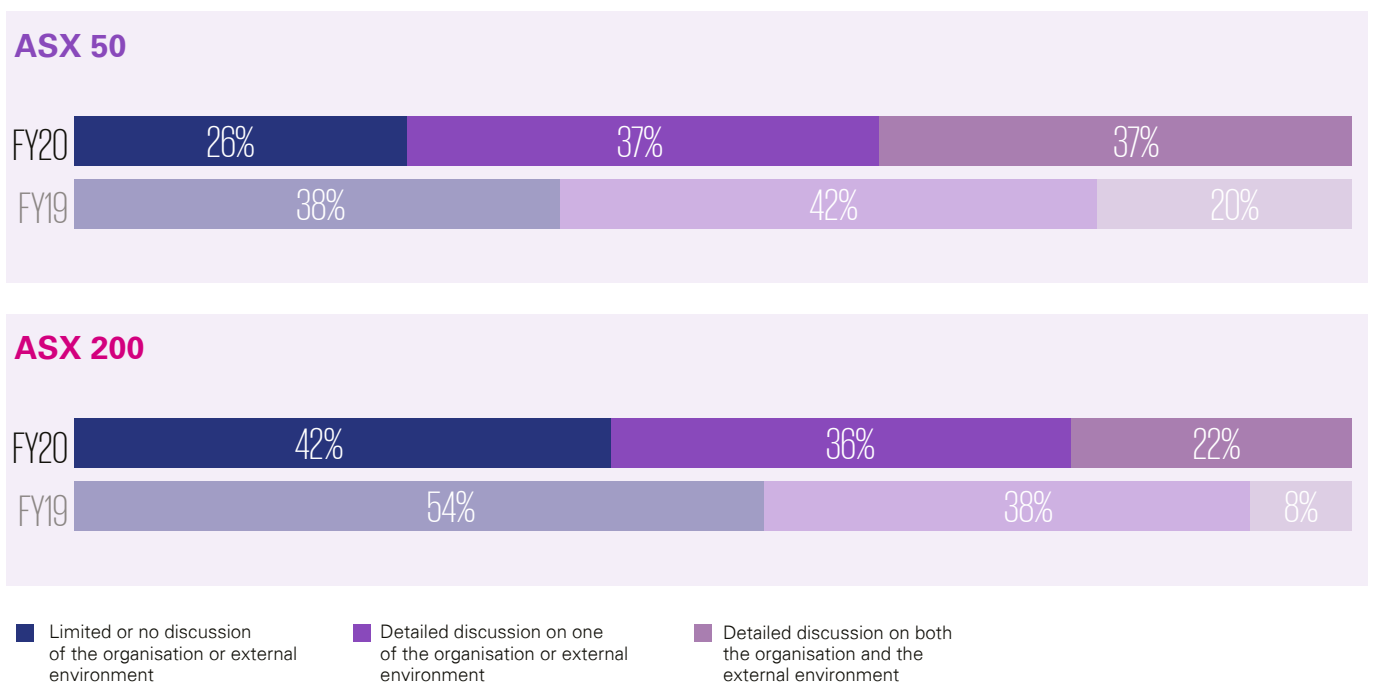
ASX200

16%

of organisations included a Value Creation Model diagram in the flagship report (2019: 10%)

Organisational overview and external environment

This section is critical to ensuring what the organisation does and the context in which it operates is fully understood by the reader. This section should include scene setting information such as the organisational culture, ethics and values, ownership structure, operating structure and key activities, as well as consideration of any significant factors affecting the external environment (e.g. markets, competition, regulation and/or megatrends) and the organisations response.



ASX50

78%

of organisations surveyed outline their corporate purpose (and/or mission and vision) (2019:80%)

78%

of organisations surveyed set out their corporate values (2019:74%)

ASX200

60%

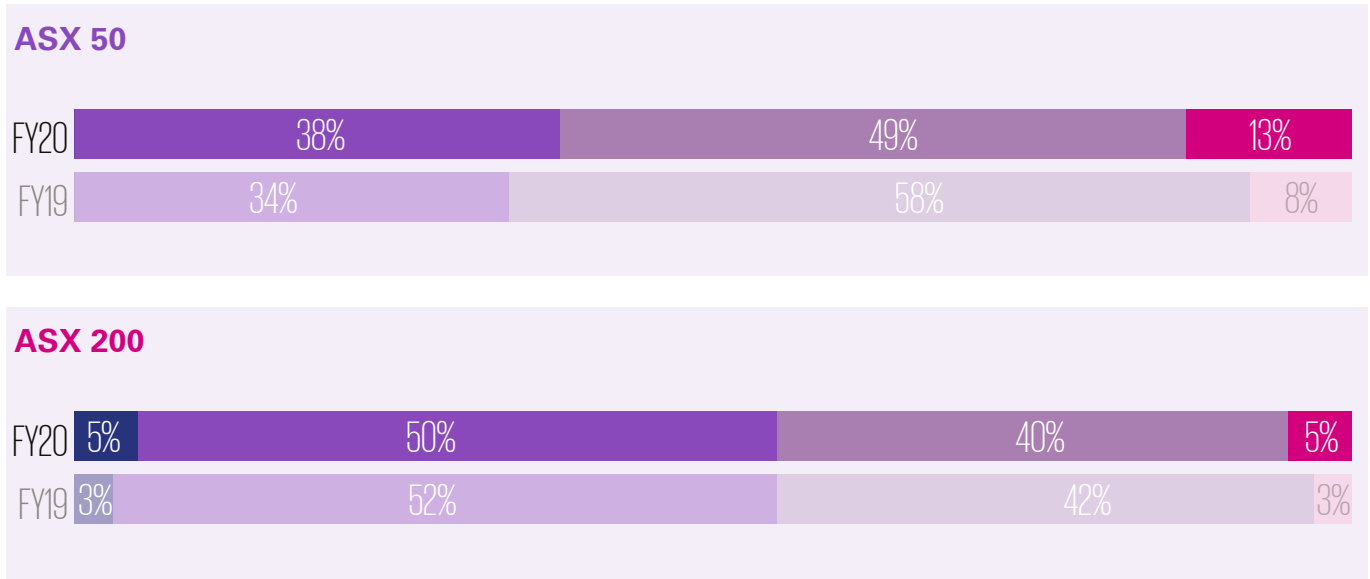
of organisations surveyed outline their corporate purpose (and/or mission and vision) (2019: 64%).

60%

of organisations surveyed set out their corporate values (2019: 60%).

Strategic focus and key performance indicators

When describing an organisation’s strategy, the disclosure should give the reader enough information to understand what the organisation wants to achieve and how it will measure progress and success.



- Limited or no discussion of strategy
- The high-level discussion of strategy gives you an idea of where the organisation is heading in the short and/or medium term
- Discussion includes specific strategic objectives which underpin the strategy
- Discussion includes specific strategic objectives, as well as information on how the successful implementation of each strategic objective will be measured (KPIs)

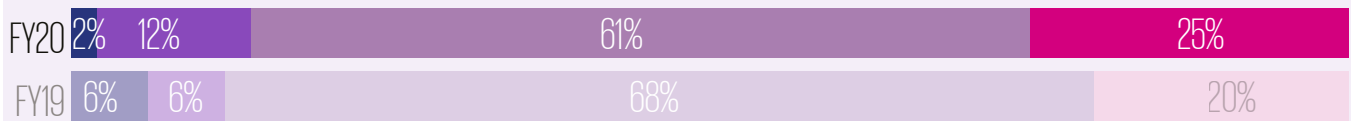
Risks and opportunities

Risk and opportunity disclosures need to be tailored to the specific financial and non-financial risks and opportunities that affect the organisation’s ability to create value over time and how the organisation is managing them.

Although 76 per cent of organisations in the ASX200 and 86 per cent in the ASX50 are now identifying their material business risks and explaining how they are being managed or mitigated by the organisation, this continues to be done in isolation. Only 10 per cent of these organisations in the ASX200 and 25 per cent in the ASX50 are showing how the risks are connected to the organisation’s strategic objectives, material matters or key concerns of stakeholders which were identified through the organisation’s stakeholder engagement process.

Sometimes there was a disconnect between the material risks disclosed in the risk management section and the material matters disclosed in the sustainability section of the annual report. This inconsistency can be confusing for the reader who needs to understand those risks that are likely to have a material impact on the organisation’s ability to create value over the longer term. There should only be one integrated summary of material business risks and opportunities included in the annual report. It should include those that are material to the delivery of business strategy and creation of longer-term value.

ASX 50



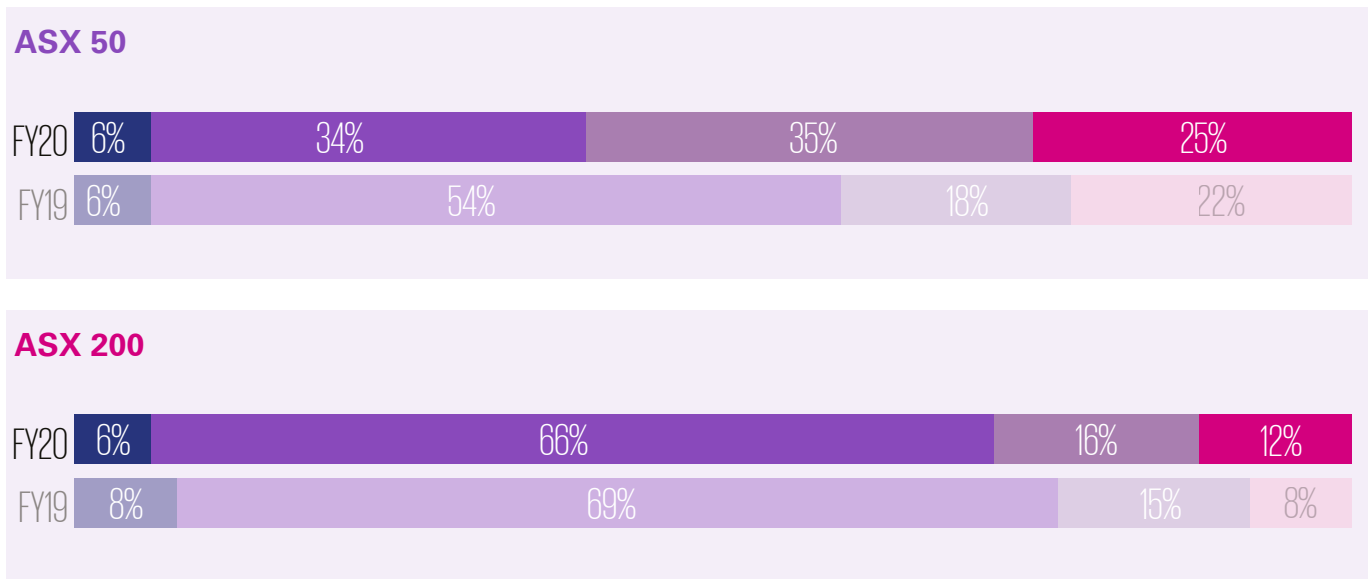
ASX 200



- Limited or no discussion of material business risks
- Identification and description of material business risks
- Includes information on how the material business risks are being managed or mitigated by the organisation
- Includes information on how the material business risks are being managed or mitigated, and how they are connected to other discussions in the report (e.g. strategy, performance and prospects)

Business model

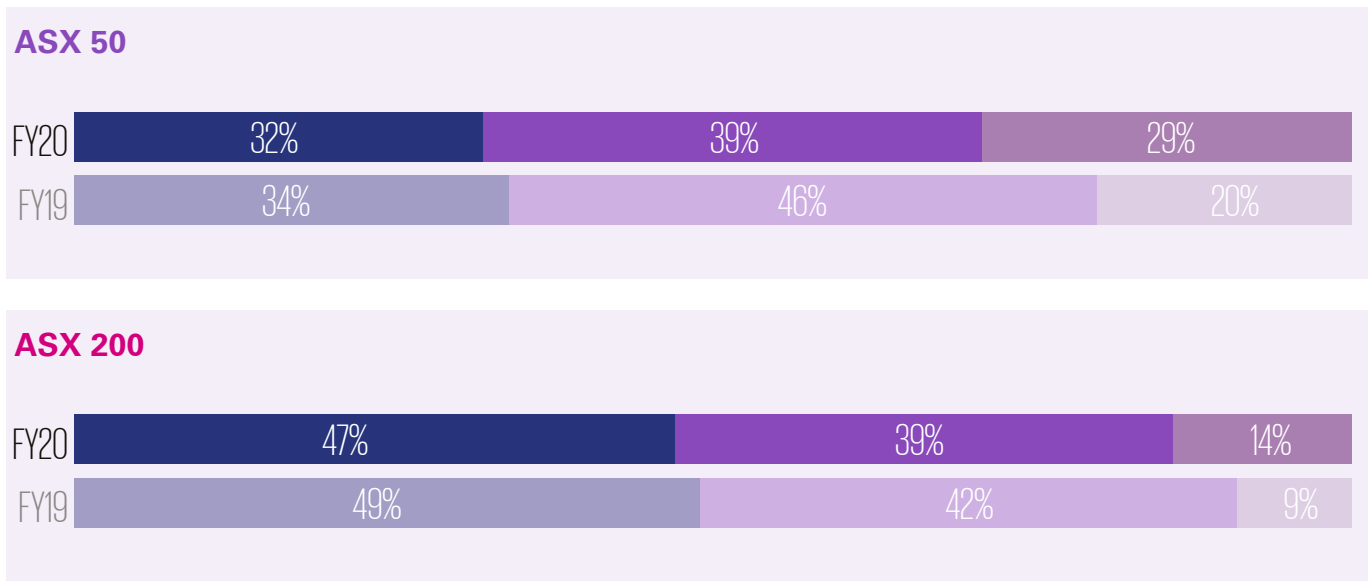
The <IR> Framework defines the business model as the organisation’s system of transforming inputs, through its business activities, into outputs and outcomes that aims to fulfil the organisation’s strategic purposes and create value over the short, medium and long term. The business model is a key component of the organisation’s value creation process.



- Limited or no discussion of the business model
- High level discussion of the business model focused on business activities
- Discussion includes the identification of key inputs, activities and outputs
- Discussion includes the identification of key inputs, activities, outputs and outcomes in terms of key capitals

Governance

Governance disclosures should help the reader understand how the board supports the organisation’s ability to create value. This year it was pleasing to see a continued increase in the number of organisations not only including a governance summary, but an active governance summary which highlights the key areas of focus of the board during the year.



- No Corporate Governance Statement or governance summary
- Includes the Corporate Governance Statement or a governance summary, but mainly focuses on standing data rather than 'active governance'
- Includes an 'active governance' summary, highlighting the key areas of focus of the board

ASX50

33%

of organisations have early adopted the 4th edition of the ASX Corporate Governance Principle and Recommendations

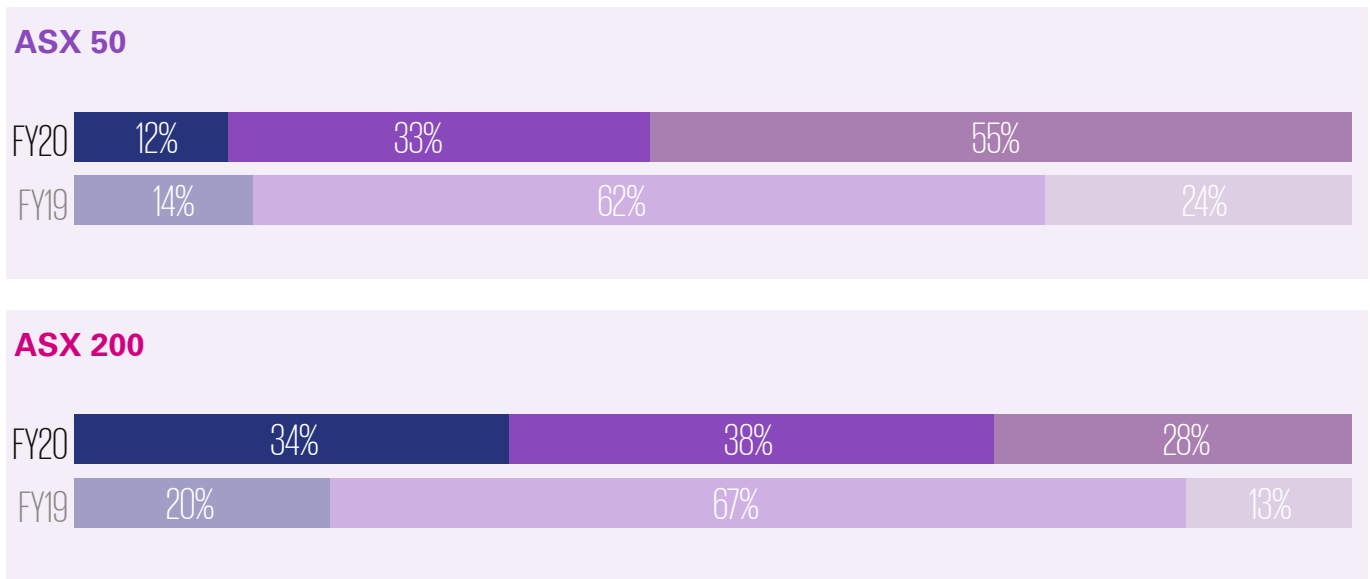
ASX200

25%

of organisations have early adopted the 4th edition of the ASX Corporate Governance Principle and Recommendations

Performance

Leading organisations have moved on from only talking about financial position and performance and are now including narrative on performance in other areas (e.g. customers). Approximately 28 per cent of organisations are now also showing performance against targets, budgets or other measurable KPIs.



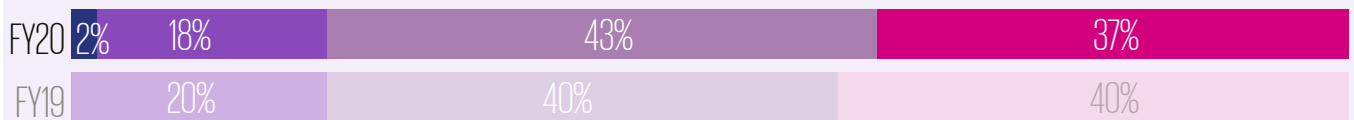
- Discussion is focused mainly on financial performance and position of the organisation
- Includes narrative about how the organisation has performed in achieving its strategic objectives
- Includes performance against targets, budgets or other measurable KPIs

Outlook

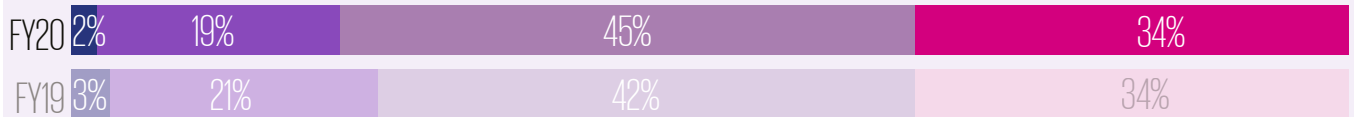
The <IR> Framework does not require the reporting of financial forecasts and projections. The focus is on explaining the health of the business through leading performance indicators (e.g. customer and staff net promoter scores, innovation and new products, environmental performance) and discussion on how the organisation is responding to changes in its external environment, including COVID-19 and global megatrends such as technological innovation and climate change.

Reporting in this way will enable more effective communication to investors and all other key stakeholders about how executive remuneration is linked to their performance in strategy execution and delivery of longer-term value to shareholders and other important stakeholders.

ASX 50



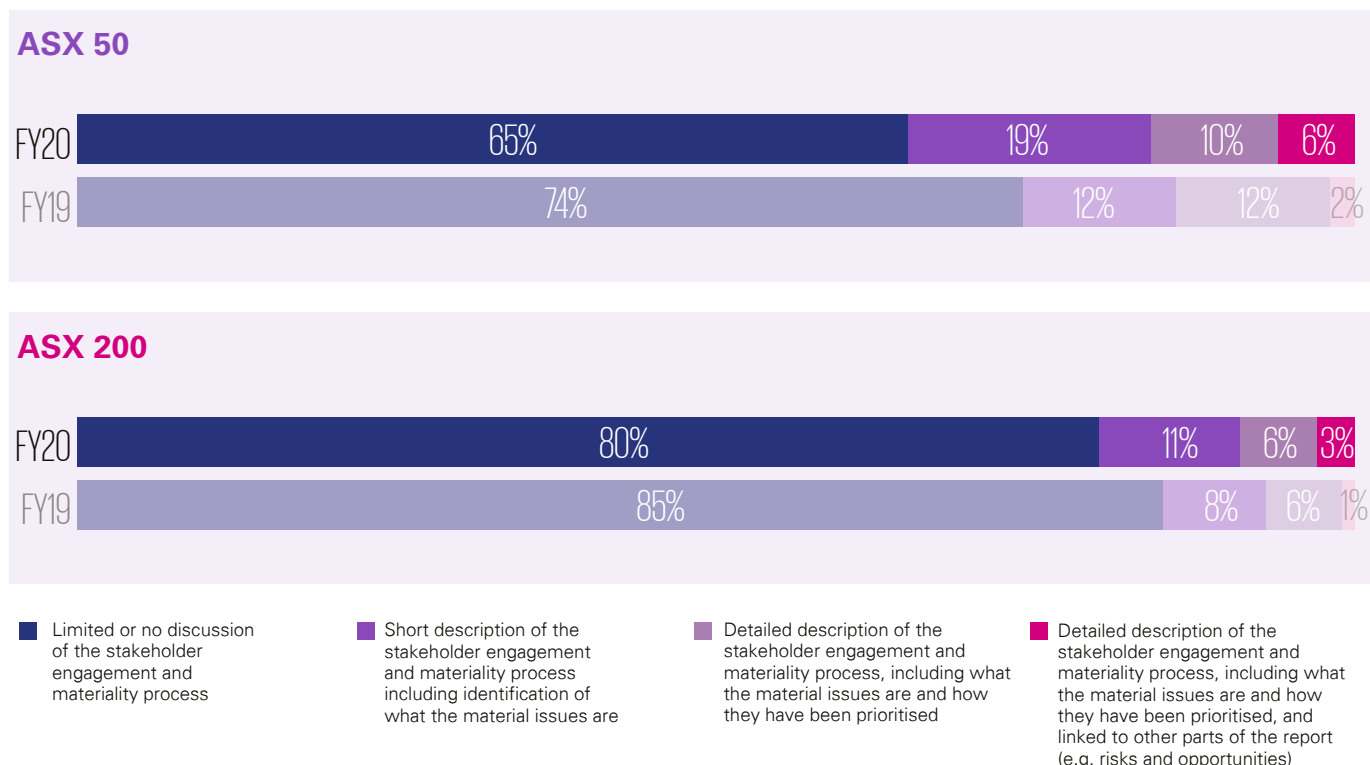
ASX 200



- Limited or no discussion of outlook
- Financial outlook for one year or less
- Financial and strategic outlook for one or more years
- Outlook in the short, medium and longer term, including information about changes in the external environment

Basis of preparation and presentation – stakeholder engagement and materiality

There should be a summary in the report which explains who the primary audience of the report is, how the organisation has determined what matters to include in the report, and how these matters have been quantified or evaluated. This is typically done through providing a brief explanation of how the organisation engages with key stakeholders to understand their needs and interests, followed by a summary of the areas of most interest or concern to key stakeholders (material issues) and how they have been prioritised for reporting. This type of information is commonly included in sustainability reports however, it remains a key area for improvement with respect to preparation of an annual integrated report.



Investor interviews



Investor interviews

Illustrating the growing importance of broader reporting to attract longer term investment capital.

Last year we interviewed directors and senior executives at different stages in their integrated reporting journey. Their insights and advice on the internal and external business benefits of moving to adopt integrated reporting are still relevant and may help as boards and management develop business cases for change in FY21. *(2019 ASX 200 – Good Governance driving Australian Companies to adopt Integrated Reporting)*

This year we paid attention to the users of corporate reports and interviewed investment managers and asset owners to better understand what broader business information they need, and how they use this information when making investment decisions and issuing/managing investment mandates.

We sought to identify investment managers that are using this broader business information to inform their investment philosophy, strategy and decisions. We also interviewed asset owners who are starting to take action, including a move towards more direct investment and engagement on ESG matters. The interviews provide thought-provoking insights, especially for those who understand and are taking action in response to long-term business risks driven by externalities, like climate change, and those that understand the value of being, and being seen to be, a responsible organisation.

There still needs to be more dialogue and education from companies and others within the investment community on the investment benefits of a deeper understanding and systematic assessment of an organisation's broader business performance.

The best way companies can help drive change is through face-to-face engagement and accurate and consistent reporting. One of the key contributions of the <IR> Framework is that it allows the board and executive management to determine and report on what they believe is important about their business's external environment, business model, strategy, resource allocation, risks and opportunities, performance and prospects in a concise and integrated format (with links to other information as required by specific stakeholders). It tells the business's value-creation story internal-outwards. It is not checklist driven. It is not covering individual stakeholder information requests if they are not considered material to long term value by the board and executive management, although this is often provided online or in supplementary reports and cross referenced.

We are seeing more headlines on the need for responsible investment. In January 2020 the Quartz Media article by Heather Landy *A US\$7 trillion Wall Street powerhouse is finally matching its climate change rhetoric with action*, as Larry Fink, CEO of Blackrock, outlined his plan to de-carbonise the portfolio by getting out of investments in thermal coal production within a very short timeline. But what are investors doing differently?

We know from the Responsible Investment Association of Australia (RIAA) *Responsible Investment Benchmark Report 2020*², and the research that KPMG undertook on their behalf, that in 2019 "funds managed under responsible investment approaches grew as a proportion of total professionally managed investments in Australia"

However, the report goes on to say that "New data points in 2019 indicate that there is still a gap between those [investment managers] that claim to be practicing responsible investing and those that have embedded these practices through formal policies and accountability commitments including disclosing full portfolio holdings." (Refer RIAA diagram of Australia's responsible investment market on the next page.)

² RIAA Responsible Investment Benchmark Report 2020, available at: <https://responsibleinvestment.org/wp-content/uploads/2020/09/RIAA-RI-Benchmark-Report-Executive-Summary-Australia-2020.pdf>

We hope these investor interviews will help board members and executives consider the investors they currently have, and the investors they would like to have on their register.

Interviews have been undertaken with senior executives from the following investment managers and asset owners.

Company	Name	Position
Cbus	David Atkin	Advisor to the CEO & Chair (former CEO)
	Anthony Seabrook	Senior Portfolio Manager
Colonial First State	Scott Tully	General Manager – CFS Investments
	Guneet Rana	Executive Manager – Responsible Investment
Inspire Impact	Kerry Series	Partner – Portfolio Manager for Australian Equities
	Michael van Niekirk	Chief Impact Officer – Australian Equities
Melior Investment Management	Tim King	Chief Investment Officer
Redpoint Investment Management	Ganesh Suntharam	Chief Investment Officer

Research universe and Australia's responsible investment market



* Data for 21 of the 165 (mainly boutique and smaller) investment managers was not publicly available to use in the research universe.

Data for three investment managers (Aberdeen Standard Investments, Aviva and Russell Investments) was not received in the survey period and hence 'responsible investment AUM' does not include their AUM.

Source: [RIAA Responsible Investment Benchmark Report 2020, page 3](#)

Cbus



David Atkin
Former CEO



Anthony Seabrook
Senior Portfolio Manager

Background

David Atkin was Cbus CEO for 13 years and has had a long career in the superannuation sector. His focus on ESG for the superannuation system started some 20 years ago. He realised during the stock market crash in 2000 that the markets were not properly assessing risk from a long-term investors' perspective. He believes that ESG information assists in the identification of risk and so, if well managed, will assist organisations make better long-term business decisions.

Anthony Seabrook has a background in global investing, with 17 years working for a family office with a quality investment philosophy. In 2017, he joined Cbus to help drive internalisation of equity investment management. Cbus has since launched a global fund and an emerging markets fund through his team. Anthony's team invests some \$3bn directly in the global markets, as part of Cbus' overall fund of \$55bn.

Interview questions

How has your organisation's investment strategy proactively taken account of non-financial risk and opportunity?

Cbus has always understood the value of ESG information, it was instrumental in establishing the Australian Council of Superannuation Investors (ACSI) after the 2000 stock market crash, to bring industry funds together to challenge corporates on governance, strategy and business performance. Cbus was one of the first signatories to the United Nations Principles of Responsible Investment (UN PRI), and an early member of the Investor Group on Climate Change (IGCC). Cbus supports many initiatives seeking to change the way corporates do business, manage non-financial risk and report more transparently.

For more than 30 years industry funds have adopted an outsourced model for administration, custodianship and funds management, while maintaining a small in-house investment governance team. Cbus had a similar model but was increasingly issuing mandates more aligned to their ESG beliefs. In 2015, Cbus decided to build its own internal investment capability to better integrate ESG into all investment work programs. Cbus now manages more than 30 per cent of its funds internally. The whole team, including the ESG team, work together when making any investment decisions. ESG is not a side thought but integral to all decision making. It is really embedded in how the internal investment team works.

"At Cbus we have three pillars to our investment philosophy. We invest for the long term. We seek to invest back into the real economy and we take a whole of portfolio view of our investments. Working as one team, we share new insights and information and drive more holistic thinking to investment opportunities. We see this more integrated thinking approach maturing every year and driving better outcomes across our investment portfolio," says Atkin.

Seabrook thought it had been an interesting transition for him to adopt this more holistic way of thinking to investment management, but it is the way Cbus invests.

"Take my day so far. I have just come off a call with Cbus Property discussing construction standards and software developments and learning more about their climate neutral strategies. Prior to that, I was part of an interview panel for the recruitment of a senior ESG manager. Before that, I was talking to a medical research company about pension funds that have signed up to a carbon zero mandate," says Seabrook.

Cbus is seeing rapid change in the focus of active investors on ESG matters – they understand positive ESG performance as a catalyst for business enhancements. These investors, like Cbus, ask two simple questions – what are the future prospects of this sector? and how well is this company placed within its sector to realise those opportunities?

Cbus's early focus on climate change risk and opportunity, and company roadmaps to address them across all investments has clearly returned benefits. The company's focus now is on modern slavery, where members want action. The investment team is therefore researching how advanced Cbus's investments are in mitigating modern slavery risk across the portfolio. They are also seeking to identify what best in class looks like, so they can advocate for that best in class performance across the portfolio.

"You know things have changed when one of the most successful global investors, Ray Dalio, founder of Bridgewater, comments publicly that the most important word for the 21st century is sustainability," says Atkin.

What critical datasets are systematically built into your valuation models/ investment selection algorithms?

Cbus's investment approach is bespoke rather than systemised. The investment team builds an information pack of between 100-250 slides on each investment/asset. A third of each pack would focus on ESG/culture/ risk considerations. This analysis would be very deep and bespoke, for example when looking at Pernod Ricards' cognac there would be a focus on availability of supply (Cognac is a very small region) and the likely climate change impacts on that region's ability to reliably meet supply. Cbus will tailor the requirements of the investment pack to the specific company, its sector and markets.

For Cbus, the most important company information relates to strategy, and in particular information on where the company sees itself today, and how its leadership expects it to evolve over time – so where do they hope to be in five- and 10-years' time?

The team is frustrated with the current reporting focus on short-term earnings, rather than on long-term strategy. There are many non-financial datasets which could provide insights into the company's ability to deliver on its future strategy, but many don't exist or are not consistently reported. However, some non-financial information, for example carbon footprint and environmental performance, is being provided more regularly and this allows insights into the company's environmental performance and its brand, leadership and social licence.

There is not much information on innovation and R&D, which are important, but again Cbus sees this as an output of a good strategy and business culture. Hence the need for quality strategy disclosures.

To what extent do you rely on third party research organisations' ratings of non-financial performance when making investment decisions?

The team struggles to get good information from companies, even when they have strong relationships, and they believe third party data is likely to be less reliable. Cbus uses MSCI scores and their carbon data (if the company does not provide the data directly). They also use other third-party sources, for example Bloomberg has just enhanced its ESG assessment data and scores, which provides some insight but it is important to realise that it is Bloomberg's interpretation on data captured that has likely not been audited.

What do you find the most frustrating characteristics of corporate reporting in Australia for the purposes of assisting investors to make well-informed investment decisions?

Most countries have issues in the completeness and quality of corporate reporting, Australia is not alone. Cbus is a global investor and finds a lot of variability in the audited financial accounts, let alone in other reports and disclosures. Corporate reporting has evolved in an ad hoc manner over many years which accounts for the variability. The French registration document is consistent and complete, but also very long. Cbus believes there is opportunity to improve corporate communications, and

that the purpose of their communications compared to the needs of the respective users should be considered.

The prospectus is seen as the best corporate document, it provides an industry-wide perspective, sets out business strategy, resource needs, risks and opportunities, and the outcomes it seeks to achieve over time. To be clear, Cbus is not advocating for a prospectus every reporting period, but it could be used as a basis for determining what is material to update and report on each period. It is an artform to simplify key messaging, but Cbus believes a company should be able to provide a holistic report on its business, performance, position and prospects in 60-100 pages.

Another frustration is that many companies only have three or four key metrics that they use internally to manage performance, and in many cases these metrics are not reported externally. Investors know what these metrics are, and so consistent, quality reporting on them would be of value. As companies enhance their reporting, it is also important to provide a time series, for example cyber may be seen as high on the risk matrix but how many attacks/breaches have there been; what has been the impact; what is the likely trajectory and what is being done to mitigate it? Is this really material now and/or in the future?

"We do not own too many companies that are great reporters. In fact, it usually takes regulation to drive consistent quality reporting. For example, look at the quality of ESG information from mining companies," says Seabrook.

What are your views on the growing take-up of integrated reporting by Australian and global corporates?

Seabrook is a fan of SASB, as it focuses on materiality, but he realises that it does not have a home in the context of Australian reporting. Seven companies, or 10 per cent, in the Cbus Global Quality portfolios prepare integrated reports, which has been improving over time. This is seen as the natural home for material SASB type disclosures. Investors want to see what management consider is material to the business, its strategy and future prospects presented in one report.

Integrated reporting provides a framework to assist companies to better explain what is material to strategy and what they are seeking to achieve for their various stakeholders.

"One of the initiatives I am particularly excited about, in terms of progressing sustainability and integrated thinking within the local market, is the work of the Australian Sustainable Finance Initiative (ASFI). The roadmaps provide a suite of recommendations on how Australia's financial system can deliver better social and environmental outcomes and a key area of focus is around embedding sustainability into leadership. Recognising that Australia's financial system impacts on the whole of the Australian economy and society, the roadmap recommends that financial services sector organisations ensure that decision making practices are guided by high level principles with governance and accountability for sustainability led from the top, sustainability embedded in purpose, corporate strategy, risk management frameworks, remuneration structure and organisational culture. As part of embedding sustainability, financial institutions are asked to ensure purpose and strategy are aligned with sustainable long-term value creation and the impacts of activities are managed and measured. To bring this roadmap to effect, Australia's financial system will need to embrace integrated thinking and integrated reporting," says Atkin.

To what extent do you believe that material narrative claims made by the company in its reporting, as well as non-financial performance information, should be subject to independent assurance?

Cbus does not want to put up roadblocks that may prevent improved reporting. They put adoption ahead of assurance at this stage. However, recognise that it will be a journey over a few years for most companies – as it has been for Cbus. The first step is to determine what is material and should be reported, then to capture the right data for internal management and then external reporting. It can take two or three years to achieve improved reporting. Once that is in place, there will likely be a push for enhanced quality. Market forces will lead to assurance. At Cbus they see their assured integrated report as a quality differentiator.

"There is no doubt that if we see assurance over an integrated report or other material non-financial data and claims, we have more confidence in that company and will have a closer look," says Seabrook.

Colonial First State



Scott Tully
General Manager CFS Investments



Guneet Rana
Executive Manager
Responsible Investment

Background

Colonial First State (CFS) is a Registered Superannuation Entity (RSE) and Responsible Entity (RE) providing a platform for super fund members to invest. CFS offers multiple investment options through its FirstChoice investments menu.

Scott Tully has a background in mathematics and actuarial analysis. He has worked in credit risk, market risk and operational risk teams, for many years focused on investment portfolio management. He heads up a broadly skilled investment team, which manages investment portfolios across the CFS platforms, including MySuper products.

The team has \$53bn in assets all managed through many investment managers via investment mandates. His team does not hold direct investments, rather leads selection and management of investment managers and makes allocation decisions between asset classes and investment managers.

Guneet Rana has a background in economics and has spent more than 20 years focused on portfolio management but has recently moved to lead the CFS Responsible Investment team, reporting to Tully. Her role is to develop and embed responsible investment practices into investment portfolios across CFS. She believes her investment management background will assist her to work practically with portfolio and investment managers to integrate and manage ESG risks across the CFS portfolios.

Interview questions

How has your organisation's investment strategy proactively taken account of non-financial risk and opportunity?

CFS started from a zero ESG base about four years ago. The initial focus has been to build capability, relevant data and an approach to consider ESG risks (or risks around specific controversies) at a portfolio level. They recognise that ESG is broad and that there are many ways to analyse these risks, and how they are being managed, across a portfolio. They focus on what they consider to be strategically important for their members.

CFS has an overarching responsible investment policy, developed and enhanced over recent years. CFS signed the UN PRI in 2017 and follows the Principles for Responsible Investment. CFS scored an A for Strategy and Governance in the 2020 PRI assessment report.³ The CFS responsible investment policy is built around certain stated beliefs:

- Good investment management of ESG and climate risks can improve the potential long-term performance of companies and, as a result, also improve returns for members.
- Active ownership, through voting at company meetings and engagement with the companies CFS invests in, can lead to better long-term returns.

Over the medium term, CFS will focus on their strategic pillars to include active ownership, exclusion of certain types of securities, climate risk, ESG integration, modern slavery and communications with members. ESG integration is an area where CFS has been constantly improving its approach. As CFS believes that ESG and climate risks need to be managed well to improve the long-term, risk-adjusted returns for members, when appointing and monitoring investment managers, the CFS team ensures that management of these risks is incorporated. This varies by asset class and the investment style of managers.

To what extent do you rely on third party research organisations' ratings of non-financial performance?

CFS uses MSCI data analytics and methodology for measuring and understanding ESG risks across the listed equity portfolios and report to the CFS board on a regular basis. This process is continuously being reviewed with the evolving landscape of data providers and methodologies, especially for climate risk.

How has this translated into changes in the Investment Manager Agreement (IMA) requirements and incentives?

CFS is currently not giving any incentives to investment managers for improved management of ESG risk.

CFS is still developing its ESG portfolio risk management framework. It expects investment managers to be able to explain their responsible investment practices and activities, and if they can't then they are less likely to be selected.

"We have not made any explicit changes in the IMA for the management of ESG, but we do analyse model portfolios at the shortlist stage. Currently, we do this for listed equity portfolios. This is to understand the ESG and climate risks embedded in portfolios versus the benchmark. The portfolio management team uses this in their overall evaluation of investment managers before making any appointment," says Rana.

³ as per PRI requirements: PRI scores are valid for CFSIL. Methodology used is available on PRI website <https://www.unpri.org/reporting-and-assessment-resources/about-pri-assessment/3066.article>

There has also been a change in CFS's approach to undertaking due diligence of investment managers. There are ESG questions in the analysis supporting the recommendation to make the appointment, for example is the investment manager a signatory to the UNPRI? What is the ESG rating of the strategy as determined by Mercer?

CFS has conducted two surveys with current investment managers which included questions on ESG risk management, the results form the basis for discussions on how they are removing ESG risk from their investments. The first survey in 2017 identified that only 45 per cent of investment managers believed that climate change was a risk, the 2020 survey shows that this has now moved to 96 per cent.

There has been significant momentum, especially with respect to addressing climate change risk in investment portfolios over the past three years.

How do you monitor and reward/penalise investment manager performance in line with the more 'responsible investment' mandates?

CFS believes that ESG risk should be managed as part of an investment process, and are not rewarding or penalising investment managers for explicit ESG performance. When there is a high-profile issue (e.g. environmental spills, destruction of historic sites, corporate fraud), the CFS portfolio managers discuss the proposed response by investment managers and their rationale. CFS seeks to understand if the relevant ESG exposure had been considered before the event and if the investment manager's response was appropriate. Currently, CFS are fact finding to help develop the ongoing ESG portfolio risk framework. This involves looking at actual events in hindsight and what is needed is to ensure investment managers have a framework to identify potential future ESG risks to incorporate this into their investment process.

"At this stage we are analysing the different responses from the investment managers who have holdings in the specific company implicated in the high-profile issue. In the future we want to reach over the investment managers and ask the company itself specific questions and determine our own response. We are not there yet like some superannuation funds, but we expect to get there in the near future," says Tully.

What information do you request from your IMs to monitor their performance across all your mandate requirements?

CFS considers ESG risk to be part of the investment performance outcomes delivered by an investment manager. They are still building capability, and their approach to managing ESG risk more holistically, across all investment managers. CFS does have specific exclusions in the IMAs for tobacco and controversial weapons across the portfolio. They also have regular discussions with listed equity investment managers on why they are holding CCC rated investments as measured by MSCI. CFS assesses the explanations given to ensure the investment managers have a view on the issues and how they influence investments.

What are your views on the growing take-up of integrated reporting by Australian and global corporates?

The CFS team does not have the capacity to review the reporting of the 3,000 investee companies in their various portfolios, so use third-party investment managers. MSCI include many of the non-financial datasets in their ratings, so ESG performance is incorporated in this way. However, there is a risk in that the MSCI data is backward looking. CFS expects fundamental investment managers to consider and assess the ESG disclosures when making stock picks; however, CFS has \$15bn with index managers who do not apply an ESG lens.

"Investment managers take different approaches to selecting securities and not all approaches lend themselves to managing ESG risk. An index manager is paid to invest in the benchmark and not to take risk away from that approach. Our challenge is how we incorporate ESG risk across all investment managers," says Tully.

To what extent do you believe material ESG data should be subject to independent assurance?

CFS understands there are limitations to using the data provided by a single provider, such as MSCI, and that other data sources will have different measures. Therefore, the MSCI rating is used as a guide to identify matters for further discussion.

At this stage, it is probably the Governance in ESG that is best analysed by many investment managers. CFS see reporting in these areas as improving, but identification of ESG risk and climate science are still developing.

"Awareness of ESG risk has increased in the past two years, our surveys of superannuation members have shown a big jump in awareness. Our recent investment manager survey shows that they are discussing and starting to address these risks in their portfolios. ESG and climate, as I see climate change as a big issue in its own right, covers many risks. The importance of these risks to specific stakeholders varies depending on who they are, their concerns and how they are impacted," says Tully.

Inspire Impact



Kerry Series
Partner, Portfolio Manager
for Australian Equities



Michael van Niekirk
Chief Impact Officer - Australian
Equities – Inspire Australian Equities
Impact Fund (Inspire)

Background

Kerry Series has a background in traditional funds management and has established several boutique funds management businesses. He was introduced to Impact investing in 2012 and subsequently launched the first Impact investing fund in Australian equities in early 2017.

Michael van Niekirk's background has been in strategy and more recently on impact strategies for fund managers, superfunds and corporates.

Interview questions

How has your organisation's investment strategy proactively taken account of non-financial risk and opportunity?

In 2010, Series started a Funds Management business focused on small cap. Australian equities (outside ASX100). It started as a vanilla fund, applying traditional investment analysis techniques. In 2012, Series was introduced to impact investing, though he liked the underlying thinking, he felt it was too early for the Australian market. However, this approach resonated with him more than application of ESG metrics for investment analysis.

While doing bottom up research through interviews with around 500 Australian-listed companies in 2015, Series believed that he was now seeing enough companies that could rightly claim to be impactful in what they do. Over time, he created a universe of over 200 companies listed on the ASX that he thought were impactful. He established the Equity Impact Fund in 2017, which was renamed to the Inspire Australian Equities Impact Fund in early 2020.

Inspire uses the United Nations Sustainable Development Goals (SDGs) as an impact framework, as they address the environmental and social challenges that are facing government, business and individuals. It also provides a common language when talking with company management. Inspire considers 76 of the 169 SDG targets as being fundamental to Impact investment analysis.

There are two strands to Inspire's philosophy:

- 1) **there is a need to shift capital to solve pressing social and environmental problems,**
- 2) **there is a positive feedback loop between doing the right thing and long-term financial success.**

At Inspire, Series focuses on the investment case, and van Niekirk on the impact case. Both cases are discussed and assessed before making any investment decision.

Inspire's fundamental premise is that a company's core business must be positively impactful for the environment and/or society. Inspire adopts a three pillar approach:

- 1) **is the core business impactful**
- 2) **can we engage with the company, with a primary purpose to scale the level of impact and assess how it does business,**
- 3) **undertake impact measurement.**

Inspire considers the company's purpose and intentionality before deciding which equities to invest in. They seek to make 'intentionality' explicit. It is ideal to set up a business with a clear impactful purpose, but this can be lost in day to day activities, as directors and executives change.

What are the critical datasets that are systematically built into your valuation models/investment selection algorithms?

Inspire undertakes the three pillar approach to determine whether the company creates positive impact. If the company appears to be impactful, then they will assess the financials. This does not mean Inspire will invest, as it might not be the right time in the cycle, but the company will be included in Inspire's investment universe.

This process considers all material NFI at one stage or another and delivers a conviction rating that drives portfolio positioning. Currently, all of Inspire's analysis is aggregated into this one rating. There is a separate expected-return rating which guides whether the stock is expensive or not.

A company's level of innovation will be assessed as part of the investment case. This is partly why Inspire focus on small and microcap businesses, who have a single purpose and are always innovating. This a big part of their appeal as long as the business is also impactful. For example, Inspire has invested in a small business focused on breast cancer solutions. They are using new technology and their intellectual property (IP) to deliver products and services, which in turn create impact. However, Inspire also invest in lower technology organisations, like cleaning and recycling companies which are making a positive impact.

To what extent do you rely on third party research organisations' ratings of non-financial performance?

Inspire does not rely on third party research. Inspire has around 50 measures they use in their core assessment of impact. However, the required information for many companies, especially in Inspire's portfolio of small and microcaps, is not readily available. Only a third do sustainability reports. Therefore, Inspire builds up the data from whatever sources they can find, including through discussions with company executives. Many want to provide the required information but do not know where to start and have insufficient resources. Where companies do report, there is also an issue in the consistency and quality of what is reported.

What do you find the most frustrating characteristics of corporate reporting in Australia for the purposes of assisting investors make well-informed investment decisions?

At the highest level, there is not enough information on impact. Inspire try and get more out of various company interactions, but what is really needed is to get deeper sectorial and company information on how the organisation is doing business. Inspire gets some insight into this through company executive interviews.

Inspire believes that ultimately reporting needs to improve – it's the only way to shift the system. For example, Aged Care. Inspire were talking to companies well before the Royal Commission about a lack of transparency in their reporting. Through these discussions, Inspire realised that companies had many metrics to measure service quality, but these were neither standardised, nor published. One metric relates to 'the reduction in the number of falls that then require hospitalisation'. Aged Care operators do monitor this and can take preventative actions, for example through use of chemical restraints. But this information is not shared. If it was, would it be a real quality measure? And how should it be calculated and reported?

"It is important to identify the metrics that get to the positive and negative impact that the business has. There are good sustainability reports providing detail on, for example, scope one and two greenhouse gas emissions, but these are a long way short of getting to heart of the impacts the company is having on society and the environment. Inspire is channelling capital to companies that are contributing to the solutions and so is interested in measurement and reporting on social and environmental impacts by all companies. Investors must provide incentives for companies to do, and then disclose their positive impact through quality metrics," says van Niekirk.

How can companies' best present the information (data sets) you require?

Twice a year, through a standalone report attached to annual accounts. This report needs a clear Statement of Intent and should provide all the ESG information that is material and relevant in the context of the company's sector and its own strategy. Companies should provide all the standard financial and NFI using a consistent and accepted methodology. They should then look at providing information on both the outputs and outcomes they have achieved. They should provide information that is company specific as well as common across the sector. This will focus the report on impact and intentionality.

For Inspire, evidence of additionality is also important. For example, where has the company invested during the year? Is it on assets that are required by the business but also improve its social and /or environmental impact?

Impact investors look at the people and what they say and do rather than just company reporting. They scan for fines/breaches (especially customer privacy and cultural scandals) as well as public commentary of the business and its leaders. They will consider newly appointed chair/CEO comments to ascertain if they really care. They will talk to people in the sector to find out more about the company and its people.

Inspire is wary of companies that include measures one year and not the next, appearing to cherry pick. It is better to use general business KPIs, sector KPIs and other company specific KPIs consistently.

"We see tight financial linkage between Social and Environmental performance and the core business and financial outcomes. I come to all this as a capitalist at heart – and I just want to do that better. The reason for diversity etc. is not an abstract concept – it's for the good of the business. It should be addressed and tied back to the financial reporting," says Series.

What are your views on the growing take-up of integrated reporting by Australian and global corporates?

Inspire is not really focused on any specific reporting framework and are not across integrated reporting, but if it can deliver the datasets required, as discussed above, in a clear and consistent manner then they would be supportive.

To what extent do you believe that material narrative claims made by the company in its reporting, as well as non-financial performance information, should be subject to independent assurance?

Inspire takes the quality of information in company reports at face value unless something does not make sense. Directors have a duty to report accurately.

However, assurance over this additional information would add value. It is sometimes hard and expensive to collect and calculate the required information. Inspire would prefer to understand these challenges and assess what is being done by the organisation to gather the right information, where it is material to understanding the business, its impact and performance.

Melior Investment Management



Tim King
Chief Investment Officer

Background

Tim King was a “traditional” financial analyst before focusing on ESG research and its application into investment management. Melior Investment Management (Melior) has just completed its first year of operations. It was established to apply impact investing in public equities, and only invests in ASX and NZX companies that make a positive impact. Melior believes that such organisations deliver superior returns through more effective mitigation of non-financial risk. Melior then creates additionally through direct engagement with companies.

This is an evolution on a traditional ESG fund approach, but Melior believes it is where investment management is moving to.

“You only need to look at the CEO statements and actions taken by investors such as Blackrock and State Street to see that investors are focusing more on how companies are managing their non-financial risks and opportunities to underpin future success. Companies themselves need to understand this change and ensure they not only have effective systems and processes to manage these non-financial risks and opportunities, but also are able to report clearly on their performance,” says King.

Interview questions

How has your organisation’s investment strategy proactively taken account of non-financial risk and opportunity?

Melior has a well-defined three stage investment methodology:

1. Measure the organisation’s net impact (the what of the business). This is an internal assessment on whether the organisation delivers a net positive impact. The analyst considers what the organisation does with reference to the relevant SDG sub-goals. It is not ethical screening. Melior looks at the positives (e.g. the need to mine copper for electrification, electric cars etc.) and the negatives (e.g. the extent of tailings dams, environmental remediation plans, community impact) to determine a net impact. Across the ASX and NZX Melior has identified 220 companies they consider to be net positive.
2. Undertake a detailed ESG assessment across the 220 companies (the how they do business). The analyst considers approximately 100 factors, using an internally developed framework. Analysts align non-financial and financial risks. They balance the factors based on the materiality of the matters for that sector/company. Analysts focus in detail on social and environmental risk factors as well as a governance framework (e.g. board independence, gender, policies, AGM strikes, committee charters), remuneration (including alignment of STI to ESG metrics), the quality of reporting on risks, as well as management’s understanding and appropriate actions to address each risk. This ESG analysis removes another 50 per cent of potential investee companies (down to approximately 110 companies for stage three).

3. Undertake a deep financial analysis on those organisations that get through the first two hurdles. They are graded by sector. The financial analysis has a balance sheet focus. Once the analyst has undertaken the deep analysis, it is presented to the full team and interrogated before the team makes the investment, which will typically be a longer-term investment.

Melior invested in approximately 30 ASX/NZX organisations in the first year. Investors to date are mainly high net-worth individuals/families who not only want to invest in organisations making a net positive impact, but also want to drive change. Melior therefore engages with all companies about the impact investment approach, the findings from their analysis and what the company might need to do differently to improve their net impact and ESG ratings. In this way Melior is seeking to move the dial.

What are the critical datasets that are systematically built into your valuation models/investment selection algorithms?

As noted above, the initial stages of Melior’s analysis focuses on the broad impact of the organisation on the community and environment – they must return a positive net impact result to move to the next stage, which is deep ESG analysis.

Melior considers the other non-financial drivers of value such as R&D, patents, IP, new products, changes in customer numbers etc. as part of the financial analysis in stage three. These matters usually impact forecast cash flows.

Melior does not link ESG performance directly to cost of capital. The logic is right but Melior does not attempt to estimate the impact. Melior’s analysts tend to adjust future cash flows for positive or negative ESG factors. It is not mechanical but based on the analyst (and then team’s) understanding of the likely impacts of the relevant pre-financial risks and opportunities.

To what extent do you rely on third party research organisations' ratings of non-financial performance?

Melior does its own deep research and analysis, but also utilises data from the CGI Client Global Insights reports to understand what the proxies are thinking. Bloomberg is used as the trading terminal and provides a data source.

What do you find the most frustrating characteristics of corporate reporting in Australia for the purposes of assisting investors make well-informed investment decisions?

ESG data provided by most Australian and NZ companies is incomplete and inconsistent. Standard approaches to metric calculation and disclosure are not always used, making it virtually impossible to compare companies across a sector.

Analysts use whatever they can find, but the volume of inconsistent reporting is not helpful. Often important data is buried in immaterial disclosures, case studies and pictures.

How can companies' best present the information (data sets) you require?

Companies could provide information on their business, the organisational structure, detailed charters, policies and other standing data online so it is available for the investor when researching an organisation. From a periodic reporting perspective, less is more. Companies should remove information that is not material to the users understanding of the organisation's performance, position and prospects. Impact analysts, like other investors, need hard data.

What are your views on the growing take-up of integrated reporting by Australian and global corporates?

The integrated reporting approach makes perfect sense. It provides in one document all the information (financial and pre-financial) that the board and management believe is material to understanding not only the company's performance and position, but also how they are set up to succeed into the future.

"I like Dexus's integrated report. It is easy to follow, it focuses on material matters, it links financial and pre-financial value drivers and performance. They have included targets in key areas and when we discuss the report with them it is clear they understand the non-financial risks and the actions they need to take. They are not filling their integrated report with all their sustainability information, just what they consider to be material to their business's future success. There are gaps we discussed with them, but the quality of this report across the ASX and NZX is rare. A further important factor is that the Dexus team understand the strategic importance of their approach and can talk about it in a consistent and coherent way," says King

However, there are companies who just produce a mess of reports with no clear reporting strategy or structure. It is not helpful when companies report non-financial information that does not follow a standard methodology and has no detail on how it was determined.

Companies outside the top 30 have limited resources and little expertise in specialist areas like modern slavery and climate change. They tend to be overwhelmed by the continual requests for more data, and really do not know what to prioritise. They often ask Melior what they need to do. If they developed an integrated report, maybe with some specialist support, they will quickly focus on what is material for them to manage and report. This would likely reduce their workload and significantly improve their reporting. There is a lot that can be culled as adding no value.

To what extent do you believe that material narrative claims made by the company in its reporting, as well as non-financial performance information, should be subject to independent assurance?

Material pre-financial information should be audited like the financials.

"There is a significant need for education on the importance of managing for a net positive impact – Melior believes it is the way of the future. They must manage and report on their material non-financial business drivers to the same level of quality and consistency as the financials. They should get ahead of the curve and remember less is more," says King.

"There is also significant need for education of traditional investment analysts. Most organisations have ESG experts (not financial analysts) feeding ESG data to the financial analysts, but in many instances neither clearly see, nor can adjust for the links between the different types of data sets. In addition, there is often a lack of incentive for the financial analyst to address ESG matters in seeking to optimise short term returns. However, this is changing," he says.

Redpoint



Ganesh Suntharam
Chief Investment Officer/ Senior
Portfolio Manager

Background

Ganesh Suntharam is a co-founder of Redpoint, a boutique investment management company established in 2011. He is currently the CIO and lead portfolio manager for a number of active and systematic equity strategies. Prior to joining Redpoint, Suntharam worked at a major investment management company where he helped establish a quantitative equities capability. In his current and prior roles, Suntharam has been responsible for investment research helping build quantitative equity models and managing equity portfolios for approximately 20 years. He holds a Bachelor of Electrical Engineering degree from Sydney University and a Bachelor of Computer Science degree from Sydney University and is a Chartered Financial Analyst (CFA).

Interview questions

How has your organisation’s investment strategy proactively taken account of non-financial risk and opportunity?

When Redpoint was established, the team developed a Redpoint rating framework. This framework rated companies across certain ESG dimensions. Initially, Redpoint collected global ESG data for over 2,500 companies and this has steadily grown to now cover well over 5,000 global companies. Redpoint believes that by capturing and modelling companies across the ESG dimensions in its ratings, it is better able to capture the quality of the company. Traditionally, quantitative models have focussed on cash flow, volatility, capital structure and other financial ratios to determine the financial quality of an organisation. We built ESG into our models as a way to capture management quality and quantify the management team’s ability to create the right structures and frameworks to manage its assets and stakeholders for the long term.

Redpoint has seen an increased focus on ESG over the past five years. This has been driven by a shift in mindset within large pension funds and asset managers who have gone from an awareness and appreciation for ESG to a firm commitment to the principles of responsible investment. This commitment has been endorsed by their boards and investment committees requiring the investment teams to now start taking action. The rest of the market is trying to respond to this shift in thinking by looking at how they can deliver to the outcomes required from these large asset owners from both a financial and ESG perspective. Redpoint believes this trend will increase further over the next five years.

Redpoint has not had to materially change its original ESG dataset to accommodate these changing needs of asset owners; but they are having to construct portfolios with very specific and tailored social/environmental exclusions (i.e. cluster ammunitions, fossil fuels, gaming) in order to accommodate for differences in perspective within the responsible investment policies of various clients. They have also enhanced their focus on carbon exposure reduction within their equity portfolios.

What are the critical datasets that are systematically built into your valuation models/investment selection algorithms?

Underpinning the Redpoint rating process is a series of some 700 yes/no questions and quantitative data points which aggregate into approximately 200 indicators. Redpoint’s approach aims to identify materially important and quantitatively appropriate indicators that can be incorporated into the quantitative model. This approach also establishes a weighting scheme to prioritise the indicators. Most indicators are consistent across sectors and markets to ensure standardisation, but there are a sub-set of indicators tailored for specific sectors (i.e. stranded assets for mining companies).

By way of example, the Redpoint rating process covers climate risk (greenhouse gas reduction) as one environmental factor; health and safety (deaths and serious injury) as a social factor; and matters like shareholders rights, and board structure as governance factors. It does not capture things like vision, as such disclosures are difficult to quantitatively capture in a standardised way.

With respect to modelling for a company’s intellectual capital and innovation, Redpoint’s focus is on the ability of the company to leverage these assets to generate marginal incremental revenue. This is picked up through fundamental indicators on revenue growth versus cost and efficiency ratios, as well as through market expectation indicators which again look for the translation of these assets into financial return outcomes.

“For example, Microsoft has been a good contributor to our portfolios in recent years with strong operational efficiency fundamentals, as well as improving sentiment scores and they continue to do more to enhance their governance structures and performance indicators across key ESG factors,” says Suntharam.

To what extent do you rely on third party research organisations' ratings of non-financial performance?

Redpoint source all their financial and ESG data from third parties capturing over 700 data points across over 5,000 companies. Redpoint's value-add is understanding what makes sense to be processed and incorporated into a quantitative investment process. Understanding what items can be standardised and modelled, and what cannot, in order to build a specific portfolio is very important.

Redpoint collect most of their ESG data from Thomson Reuters with secondary data sources being Axioma, Bloomberg, FTSE Group, MSCI and S&P Global ratings.

What do you find the most frustrating characteristics of corporate reporting in Australia for the purposes of assisting investors make well-informed investment decisions?

Redpoint would like to see further standardisation of the reported non-financial information across the market to enhance comparability and improve completeness of the data sets used in the rating process.

Redpoint would also like to see more data that can be used to quantitatively model the end to end supply chain and dependencies upstream and downstream. This was important before the COVID-19 pandemic, but these recent events highlight the importance of understanding the complete supply chain. In addition, Redpoint would like further disaggregation of revenue across products and regions to get more insight and granular data on business unit performance and prospects.

Redpoint understand the importance of intellectual capital and human capital to current and future business value, but unless there are common standard measures to help codify the value of people and the pipeline and success of new products and other innovation, then these important value drivers are assumed to be delivered through revenue growth, efficiency and some of the ESG factors used in current ratings.

How can companies' best present the information (data sets) you require?

There seems to be many different types of reports with different content and formats. From Redpoint's perspective, they would like to see improved standardisation in order to fairly assess companies on a relative basis.

What are your views on the growing take-up of integrated reporting by Australian and global corporates?

Redpoint's perspective would be that it is hard to capture a value story for the purposes of quantitative modelling unless it can be clearly linked to measurable outcomes, at which point it would then be very useful.

It is important to note that Redpoint will look back 10-15 years into the performance of the company versus its peers to see correlations between good ESG performance (i.e. health and safety) and value creation. This also informs on the quality of the company and its ability to manage risks and deliver stronger returns.

To what extent do you believe that material narrative claims made by the company in its reporting, as well as non-financial performance information, should be subject to independent assurance?

It is important to have some assurance over the quality of data that is in the marketplace. Most companies do the right thing, but there are also many cases of poor practices, behaviours and report greenwashing.

How KPMG can help

KPMG's Better Business Reporting (BBR) team is here to help organisations plan and implement a practical approach to improve corporate reporting (and related internal practices) so that changes are prioritised, cost and business disruption is minimised, and organisational and market benefits are optimised.

KPMG professionals can provide bespoke integrated reporting services to suit the needs of individual clients. We have already guided many ASX listed companies, member based and other organisations through the integrated reporting process by offering the following services:

KPMG's investment in better business reporting and enhanced transparency

KPMG Australia has been focused on BBR for 20 years and has assisted pioneering organisations for the last seven years implement the principles of integrated reporting. KPMG team members were involved in developing the <IR> Framework and associated guidance (2010-13) and include an IIRC Ambassador.

We also have a representative on the International Auditing Standards Board's advisory panel developing guidance on assurance over extended external reporting, and the Australian Accounting Standards Board's (AASB) Disclosure Initiatives' advisory panel focused on the new International Accounting Standards Board (IASB) Management Commentary Practice Note amongst other matters. Since 2010 KPMG has also invested in establishing and running the Australian Business Reporting Leaders (BRLF) forum, chaired by John Stanhope AM, as an open discussion group aimed at providing a forum for all participants engaged in business reporting to discuss and drive opportunities to improve reporting and transparency in Australia. Going forward the BRLF will be managed by the Deakin Integrated Reporting Centre (DIRC). Further details on DIRC, the reason for this change and KPMG's ongoing support of DIRC are provided in Appendix 1.

Further details on the BRLF are available at www.brflf.net.

1 Education sessions for board, executives and team members

Facilitation of board, executive and team education on the business case for integrated reporting, its benefits and how to apply integrated thinking within internal decision making and reporting.

2 Assessing how well current reporting applies the principles of integrated reporting

Performing a gap analysis of existing reporting against relevant reporting frameworks, and/or benchmarking the quality of your reporting against the reporting of the ASX 200.

Integrated report blueprint development

Assistance in designing and drafting the integrated report blueprint (structure of the integrated report and key content to be included), including consideration of the principles of integrated reporting and other relevant reporting frameworks.

4

5

Understanding the value creation process (including outcomes and associated key performance metrics)

Facilitating value creation workshops to help gain agreement of how value is created by the organisation. This includes identifying the key capitals (resources and relationships or value drivers) used by the organisation, the overarching outcomes the organisation is seeking to achieve and the associated key performance metrics.

8

Integrated Reporting management systems (IRMS)

Advising on integrated reporting management systems which will underpin the integrity of all external and internal reporting. Based on the reporting strategy, we support clients to align processes and systems to remove unnecessary reporting, and better capture and report on a systematic basis against key value drivers and strategy-aligned KPIs.

3

Setting a corporate reporting strategy

Helping set-up a corporate reporting strategy to understand the different and growing information demands on your business (i.e. financial, sustainability/ GRI, SDGs, TCFD, modern slavery, tax, regulatory, cyber) and to develop a plan that clearly articulates what you want to/must report, to whom, when, in what format and how it will be verified.

6

Engaging with your stakeholders and performing materiality assessment

Undertaking stakeholder engagement and integrated reporting materiality assessment processes to help identify and prioritise material matters aligned to strategy, risk management and long-term value creation, for inclusion in the integrated report or broader suite of corporate reports.

7

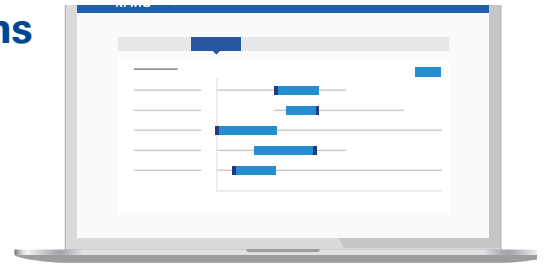
Confidence and assurance of information

Designing and testing data collection processes and controls to ensure data is robust and 'assurance-ready'. We also provide external assurance, internal audit services and can undertake other procedures to support the organisation ensure both financial and non-financial data is accurate, balanced and credible or 'investment grade' for publication.

KPMG Report Benchmarker

Enhance the effectiveness of communications with your key stakeholders

KPMG Report Benchmarker assesses your primary report to shareholders, excluding the financial statements, against the ASX 200 and the principles of integrated reporting. The benchmarking report will help you improve the effectiveness of communications with not only your shareholders, but also other key stakeholders.



The Report Benchmarker service is available for organisations of all sizes who would value their primary report to stakeholders benchmarked against the ASX 200.

How it works

Report Benchmarker uses the research undertaken by Deakin Integrated Reporting Centre and KPMG for this publication, to assess good practice reporting attributes based on the principles of integrated reporting. The benchmarking is performed on the FY20 and FY19 primary report to shareholders

for companies in the ASX 200 (as at 1 June 2020). The benchmarking report shows how well your organisation's primary report compares with the best in class and ASX 200 overall average for key reporting attributes at a sector and market capitalisation level, as well as for a selected group of ASX 200 companies.

The benchmarking report includes recommendations for improvement and examples of good practice reporting from other organisations and is followed up with a one-hour feedback session with a KPMG Better Business Reporting specialist.

What are the benefits to you?



Ranking

Understand how your organisation's reporting stacks up against your peers.



Reporting Improvements

Closure of reporting gaps, reduction in report volume and management effort and clarification of strategic messaging, performance and outlook.



Market benefits

Improved access to and cost of capital; real cash flow improvement from integrated reporting.



Timely action

Prompt benchmarking should give you sufficient time to take corrective action.

For more information go to Reportbenchmarker.kpmg.com.au

Appendix 1:

Integrated reporting education and research methodology

Integrated Reporting <IR> Education Australia

KPMG in conjunction with the University of New South Wales (UNSW) and Deakin University established Integrated Reporting Education Australia, a consortium that is one of the IIRC's Foundation Training Partners, in 2016. The members of this consortium offer integrated reporting education in their *own* right to their clients and students.

For organisations and individuals in Australia and New Zealand who want to understand more about integrated reporting, Integrated Reporting Education Australia also offers introductory level corporate education on Integrated Reporting through a partnership with Chartered Accountants Australia and New Zealand (CA ANZ). The CA ANZ training material is provided through five one-hour webinars, and participants receive a Certificate of Completion from the IIRC. The webinar series is available for On Demand purchase on the CA ANZ Education store - available at https://store.charteredaccountantsanz.com/Introduction-to-Integrated-Reporting-2019_3

KPMG also provides a two-day workshop to show integrated report preparers on how to design and build their integrated reports.

Deakin Integrated Reporting Centre (DIRC)

The DIRC was established by Deakin University to manage Deakin's commitment to integrated reporting, through industry engagement and thought leadership, including as the initial Chair of the Oversight Body of the IIRC's Global Academic Network, drive research into integrated reporting and provide integrated reporting education. The DIRC is supported and funded by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ) and KPMG, who all have executives on the DIRC Advisory Board. The Board is chaired by John Stanhope AM (Chancellor of Deakin University) and which also includes other members with a corporate, investment or academic background. (See www.deakin.edu.au/business for further details).

In 2020, the DIRC has continued to support KPMG in undertaking the ASX 200 benchmarking discussed in this report (see Research Methodology below). The DIRC has taken over the hosting of the Business Reporting Leaders Forum (BRLF) in 2020 (www.brflf.net).

As a result of global developments in corporate reporting as explained in this report (and Appendix 2) and the likely governance and standard setting implications over broader business or connected reporting and assurance, it was considered appropriate to review the purpose, governance and operation of this discussion forum in light of the significant developments occurring in the global corporate reporting system and their implications for Australia. It was considered that an academic institution, rather than a professional services organisation, might be and be seen to be more independent in attracting participants and driving debate and action.

Research Methodology

The research in this report has been carried out by Better Business Reporting specialists at KPMG, with the assistance of academic researchers from the Deakin Integrated Reporting Centre.

Research sources include PDF copies of annual reports or annual reviews (whichever report was deemed to be the flagship corporate report) published by organisations listed as being within the ASX 200 as at 1 June 2020. The time period considered for this research was financial years ended between 1 July 2019 and 30 June 2020. This has resulted in 174 of the ASX 200 being included in our research. The review findings are based on analysis of publicly available information only, and no information was submitted directly by organisations to KPMG or Deakin University.

Appendix 2:

Global developments in integrated reporting

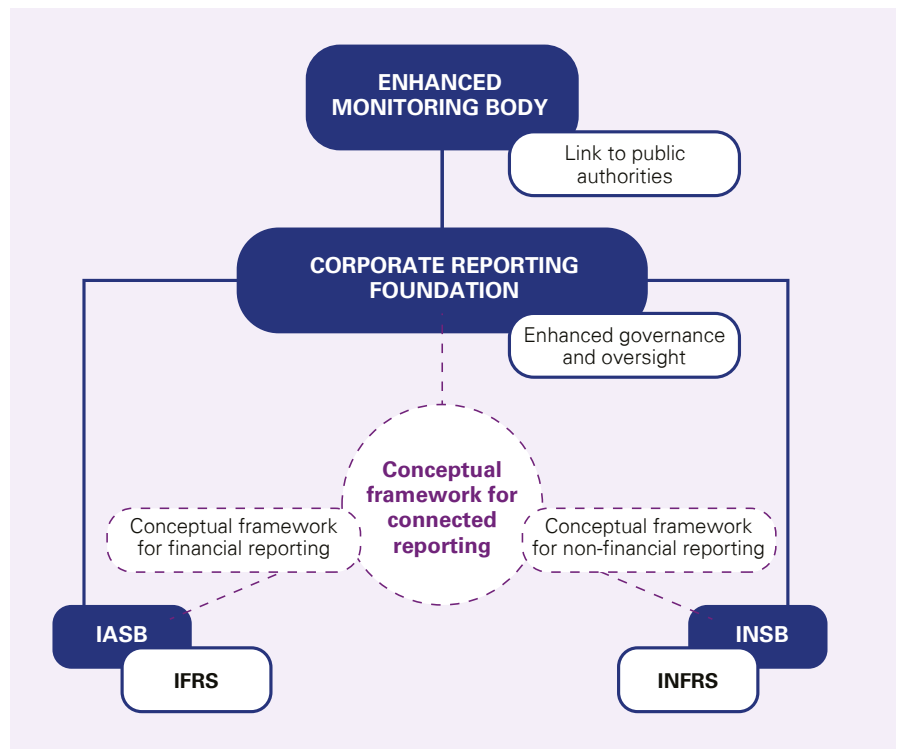
Transformation of the Global Corporate Reporting System

By Michael Bray FCA, Professor of Practice (Integrated Reporting), Deakin Integrated Reporting Centre and Director – In Country Engagement, International Integrated Reporting Council

As explained by Charles Tilley in his Foreword, a transformation of the global corporate reporting system is taking place, in a manner with high relevance to Australia. The system is converging while integrated reporting adoption continues to gather momentum. Australia has always taken a proactive and globally aligned approach when such global developments occur. Australia again needs to consider whether it is to be proactive, or whether it wants to wait until global developments are locked in before doing anything; that is, the global convergence is completed.

As always, the risk of not being proactive and being part of the global voice is that the Australian environment may not be taken into account. A converged global corporate reporting system may be put in place which does not suit Australia and may be imposed on Australia with sub-optimal results.

Once again, the KPMG report has shone a light on Australian corporate reporting, in 2020 in the context of these significant global developments.



Source: [Accountancy Europe, Interconnected standard setting for corporate reporting, December 2019.](#)

It is an important publication for directors and executives as they think about where their organisation fits in the context of the Australian corporate reporting system, which itself is part of the rapidly changing global corporate reporting ecosystem, and their position on when and how the Australian corporate reporting system should develop.

Convergence of the Global Corporate Reporting System

Set out below is a summary of aspects of the convergence, which is occurring, using the key diagram from the 2019 Accountancy Europe *Interconnected standard setting for corporate reporting*⁴, *paper* and the *2020 Follow-up paper*⁵ as an anchor point:

4 Accountancy Europe, Accountancy Europe, Interconnected standard setting for corporate reporting, December 2019. Available at: <https://www.accountancyeurope.eu/publications/interconnected-standard-setting-for-corporate-reporting/>

5 Accountancy Europe, Follow-up paper: Interconnected standard setting for corporate reporting. Available at: <https://www.accountancyeurope.eu/publications/follow-up-paper-interconnected-standard-setting-for-corporate-reporting/>

The <IR> Framework is now well accepted as the starting point for the conceptual framework for connected reporting (refer circle in the diagram), evidenced in the June 2020 Accountancy Europe Follow-up paper⁶:

“Many respondents also supported the <IR> Framework as the starting point for the conceptual framework for connected reporting because it already addresses many of [the relevant concepts of materiality, connectivity, multi-capital approach, integrated thinking, authenticity, impacts, and dependencies], p10.”

The IIRC’s <IR> Framework was released in December 2013. It is currently being updated to adjust for developments since its release. Version 2 of the IIRC’s <IR> Framework, to be released early in 2021, will be fit for this purpose of taking its place ‘in this circle’.

IIRC CEO, Charles Tilley, has said, “The IIRC is committed to bringing about a comprehensive corporate reporting system with a multi-capital focus.”

The IIRC has expressed its willingness to engage with all market participants to secure agreement for a high quality, enduring conceptual framework that will gain the widest possible support from all stakeholders.

The GRI and SASB are committed to working together, and with other bodies including the IIRC, focusing on aspects of broader business risk and reporting - the ‘non-financial’ channel of this diagram.

However, that channel does not at this stage have a body such as the IFRS Foundation to oversee the non-financial reporting standard-setting process.

This was recognised by World Economic Forum Managing Director, Rick Samans, in an address to the April 2020 IIRC Council meeting, when commenting on the January 2020 World Economic Forum report, ‘Towards Common Metrics and Consistent Reporting of Sustainable Value Creation’:

“The scope of **integrated reporting** is **broader** than sustainability reporting. It covers non-financial and various kinds of pre-financial considerations and encourages various kinds of better and a more integrated process of thinking, and by extension, communication about that thinking and the results of it. It’s also **deeper**. The **Integrated Reporting Framework** is a conceptual framework. It is not a standard per se. It does not prescribe how you implement, where, in what part, in what part of the corporate reporting landscape. It is an **intellectual anchor** that will guide reporters and others in their thinking about how they approach reporting generally... The World Economic Forum initiative produced common ESG metrics. It is a stimulus or accelerator towards the system, **but it is not the system**”

In June 2020, the International Auditing and Assurance Standards Board closed the consultation period on its Extended External Reporting Assurance Consultation Paper, which specifically includes assurance in accordance with the IIRC’s <IR> Framework. Australia has two of the world’s current instances of such assurance: Cbus and CPA Australia. More instances are expected to follow. The IASB International Accounting Standards Board anticipates issuing an exposure draft of its revised Management Commentary Practice Statement in the first quarter of 2021. The standard setters have become a key part of the convergence.

In relation to the ‘enhanced monitoring body’ overseeing the Corporate Reporting Foundation, a recent International Organisation of Securities Commission (IOSCO) report, ‘Sustainable Finance and the Role of Securities Regulators and IOSCO’⁷, is relevant. The Report reflects the expectations from regulators and market participants that IOSCO should take an active role in facilitating global coordination and addressing transparency. The report noted the IIRC’s <IR> Framework, GRI and SASB Standards, TCFD recommendations as being among the disclosure and reporting principles and frameworks used by companies and issuers.

On 11 September 2020, a joint ‘Statement of Intent to Work Towards Comprehensive Corporate Reporting’ was issued by the Carbon Disclosure Project, Climate Disclosure Standards Board, Global Reporting Initiative, International Integrated Reporting Council and Sustainability Accounting Standards Board. Among other things, the report noted the core role played by the IIRC and ‘the annual integrated report’. On 30 September 2020, these bodies issued an open letter to the chair of the Sustainable Finance Task Force of IOSCO expressing their commitment to work closely with IOSCO and the IFRS Foundation to drive towards the vision laid out in the joint statement of intent.

⁶ Accountancy Europe, Follow-up paper: Interconnected standard setting for corporate reporting. Available at: <https://www.accountancyeurope.eu/publications/follow-up-paper-interconnected-standard-setting-for-corporate-reporting/>

⁷ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD652.pdf>

The International Business Council of the World Economic Forum (IBC), comprising 200 of the world's largest organisations, launched a white paper in September 2020, 'Measuring Stakeholder Capitalism – Towards common metrics and consistent reporting of sustainable value creation' as a follow on to the earlier report referred to above which was submitted to the World Economic Forum Davos conference in January 2020. The September 2020 report specifically acknowledges the fundamental complementarity of the September joint statement of intent with the work of the IBC. Both the January and September 2020 reports were prepared in collaboration with the largest global accounting firms, KPMG, Deloitte, EY and PwC. The IBC flagged that this will be a key item in the January 2021 Davos meeting.

On 22 September 2020, former Bank of England Governor, Mark Carney, observed at the COP 26 forum: "The goal of COP 26 is to put in place reporting frameworks so that every finance decision takes into account climate change, like they take into account interest rates at the moment". He went on, "it starts with reporting... this should be integrated reporting".

In September 2020, the IFRS Foundation trustees issued a 'Consultation Paper on Sustainability Reporting' requesting feedback by December on its potential role in the establishment of a 'sustainability standards board' that would operate under the governance structure of the IFRS Foundation to establish a global set of internationally recognised sustainability reporting standards.

Convergence of the Australian Corporate Reporting System?

Australian developments continue as Australia consider the implications of global system convergence. The Australian Sustainable Financing Initiative, which explicitly endorses integrated reporting as an enabler of sustainable financing, is becoming an ongoing institution. It will report regularly and believes that the asset owner community needs to have a stronger voice in the area of corporate reporting. Its recommendations will be a strong driver of integrating sustainability into business planning and stewardship codes. These recommendations are likely to bring integrated reporting more into mainstream corporate reporting.

The Accountancy Europe diagram could be a useful tool to facilitate thinking about how an aligned Australian corporate reporting system may evolve. This matter is being considered by the BRLF. For instance, the Australian Treasury could be an equivalent of a global enhanced monitoring body involving IOSCO and the OECD. The Australian Financial Reporting Council (FRC) could evolve to be akin to an Australian Corporate Reporting Foundation. The BRLF could become an advisory body to such a reformed FRC, either informally or more formally.



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November 2020. 560200141AARC