# CORPORATE REPORTING TRENDS

## A review of ASX200 Corporate Reporting Trends in the year to 30 June 2021

COVID-19, climate change and ESG matters are driving organisations globally to make changes in business models, governance, and decision-making, whilst driving enhanced transparency.

October 2021

KPMG

A REVIEW OF CORPORATE REPORTING TRENDS IN THE YEAR TO 30 JUNE 2021 ACROSS THE ASX200

# Foreword

Year two of the COVID-19 pandemic has challenged ASX200 companies not only in the way they have responded to ongoing COVID-19 -disruption but in striking a balance between immediate focus and long-term strategic value creation. How they articulate that value story to their stakeholders is key.

Pressure from stakeholders for greater transparency and reporting on a broad set of performance metrics, beyond financials, across the breadth of Environmental, Social and Governance (ESG) issues has intensified, with a particular focus on climate risk.

Expectations for disclosures on ESG issues have moved beyond the mere making of commitments. Those who have adapted their approach to corporate reporting to articulate a holistic story of corporate purpose and commitment to a positive societal impact, backed by targets, measurable progress, and a plan to drive action, are reaping rewards. Rewards in the form of capital flows, the attraction and retention of staff in a tough war for talent and, operational efficiencies to support sustainable growth. Those who are yet to adapt, face the real prospect of penalties and premiums both now and in the future when regulation catches up to this shift in expectations on corporate reporting.

The pace of regulatory change is gaining. Significant steps have been taken in the past 12 months toward the ultimate end goal of a global 'connected' corporate reporting system covering financial and non-financial performance. At COP26 in Glasgow this November, the IFRS Foundation is set to formally announce the establishment of the International Sustainability Standards Board (ISSB). A sister board to sit alongside the International Accounting Standards Board (IASB), the ISSB is expected to release its first international sustainability standard focused on climate in 2022.

Despite progress towards a global 'connected' reporting system and an unprecedented level of engagement and co-operation across the standard setting eco-system, the realists amongst us appreciate there is a long road ahead.

In the interim, ASX200 companies may look to the Value Reporting Foundation's International Integrated Reporting Framework (<IR> Framework) to enhance the quality of reporting, clearly articulating opportunities for value creation and meeting increased stakeholder demands.

KPMG has been a long-time supporter and advocate of the integrated approach to reporting. Since its introduction just under a decade ago, we have worked alongside ASX200 early adopters and heard first-hand from our clients the real and tangible benefits realised. For the past 8 years, we have analysed the quality of disclosures in annual reports or annual reviews of ASX200 companies, benchmarked against the <IR> Framework.

Each year the analysis allows us to trace progress towards better reporting, identify trends and challenges. I am pleased to present our 2021 Trends in Corporate Reporting report.

This year, as part of our annual review we conducted interviews with executives and directors of organisations that score well against ASX200 benchmarks, to understand their approach and the business benefits achieved through adoption of the <IR> Framework. The interviews provided rich insights both into their reporting journeys and how the outcomes achieved have contributed, to internal strategic alignment, consistent communications, purpose-led decision making, improved stakeholder relations and increased access to financial capital.

Also presented this year is a summary of the significant progress over recent months towards developing consistent global sustainability (including ESG) standards and to address the lack of a conceptual framework for value-focused business reporting.

Finally, there is a high-level roadmap to help organisations re-visit and streamline their corporate reporting to meet current and future requirements in a structured way. The approach outlined aims to reduce the cost of reporting, improve internal processes and practices, whilst enhancing reporting consistency, relevance, and usefulness for users.

There is no doubt that a dramatic shift in approach to corporate reporting is well underway. The way we report in the future will be markedly different from the way it was in the past, and the way it is today. The <IR> Framework has been a critical piece in the evolution of corporate reporting, transforming thinking on non-financial performance and articulation of corporate value.

I congratulate those Australian organisations leading the way in more comprehensive and insightful reporting, and through that effort realising the related business benefits. To those less progressed on your journey, I hope you enjoy the insights in this report and use them to accelerate your own journey.

**ALISON KITCHEN**
CHAIRMAN, KPMG AUSTRALIA

**THERE IS NO DOUBT THAT A DRAMATIC SHIFT IN APPROACH TO CORPORATE REPORTING IS WELL UNDERWAY.**

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Thanks to the Deakin Integrated Reporting Centre (DIRC) for collecting the data used in this report, enhancing the reporting quality assessment methodology, and support in drafting select sections of the written report. The DIRC hosts the Australian Business Reporting Leaders Forum (BRLF), of which KPMG Australia is a sponsor. Further details are provided in Appendix 1.*

*Detailed findings from the benchmarking, transcripts of each interview together with a more detailed overview of recent global sustainability and reporting developments is located at* kpmg.com/au/betterbusinessreporting.

# INTRODUCTION

## Welcome to KPMG's eighth benchmarking report of ASX 200 Corporate Reporting.

# Introduction

**99%**

of companies benchmarked use the Annual Report as the 'Primary Corporate Report' (2020: 98%).

**50**

The average number of pages in the Primary Corporate Report, excluding statutory financial statements and remuneration report (2020: 46).

**48%**

of the ASX50 are reporting on their progress in implementing the TCFD Recommendations (ASX200: 35%) in their primary report to shareholders.

The continued impact of COVID-19 throughout FY21 together with the significantly increased focus of investors, regulators, and other key stakeholders on ESG matters, especially climate change, has resulted in further reporting demands on ASX200 companies this year.

Compared to previous years and in response to the increasing demands, we have observed improved reporting in several areas. These include board oversight through active governance, better explanations of the organisation's operations, external environment, and material risks as well as the strategy going forward. There was also a small increase in companies adopting the principles of the <IR> Framework in 2021 (ASX200: 2021: 11%; 2020: 7%) as the basis for their reporting.

Reporting on business opportunities and business outlook, however, continues to focus on the short term with limited transparency around longer-term plans. We also saw a reduction in the number of companies centring the discussion in their primary report on 'value' (ASX200: 2021:70%; 2020: 79%).

Most are focussed on discussing current priorities and actions, rather than on longer term value creation. This is not necessarily a bad thing, but it should be balanced with a reversion to disclosures on longer term plans to realise opportunities and create enterprise value, in the context of the external environment.

As we expected given the investor, government and community focus on climate change, the level of reporting around climate risks and opportunities has improved; specifically, the application of the Taskforce for Climate-related Financial Disclosures (TCFD) Recommendations on climate impact. 48% of the ASX50 are reporting on their progress in implementing the TCFD Recommendations (ASX200: 35%) in their primary report to shareholders. (We note that several others are providing TCFD details outside of the primary report.) Whilst there is a considerable amount of work required for many to apply these good practice recommendations; this is a good start.

# INSIGHTS FROM BUSINESS LEADERS

This year, we also interviewed directors and executives from five organisations that are leaders in sustainable-value centred reporting, or integrated reporting. This report summarises their insights to help other leaders deal with the ever-increasing demands for information more effectively. Key insights include the following:

All interviewees agreed that integrated reporting provides an excellent framework to examine and report on an organisation through the lenses of all key stakeholders, including broader civil society and the natural environment.

> **'At Transurban we present our integrated report in our own way. We focus on how we deliver strategy through our six stakeholder groups. What we report has been developed through listening and responding to these key stakeholder groups.'**
>
> MICHELLE JABLKO, CFO, TRANSURBAN

Actions to address climate change and ESG matters, as well as move to adopt integrated reporting must be led by the board and executive management: however, they will likely require education and time to deliberate.

> **'There may be greater clarity in how we tell our story, and more oversight over ESG information, but reporting on non-financial data provides more optionality, which does provide complications.... This is a challenge for the board, which is ultimately responsible, and they need to be taken on the journey to understand and respond to these options and that can take time.'**
>
> DAVID ARMSTRONG, NON-EXECUTIVE DIRECTOR, CHAIR OF THE AUDIT COMMITTEE, AND MEMBER OF THE BOARD RISK & COMPLIANCE COMMITTEE, NAB

Accounting and managing material ESG, especially climate and other intangible value drivers is central to the integrated strategy to create sustainable enterprise value.

> **'The integrated report is a key part of our communications program. It helps explain how we manage environmental and social priorities across our business, despite the ever-changing external environment.'**
>
> NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

Integrated reporting supports the breaking down of internal silos and organisational alignment to the 'integrated strategy', but there still needs to be continual communication, sharing of purpose-led stories and alignment of systems, processes, and incentives to maintain the long-term sustainable value focus.

> **'Organisational alignment is better. Everyone is clear on strategy and bought into our member centric priorities. One example at the start of COVID-19 was the move to online exams. Although this was a significant challenge, it was the right outcome for members.**
>
> NICHOLAS DISS, CFO, CPA AUSTRALIA

A good integrated report provides a window into the quality of the organisation's board and management and overarching culture as well as the business and its future prospects.

> **'The integrated report allows us to tell Lendlease's story better to our key stakeholders. It is very easy to think we are just a construction company and property developer, without going behind that to understand our purpose and what we do to make the world a better place. Our purpose and focus on sustainability go back to our founder Dick Dusseldorp and is core to our business.'**
>
> NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

Further detail is included in the next section of this report, and full interview transcripts can be found online at kpmg.com/au/betterbusinessreporting

## GLOBAL DEVELOPMENTS

As highlighted in last year's publication, there continues to be significant global activity to simplify and standardise climate, ESG, and sustainability practices and develop a conceptual framework for a new corporate reporting system.

This work has continued at pace over the last 12 months culminating with the proposed announcement by the IFRS Foundation at COP26 of the establishment of an International Sustainability Standards Board (ISSB). There is already a taskforce in place developing, amongst other things: the likely first International Sustainability Reporting Standard (ISRS) on climate impact for issuance in the first half of 2022; a conceptual framework for standard setting; as well as a framework to work with the International Accounting Standards Board (IASB) to determine a new 'connected' corporate reporting system.

The work of the IFRS Foundation has been strongly supported by the International Organization of Securities Commissions (IOSCO), who see their role, as with International Financial Reporting Standards (IFRS) nearly twenty years ago, as driving take-up of the ISRSs in each jurisdiction.

We set out in this report a timeline and brief description of these global developments as well as the potential impact for Australian companies. More detail is provided online.

# NEXT STEPS

We are pleased to see progress made in reporting but there is still some way to go before capital markets are fully informed about how companies create sustainable value in a consistent and holistic way; and before companies have confidence in their systems and processes to account for, manage and report on their broader 'non-financial' value drivers.

The key next step recommended for organisations seeking to enhance their reporting is to develop a reporting strategy to understand and respond to the different and growing information demands, including a plan that clearly articulates what the organisation wants to or must report, to whom, when, in what format and how it will be verified. This will inform the structure of the organisation's future reports' portfolio including the primary report to shareholders (or integrated report), as well as provide flexibility to facilitate future reporting changes.

> **'(Application of integrated reporting) has meant that when we are hit by significant events like COVID-19, we have the framework to assess the impact on our stakeholders, the relevant risks for them and the company and respond accordingly through action and how we report. It also provides structure for us to address market requests to consider and respond, for example to the TCFD Recommendations.'**
>
> JESSICA O'BRIEN, GENERAL MANAGER, CORPORATE AFFAIRS & INVESTOR RELATIONS, TRANSURBAN

To the extent that there are new material areas of disclosure, it will be important that internal accounting, management, and reporting practices are all in alignment, and there must be confidence in the underlying systems, processes, and controls. What is reported must be accurate, balanced and reflect what is happening internally.

> **'Lendlease has benefitted hugely from its move to integrated reporting. We had to change some systems and processes when we introduced it in 2016, but those changes and the underlying thinking has enabled us to easily pivot to address TCFD and establish the carbon and social impact targets.…The integrated annual report is the source of truth that we use throughout the business, and the verification process is very robust.'**
>
> NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

Commissioning broader assurance over material reported matters, including ESG metrics, to ensure they are investment grade is a key consideration. Systems, processes and controls in place to support many ESG and other intangible disclosures are not as mature as those operating over financial performance. However, these broader disclosures will be considered more credible by investors if they are subject to targeted external assurance, and the board clearly explains their approach to 'verifying the integrity' of reported information not subject to independent assurance.

Last but not least, we have included in this report a roadmap of activities to consider as you reflect on your own reporting, the changing information needs of your stakeholders and how to better share your value-story.

If you would like more information on a practical approach to simplify yet improve the relevance of your business reporting, please contact us.

Good luck.

**Eileen Hoggett**
National Managing Partner Audit,
Assurance & Risk Consulting

**Nick Ridehalgh**
National Leader,
Better Business Reporting

# KEY FINDINGS AND RECOMMENDATIONS – ASX200 BENCHMARKING

**This report is KPMG's eighth review and analysis of ASX200 Corporate Reporting, following on from our 2020 report Corporate Reporting – FY20 challenges, investors and other stakeholders drive the ASX200 to apply integrated reporting principles.**

# Key findings

Overall, we have seen an improvement in reporting with more companies moving up the reporting continuum with an increase in those in the ASX200 applying the <IR> Framework.

FY2021
**11%**

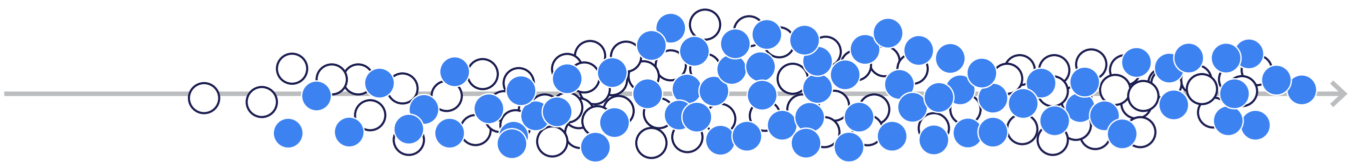
FY2020
**7%**

Set out below are our key findings and insights from analysis of ASX200 primary shareholder reports for 30 June 2021. We have benchmarked these primary reports against the fundamental concepts and content elements of the <IR> Framework using a qualitative assessment rating process. (See Appendix 1 for the benchmarking methodology). The detailed analysis is available online.

The <IR> Framework is our chosen framework to benchmark reporting against because it is the only framework that currently offers a holistic approach that enables stakeholders to understand how a business creates value over time. It is the only corporate reporting framework that provides a balanced view on how organisations use all their critical resources and relationships or the capitals (financial; manufactured; natural; human; intellectual; and social & relationship) effectively to create enterprise value now and into the future.

In this way, the <IR> Framework helps to improve the quality of information available to investors and therefore enables a more efficient and productive allocation of their financial capital. It also provides a way for business leaders to focus on the information and decisions that matter most to the organisation.

Overall, we have seen an improvement in reporting with more companies moving up the reporting continuum and adopting more of the requirements of the <IR> Framework. Albeit that only a small number (FY2021:11%; FY2020: 7%) actually reference using the <IR> Framework itself.



**Stage 1**
Cutting the clutter in the annual report.

**Stage 2**
**More insightful reporting,** moving beyond cutting the clutter to focus on value creation in the short, medium and long term, by using the principles of integrated reporting.

**Stage 3**
Integrated Reporting with reference to the VRF's <IR> Framework.

○ 2020 ● 2021

Set out below we provide our findings and insights across each of the <IR> Framework fundamental concepts and content elements assessed. These are followed by an overview of the opportunity for organisations to consider and address the findings in a structured way towards better business reporting from FY22 onwards.

# 01 EXPLICIT FOCUS ON VALUE CREATION AND REFERENCE TO THE <IR> FRAMEWORK

Clear articulation of how the organisation creates value is critical in helping the reader understand how the organisation's resources and relationships (the capitals) are used through its business model and governance framework to execute strategy, manage risks and opportunities to deliver enterprise value.

Focus on immediate priorities has resulted in a decrease in ASX200 companies discussing how they create longer term value in the primary report.

FY2021
**70%**

FY2020
**79%**

Surprisingly, our review highlighted a decrease in the number of companies explicitly focused on value in their primary reports this year (ASX200: 2021: 70%: 2020 79%), as well as in the number that included a 'value creation process' diagram (ASX200: 2021 13%: 2020 16%). It is a similar story for the ASX50. Instead, we noted that many companies are focussed on discussing their immediate priorities and actions as we come out of the COVID-19 crisis rather than their longer term plans to create value. We believe this needs to revert in future, so that disclosures are balanced with more discussion on longer term plans to realise opportunities and create enterprise value in the context of the external environment.

We did note, however an improvement in the number of companies that describe their value creation process (ASX200: 2021 15%: 2020 11%), although the majority do not link this description to other sections of the report. By not referencing the value creation process to the performance outcomes achieved in particular, much of its relevance is lost for the reader.

We also saw an increase in the number of companies who prepare their reports in accordance with, or with reference to the <IR> Framework, which as discussed we consider to be good practice. Eighteen (2020: 13) or 11% of the 169 companies analysed now reference the <IR> Framework; six of these are New Zealand based companies. They are A2 Milk, AGL, ANZ, Auckland International Airport, Brambles, Contact Energy, Dexus, Eagers Automotive, GPT, Lendlease, Mercury NZ, NAB, Spark NZ, SkyCity, Stockland, Summerset Group Holdings (NZ), Transurban, Vicinity Centres.

Besides the ASX200 companies there are other listed, government-owned, member based, private and not-for-profit companies applying the <IR> Framework including Appen, NBN Co, Australia Post, CBUS, CPA Australia, Intrepid Travel and Camp Quality.

The directors and executives interviewed for this publication provide convincing explanation of how adopting the <IR> Framework has benefitted their company and added value for their key stakeholders. With the global move towards a new enterprise value-focused and connected reporting system, we strongly recommend that more companies think about adopting integrated reporting.

> **'It is important to have alignment in understanding how you create value for the organisation that is recognised by your members, staff, regulators, and other stakeholders.'**
>
> MERRAN KELSALL, PRESIDENT & CHAIRMAN, CPA AUSTRALIA

# 02. MOVE TO DISCLOSE MORE 'ACTIVE' GOVERNANCE

**Governance disclosures should help the reader understand how the board supports the organisation's ability to create value. At KPMG we call this 'active governance' and is discussed in the annual directors' report, to distinguish it from the more static disclosures on board committee charters, policies and other governance structures often reported on in the Corporate Governance Statement online.**

Improvement in 'active' governance reporting, that is discussion on the board's areas of focus and action during the year, by ASX200 companies

FY2021
**27%**

FY2020
**14%**

We observed an improvement in governance reporting this year with 37% of the ASX50 (2020: 29%) and 27% (2020: 14%) of the ASX200 providing more informed or active governance reporting. More companies are providing detail on what the board focused on during the year and the respective actions taken in the primary report to shareholders (likely the directors' report in the annual report). These disclosures are then linked to discussion on management's execution of strategy, management of risk and creation of value (likely in the Operating and Financial Review (OFR)). From an investor's perspective this enhanced and linked disclosure provides insight into the quality of both the board and management in working together to create and protect longer term value. These companies typically provide the full Corporate Governance Statement (CGS), containing much standing data, online for reference purposes.

A further 37% of the ASX50 (ASX200: 39%) include the full CGS or a governance summary that mainly focuses on compliance and standing data (e.g. policies, charters) in their primary reports, and so have an opportunity to enhance future reporting. The balance do not discuss governance in their primary report and provide a reference to their online CGS.

We also noted that companies who provide access to an online CGS do not always bring important ESG performance information like gender and other diversity statistics back into their primary report to shareholders. As an area for improvement, we would encourage them to include an active governance section together with all material governance-related performance information in their primary report.

# 03.
# IMPROVEMENT IN PROVIDING CONTEXT THROUGH DISCUSSION ON THE COMPANY AND ITS EXTERNAL ENVIRONMENT

**This 'scene-setting' section of the report is critical to ensuring the reader fully understands what the organisation does and the context in which it has been operating as well as developments that may materially impact on its future ability to create value.**

Marked improvement in the ASX200's discussion on both the company's operations and its external environment, setting context for discussion on the company's performance and prospects.

FY2021
**40%**

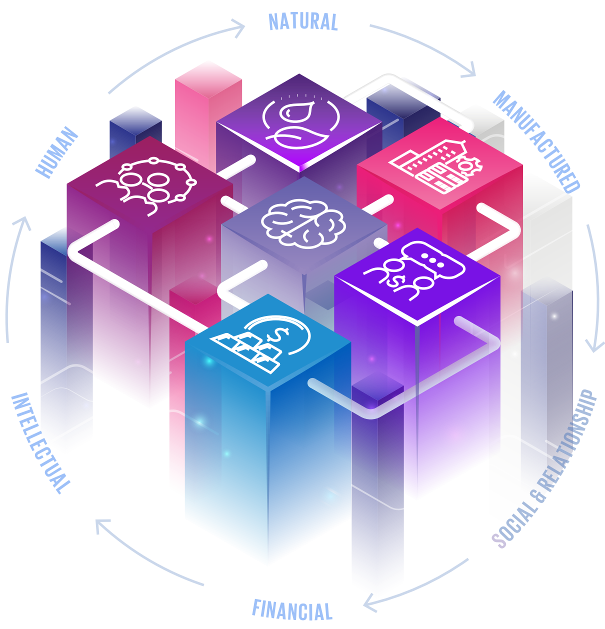
FY2020
**22%**

There has been a marked improvement in the number of ASX50 (2021: 56% 2020: 37%) and ASX200 companies (2021 40%; 2020 22%) that provide a detailed discussion on both the operations of the company and the external environment in which it is operating. In particular, we observed more detailed disclosures on the impact of COVID-19 on multiple company stakeholders and the actions taken to support them in the context of the company's own position. We also saw an increase in disclosure on the likely impact of climate change, especially from a risk perspective.

> **'The (Intrepid) Foundation has been more successful, working with UNICEF Australia, in its campaign to raise money to drive vaccine equity for developing nations. Over two-thirds of Intrepid' s destinations fall into this category, especially in Africa and South America, and travel to these places will not rebound as we want if their populations stay unvaccinated. They will be deemed unsafe by our customers. We also want our staff and tour leaders to have access to vaccines. So, we are applying integrated thinking in driving this initiative, but we also realise the vested self-interest.'**
>
> DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL

There are still opportunities for improvement with more fulsome explanations of other major market changes (i.e. technology, competition, regulation) and the resultant impact on their businesses now or in the future.

# 04. MORE WORK REQUIRED IN EXPLAINING THE RESOURCES & RELATIONSHIPS CRITICAL TO BUSINESS SUCCESS (THE CAPITALS)




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 its own value creation process now and into the future.

There has been no marked improvement this year in how companies describe the key resources and relationships (the capitals) that are critical to sustainable value creation. The actual key capitals are discussed in most reports. This is most likely due to the focus on climate change and the impact of COVID-19 on the business which has led to reporting on actions taken to manage cash, support employees and customers, manage restricted supply chains and follow government rules during the pandemic.

However, it is not clear in most reports that these key resources and relationships are being managed and reported on as the core inputs to the business model and so delivery of products and services in line with strategy. This could be partly due to the underlying systems supporting these broader value drivers being immature and so unable to support more detailed reporting. This leads to a lack of connectivity in the reporting between the identified capitals and the outcomes achieved to ensure they are available and affordable for future value creation.

For example, there may be narrative on how the company (and government) supported staff during the COVID-19 lockdown, but then little discussion at year end on whether those staff are still engaged, aligned with the company's future plans and coming back once lockdown ends. Has the board and senior management done enough during the pandemic to maintain staff loyalty and excitement about their future to come back, and come back engaged?

> **'The (integrated) reports need to be honest and with some verification; but when done well it builds trust and if your staff, customers, suppliers, and partners trust you, you can create more impact. We have found that this trust has been well tested during the pandemic and we are back again starting to re-build, as summarised in our revised 2025 strategy, together with our key stakeholders, who have all remained engaged and loyal.'**
>
> DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL

# 05.
# IMPROVED DISCUSSION ON STRATEGY AND RELATED MEASURES OF SUCCESS

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

Significant improvement in the quality of external discussion on strategy and strategic objectives across the ASX200, providing more than just a high-level strategic overview.

FY2021
**61%**

FY2020
**45%**

There has been a significant improvement in the quality of external discussion on strategy and strategic objectives with 80% of the ASX50 (2020: 62%) providing more than just a high-level strategic overview. The level of detail has also improved across the ASX200 to 61% (2020: 45%). This improvement can be partly explained by the increased focus on transparency and the shift to re-centre 'purpose' within the organisation, which opens up discussion on strategy. In addition, many companies have now made changes, or at least are now clearer on their strategies in a post-COVID-19 environment.

> **'(Integrated reporting) is giving us a great opportunity to better tell our whole story, aligned to our purpose and strategy, in an integrated way.'**
>
> GREG BRADDY, DEPUTY CFO, NAB

Of these companies providing more detail on strategy 24% (2020: 13%) of the ASX50 are also providing detail on how strategic success will be measured, i.e. KPIs. Across the ASX200 this good practice is 17% (2020: 5%).

> **'It is the reporting back against these measures (climate and social commitments) that gives us assurance that leadership are taking accountability for and delivering on our safety, climate, and other sustainability commitments.'**
>
> NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

There is a real opportunity for companies to improve the use of performance metrics to demonstrate success in delivery of strategic priorities, not only for external reporting but also to drive internal accountability and strategic focus.

# 06. MODEST IMPROVEMENT IN RISK REPORTING, BUT WORK REQUIRED TO EXPLAIN BUSINESS OPPORTUNITIES

Improved disclosures on material risks and risk mitigation across the ASX200, but limited discussion on business opportunities.

FY2021
**73%**

FY2020
**76%**

**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.**

It is excellent to see that 89% of the ASX50 (2020: 86%) provided good disclosures on material risks and risk mitigation. Across the ASX200 73% (2020: 76%) discussed material risks and mitigation activities.

On the flipside however, there is very little reporting on business opportunities. This is a real gap in the completeness of the enterprise value story in the report of most companies. We do note though, that companies applying the TCFD Recommendations with respect to climate change are being challenged to report on both transition opportunities and risks. This means we are seeing disclosures of both asset impairments relating to carbon-related assets (risks), as well as new revenue streams from existing and future renewable or zero-carbon energy sources (opportunities). This is a good first step.

This same approach should be adopted for all major change opportunities identified in the external environment analysis. Each opportunity can be discussed in terms of its alignment to strategy and risk appetite, timing, resource requirements, potential impact on value, and next steps. Some opportunities may even change the business model, as we are seeing with respect to climate change impact in carbon intensive industries and financial services.

# 07. MORE WORK REQUIRED TO DISCLOSE IMPACT OF CLIMATE CHANGE

Opportunity to improve TCFD climate change impact reporting in the primary report across the ASX200.

FY2021
**35%**

**Climate change impact is a key focus area of governments, corporations, and civil society. In recent years, the TCFD Recommendations have been adopted by many corporations to better disclose the impact of transition and physical risks and opportunities on their current and future business. It is considered good practice and likely to form the basis of the first ISSB standard.**

48% of the ASX50 in 2021 are at various stages of adoption and have referenced the TCFD Recommendations (ASX200:35%) in their primary report. We note that there are several companies that do not reference TCFD in their primary report but do actually provide TCFD recommended information in a supplementary report or online. There are 28% (ASX200: 25%) who do not refer to the TCFD but do discuss climate risk in their risk section.

This leaves 24% (ASX200: 40%) with a significant amount of work to do in 2022 in advance of the likely first ISRS, to understand their climate risk and opportunity, apply the TCFD Recommendations and report their response from a governance, risk and opportunity perspective and likely impact in their primary report. Where material to value, more information may be required in the primary report with links to where more detail can be found (i.e. a TCFD report or sustainability report.).

**IT IS EXCELLENT TO SEE THAT 89% OF THE ASX50 (2020: 86%) PROVIDED GOOD DISCLOSURES ON MATERIAL RISKS AND RISK MITIGATION.**

# 08. BROADER PERFORMANCE & OUTLOOK REPORTING, INCLUDING ESG, BEYOND THE FINANCIALS

An integrated report should answer the question: To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals? Leading organisations have moved on from only talking about financial position and performance and are now including narrative and metrics on performance in other areas (i.e. ESG, climate, innovation, customers).

The <IR> Framework does not require the reporting of financial forecasts and projections in its Outlook reporting. The focus is on explaining the health of the business through lead performance indicators and discussion on how the organisation is responding to changes in its external environment.

Outlook reporting continues to be poor with the majority of the ASX200 only providing limited discussion on their future outlook, with most focussed on financial performance over the next twelve months.

FY2021
**86%**

Most companies now include narrative on how the company has performed in achieving its strategic objectives, discussing more than just the financial performance and position (ASX50: 89% ASX200 83%), but of these only 20% (ASX50) and 12% (ASX200) include performance against targets, budgets, and pre-defined measures (KPIs), which provides many with an opportunity for further improvement.

Outlook reporting continues to be poor with the majority (ASX50 74%; ASX200 86%) only providing limited discussion on their future outlook, with most focussing on financial prospects over the next 12 months. There is a real opportunity for companies to share their longer-term plans and aspirations with disclosures on, for example, major external factors, business model changes, future strategy and identified risks and opportunities. This section done well can provide the market with significant insights into the quality of the business's leadership.

> **'A New York investment banker ..said "a (integrated) report like that demonstrates serious competency to the investment community. In fact, I've completed three travel transactions in the past 6 months and if I had had the quality of information available that Intrepid has shown I would have achieved a higher sales multiple than I did.'**
>
> DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL.

This year we also assessed each company's inclusion of key ESG metrics in their performance section (or summarised there with brief narrative and linked through to more detail in a sustainability report). The majority of the ASX50 (59%) (ASX200: 47%) include material ESG metrics with an informative discussion on ESG performance. Many reference standards used (e.g. GRI, SASB) and most of these companies' ESG metrics are subject to external limited or reasonable assurance.

> **'We also think it's important to use and reference the common frameworks like GRI, the <IR> Framework, the SDGs etc to not only clarify our own thinking and look at our business through different lenses, but they are also helpful in enabling our investors and others to compare our reports to others when doing their analysis.'**
>
> JESSICA O'BRIEN, GENERAL MANAGER, CORPORATE AFFAIRS & INVESTOR RELATIONS, TRANSURBAN

One area for improvement relates to embedding ESG in core strategy and reporting ESG performance aligned to that strategy. We still see that a number of companies report on ESG in a separate and unconnected sustainability section of their primary report.

# 09. IMPROVEMENT NEEDED TO EXPLAIN THE BASIS OF PREPARATION AND PRESENTATION

**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.**

The majority of the ASX200 do not provide an adequate basis of preparation and presentation to assist the reader understand how the content for this primary report has been determined.

FY2021
**89%**

FY2020
**80%**

The majority of ASX50 (2021: 85%; 2020: 65%) and ASX200 (2021: 89%: 2020: 80%) companies do not provide a full basis of preparation and presentation in their primary report to shareholders to assist the reader understand how the content for this primary report has been determined. These reports may include a brief overview of the materiality process adopted and identify key stakeholders, but do not describe the stakeholder engagement process used to determine 'reportable' matters, the boundaries for reporting, external frameworks adopted, details on and links to supplementary reports (reports portfolio) and other matters to assist the reader better understand and use the report.

63% of the ASX50 (ASX200: 47%) include a description of their key stakeholders and why they are important to value creation, but reporting could be enhanced by describing how they have been engaged during the year to understand their key concerns and information needs as well as how these matters have been addressed in the primary report or elsewhere.

We note that some companies refer to additional disclosures on stakeholder engagement and materiality, for example, in their sustainability reports. However, that report has a different purpose and audience. It is therefore still important to provide a concise and yet complete basis of preparation in the primary report to shareholders. We refer you to page 4 'About this report' of the Transurban 2021 Corporate Report and page 2 of the Lendlease 2021 Annual Report for good examples.

With respect to disclosures explaining how the board has 'verified the integrity of all periodic corporate reporting' where the information has not been subject to independent external audit or review (ASX Corporate Governance Principles & Recommendations (4th Edition) Recommendation 4.3), the level of disclosure in many reports was often generic and only referenced 'management sign off and review' as the basis of verification.

We suggest that stakeholder confidence would be enhanced by providing more detail in the basis of preparation or directors' report (and linked to an online policy and practices document) on the reports' development, review and approval process, controls and how those controls have been tested during the period. This is an area of opportunity for all reporters.

Finally, we note that some companies are providing a checklist of the standards and frameworks they have applied (or considered) in preparing their portfolio of reports. These checklists are referenced in the basis of preparation section of the primary report and are housed online (or as an appendix to a report in the reports portfolio.) This is a good practice as it provides a link from a specific standard or framework used (i.e. GRI, SASB, VRF, SDG) to the actual disclosures in the portfolio, therefore reducing the need for duplicate reporting as well as assisting readers compare between companies.

However, care is required to ensure that the OFR in the directors' report (or the integrated report) is complete and includes all material matters that the board and management consider to be material to meet the information needs of their shareholders. These reports should stand by themselves. Links to other reports can provide more detail, but all material matters should be discussed in the primary report.

# OPPORTUNITY FOR FY22 BETTER BUSINESS REPORTING

There is a real opportunity for Australian companies to improve their primary report to shareholders (likely the annual report) in FY22 by considering the following.

- Application of the <IR> Framework in structuring the OFR, including reporting on ESG performance in the context of strategy and value creation. This will help address many of the opportunities identified in this report for improved disclosure.
- Reference to the relevant SASB standard in determining minimum sector specific ESG metrics to report as required by investors.
- Disclosure of information on performance in developing other intangible value drivers specific to the company's unique circumstances in creating enterprise value (i.e. its patents, licenses, systems & processes, innovation capability, brand etc.).
- Application of the TCFD Recommendations, which are already considered good practice and are likely to be the basis for the first ISRS next year.

Moving to adopt the <IR> Framework and embed integrated reporting and integrated thinking within the organisation will take more than one reporting cycle, as confirmed by the interviews with reporting leaders; however, with a prioritised reporting strategy, gaps can be closed and improvements made in FY22 reporting, especially with respect to the impact of climate, ESG and other intangibles on strategy, risk & opportunity and performance in the creation of enterprise value.

# INSIGHTS FROM BUSINESS LEADERS ON THE BENEFITS OF INTEGRATED REPORTING

**Interviews have been undertaken with board and executive team members.**

# Insights from business leaders

In 2020, we interviewed investment managers and asset owners to better understand what climate, other ESG and broader business information they need, and how they use this information when making investment decisions and issuing/managing investment mandates.

Those insights are still relevant for consideration by organisations seeking to provide more investor friendly reporting. Our earlier climate, sustainability (ESG) and corporate reporting publications are listed in Appendix 2.

This year we interviewed board members and senior executives of organisations that are considered leaders in adopting integrated reporting practices. We specifically discussed how they have embedded 'integrated thinking' within their internal practices and internal business decision making as well as how they have addressed escalating climate and other ESG matters.

| INTERVIEWS HAVE BEEN UNDERTAKEN WITH THE FOLLOWING BOARD AND EXECUTIVE TEAM MEMBERS: | | |
|---|---|---|
| **CPA AUSTRALIA** | Merran Kelsall | President & Chairman |
| | Nicholas Diss | CFO |
| **INTREPID TRAVEL** | Darrell Wade | Chairman and Co-Founder |
| **LENDLEASE** | Nicola Wakefield Evans | Independent Non-Executive Director and Chair of Board Sustainability Committee |
| | Simon Benson | Group Financial Controller |
| **NAB** | David Armstrong | Independent Non-Executive Director and Chair of Board Audit Committee and member of the Board Risk & Compliance Committee |
| | Greg Braddy | Deputy CFO |
| | Jason Laird | Executive Corporate Affairs |
| **TRANSURBAN** | Michelle Jablko | CFO |
| | Jessica O'Brien | GM, Corporate Affairs & Investor Relations |

We set out below twelve areas of insight coming from our interviews on how to move to integrated reporting, and specifically how to get started, bring stakeholders along, deal with continual change requirements, embed integrated thinking and enhance the underlying systems and processes.

The interviews highlighted some of the business benefits achieved through adoption of integrated reporting, including:

- Organisational alignment
- Enhanced stakeholder trust
- Increased access to financial capital
- Improved internal capability.

They also highlight some of the important matters that need to be addressed up front including leadership through the board and executive, who may require tailored education, increased stakeholder engagement and development of the reporting strategy and timeline. All the interviewees concluded that the move to adopt integrated reporting had been beneficial internally and externally.

**'Integrated reporting has allowed us to manage our business and report on these important matters in quite a rigid framework which is beneficial. It forces you to think about your processes, to think about what's important, and to think about how you tell your story. I think we have benefitted from preparing an integrated report.'**

NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

Further quotes from our interviews have been included to support the insights discussed. The transcripts for each interview, which occurred in September and October 2021, are available online.

# 01. INTEGRATED REPORTING REQUIRES UP FRONT EDUCATION AND PRE-WORK

Moving to adopt integrated reporting will deliver business benefits; however, it is important that the board and executive are clear on the need for change, the expected benefits, resources required, the plan and short-term workload.

The transition requires a level of up-front work beyond BAU activities. The work is very thought-provoking and can be challenging, but at the same time hugely rewarding and valued by both internal and external stakeholders.Moving to produce an integrated report without doing the up-front work to educate and ensure there is internal agreement on how the organisation creates value is dangerous and will potentially be seen as spin or 'greenwashing'.

**'There has been a lot more board ESG education sessions, which are good forums for the board to listen to experts, sometimes with differing views, and explore options and thereby come to a landing on what the next steps should be.'**

DAVID ARMSTRONG, NON-EXECUTIVE DIRECTOR, CHAIR OF THE AUDIT COMMITTEE, AND MEMBER OF THE BOARD RISK & COMPLIANCE COMMITTEE, NAB

**The pre-work is almost more important than pulling the report together… All that pre-work is so critical to being successful on the other side. Don't rush this part, make sure it's given due thought and it will really make the rest of the process successful and smooth.'**

JESSICA O'BRIEN, GENERAL MANAGER, CORPORATE AFFAIRS & INVESTOR RELATIONS, TRANSURBAN

**'The adage 'Be, Do, Say' that is explain what the company wants to be, what you need to do to be that company, and what you want to say as a result. The issue is when people miss the first two steps and go straight to the 'say'.'**

JASON LAIRD, EXECUTIVE CORPORATE AFFAIRS, NAB

# 02. DRIVEN THROUGH PURPOSE

Companies that were established with a focus on purpose as well as profit find it easier to embed integrated thinking across the organisation.

However, for those seeking to adopt integrated reporting underpinned by integrated thinking, it will be important to clarify and communicate the organisation's purpose up front. Purpose sits at the centre of enterprise decision making, reporting and sustainable value creation.

**'For us the aim is to be a 'purpose-led' organisation focussed on serving our members and the public interest.'**

MERRAN KELSALL, PRESIDENT & CHAIRMAN, CPA AUSTRALIA

**'We develop the integrated report through various inputs, including stakeholder interviews, to determine material themes, which then flow into the board and management's strategy process. Everything is then considered in a more integrated manner and linked back to the overall purpose of the organisation.'**

GREG BRADDY, DEPUTY CFO, NAB

# 03. ESG IS CORE TO INTEGRATED STRATEGY AND REPORTING

Accounting and managing material climate, ESG and other intangible value drivers is central to the integrated strategy to create sustainable enterprise value.

Integrated reporting provides the framework for reporting to the capital markets, but there is likely to be additional information and detail required by other important stakeholders that can be provided online or through supplementary reports.

Additionally, there is more optionality in determining how to respond to and report on ESG and other important non-finance matters, which will likely require more discussion at the board level before actions are agreed.

**'The integrated report is a key part of our communications program. It helps explain how we manage environmental and social priorities across our business, despite the ever-changing external environment.'**

NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

**'There may be greater clarity in how we tell our story, and more oversight over ESG information, but reporting on non-financial data provides more optionality, which does provide complications… This is a challenge for the board, which is ultimately responsible, and they need to be taken on journey to understand and respond to these options and that can take time.'**

DAVID ARMSTRONG, NON-EXECUTIVE DIRECTOR, CHAIR OF THE AUDIT COMMITTEE, AND MEMBER OF THE BOARD RISK & COMPLIANCE COMMITTEE, NAB

# 04. LED BY THE BOARD AND EXECUTIVE MANAGEMENT

The move to adopt integrated reporting must be led by the board and executive management to ensure that the full value is realised not only through improved external reporting, but also through alignment across the organisation.

**'The move to integrated reporting must be driven by the board and executive team, who then in turn drive it throughout the organisation'.**

MERRAN KELSALL, PRESIDENT & CHAIRMAN, CPA AUSTRALIA

**'There has certainly been benefits in having two senior executives from different functions co-sponsoring the (integrated report) program of work, pulling the multi-group 'virtual' reporting team together, setting the expectations, and driving collaboration.'**

GREG BRADDY, DEPUTY CFO, NAB

# 05. INTEGRATED STRATEGY – LOOK AT YOUR BUSINESS THROUGH THE EYES OF YOUR KEY STAKEHOLDERS

Integrated reporting provides an excellent framework to look at your organisation through the lenses of your key stakeholders, including civil society and the natural environment, to understand their specific concerns and needs, your impact and business dependency, and therefore to inform the strategy to address the material matters raised, and then manage and report on performance.

**'The adoption of integrated reporting has benefited Intrepid from the board down in providing a way to better think things through as well as report transparently around that thinking. Integrated reporting helps to connect things. Unquestionably, thinking through an integrated, multi-stakeholder view is the way to go when making business decisions. Especially for the long term which is where our interest lies.'**

DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL

**'At Transurban we present our integrated report in our own way. We focus on how we deliver strategy through our six stakeholder groups. What we report has been developed through listening and responding to these key stakeholder groups.**

MICHELLE JABLKO, CFO, TRANSURBAN

# 06. TRANSPARENCY BUILDS STAKEHOLDER TRUST

Business leaders must be open through regular balanced communications, with all key stakeholders on their performance in delivering on purpose, strategy, managing risks and opportunities as well as on their planned actions to create future value.

The 'integrated strategy' is especially important after a major governance or other business failure. With significant engagement, internal alignment and transparent reporting, trust can be rebuilt with key stakeholders.

> **'For me, the integrated report is the 'true north' because you can always go back to the report as a good grounding spot for all decision making.'**
>
> SIMON BENSON, GROUP FINANCIAL CONTROLLER, LENDLEASE

> **'We saw how <IR> aligned with how the organisation operated, but it really came into its own in 2017 when the members were questioning the value of the organisation. We found that the <IR> framework was the best one to enable us to express clearly how we create sustainable value for members.'**
>
> NICHOLAS DISS, CFO, CPA AUSTRALIA

# 07. INTEGRATED REPORTING ATTRACTS INVESTORS AND OTHER PROVIDERS OF FINANCIAL CAPITAL

A quality integrated report provides a window into the quality of the organisation's board and management and overarching culture as well as the business and its future prospects. It can attract potential investors and increase trust and market value.

> **'Last year Genairgy…was looking for a global travel supplier with good sustainability practices…The CEO pursued us because of our purpose-led and responsible travel approach... In the negotiations and their valuation, Genairgy focused on what our business had been in 2019 and what our prospects were post COVID-19. They wanted a long-term partnership. It was perfect, and our integrated report was the door-opener.'**
>
> DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL

> **'A big factor that helped us win was our holistic approach to the project (Maryland), looking at the requirements through the eyes of each stakeholder.'**
>
> MICHELLE JABLKO (MJ), CFO, TRANSURBAN

# 08. INTEGRATED REPORTING LEADS TO ORGANISATIONAL ALIGNMENT

Integrated reporting supports the breaking down of internal silos and organisational alignment to the 'integrated strategy', but there still needs to be continual communication, sharing of purpose-led stories and alignment of incentives to maintain the long-term sustainable value focus. This is especially important in times of market disruption, like COVID-19.

**'Integrated reporting ties in our story better, and not just externally. It is just as important internally. You can give an employee the report and they will understand our strategy, how we create value and what is important to us as a company.'**

SIMON BENSON, GROUP FINANCIAL CONTROLLER, LENDLEASE

**'The beauty of an integrated report is that it requires a cross functional effort to determine what we say in a succinct and meaningful way.'**

JASON LAIRD, EXECUTIVE CORPORATE AFFAIRS, NAB

# 09. BROADER BUSINESS INVOLVEMENT IN DEVELOPING THE INTEGRATED REPORT AND ASSURANCE IMPROVES INTERNAL CAPABILITIES

In order to determine the organisation's unique value creation process, many parts of the organisation need to work together to develop the agreed process and key attributes. This exercise builds broader business skills and a deeper understanding of the company.

Assurance over the integrated report helps outside of finance where there is less understanding of the assurance process. The independent scrutiny helps build capability in being accountable for and operating quality processes, controls and reporting in non-financial areas of the business.

**'Having independent assurance is fundamentally important. It really helps outside of finance where there is less understanding of the assurance process. The independent scrutiny has really helped build capability internally.'**

NICHOLAS DISS, CFO, CPA AUSTRALIA

**'With respect to challenges, developing the integrated report required us to reach deeper into the organisation to bring together the complete holistic business story..., the process we went through was very valuable for those broader groups involved in its development and the report is much more meaningful for all users than the previous functional financial report.'**

JESSICA O'BRIEN, GENERAL MANAGER, CORPORATE AFFAIRS & INVESTOR RELATIONS, TRANSURBAN

# 10. INTEGRATED REPORTING MUST BE EMBEDDED WITH SYSTEMATIC CONTROLS

Systemising decision support activities and aligning incentives are methods used to ensure that managers always consider the impact of their investment request in the context of strategy and the effective use of all key resources and relationships before submitting their proposals for approval or making a business decision.

**'There has been a board led initiative to ensure that all papers put up for board consideration are systematically aligned with strategy and risk objectives before they can be considered. It ensures that the strategic focus is maintained.'**

NICHOLAS DISS, CFO, CPA AUSTRALIA

**'With clear priorities from leadership, metrics are developed and used in the group scorecard to demonstrate how the organisation operates in a more integrated way… The measures on the scorecard are then linked to the incentive framework.'**

GREG BRADDY, DEPUTY CFO, NAB

# 11. ESG AND OTHER VALUE CRITICAL INFORMATION MUST BE INVESTMENT GRADE

Material ESG and other data used internally and reported externally must be accurate and balanced, therefore the underlying systems, processes and controls must operate effectively and be audit ready.

More organisations are moving to have their ESG information, including integrated reports, assured by external assurance providers.

**'The board likes the confidence that independent assurance can bring in assessing the work management is doing to deliver on strategy, as well as in testing the robustness of our systems, processes, and reporting.'**

MERRAN KELSALL, PRESIDENT & CHAIRMAN, CPA AUSTRALIA

**'Verification and assurance are very important to me in my role as a Director. I like to understand that management is getting that assurance where it is required, and if we are relying on management we have a proper documented verification process and policy that we follow.'**

NICOLA WAKEFIELD EVANS, INDEPENDENT NON-EXECUTIVE DIRECTOR AND CHAIR OF BOARD SUSTAINABILITY COMMITTEE, LENDLEASE

# 12. INTEGRATED REPORTING IS A JOURNEY REQUIRING CONTINUAL REVIEW AND IMPROVEMENT

The move to adopt integrated reporting and embed integrated thinking is a journey requiring continual review through engagement with stakeholders, assessment of changes in the external environment and improving the current state.

Consideration of different frameworks, discussions with stakeholders and other reporting developments will maintain the currency of the integrated reporting, and the thinking that underpins it.

> **'Initially it was the reporting framework that made sense. It aligned to who we are as an organisation and gave us a good structure for telling that story. Then we used the framework for strategic planning and looking at our business through the lenses of each of our key stakeholders. It is now in our monthly processes with internal reporting aligned to performance across all our 6 capitals, with the same data being shared with the board, executive and all staff globally.'**
>
> DARRELL WADE, CHAIRMAN AND CO-FOUNDER, INTREPID TRAVEL

> **'The key driver has been our focus on continuous improvement, accurate reporting on the capitals and strong focus on absolute transparency to increase member trust and pride in the CPA designation.'**
>
> MERRAN KELSALL, PRESIDENT & CHAIRMAN, CPA AUSTRALIA

> **'Although it provides a good structure, it is always important to step back from the report. There is a need to re-look at what is being reported to make sure it is not repetitive and deals with current matters. It must be fit for purpose and a living, breathing document.'**
>
> MICHELLE JABLKO, CFO, TRANSURBAN

# RECENT GLOBAL SUSTAINABILITY AND CORPORATE REPORTING DEVELOPMENTS AND IMPACT FOR AUSTRALIAN COMPANIES

## Transformation of the Global Corporate Reporting System.

# Recent developments

Last year's publication provided an overview of developments to standardise sustainability reporting and transform the global corporate reporting system.

Over the last twelve months, the pace of change has accelerated with significant accounting, management, and reporting implications for Australian businesses with respect to climate, broader ESG and other intangibles such as innovation and technology capability. We set out below some of these recent developments, as well as others we expect and the potential impact for Australian businesses.

| | | |
|---|---|---|
| Dec. 2020 | The 'Group of 5' (IIRC, SASB, GRI, CDSB, CDP) issued a prototype climate standard, consistent with the TCFD Recommendations. This prototype is being used by the Technical Readiness Working Group (TRWG) of the IFRS Foundation and will likely form the basis for the ISSB's first standard in 2022. | Start or continue to apply the TCFD Recommendations to report on their climate impact and company response. |
| March 2021 | The IFRS Foundation, with support from the IOSCO, confirmed its plan to launch an International Sustainability Standards Board (ISSB) at COP26 in November 2021. | |
| April 2021 | International Auditing and Assurance Standards Board (IAuASB) issued guidance on assurance on all forms of 'extended external reporting', including integrated reports and ESG reports. | A rigorous basis of preparation and robust systems, processes, and controls to ensure broader business reporting is audit ready is required.<br>(Work on improving systems, processes and controls over external reporting, and any subsequent internal or external assurance testing will support the board's verification statement required by Recommendation 4.3 of the ASX Corporate Governance Principles & Recommendations – 4th Edition). |
| May 2021 | IASB published its revised ED on Management Commentary setting out proposals for a comprehensive new framework for preparing a management commentary. Feedback on these proposals closes on 23 November 2021.<br>Likewise, in Australia, the AASB has issued ED311 on Management Commentary asking questions with respect to adoption of the IASB exposure draft in the Australian context. Submissions closed on 1 October 2021. | Discussion on the feedback and next steps for the ED is likely to be an area of early interaction between the ISSB and IASB as they develop a new global 'connected' corporate reporting system.<br>How Australia will roll out ISSB standards and any new 'connected' corporate reporting system is unknown. Australia was a lead adopting nation of IFRSs, and so may again move fast to adopt ISRSs. Companies should consider impact and prepare. |
| June 2021 | The IIRC and SASB merged to establish the Value Reporting Foundation (VRF). | Consider applying the <IR> Framework for annual reporting – especially the OFR.<br>Consider disclosure of material ESG metrics in accordance with sector specific SASB. |
| Sept 2021 | The IFRS Foundation issued an "Update on the work of the Technical Readiness Working Group (TRWG)". This highlighted:<br>• Work to drive international consistency of companies' sustainability-related disclosures that focus on 'enterprise value creation'.<br>• Work on how the ISSB works with the IASB on development of a new 'connected' corporate reporting system<br>The ISSB standard on climate change, aligned to the TCFD, is likely to be issued for adoption in first half 2022. | Consider adoption of TCFD Recommendations in current reporting.<br>Monitor global developments but consider adoption of the <IR> Framework to support a smooth transition to the future 'connected' corporate reporting framework. |

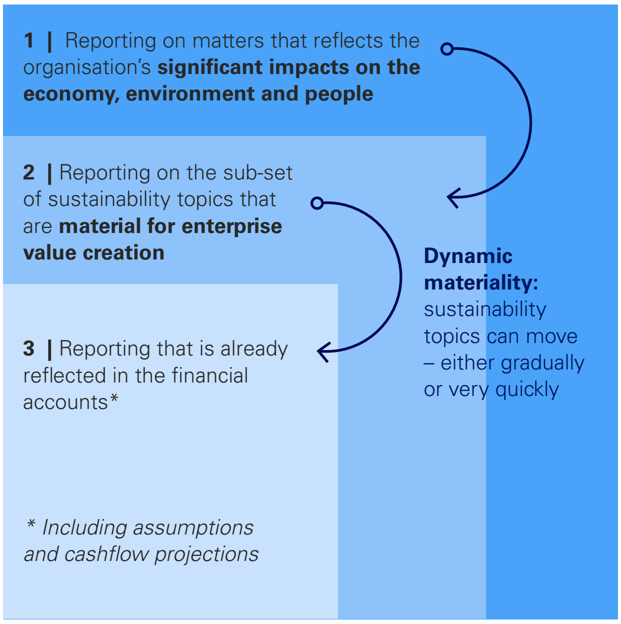
| DATE | DEVELOPMENT | IMPACT FOR AUSTRALIAN COMPANIES |
|---|---|---|
| Sept 2021 | The International Federation of Accountants (IFAC) published a guide for countries to consider in creating their own responses to the ISSB and its standards.<br>The <IR> Framework was recognised as the conceptual framework for the re-named management commentary.<br>The integrated report and SASB Standards were recognised as the basis for industry-specific interpretations of the ISSB Standards.<br>TCFD recognised that an integrated report following the ISSB Standards will meet the TCFD Recommendations. | The IFAC paper supports the comments made above re potential next steps for Australian companies. |
| Oct. 2021 | The AASB and AUASB established a joint Extended External Reporting Advisory Panel<br>Purpose: consider whether and to what extent the Australian corporate reporting system should replicate or otherwise align with the global corporate reporting system; and whether and to what extent Australia is a taker of ISSB Standards, including its climate reporting standard. | Monitor developments, as Australia likely to be a fast follower of global developments. |
| Nov. 2021 | Expect formation of the ISSB<br>Expect first standard on climate reporting in the first half of 2022. | |
| **REGIONAL DEVELOPMENTS** | | |
| **Europe**<br>April 2021 | EC Non-Financial Reporting Directive (NFRD) will likely transition into the Corporate Sustainability Reporting Directive (CSRD) as of 2023.<br>Increase scope of application to cover some 49,000 large listed and non-listed companies, including large foreign subsidiaries.<br>Expect new requirement for independent limited assurance over additional disclosures from 2023 if impacted by the CSRD. | If have EU subsidiaries (and defined as large companies) monitor EU developments and impact of new requirements. |
| 2022 onwards | Sustainable Finance Disclosure Regulation (SFDR) imposes mandatory disclosure requirements.<br>SFDR issued by the European Commission alongside the Taxonomy Regulation and Low Carbon Benchmark Regulation.<br>Taxonomy Regulation establishes EU Framework for classification of sustainable economic activities; including criteria under which an economic activity can be described as "environmentally sustainable".<br>Applies to EU asset managers and other financial market participants.<br>All Large, listed EU corporates currently under the scope of the NFRD, required to disclose the turnover, capex and opex from their 'eligible' operating activities across EU Taxonomies.<br>Initial taxonomy reporting on climate change mitigation and adaption activities undertaken in 2021 are required to be reported in 2022.<br>Further reporting for 2023 reporting. | If have equity or debt capital from EU financial institutions, monitor EU developments and assess reporting obligations to investors/ financiers under the EU Taxonomies. |
| **USA**<br>Sept 2021 | The Securities Exchange Commission (SEC) active through 'please explain' letters to listed companies. Focused on "gaps" between regulatory filings and other reports where identified climate risk matters. | If file annual reports with the SEC note increased level of scrutiny. |
| 2021/22 | The SEC expected to propose rules prescribing disclosures over: climate, human capital, and cybersecurity risk.<br>Human capital disclosure guidance will build upon the existing principles-based guidance and is expected to focus on diversity of the workforce and boards.<br>Climate-related disclosures will build upon existing guidance. Consideration includes whether the disclosures should be included in the Form 10-K, which quantitative and qualitative climate-related disclosures to require, and what level of assurance is appropriate. | If file annual reports with the SEC, note developments. |

## REPORTING CLARITY AND SIMPLIFICATION

Duplication, lack of consistency and comparability of sustainability reporting frameworks and standards is finally being addressed. The 'nested materiality diagram' (below) neatly explains how the primary financial and sustainability reporting frameworks work together for specific audiences and purposes.

The inner box 3 is the domain of IFRS and Financial Accounting Standards Board (FASB). The middle box 2 relates to material ESG information supported by SASB, TCFD Recommendations and CDSB and other intangible value drivers. These two boxes are aligned to provide material information on enterprise value creation to the capital markets through the VRF's <IR> Framework.

The outer box 1 represents reporting to other important stakeholders on the organisation's negative or positive contribution to sustainable development, some of which may also be important to enterprise value and picked up in the integrated report, but the rest will be provided through other reports or online. This includes GRI-based ESG and CDP reporting.




**1 |** Represents reporting to various users with various objectives who want to understand the enterprise's positive and negative contributions to sustainable development

**2 |** Represents reporting specifically to the sub-set of those users whose primary objective is to improve economic decisions

*Source: Impact Management Project, World Economics Forum and Deloitte (2020)*

It is important to note the contemporary concept of 'sustainability' being embraced within this proposed new corporate reporting system under the leadership of IOSCO and the IFRS Foundation (as explained in IOSCO's final report, *'Report on Sustainability-Related Issuer Disclosures',* in June 2021).

That concept equates sustainability in relation to investor reporting on enterprise value, or the net present value of future cash flows. Accordingly, the concept clearly embraces ESG matters, especially climate, and other intangibles such as brand, customer satisfaction, innovation, intellectual property, technology, and governance and strategic management. It is important that this broad concept of sustainability is not lost in connected or integrated reports focused on enterprise value.

## IMPACT FOR AUSTRALIAN BUSINESSES

As highlighted in this section, Australian business leaders will need to be fully informed on what is happening globally and be ready to embrace and respond to the changes in accounting, management and reporting driven by the new international sustainability standards and corporate reporting requirements.

In the past Australia has been an early adopter of international financial reporting standards that drive consistency and quality in reporting to the capital markets, so change is likely to happen quickly. Indeed, market forces for change from investors, employees and the broader community are demanding action now, so organisations are taking steps to respond.

In the short term, Australian business leaders should have confidence in using the <IR> Framework, SASBs and TCFD Recommendations, together with information on their company specific intangible value drivers, in an integrated fashion when preparing their annual reports. Links can be used to direct report users to other reports and online repositories, including more detailed ESG and TCFD information, not considered material to enterprise value.

In their Recommendation 4.3 adoption statements, directors should be considering audit or review of those corporate reports and disclosures judged to be most significant to investors. The OFR, or integrated report is likely to be among the most significant, as it is where the directors lay out their strategy, resource allocation, risk and opportunity management, performance, and outlook to explain how their organisation has created sustainable value and set out its prospects for the future. It is the primary report to shareholders.

# ROADMAP TOWARDS BETTER BUSINESS REPORTING

**We set out the key steps to enable organisations to simplify their corporate reports portfolio and provide more relevant and insightful climate, ESG and business information to their investors and broader stakeholders.**

# Roadmap

The roadmap to better business reporting and so enhanced transparency provides a step-by-step guide of activities required to not only meet current regulatory and stakeholder requirements but to do so in a way that is flexible and able to deal with changing requirements efficiently.

As discussed in the interviews, it is important to start with education and ensuring that the board and executive team understand the opportunity and are prepared to lead the change program.

## 01.

### Knowledge sessions for board, executives, and team members

Holding Board, executive and team knowledge sessions on business reporting developments, including development of a business case for change covering:

- Climate accounting, management, and reporting
- ESG/ sustainability accounting, management, and reporting
- Integrated or 'connected' management and reporting

## 02.

### Benchmarking

Performing a gap analysis of current reporting against applicable frameworks and standards (GRI, SASB, <IR> Framework, TCFD, SDG, 4th Edition etc.) and benchmarking against good practice examples (ASX200 and global).

## 03.

### Program sponsorship, leadership and office

Approving and leading the program must be undertaken by the board and executive team, with one of more of them identified as the program sponsor(s). Then a program lead should be identified to set up and run the better business reporting program office.

## 04.

### Setting a corporate reporting strategy

Preparing a corporate reporting strategy to understand and respond to the different and growing information demands on the business (i.e. financial, sustainability/ESG/ climate (GRI, SASB, <IR> Framework, SDGs, TCFD, 4th Edition, Modern Slavery, and other megatrends/ profile topics - 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.

## 05.

### Engaging with your stakeholders and performing materiality assessment

Undertaking stakeholder engagement and materiality assessment processes to identify and prioritise material matters aligned to specific matters required to be reported under selected frameworks (<IR> Framework, GRI, SASB, 4th Edition etc.).

## 06.

### Reports' portfolio development

Designing and drafting an overview of each report or other disclosure to be included in the organisation's reports' portfolio. This includes each report's position in the portfolio, purpose, primary audience (stakeholders), framework requirements, timing, accountabilities, and material content elements (incl. material matters from stakeholder engagement, relevant frameworks, and legislation/ regulation).

## 07.

### Understanding the value creation process

Holding value creation workshops to 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 and the overarching outcomes the organisation in seeking to achieve and associated key performance metrics.

## 08.

### Aligning internal accounting, management & reporting practices

Designing and documenting controls over management information processes, systems and practices which will underpin the integrity of all external and internal reporting. Based on the corporate reporting strategy, improve processes and systems by removing unnecessary reporting, and better capturing and reporting on a systematic basis against key climate/ ESG/ business value drivers and strategy aligned KPIs.

## 09.

### Confidence and assurance of information

Designing and testing data (climate, ESG and other value driver information) collection systems, processes, and controls to ensure data is robust and 'assurance-ready'. Engage external assurance providers, internal audit or implement/ enhance and document internal management verification policies and processes to ensure both financial and non-financial data is accurate, balanced, and credible or 'investment grade' for internal decision support and external publication.

# APPENDIX 1

## Integrated reporting education and research methodology.

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## INTEGRATED REPORTING EDUCATION AUSTRALIA

KPMG in conjunction with the University of New South Wales (UNSW) and Deakin University established the Integrated Reporting Education Australia consortium in 2016. The members of this consortium offer integrated reporting education to their clients and students.

For organisations in Australia and New Zealand who want to understand more about integrated reporting, KPMG and the Deakin Integrated Reporting Centre offer introductory level corporate education on integrated reporting. KPMG also provides a two-day workshop to show integrated report preparers how to design and build their integrated reports.

## DEAKIN INTEGRATED REPORTING CENTRE (DIRC)

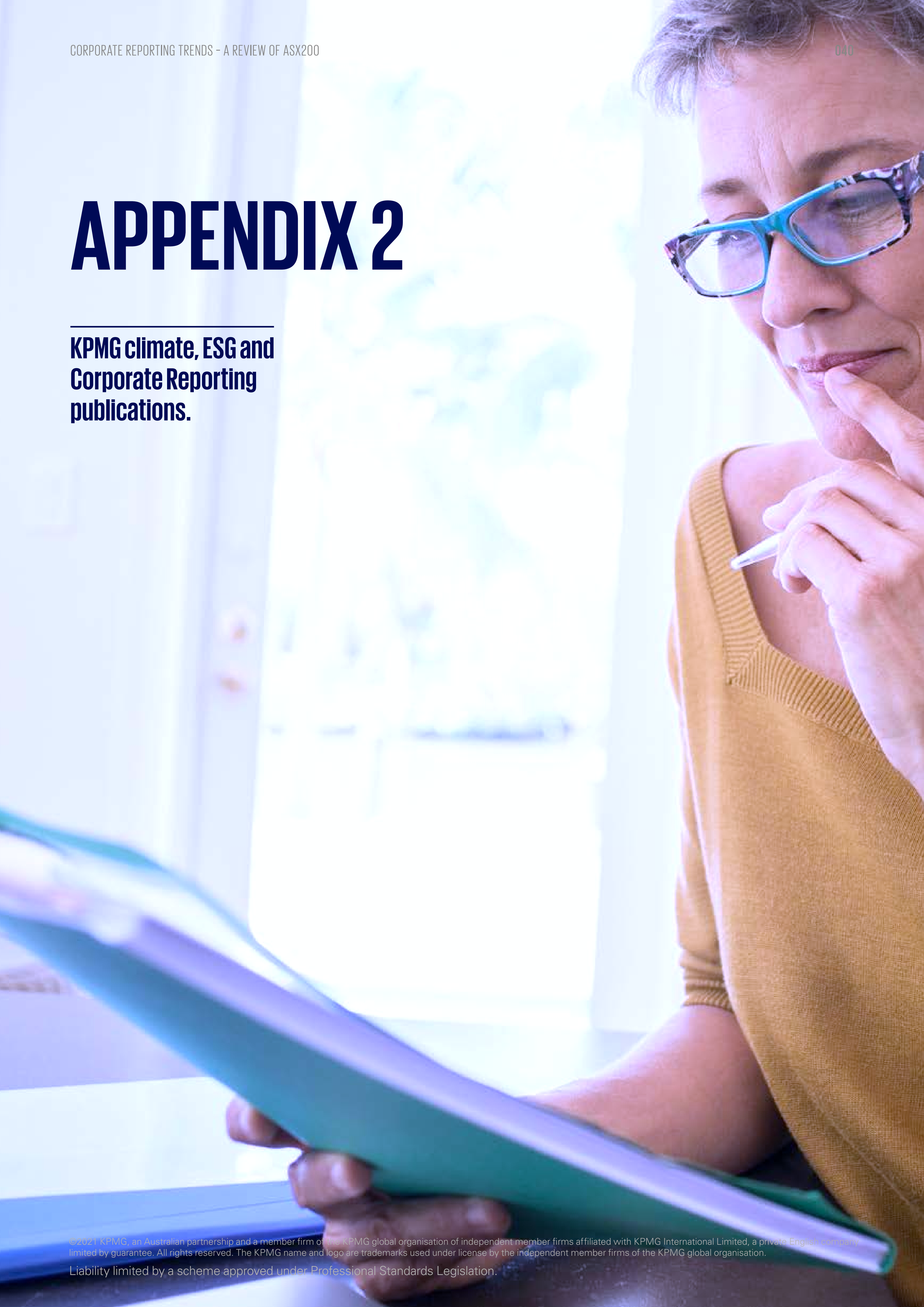
The DIRC manages Deakin's commitment to integrated reporting, through industry engagement and thought leadership, research into integrated reporting and integrated reporting education. The DIRC is supported and funded by the Association of Chartered Certified Accountants (ACCA), Chartered Accountants Australia and New Zealand (CA ANZ) and KPMG Australia, who all have executives on the DIRC Advisory Board. The Advisory Board is chaired by John Stanhope AM (Chancellor of Deakin University) and includes additional members with a corporate, investment or academic background. (See deakin.edu.au/business for further details).

In 2021, the DIRC has continued supporting KPMG Australia by collecting data for the ASX200 benchmarking report (see Research Methodology). The DIRC continued hosting the Business Reporting Leaders Forum (BRLF) in 2021 (brlf.net).

## RESEARCH METHODOLOGY

The research in this report has been carried out by Better Business Reporting specialists at KPMG Australia in partnership with academic researchers from the Deakin Integrated Reporting Centre. The DIRC has enhanced the reporting quality assessment methodology and collected the data used in this report. An experienced research assistant assessed an initial batch of reports which were cross checked by academics from the DIRC and better business reporting specialists at KPMG. Data integrity was checked by the same experienced research assistant for each company, with sample testing being undertaken by academics from the DIRC and specialists from KPMG Australia.

Research sources include PDF copies of annual reports or annual reviews (whichever report was deemed to be the primary corporate report for the providers of financial capital) published by organisations listed as being within the ASX200 as at 30 June 2021. The time period considered for this research was financial years ended between 1 July 2020 and 30 June 2021. Reports available up to 30 September 2021 were reviewed, this has resulted in 169 of the ASX200 being included in our research. The benchmarking 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

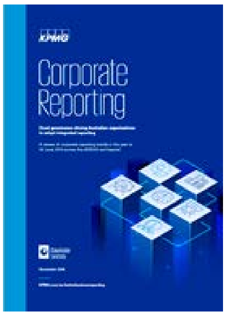
## KPMG climate, ESG and Corporate Reporting publications.

# KPMG climate, ESG and corporate reporting publications.


[Corporate Reporting – FY20 challenges, investors and other stakeholders drive the ASX200 to apply integrated reporting principles]

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

*November 2020*




[Corporate Reporting – Good governance driving Australian organisations to adopt integrated reporting]

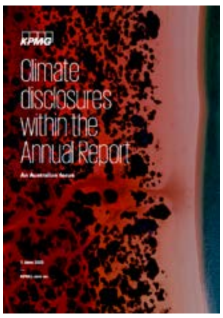
Review of corporate reporting trends in the year to 30 June 2019 across the ASX 200 and beyond.

*November 2019*


[Finance evolution – Insights from CFOs and finance leaders on the impact of Covid-19 and their new reality]

Provides insights into the role of the CFO and Finance in driving change, including ensuring the quality of ESG information.

*November 2020*




[Climate disclosures within the Annual Report – an Australian focus.]

Guidelines that govern the preparation of the Annual Report, with a focus on identifying where climate impact may need to be considered and disclosed – primarily in the directors' report but also in the financial statements.

*June 2020*

# KPMG climate, ESG and corporate reporting publications.


[Towards net zero](#)

How the world's largest companies report on climate risk and net zero transition

November 2020


[Towards net zero – Australian supplement](#)

How the top Australian companies report on climate risk and decarbonisation

November 2020


[How might climate-related risks impact the financial statements](#)

Practical questions that all audit committees should be asking of management.

June 2021


[The time has come](#)

11th edition of the KPMG Survey of Sustainability Reporting

November 2020


[The time has come – Australian supplement](#)

Global Sustainability Reporting Survey

November 2020

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