Corporate Reporting Trends 2022

Integration of ESG, critical to enterprise value reporting

A review of ASX200 Corporate Reporting Trends in the year to 30 June 2022

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A REVIEW OF ASX200 CORPORATE REPORTING TRENDS IN THE YEAR TO 30 JUNE 2022.

Foreword

For the past 9 years, KPMG has conducted a review and analysis of corporate reporting trends across the ASX200 companies. A critical focus of our analysis has been the quality of disclosures in the annual reports or annual reviews, benchmarked against the Integrated Reporting Framework.

Each year, the results of our analysis point to an evolution in corporate reporting with leading companies embracing an approach that goes beyond financial value, clearly and credibly articulating for their stakeholders, how current and future strategic plans will underpin long-term, sustainable enterprise value[1].

We remain committed to this annual analysis as a way of informing Australian companies, capital markets and stakeholders on the progress being made and highlighting the benefits enjoyed by a more comprehensive and insightful approach to corporate reporting.

I am pleased to present our 2022 Trends in Corporate Reporting report which reviews ASX200 Corporate Reporting trends in the year to 30 June 2022.

Our analysis this year is delivered at an interesting inflection point for the evolution of corporate reporting. While stakeholder expectations for greater transparency and reporting on the impact of material Environmental, Social and Governance (ESG) matters continue to increase, and international standards setters are moving at a rapid pace to address current deficiencies in standards for sustainability reporting, report producers – corporates – have been occupied addressing challenging geopolitical and economic headwinds, directing focus back to hard financials and pausing focus on ESG matters.

The progress made by international standards setters towards establishing consistent global sustainability (including ESG) standards over the past 12 months has been impressive, particularly since the establishment of the International Sustainability Standards Board (ISSB™) by the IFRS Foundation at COP26 in Glasgow (November 2021). In our report, we provide an overview of the significant developments in this space, including commitments by key players around the importance of the Integrated Reporting Framework to the development of a new global reporting framework focused on enterprise value.

While Australian corporates may have had attention diverted to address rising interest rates and inflation, supply chain disruption and labour force shortages, our analysis coupled with interviews with leaders across the ‘corporate reporting supply chain’ (from report preparers, through auditor to users) points to increasing investor demand for ESG information in their primary report to their shareholders.

Key insights from these interviews are captured in this report and highlight both the key challenges and benefits of good ESG management and the progress towards integrated reporting. Insight is offered into the progress leading companies are making to better present quality, audited business data to the capital markets to help investors (and other stakeholders) understand how the company has performed and set itself up to deal with future opportunities and challenges to create sustainable value.

[1] *We note at the October 2022 meeting the ISSB confirmed that, when finalised, the Exposure Draft on General Requirements for Disclosure of Sustainability-related Financial Information – Draft IFRS-S1 - would focus on providing information to meet the information needs of the primary users of general-purpose financial reporting who are ‘existing and potential investors, lenders and other creditors’ in line with the IASB’s Conceptual Framework, and it will remove ‘enterprise value’ from the draft Standard’s objective but will not fundamentally change the focus of required disclosures. Additional resources and language would clarify the concept of enterprise value and the scope of sustainability-related financial information required in the draft Standard when finalised. We have therefore continued to use the term ‘enterprise value’ throughout this report.*

Our interview with ASIC, highlights a need for companies to prepare and upskill for possible mandatory climate and sustainability reporting and gives some important messages around greenwashing.

KPMG has long been a supporter of the Integrated Reporting Framework and the effective management and reporting of ESG matters. We have worked alongside many of the early adopters of integrated reporting and seen the real and tangible benefits they have realised. We are on our own reporting journey at KPMG and recently issued our second Impact Report. Our report provides transparency and accountability for our progress on all our ESG commitments and sets out how our firm seeks to deliver long-term sustainable value for all our stakeholders.

In this report, we share a high-level roadmap to support companies as they re-visit and streamline their corporate reporting approach to meet current and future requirements.

I congratulate those Australian companies leading the way in more comprehensive and insightful reporting, and through that effort realise the business benefits. To those less progressed, I trust you find the insights in this report practical and useful to accelerate your own reporting evolution journey.

Alison Kitchen
Chairman, KPMG Australia

Contents

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

Introduction

The focus on Environmental, Social and Governance (ESG) and especially climate across all members of the corporate reporting supply chain[2] has increased significantly in FY22. This has been driven by global events, such as the physical and transitional impacts of climate change with increased flooding, fires; the ongoing impact of COVID-19; and the impact of war and other drivers of geopolitical instability on capital markets, energy availability and pricing, disrupted global supply chains and people. Whilst companies have been drawn into responding to the short term business impacts of these external factors, they now need to also return their focus to identifying, addressing and reporting their progress and future plans to address all material ESG risks and opportunities on their own businesses, and where relevant across their value chain.

Investors (especially large superannuation funds) are moving their money to corporations with strong ESG credentials, those who have significantly changed their business models and strategies to reduce their carbon and broader environmental impact, improve their relationships with customers, suppliers, employees and impacted communities and enhanced their own internal practices to responsibly deliver and transparently report on how they create and preserve enterprise value for the short, medium and long term.

This movement is evidenced in the Responsible Investment Association of Australia's (RIAA) Report released in September 2022:

> "The Responsible Investment Benchmark Report Australia 2022 shows that the number of Australian assets managed using a rigorous, leading approach to responsible investment has hit a record value of $1.54 trillion, (2021: $1.28 trillion) now accounting for 43% of the total market."

14% **of companies are referencing the Integrated Reporting Framework in their primary report to shareholders** (2021: 11%).

75% **of companies focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings** (2021: 70%).

38% **of companies are reporting on their progress in implementing the TCFD recommendations in their primary report to shareholders** (2021: 35%).

53 **The average number of pages in the primary report to shareholders excluding statutory financial statements and remuneration report remains reasonably concise.** (2021: 50 pages).

[2] *The 'corporate reporting supply chain' refers to those involved in the preparation, approval, audit, analysis and use of corporate reports. The process is not linear, rather it starts and ends with investor and other stakeholders, who want to make informed economic decisions about the company and therefore require credible information about enterprise value creation to do so.*

In response to the demand for enhanced transparency this year we have observed an improvement in the number of companies reporting ESG data and including fundamental elements of the Integrated Reporting Framework in their primary report to shareholders. For example, there has been improved reporting on the company's business model including key resources and relationships (capitals) used as inputs to the value creation process.

There continues to be significant gaps in reporting on how companies are pursuing opportunities identified in their external environment, and this year we observed a reduction in the number of companies providing detailed discussion on their strategy and strategic priorities. (We believe this is because last year there was an uplift as companies discussed their revised short-term strategies as they came out of COVID-19).

As we expected given the investor, government and community focus on climate change, the level of reporting on plans to reduce carbon emissions, and inclusion of carbon reduction targets (e.g., towards net zero) has increased. Task Force on Climate-Related Financial Disclosures (TCFD) reporting has continued, although only 38% (2021: 35%) of companies are reporting on their progress in implementing the TCFD recommendations in their primary report to shareholders. We note that many others are providing TCFD details outside of the primary report to shareholders.

KPMG's recent Sustainability Survey[3,] found that 76% of the ASX100 state that they report their climate risks in line with TCFD recommendations, either in the annual report, as part of the sustainability report or in a standalone TCFD / climate report. There are still many companies that are not applying the TCFD recommendations, who should consider action now as the TCFD forms the basis for the new ISSB draft climate standard discussed below.

The increased disclosure on current carbon positions and plans to move to net-zero by a certain date is increasing the scrutiny undertaken by investors and regulators. They are increasingly focused on how Scope 3 emissions (i.e. carbon in the company's value chain) are being captured; and the quality of company greenhouse gas (GHG) reduction plans to achieve the disclosed outcomes and targets (i.e. is it planned, funded, achievable and underway).

This can lead to the potential risk of greenwashing in product descriptions and reporting, which impacts on the credibility of the company's disclosures and can lead to regulatory and investor class actions, penalties, and fines.

> "ASIC's Information Sheet 271 is designed to assist responsible entities of managed funds and trustees of superannuation funds to avoid 'greenwashing'. ASIC is also alert to claims by listed companies that may not be supportable, such as 'net-zero' targets without a reasonable basis. ASIC will consider appropriate enforcement actions... Boards should avoid and look out for any greenwashing – and ask whether the entity's disclosure accurately reflects their practices in this area. Directors should ensure that entities have appropriate governance arrangements in place to drive better disclosure."
>
> SEAN HUGHES, COMMISSIONER, ASIC

This matter is now more important, as the ISSB confirmed at its October 2022 meeting that companies would be required, in its second standard on climate-related financial disclosures, to report their Scope 1, Scope 2 and Scope 3 GHG emissions in line with the GHG Protocol Corporate Standard. (The ISSB also agreed to develop support and guidance for disclosing Scope 3 emissions. That could include transition reliefs and will be discussed at future meetings.)

Reporting on other ESG areas, such as environmental impacts outside of climate as well as social matters materially impacting the business (e.g. human rights, indigenous affairs, ethical supply chain and modern slavery) has also improved, as discussed in our detailed findings. However, reporting on corporate governance activities (the 'G' in ESG), especially the more active and insightful reporting on Board focus areas, as well as transparent reporting on breaches, complaints and other responsible business matters has reduced and continues to be an area requiring increased attention.

[3] *Further information on the take-up of TCFD Recommendations in Australia, refer to the KPMG Global Survey of Sustainability Reporting – Australian website at Sustainability Reporting Survey 2022 | ASX100 & G250 - KPMG Australia (home.kpmg)*

The corporate reporting supply chain

Insights from leaders across the corporate reporting supply chain

This year we interviewed leaders from across the 'corporate reporting supply chain' on the latest developments in corporate reporting and user expectations, especially with respect to ESG and the establishment of the ISSB. Later in this report we summarise their insights for consideration by companies seeking to improve current reporting to better meet the needs of their primary users. Key themes from these interviews can be summarised as:

THEME 1
A clear reporting strategy is required to drive effective reporting and facilitate change

The establishment of the ISSB, and other local and global developments in ESG and broader integrated reporting means companies will need to revise their corporate reporting strategies to address the required changes effectively (see global developments on pages 34–40). They need to determine how best to apply these new standards and implement other changes, whilst still meeting the various information needs of key stakeholders. This will include determining which frameworks to apply. For example, they may want to supplement the annual 'integrated' report, including material ISSB disclosures, with an impact or sustainability report (or provide website disclosures) based on the Global Reporting Initiative (GRI) or United Nations Sustainable Development Goals (SDGs).

> "Typically, companies have a pretty good handle on what are their key issues for materiality and I personally am okay when it comes to sustainability reporting with letting the companies decide...but I will never say that about financial reporting. But it is a great first step what the ISSB is doing, and we encourage it strongly."
>
> LOU CAPPARELLI, HEAD OF ESG, UNISUPER

THEME 2
Users of corporate reporting are expecting to see evidence of action, not just planning, particularly on ESG matters which are material to enterprise value

ESG or sustainability performance is inextricably linked to sustainable financial returns and critical, but not itself sufficient, to enduring enterprise value. It can indicate a quality company and so deliver business and market benefits. The capital markets require forward-oriented, outcome-focussed company reporting, underpinned by sound business strategy, that explains the business practices, its performance, and prospects.

> “If you take the issue around diversity or racial diversity, it’s when people do something about it or when they invest in the community or how we do business to drive change, that’s when it really starts to take real shape.”
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

> “There is a degree of sophistication in a company’s sustainability activities that is required before you can do integrated reporting well... But it is important that the activities themselves are the company’s focus, not the reporting. The reporting is an outcome, and although it can be a driver it should not be the purpose or starting point.”
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

THEME 3
Reporting must reflect how the company is governed and managed, and how change is embedded

Companies need to report transparently on the business ‘as a whole’, with respect to how decisions are made, and actions determined, funded and then implemented to deliver on Purpose and create sustainable enterprise value. It must be led by the Board and executive but implemented through empowering and supporting line management.

> “Moving to integrated reporting shouldn’t just be thought of as moving towards disclosure – it should be thought of as ensuring that you are running your business appropriately and demonstrating integrated thinking.”
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> “I love the commitment by the Board and management to be transparent, good or bad news.”
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

THEME 4
Focus on what is material for shareholders when assessing enterprise value

Critical to the quality and relevance of reporting, especially reporting on business performance and prospects in the primary report, is the determination of what is material to shareholders’ investment decisions now and into the future. Companies are advised to start with what matters most to their primary stakeholders and get that right first.

> “When the Board is sitting around the table, we are looking at what is going to make this company incredibly successful and create value for all stakeholders. We have done quite a bit of work at Xero, and all the companies I am involved with, in trying to determine how we identify and engage with all our stakeholders. Of course this includes shareholders, but it is equally as much about employees… We are seeing [the importance of alignment of values] with customers as well.”
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

> “We are continuing to encourage directors of listed entities to:
>
> - Consider climate and sustainability risks and opportunities
> - Develop and maintain strong and effective corporate governance to identify and manage material risks
> - Disclose useful information to investors where risks are material.”
>
> SEAN HUGHES, COMMISSIONER, ASIC

THEME 5
The critical importance of report credibility and assurance

The increasing dependency on accurate and timely non-financial information by report users, coupled with the inherent challenges of obtaining and managing this data, highlights the importance of enhancing the core systems, processes and data management that underpin the company's material ESG targets and metrics. Investors and other users also have more confidence in ESG data if it has been independently assured, as it demonstrates the importance of these ESG matters to the Board and management and reduces the risk of any greenwashing.

> "I think the benefits of getting this data assured are multidimensional, because it conveys the importance that the company places on the information and how it is used in decision making. …The other benefit of course is the additional scrutiny that an audit provides, allowing the data to be used with more confidence by investors."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

Quotes from our interviews have been included to support the insights discussed and findings from our ASX200 benchmarking. The transcripts for each interview, which occurred in August and September 2022, are available online.

Global developments

Good progress has been made this year with the formation of the ISSB towards standardising ESG and sustainability reporting practices, and the consolidation of the Value Reporting Foundation (VRF) and Carbon Disclosure Standards Board (CDSB) and their assets (including the International Reporting Framework and Sustainability Accounting Standards Board (SASB) standards) into the IFRS Foundation and where appropriate through to the ISSB.

Further details on recent global developments, including a brief description, timeline, and the potential impact for Australian companies is set out on pages 34–40.

Next steps

The establishment of the ISSB, issuance of its first two exposure drafts (EDs), and statements by its Chair and the Chair of the International Accounting Standards Board (IASB™) discussed in the global developments section, provides confidence to Australian companies that the following are ''no regrets" investments:

- Reporting on Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions in line with the GHG Protocol, as well as starting to develop fully supportable GHG reduction plans, including establishing policies, processes and systems to capture, analyse and report complete and accurate performance data
- Application and further development of activities and related disclosures relating to TCFD recommendations
- Adoption of the SASB metrics, where material to managing and demonstrating performance of the business and relevant to the company's sector, and
- Use of the Integrated Reporting Framework as the basis for the company's primary report to shareholders, and central to its corporate reporting strategy and reports' portfolio.

> "Yes, we have enhanced our ESG disclosures and are moving to adopt integrated reporting at Xero. The investment has been worth it, and we have had positive results from our people and partners about our reporting. They appreciate we are holding ourselves accountable and that is the type of company we are. We have had really good feedback from stakeholders in terms of the FY22 Annual Report."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

We have included in this report a summary of activities (roadmap) to consider as you reflect on the quality of your own reporting, the changing information needs of your stakeholders and how to better share your value-story. You may want to start by undertaking the KPMG ESG Maturity Benchmarking Survey discussed on page 43.

If you would like more information on a practical approach to improving the quality and relevance of your corporate 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

Set out below are the top ten key findings from our analysis of the 'primary report to shareholders' for the ASX200 companies (primarily the annual report) for the year ended 30 June 2022. Only reports available up to 30 September 2022 have been reviewed, this has resulted in 175 of the ASX200 (43 of the ASX50) being included in our research.

This year our research methodology has been updated, it is now based on the 'Deakin University Integrated Reporting Quality Measure', a qualitative assessment rating process designed by Deakin University that benchmarks each report against the content elements and fundamental concepts in the Integrated Reporting Framework. The updated methodology has been applied consistently across both the current and prior year reports.

Reports receive a grading for each content element and fundamental concept, based on the information disclosed. The available gradings are poor, outmoded, informative and insightful. (See Appendix 1 for the Research methodology).

The Integrated Reporting Framework continues to be 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 enterprise value, and the only framework that provides a balanced view on how companies 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. When applied well it offers genuine insight into the integrated thinking taking place within the company.

The Integrated Reporting Framework is designed 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 company.

> "I am particularly drawn to integrated thinking being at the heart of integrated reporting and how we think determining then how we tell our story through reporting. Integrated reporting captures the wider network of stakeholders and discusses the whole business far more than the traditional financial report."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

Overall, we have seen a small increase in the number of companies to 14% using the Integrated Reporting Framework to help shape their reporting (2021: 11%), and 19% (2021: 18%) of companies have incorporated elements of integrated reporting into the primary report to shareholders. We set out below the results of the ASX200 benchmarking and our brief analysis, which is then followed by the insights provided through interviews with members of the 'corporate reporting supply chain'.

Key findings

1. Explicit focus on long term value and reference to the Integrated Reporting Framework

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

This year 75% (2021: 70%) of companies focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings. This is a slight but pleasing improvement from last year, where we noted that many companies had focused on discussing their immediate priorities and actions as they came out of the COVID-19 crisis rather than their longer-term plans to create value.

Companies referencing the Integrated Reporting Framework:

A2 Milk	NAB
AGL	Orica
ANZ	Pro Medicus
Brambles	Ramsay Health Care
Cochlear	SkyCity Entertainment
Contact Energy	Spark NZ
Dexus	Stockland
Genesis Energy	Summerset Group Holdings
Lendlease	The GPT Group
Mercury NZ	Transurban
Meridian Energy	Worley
Mirvac	Xero

There was a continued increase in the number of companies who prepare their reports in accordance with, or with reference to the Integrated Reporting Framework. 25 companies (2021: 18) or 14% of the 175 companies analysed now reference the Integrated Reporting Framework; seven of these are New Zealand based companies.

There were also an additional eight companies that had incorporated key elements of integrated reporting into their report (e.g. a value creation process diagram) but did not explicitly reference the Integrated Reporting Framework.

Besides the ASX200 companies there are other listed, government-owned, member based, private and not-for-profit organisations applying the Integrated Reporting Framework including Appen, NBN Co, Australia Post, CBUS, CPA Australia, Chartered Accountants Australia and New Zealand, Intrepid Travel and Camp Quality.

ASX50

37%

of companies are incorporating elements of integrated reporting into the way they report (2021: 24%).

98%

of companies focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings (2021: 83%).

ASX200

19%

of companies are incorporating elements of integrated reporting into the way they report (2021: 18%).

75%

of companies focused their reporting on value creation for shareholders and/ or other stakeholders and not just on historic financial earnings (2021: 70%).

2. More focus on active governance needed

Governance disclosures should help the reader understand how the Board has supported the company create or protect sustainable enterprise value. At KPMG we call this 'active governance' which is discussed in the annual report as part of the company's value story, to distinguish it from the more static disclosures on Board committee charters, policies and other governance structures often reported in the Corporate Governance Statement (CGS) on the company website.

Although 83% (2021: 64%) of companies are including some basic corporate governance compliance information in the report, for example a Board skills matrix, or listing the key responsibilities of the Board and committees, on the whole disclosures are typically 'boilerplate' and lacking true insight to enable the reader to understand how the Board monitored the business, the outcomes from their review of key issues and so how they supported value creation.

Whilst there has been an improvement from the prior year, there continues to be a significant number of reports that, outside of a link to the online CGS and director biographies, do not include any governance information. Although permissible under the listing rules, there is often important ESG performance information in the CGS such as gender and other diversity statistics which should be brought back into the primary report to shareholders.

This year only 20% (2021: 27%) of companies included informative or insightful disclosures and a summary of the key areas of focus by the Board during the year, and how the Board supported value creation. Disappointedly this was a reduction from the prior year.

For companies looking to improve their active governance reporting, we recommend focusing on how the Board oversees management's implementation of strategy and the management of risk and optimisation of opportunities. This should reference outcomes across topics such as culture, talent, approach to innovation, stakeholder engagement and management, and include relevant KPIs.

Other examples of insightful governance reporting also include how the Board is working with management in thinking about future 'black swan events' such as COVID-19, or the inclusion of governance KPIs in the highlights summary. In addition, the Board should consider including a responsibility statement, acknowledging its responsibility for the integrity of the primary report to shareholders. (In an integrated report this is required by paragraph 1.20 of the Integrated Reporting Framework).

3. Improvement in providing context through discussion of the company and its external environment

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

Despite companies again being burdened by significant global issues, they have made some positive progress in articulating how this is affecting their business. This year 93% (2021: 87%) of companies included some discussion of the external environment and a company-wide overview. The companies that scored the highest provided genuine insight into how the company purpose, culture, ethics, and values are evolving (dynamic culture and values) and highlighted significant changes from prior periods. These disclosures also considered the company's competitive landscape and market positioning and included discussion on the implications of the external environment (e.g., technology change, population/ demographic change, and climate change) on the company's ability to create future value and the relevant actions taken, where required

4. Improvement in discussion on the company's business model and capitals, as part of the value creation process

Clear articulation of how the company creates value, its 'value creation process', is critical in helping the reader understand how the company's resources and relationships (the capital inputs) are used through its business model and governance framework to execute strategy, manage risks and opportunities and so deliver enterprise value. The value creation process is broader than just the business model, although that is a key component.

This year 90% (2021: 83%) of companies have included some discussion about the nature of the business and/or value creation process and 84% (2021: 78%) of companies have identified some relevant capitals, however, only 22% (2021: 25%) are including an informative discussion of all relevant 'six capitals' as inputs to its business model/value creation process.

Insightful disclosures were those that included information about the nature of the business, supported by a complete entity level view of the business model as part of the value creation process (e.g. a Value Creation Model diagram based off Figure 2 of the Integrated Reporting Framework).

A Value Creation Model diagram is a helpful tool to explain the value creation process and to align the Board, executive, staff, and key stakeholders on how the company creates value.

ASX50

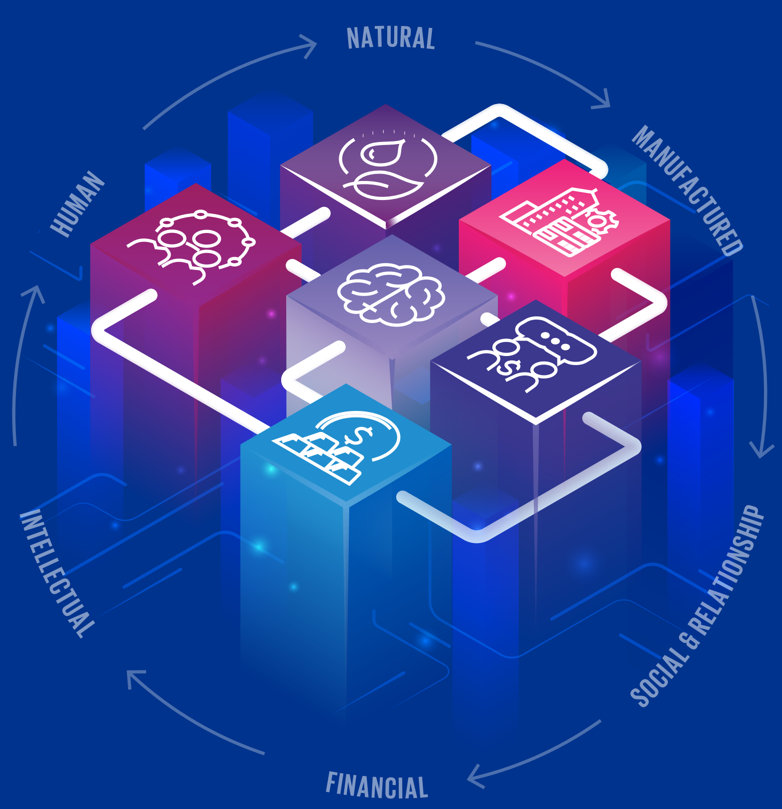
33%

of companies included a Value Creation Model diagram in the report (2021: 17%)

ASX200

15%

of companies included a Value Creation Model diagram in the report (2021: 13%)



Integrated reporting aims to provide insight on how resources and relationships (the capitals) have been used and affected by an company in its creation of enterprise value.

The Integrated Reporting Framework identifies six capitals (financial, manufactured, natural, social & relationships, human and intellectual) 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. The six capitals cover all material ESG information as well as intangibles.

5. Reduced focus on company-wide strategy, but increased focus on carbon reduction strategies

This year 73% (2021 86%) of companies discussed their strategy and listed strategic objectives. We believe this decline is partially due to companies tactically dealing with short-term issues as a result of the global market challenges discussed earlier, rather than reporting. In addition last year's outcome was higher as companies articulated their short to medium term strategies as they came out of COVID-19. Despite many reporting on strategy, it was still not clear how each strategic objectives was going to be achieved, the resources that would be needed and how progress against the objectives would be measured. 93% of the ASX50 reported on their strategies (2021: 91%), and the quality tended to be better.

One area of increased focus related to climate, and the associated strategies being put in place. 40% (2021: 31%) of companies have included emissions reduction or net zero targets, with 12% (2021: 7%) also reporting on emission reduction plans and strategies in place for Scope 1,2 and 3 emissions.

The insightful reports discussed how the company planned to achieve its strategic objectives, provided insightful discussion on resource allocation plans with reference to the capitals, and included KPIs (and targets) for strategic objectives (e.g. current greenhouse gas emissions compared to prior year and the target).

ASX50

93%

of companies discuss the company's strategy and listed strategic objectives (2021: 86%).

ASX200

73%

of companies discuss the company's strategy and listed strategic objectives (2021: 86%).

6. Risk reporting holds steady, but work continues to be required to explain business opportunities

The quality of risk and opportunity reporting has remained relatively consistent year-on-year, with 54% (2021: 56%) of companies including an informative or insightful discussion on the management of material business risks, including how each risk will be mitigated. However, there is still almost 50% of companies whose risk reporting is poor and outmoded, these disclosures typically only contain a list of generic risks and do not provide real insight into how each risk could impact enterprise value and how it is being mitigated.

> "As an investor, what you're trying to determine is what are the value drivers for the company and how are they managing the risks to those – that can be risks from the external environment and they can be risks from within the business (particularly governance components and matters such as human capital)."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

Across most of the reports reviewed there continues to be very little discussion on opportunities or how they are being pursued. This is a real gap in the completeness of the enterprise value story. Each opportunity should also 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.

It is important to note that investors often review ESG data and disclosures to identify blind spots as they relate to business opportunities (and risks), so therefore it is critical for management and the Board to consider and report on them, and the related business impact and how it is being addressed.

7. Increase in broader performance reporting, focusing on ESG performance and the outcomes across the capitals.

Performance discussions in an integrated report, should let the reader know to what extent the company has achieved its strategic objectives and what the outcomes were in terms of effects on the capitals. This performance information is much broader than just financial performance typically found in traditional annual report's operating and financial review (OFR) analysis.

Having a clear discussion of the company's strategy and its plans to manage and monitor each capital (through KPIs with associated targets) earlier in the report helps set up the performance section. There is a logical flow from strategic initiative and resources allocation required to the performance achieved from a strategic perspective and the resultant outcomes for impacted capitals.

Many of the leading reporters have restructured the performance sections in the report to follow their application of the capitals and have incorporated traditional financial OFR analysis into the section on 'financial capital' in their integrated report.

Natural (environmental) capital

The most common framework companies are using to report on their impact on the environment, and consideration of how climate related risks could impact their business, is by adopting the TCFD recommendations. 68% (2021: 63%) of companies have included a summary of their current carbon footprint and 38% (2021: 35%) of companies are reporting in their primary report to shareholders on the impact of climate change on the business now and into the future, with progress towards (or full) adoption of the TCFD recommendations.

However natural (environmental) capital is broader than just climate, other material environmental matters may include, the availability of specific natural resources, impact on fauna and flora, water, and waste. Only 33% (2021:24%) of companies are disclosing performance in other material environmental matters, and where they do the disclosure is mainly comprised of a short narrative with no real discussion on the impact and activities to address the issues and/or mitigate potential risks.

> "A lot of people when they think about E focus on climate and decarbonisation, but it is broader than that, there is now more and more work being done and consideration being given to biodiversity and the Taskforce on Nature-related Financial Disclosures (TNFD). We think about E also in terms of circular economy, erosion prevention, waste management."
>
> LOU CAPPARELLI, HEAD OF ESG, UNISUPER

Social and relationship capital

This year 75% (2021: 69%) of companies included a description of key stakeholder groups and 27% (2021: 22%) of companies included an informative summary of social matters (e.g., human rights, indigenous affairs, ethical supply chain, and modern slavery) impacting business value today or likely to in future, but most stopped short of communicating the impact of social and relationship issues on the business.

Insightful reports not only describe how key stakeholder relationships are managed, but they also include KPIs to demonstrate the strength of the relationship discussed, the impact of the social and relationship issues on the business and the activities they had in place to address them.

> "I remember asking a Veteran resources analyst once, "Would it be possible to be a really successful mining company but have a very dreadful safety record?" and he said not for very long. So, that S component goes to your ability to retain staff."
>
> MARTIN LAWRENCE, CO-FOUNDER AND DIRECTOR, OWNERSHIP MATTERS

> "We compete for talent with the Financial Services sector, we are a small business. One of the ways we try and compete is that it is a place where you can bring your 'whole self' to work. So, we would see that social and cultural piece as absolutely critical to our value as a business as it allows us to keep people that would probably get paid more elsewhere."
>
> MARTIN LAWRENCE, CO-FOUNDER AND DIRECTOR, OWNERSHIP MATTERS

Human capital

This year 29% (2021:28%) of companies have included an informative or insightful summary of the most common human capital areas of focus as they try and retain and attract talent in a tight market, these include: pay equity, diversity, equality & inclusion, employee engagement, and health & safety (including wellness). These disclosures generally comprised of short narrative and included some discussion of key current performance measures (e.g., employee engagement score, employee turnover rates (retention of talent and leadership), and net promoter score).

The more insightful disclosures also included a discussion on the impact of human capital related issues, and how their people add value to the enterprise and the specific activities underway to address the issues and mitigate any potential risks.

"Human Capital is an area that I'd nominate as being particularly underdeveloped in terms of data. Metrics like high-performer retention are still rarely communicated, and there are many contextual factors that make it difficult to form a view on the appropriateness of the numbers reported. More generally, oversight of Human Capital matters is not readily communicated to the market, so it is difficult to determine how the Board and senior executives are exercising oversight."

ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

Intellectual (intangible) capital

Reporting on intangibles is critical to explaining enterprise value but remains a relatively immature and challenging area for most companies. Only 15% (2021: 7%) of companies have included a summary of the intangibles materially impacting business value, and there was no real discussion on impact and activities to address the issues and mitigate potential risks associated with these intangibles.

An insightful disclosure should focus on the importance of material intangibles (e.g., innovative processes, IP, patents, licences, quality of Board governance and strategic management, and self-generated assets (platforms, software, SAAS services), systems and processes) and be connected to other parts of the report, for example, future prospects/outlook or to the risk disclosure that contains general information on activities to mitigate risks associated with all drivers of sustainable enterprise value.

We expect that the frequency and quality of reporting on intangibles will improve with the release of IFRS - S1 as the definition of sustainability-related financial information specifically includes the entity's development of knowledge-based assets.

> "Sustainability-related financial disclosures [include] disclosures in relation to intellectual capital, strategic aspects of human capital, and performance of the Board in terms of governance and the executive in terms of strategic management, and the whole area of innovation, intellectual property, technology, customer relationship management and so on. It extends to how an company ensures the integrity of its corporate reporting... Broader sustainability is a critical component of enterprise value and the best way to report on sustainability is through an integrated report."
>
> MICHAEL BRAY, IFRS FOUNDATION AND DEAKIN UNIVERSITY

8. Outlook reporting going beyond the financials

The Integrated Reporting 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 company is responding to changes in its external environment.

There was an improvement in the number of outlook disclosures this year. 22% (2021: 6%) of companies have included future oriented information that goes beyond the financials. However, this information is mostly qualitative and vague. (e.g., 'we are planning to develop or upgrade existing products over the next few years', or 'we will improve employee satisfaction').

ASX50

30%

of companies have included future oriented information across all relevant content elements (2021: 7%)

ASX200

22%

of companies have included future oriented information across all relevant content elements (2021: 6%)

9. More companies are now including a basis of preparation and presentation

There should be a summary in the report (sometimes referred to as 'About this Report') which explains who the primary audience of the report is, how the company has determined what matters to include and how these matters have been quantified or evaluated.

This year 17% (2021: 5%) of companies have included this type of information towards the front of the report. Insightful reports included a concise articulation of the basis of preparation which discussed the significant frameworks used and materiality determination process. There was often a designated section on stakeholder engagement and materiality which explains how the company engages with stakeholders and determines/ ranks material matters for disclosure.

> "At Xero we completed a materiality assessment and that helped us elevate what are the most critical ESG matters at Xero which should come through in our reporting."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

We note that some companies continue to 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 and presentation in the primary report to shareholders.

Additionally, 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, including where relevant TCFD disclosures (see earlier). These primary reports should stand by themselves. Links to other reports can provide more detail, but all matters, material to enterprise value, should be discussed in the primary report to shareholders.

Companies generally were not very good at explaining up front in the report the mechanisms in place to give creditability to the report content. The level of assurance received, and what data points were subject to assurance was often hidden in the assurance report. We recommend that this information be included in the basis of preparation and presentation, or 'About this Report' section.

ASX50

35%

of companies have included basis of preparation information towards the start of the report (2021:11%)

ASX200

17%

of companies have included basis of preparation information towards the start of the report (2021: 5%)

10. Limited assurance over ESG and Integrated Reporting data

The primary report to shareholders prepared using the principles of integrated reporting will include a broad suite of non-financial information for investors to consider and so it must be investment-grade (e.g. accurate enough to be used in investor modelling and pricing). However, the underlying policies, processes and systems are not usually as mature as those used for financial and 'traditional' sustainability reporting.

We are starting to see companies work with their external and internal auditors to determine what, if any, additional assurance is needed over this broader suite of reported information. This is also important as it relates to the Board explaining its process for verifying its periodic corporate reports (as required by Recommendation 4.3 of the 4th edition of the ASX Corporates Governance Principles and Recommendations).

This year 17% (2021: 18%) of companies have obtained limited assurance over some ESG and/or sustainability disclosures. The remaining companies either did not address how the entity ensures non-financial information in the report is credible, or only provided a generic statement largely relying on management sign-off.

Only one listed Australian company currently obtains limited assurance over inclusion of the content elements of the Integrated Reporting Framework. This assurance is focused on whether the content elements have been included in the annual integrated report and did not extend to assessing the accuracy or validity of any statements made throughout the report.

Where reliance is being placed on management sign-off we suggest that stakeholder confidence would be enhanced by providing more detail in the basis of preparation or directors' report 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, and is linked to the point above regarding an 'About this Report' section to discuss such matters up front in the report

> "If you don't do it [have ESG data independently assured], then no-one will take the report seriously so there is absolutely a benefit. It gives you comfort that someone else has verified the reported non-financial data… a quality audit firm and partner have put their names to this data/ report so they must be satisfied to a point, otherwise they wouldn't have."
>
> MARTIN LAWRENCE, CO-FOUNDER AND DIRECTOR, OWNERSHIP MATTERS

> "I believe that the financial statement audit auditor is ideally placed to lead on integrated reporting assurance engagements because The Business is at the heart of what is contained in the financial report."
>
> MICHAEL BRAY, IFRS FOUNDATION AND DEAKIN UNIVERSITY

As a next step we recommend that companies ensure they have effectively designed and tested, data collection processes and controls in place to ensure ESG and integrated reporting data is robust and 'assurance-ready'. External and/ or internal auditors can support by undertaking procedures to help companies ensure both financial and non-financial data is accurate, balanced, and credible or 'investment grade' for publication.

ASX50

40%

of companies have obtained limited assurance over some ESG and/or sustainability disclosures (2021: 28%)

ASX200

17%

of companies have obtained limited assurance over some ESG and/or sustainability disclosures (2021: 18%)

Insights from leaders across the corporate reporting supply chain

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.

In 2021, we interviewed Board members and senior executives of companies 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.

This year we interviewed leaders from across the 'corporate reporting supply chain' on what ESG means for them, the importance of ESG information to their various decisions as well as its importance to managing and reporting on the company creation and preservation of sustainable enterprise value.

THE CORPORATE REPORTING SUPPLY CHAIN

Interviews have been undertaken with the following senior leaders from across the corporate reporting supply chain:

Reporting Supply Chain	Name	Entity	Perspective
CFO **Report preparer**	**Anastasia Clarke,** CFO	GPT	Provide preparers view on the presentation of quality ESG data through an integrated report to meet investor information needs, as well as the needs of other stakeholders.
NED **Report approver**	**David Thodey,** Chair and NED	Xero, Tyro and Ramsay Health	Provide governance view on engagement with stakeholders, and oversight and direction to management on what information is material to report on ESG, potentially through an integrated report to investors and other stakeholders.
Auditor	**Michael Bray,** Connectivity and Integrated Reporting, IFRS Foundation; Professor of Practice (Integrated Reporting), Deakin University	IFRS Foundation; Deakin University	Providing an auditor's view on integrated reporting and its assurance from perspective of being a retired KPMG Australia audit partner who advised on the integrated reporting assurance for CBUS (first such engagement in Australia) and CPA Australia. Now at the IFRS Foundation and Deakin University focused on Intangibles and Assurance.
Regulator	**Sean Hughes,** Commissioner	ASIC	Provide the regulator's perspective on developments and challenges with sustainability and integrated reporting to the capital markets.
Report user **Analyst**	**Alison Ewings,** Head of Engagement on Corporate reporting developments	Regnan	Provide the analyst's perspective on what they are looking for in corporate reporting and how ESG information (or lack of it) shapes/ changes their research and recommendations.
Report user **Investor**	**Lou Capparelli,** Head of ESG	Unisuper	Provide the investors/ asset owner view on what they are looking for in corporate reporting and how ESG information (or lack of it) shapes/changes their investment decisions.
Report user **Proxy advisor**	**Martin Lawrence,** Co-founder, and Director	Ownership Matters	Provide the proxy advisor perspective on what they are looking for in corporate reporting and how ESG information (or lack of it) shapes/changes their investor advice.

We recommend that companies consider the five overall themes that we determined from our interviews, as outlined in the Introduction, and the more detailed insights discussed below, which include links to the 'Better business reporting roadmap' (41–42), as they revise their corporate reporting strategy and implement their plans to enhance the value of their ESG and/or more integrated reporting for their primary users and broader reports' portfolio for other stakeholders.

Summary of benefits identified in the interviews

Companies that can present material ESG matters in an integrated manner, explaining how they deliver sustainable enterprise value through effective use of their key resources and relationships, are considered quality businesses by the investment community.

The interviews highlight some of the market and business benefits accrued by a company with quality ESG disclosures and/or a moving towards more integrated reporting, including:

- Access to and reduced cost of equity and debt
- Increased market credibility of the Board and management/ stakeholder trust
- Company-wide alignment
- Talent retention and attraction
- Decreased likelihood of legal or regulatory challenge or penalties.

They also highlight important tips to ensure a successful move to improved management and reporting on material ESG matters through a more integrated report. For example, the need for the change agenda to be led by the Board and executive; but for ongoing success it must be managed day to day at the line management level. This will require education as well as robust systems, processes, procedures, and templates to ensure consistent application of, and accurate reporting on outcomes achieved through responsible decision-making. After all, "what gets measured gets managed" (often attributed to Paul Drucker).

The transcripts for each interview, which occurred in August and September 2022, are available online.

Insights

THEME 1
A clear reporting strategy is required to drive effective reporting and facilitate change

From the recent public comment on the ISSB's first two EDs, there appears to be strong support for the work of the ISSB to develop global standards on key sustainability topics, as well as its planned work with the IASB to develop a new global reporting framework.

Companies taking steps to incorporate the requirements of the TCFD (including capture and reporting of Scope 1,2 and 3 GHG emissions data) and implement the SASB ESG metrics relevant to their business, can reasonably do so on a 'no-regrets' basis. Both TCFD and SASB form the basis of the ISSB's first draft topic-related ED on climate and provide their general framework for future standards, although there may be changes to the extent of the SASB requirements when the final standards are promulgated.

Likewise, the Chairs of the IASB and ISSB confirmed the importance of the Integrated Reporting Framework to the quality of information provided to investors through better connectivity between the financial and sustainability-related information, and they actively encourage the continued adoption of theintegrated Reporting Framework and the continued use of the integrated thinking principles. They expect that principles and concepts to be used from the Integrated Reporting Framework in the IASB's and ISSB's standard setting work. (See global developments on pages 34–40).

Companies should be updating their reporting strategy, so that they have clear reporting objectives, a defined reports' portfolio, and a structured process to handle reporting changes without reducing the integrity and impact of their key reports for priority stakeholders. This should cover not only the primary report, but also other supplementary information required by other stakeholders. For example, they may want to supplement the primary annual 'integrated' report with an impact or sustainability report (or relevant website disclosures) based on the GRI or SDGs.

1. A corporate reporting strategy helps companies tailor their reports' portfolio to meet their key stakeholders' information needs and deal with future change effectively

Users of the corporate reports' portfolio would prefer to receive one primary annual report explaining the Board's overview of what they consider to be material to performance and future prospects, with cross-references to supplementary information on specific topics and detailed data spreadsheets. They want a well-structured and understandable reporting framework, without **'disconnected narratives' (as per Alison Ewings, Head of Engagement on Corporate reporting developments, Regnan).**

> "For stakeholders, I think what we have done differently is our transparency, which is good governance because stakeholders need and want it. We provide information differently now; we are sharing spreadsheets and more consumable data than just a website with printed material. I think we have done assurance a lot more than what we did before to provide trust in what we are reporting."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

However, for investors a succinct report focused on what the Board believes is material, supported by supplementary information and spreadsheets is preferred to multiple reports. In fact the 'investor discussion pack' (IDP) can be the most important report as it presents the material strategic outcomes for the reporting period, financial and other, in an environment where the investors can immediately question the Board and management.

> "I would prefer… a broad outline of what the company believes is material and then more detailed statistical reporting over time… It is putting ESG/Sustainability reporting in the same discipline as financial reporting through a well-structured reporting framework."
>
> MARTIN LAWRENCE, CO-FOUNDER AND DIRECTOR, OWNERSHIP MATTERS

> "If your objective is to have those efforts recognised by the market, then actually having an integrated discussion in your investor discussion packs is the single most useful thing – because it puts the information firmly in the context of the strategy, highlights the most relevant metrics, and communicates that in an effective forum for the audience…But we also need to dive off into technical details for those subjects that require it, including potentially separate updates or deep dives in the briefing update style that we are increasingly seeing."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

2. New sustainability standards and reporting framework will drive consistency and comparability, especially if mandatory, but companies will need time to transition

Interviewees supported the work of the ISSB and the move towards more integrated reporting to assist companies explain their business, that is how ESG and other off balance sheet intangibles (sustainability matters) work together with the financials to create sustainable enterprise value. They work together, and so must be considered together in making both business and investment decisions.

> "I like the concept of integrated reporting. I really like the fact it is multi-faceted; it's thinking about the organisation as why you exist, what do you produce, and what is the impact and outcome of what you do. This is then reported in a thorough story."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP\

> "A key claim in the integrated report is that The Business operates in the way it is described in the report."
>
> MICHAEL BRAY, IFRS FOUNDATION AND DEAKIN UNIVERSITY

The ISSB is focused on enterprise value and the performance of the business today and prospects for the future.

> "The ISSB focus on enterprise value is important in ensuring investors and markets are properly informed and well educated. Social impacts of climate and other sustainability-related matters (e.g., human capital, modern slavery, and biodiversity) will also be relevant under an enterprise value model. For example, governments may introduce incentives or penalties to influence corporate behaviour, and these may affect enterprise value."
>
> SEAN HUGHES, COMMISSIONER, ASIC

We are not yet sure whether the ISSB standards will be mandatory in Australia, and for whom, but the Government is hinting that they will be implemented and likely mandatory for at least some companies. The International Organization of Securities Commissions (IOSCO) is willing to support driving adoption in member states, as they drove IFRS Standards 20 years ago (and which became mandatory in Australia). ASIC is concerned that companies are given enough time in transition arrangements to implement the relevant standards effectively.

> "The mandating of any new requirements for corporate reporting of climate-related information is a matter for Government policy. At an Investor Group on Climate Change Summit on 24 June 2022, the Minister for Climate Change and Energy, the Hon. Chris Bowen… indicated that reporting would need to be mandatory for 'large, listed companies and financial institutions'. He indicated that the Government would 'look at international best practice' in this regard."
>
> SEAN HUGHES, COMMISSIONER, ASIC

> "Endorsement of the International Financial Reporting Standards by IOSCO in 2000 was seen as key to the widespread international adoption of those standards so one may assume the same will apply to the ISSB standards."
>
> SEAN HUGHES, COMMISSIONER, ASIC

> "While many in the reporting chain have commenced work in this area [ESG/ sustainability reporting systems and processes], companies, assurance providers, investors and financiers will need time to upskill and prepare for any new reporting requirements."
>
> SEAN HUGHES, COMMISSIONER, ASIC

Roadmap to better business reporting

In order to establish a sustainable reporting framework that has clear objectives, applies specific frameworks, meets the needs of key stakeholders, produces a defined reports' portfolio, and is supported by robust systems and processes, companies should draft/ update their corporate reporting strategy.

This is important as it will support how the company handles change (i.e. new ISSB standards) through its portfolio, without sacrificing the integrity of the various reports. In other words, non-material changes will be considered, but not impact the primary integrated report.

This aligns to steps 4 and 5 in the roadmap to better business reporting on pages 41–42. (Initial work on the corporate reporting strategy will start in steps 1 and 2 as the Board and management confirm their reporting objectives and opportunities to improve the current reports' portfolio.)

THEME 2
Users of corporate reporting are expecting to see evidence of action, not just planning, particularly on ESG matters which are material to enterprise value

ESG or sustainability performance is essential, but not in itself sufficient to achieve sustainable financial returns and increased enterprise value.

Reporting must evolve beyond static, unconnected, point-in-time metrics for financial and separate ESG/ sustainability performance. Primary users expect information that is integrated and insightful, such that it informs how all material matters are being managed and actioned to create or protect value, including the detail which supports the credibility of these assertions.

> "In general terms, the biggest benefit is really to the organisation itself… the core benefit of this is a better decision-making process and a path to value, and where these benefits are clearly stated to the market, you would hope that they are recognised."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> "ESG has become an anacronym or buzzword for investing in quality… [ESG quality] is all around sustainability, investors are focused on sustainability of earnings, but sustainable business practices will lead to sustainable earnings"
>
> LOU CAPPARELLI, HEAD OF ESG, UNISUPER

For sophisticated users, this information is expected to provide sufficient detail to allow them to not only understand and assess the business, but also identify potential blind spots.

1. ESG or integrated reporting deliver business benefits

Interviewees agree that there are business benefits from providing increased ESG or more integrated reporting. The internal company benefits are more measurable, for example companies that live their values and deliver on their environmental and social commitments attract and retain staff in a tight labour market.

> "Especially when you have got such a challenging resourcing market, where talented people have got discretion about who they work with. Also, the younger generations coming through want to work for a company that they share values with. So, employees are critically important stakeholders."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

Done well, these business benefits lead to improved business outcomes and market benefits.

> "Debt investors really want green; as well as certainty of cashflows… we were able to tighten pricing on the 10-year bond because of the GWOF Fund's green credentials. It's hard to tell whether we saved 8 basis points, we can't pinpoint it, but we had more demand for that bond due to the green nature."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

> "At one of the Boards I am on, for one element of ESG around Climate, we got a 20-basis point reduction in a debt deal because of our decarbonisation strategy; there was a green element to the debt."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

2. ESG reporting can indicate a quality company, as well as identify blind spots and is critical to enterprise value

Interviewees agree that ESG Reporting is an indicator of company quality, and for investors it helps to identify blind spots and better understand if, and how the Board and management are addressing them.

> "ESG has become a popular term, but I think it goes deeper into the fabric of what an organisation really is."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

> "A lot of ESG [Reporting] is related to trying to identify blinds spots. For us as an investor, these can be growth opportunities that the rest of the market isn't yet seeing… (or) blind spots that companies themselves are not attentive to, which can cause significant challenges to individual companies. ESG is really a lens for us to uncover these blind spots, and ideally see that they are being addressed."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

All interviewees believe ESG information is critical for management to deliver sustainable enterprise value.

> "Good ESG management is about doing business responsibly, and representing all your stakeholders, and that includes the environment and society."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

> "I think ESG enterprise value is absolutely critical. ESG provides an insight into company culture and provides indicators of other risks…a business that makes itself objectionable to its employees, communities, regulators is unlikely to please its shareholders for very long."
>
> MARTIN LAWRENCE, CO-FOUNDER AND DIRECTOR, OWNERSHIP MATTERS

ESG relates to the value implications of the company's impact and dependency on the environment and society and the way in which its leadership and staff do their business. It does not cover all intangible value drivers (i.e., intellectual capital) which are included in the definition of sustainability. The IFRS Foundation and ASIC are both focussed on broader sustainability.

> "ESG means different things to different people, I prefer to talk about sustainability as it is broader."
>
> MICHAEL BRAY, IFRS FOUNDATION AND DEAKIN UNIVERSITY

> "Paragraph 66 of ASIC Regulatory Guide 247 says '… Directors may also consider whether it would be worthwhile to disclose additional information that would be relevant under integrated reporting, sustainability reporting or the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), where that information is not already required for the OFR.'
>
> SEAN HUGHES, COMMISSIONER, ASIC

Roadmap to better business reporting

In order to provide users with an integrated view of the business's performance and future prospects, companies need to understand the current quality of their internal business practices, the actions being taken and their reporting. This can be completed by benchmarking current state practices and reporting against specific frameworks.

This aligns to step 2 in the roadmap to better business reporting on pages 41–42.

THEME 3
Reporting must reflect how the company is governed and managed, and how change is embedded

Reporting must be clear, concise, balanced, and accurate, delivered in a way that is a representation of how the company is managed, ideally demonstrating the way responsible business decisions and resource allocations are being made through integrated thinking.

1. Driven through Purpose, led by the Board and executive but implemented day to day by line management

Embedding ongoing consideration of ESG in every day decision making, or integrated thinking, within the company is hard but necessary. It starts with Purpose.

> "I think at the end of the day it is about what you stand for as a business and that relates very strongly to Purpose….Companies that haven't been built around a strong Purpose have probably had a more volatile history because whilst things don't always go as you planned, if you have a long term Purpose and you have a good set of indicators to illustrate how you are progressing, then the sustainability of your business and consistency of results is probably going to be stronger."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

ESG needs to be owned at the front line (i.e. business unit/ functional managers and their staff), supported by the Board and executive and the focus must be on action, more than just reporting of the outcomes.

> "There is a degree of sophistication in a company's sustainability activities that is required before you can do integrated reporting well, so integrated reporting can be a good vehicle to drive that thinking and consideration. But it is important that the activities themselves are the company's focus, not the reporting. The reporting is an outcome, and although it can be a driver it should not be the purpose or starting point."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> "The move to integrated reporting resulted in more interaction between the Board and management. It wasn't just the team writing the report, but also involved line management coming in from right across the business… I think that journey towards integrated reporting brings a reality and an edge to ESG that we have not had before."
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

2. Incentive arrangements can support change, but care is needed to drive outcomes across the whole company, rather than just one small area

There was agreement that incentives should be used to drive the right behaviours and outcomes, but not slavishly linked to specific metrics. For example, if there are Scope 1 and 2 direct emissions target metrics included as an incentive measure, management could achieve it just by outsourcing emission intensive activities (i.e. moving the emissions to a different part of the value chain) and not actually reducing emissions overall. (Although this will not work if and when the ISSB require Scope 3 reporting as confirmed at their October 2022 meeting. See global developments.)

> "Assessing the plan shouldn't just be a checklist of the metrics but should instead consider whether the whole plan is leading to a desired outcome or better management of the underlying risks."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> "It should be [i.e., ESG should be included in incentives] and increasingly companies are including ESG as a component of STI and LTI measures into their performance plans."
>
> LOU CAPPARELLI, HEAD OF ESG, UNISUPER

3. ESG actions must be prioritised, funded, and given time to be effectively embedded in the decision-making and reporting processes

It is important for companies to allocate funding to undertake concrete actions that deliver improved ESG outcomes, and stakeholders give them adequate time to make required changes to underlying systems and processes. It is not reporting that demonstrates companies are serious about change, but outcomes which will result in business and stakeholder benefits.

> "Through a submission to the ISSB from the Council of Financial Regulators which includes ASIC, we suggested consideration be given to the need for transitional and phasing arrangements [on adoption of any new standards] that balance demands for information from investors and other users with giving adequate time for reporting entities to prepare for new disclosure requirements (including upskilling, developing appropriate systems and processes, and having access to necessary data)."
>
> SEAN HUGHES, COMMISSIONER, ASIC

Roadmap to better business reporting

In order to drive a program of work to enhance how business decisions are made in line with Purpose and values throughout the company and then report more transparently through to primary stakeholders, it is critical that leadership are on board with the change, agree the business case and establish and fund the project.

This aligns to steps 1 and 3 in the roadmap to better business reporting on pages 41–42.

THEME 4
Focus on what is material for shareholders when assessing enterprise value

Critical to the quality and relevance of reporting, especially reporting on business performance and prospects in the primary report to shareholders, is the determination of what is material to their investment decisions now and in the future. Companies are advised to start with what matters most to their primary stakeholders and get that right first.

1. Look at your business through the eyes of your key stakeholders

Preparers are clearly focused on best interests of the company, not just shareholders, and understand the importance to ongoing value creation of their workforce, customers, suppliers and others. It is important to determine your key stakeholders, which can include the tax office for an accounting platform like Xero, and the actual buildings and brand history for a property company like GPT.

> "[Stakeholders are] anyone who we have an impact on, where we change their life in any shape or form, whether that be their financial returns, shopping experience, whether they could have an accident in one of our assets for example, or whether they can prosper their businesses in our places of work."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

2. ESG or integrated reporting provides insights into Board thinking and sincerity, and helps build trust

Investors and other users believe adoption of integrated reporting provides two clear advantages to traditional reporting, providing a better understanding of what the Board thinks is most material to value creation and the sincerity in which they take action and report.

> "Yes, we have enhanced our ESG disclosures and are moving to adopt integrated reporting at Xero. The investment has been worth it, and we have had positive results from our people and partners about our reporting. They appreciate we are holding ourselves accountable and that is the type of company we are. We have had really good feedback from stakeholders in terms of the FY22 annual report"
>
> DAVID THODEY, CHAIR AND NED, XERO, TYRO AND NED RAMSAY HEALTH

> "Considering a framework such as the Integrated Reporting Framework, it can be very telling to look at what the Board themselves have nominated as the most relevant drivers of business value, as well as to assess the integrity and sincerity of the information that is being provided"
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> "Substantial sized corporates in the Australian ASX 50 should go above and beyond to deliver a positive effect even beyond neutral… Getting governance right to ensure we are acting in the best interest of stakeholders in every decision we make and being conscious of the impact on different parties, I think elevates governance."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

Roadmap to better business reporting

Building off the stakeholder engagement process, it is important to determine what is material for reporting in the primary (or integrated) report and what supplementary information is required through other reports and media. This will be addressed in the corporate reporting strategy.

Materiality for the integrated report builds on material sustainability matters to determine 'relevant matters' for providers of financial capital in an integrated report. As a first step it will be important to identify and engage with the company key stakeholders to understand their priority information needs.

This aligns to steps 5 and 7 in the roadmap to better business reporting on pages 41–42.

THEME 5
The critical importance of report credibility and assurance.

Quality ESG practices, likely supported by a more integrated report with ESG, or broader sustainability central to strategy, resource allocation, performance and future prospects, resonates with capital markets as to the quality of the company and its Board and leadership team.

> "Good ESG practice is a necessary condition for a good investment, but I don't think it is a sufficient condition. There are a lot of companies that have good ESG practices that are poor investments but there are no situations of bad ESG practice that leads to good investment performance over the longer term."
>
> LOU CAPPARELLI, HEAD OF ESG, UNISUPER

There are many comments and insights from our interviews on the current immaturity of the ESG methodologies as well as the quality of a company's ESG systems, processes, and underlying data for both internal management and external reporting.

To improve management of these intangible resources and relationships internally, as well as enhance the credibility of what is reported externally, including limiting any greenwashing, report users require more rigorous 3rd party assurance.

1. ESG and other value critical information must be investment grade and independently assured

Interviewees all agreed that external assurance over material ESG or integrated reported information leads to more reliable information, but also that it showed the commitment and importance of reliable ESG data to the company's Board.

> "(Assurance) is important so that we can say what we say authentically and with confidence."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

> "I think we are going to see integrated reporting assurance as part of the mainstream of audit and assurance through the ISSB… In my experience 'getting assured' also means that companies need to get their processes, systems and controls straightened out internally."
>
> MICHAEL BRAY, IFRS FOUNDATION AND DEAKIN UNIVERSITY

2. In ESG or integrated reporting, Boards must be alert to and avoid any 'greenwashing'

As companies report more broadly on their climate and other ESG activities and plans, ASIC is particularly focussed on unsupported claims and targets without a reasonable basis – 'greenwashing'. The risk of making such disclosures will be reduced if the Board ensures that financial products are clearly labelled, use defined terminology, and clearly explain how sustainability considerations are factored into investment strategy (as outlined in ASIC Information Sheet 271 for funds). Greenwashing may also be mitigated through robust independent assurance. ASIC announced on 27 October 2022 that it had taken action for greenwashing against a listed energy company which paid $53,280 to comply with four infringement notices issued by ASIC (ASIC Media Release 22-294MR ASIC acts against greenwashing by energy company).

> "Greenwashing" is the practice of misrepresenting the extent to which any entity's financial products or activities are environmentally friendly, sustainable, or ethical. The potential to mislead can result from unclear disclosure on how an entity integrates sustainability-related considerations into investment decisions; or overstating green credentials. There is growing global unease about the risks of greenwashing of financial products – partly driven by a lack of clarity about labelling and a single generally accepted taxonomy for sustainable finance."
>
> SEAN HUGHES, COMMISSIONER, ASIC

The ISSB's decision to require Scope 3 GHG emissions reporting (see global developments (pages 34–40) at the October 2022 meeting is complex and will require time and effort in both calculating and then designing and implementing a credible reduction plan. This has already been an area of 'greenwashing' claims, and one which directors should progress carefully.

3. ESG or integrated reporting must be embedded in systems to support responsible decision making

Companies need to embed integrated reporting into core systems, processes, and templates to not only improve timeliness and quality of reporting, but also support responsible decision making or 'integrated thinking' throughout the company.

> "In addition to the need for data quality would be data timeliness, as this speaks again to the credibility and sincerity of management's commitment to addressing ESG risks. Although there may be legitimate reasons why certain data may be delayed, if management is truly using this information to manage the business, then they should be obtaining this data in a timely fashion and communicating it to the market."
>
> ALISON EWINGS, HEAD OF ENGAGEMENT ON CORPORATE REPORTING DEVELOPMENTS, REGNAN

> "[We embed integrated thinking] through systems – we capture a lot of ESG information... We are much enabled to be thorough and extensive beyond financial through our core systems whether it be SAP, Anaplan or Health and Safety etc."
>
> ANASTASIA CLARKE, CFO, THE GPT GROUP

Roadmap to better business reporting

Given the immaturity of many ESG/ sustainability internal systems and processes, it is important to build into the plan not only activities to enhance definitions and internal controls over these material value creation drivers, but also engage independent assurance over the current disclosures to provide more market credibility that the reported data is investment grade.

This aligns to steps 8 and 9 of the roadmap to better business reporting on pages 41–42.

Recent global sustainability and corporate reporting developments and impact for Australian companies

Significant progress has been made this year to start to standardise ESG and sustainability practices and to develop a framework for a new internationally recognised corporate reporting system which extends beyond financial reporting to provide a more integrated view of how the company creates and maintains enterprise value.

In the last year, the establishment of the ISSB and release of its first two EDs together with other announcements are providing some clarity and prioritising next steps. 'No regrets' investments now for companies include: requirement to measure and report in Scope 3 GHG emissions; and application of the TCFD recommendations and the SASB standards (especially business-relevant sector specific ESG metrics) as they feature in the ISSB's climate-related financial disclosure (draft IFRS -S2) and the general requirements (draft IFRS-S1). However, it should be noted that the extent of the SASB requirements is still being determined by the ISSB as it finalises the first two standards (expected release date is as soon as possible in 2023).

There are a number of 'cross cutting' projects planned between the ISSB and the IASB. The Chairs of the IASB and ISSB have said that, subject to due process, they will seek opportunities to align and incorporate the concepts in the Integrated Reporting Framework with similar concepts in the IASB and SASB conceptual frameworks into a cohesive whole.

Statement by **Andreas Barckow,** Chair of the IASB, and **Emmanuel Faber**, Chair of the ISSB in May 2022:

> "We are convinced that the Integrated Reporting Framework drives high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures which improves the quality of information provided to investors. Therefore, we strongly encourage continued use of the Integrated Reporting Framework and the Integrated Thinking Principles underpinning it."

Some jurisdictions are moving ahead of the ISSB to drive action and related disclosures on specific topics sooner. The TCFD recommendations are already required in law for large UK companies, and for financial years beginning on or after 1 January 2023 it will required in New Zealand.

In the US, the US Securities and Exchange Commission (SEC) leveraged the TCFD recommendations in developing its Proposed Rule for Climate-related disclosures, intended to provide more consistent, comparable and reliable information. Other countries are strongly encouraging listed organisations to adopt the TCFD framework, in advance of the ISSB standard being released and tailored for each relevant jurisdiction.

The EU has moved further ahead in its development of sustainability, including climate-based reporting. EU's Corporate Sustainability Reporting Directive (CSRD) comes into effect for FY2024. The CSRD considers the TCFD, but significantly expands the scope and content of the EU's existing non-financial reporting regime. The CSRD also requires mandatory audit or assurance to ensure the reliability of data and avoid greenwashing.

We set out below some of these recent developments, as well as others we expect to arise, and the potential impact for Australian businesses.

Recent developments

Date	Development	Implication for Australia companies
Global November 2021	**IFRS Foundation announces International Sustainability Standards Board, releases two prototype disclosure requirements and announces consolidation with CDSB and VRF at COP26** The IFRS Foundation announced the establishment of the ISSB (to develop – in the public interest – a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. At the same time also publishing prototype climate and general disclosure requirements. The CDSB and the VRF commit to being consolidated into the ISSB with a target completion date of June 2022.	Note only
Australia November 2021	**The Financial Reporting Council (FRC), the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB)** published a Position Statement on Extended External Reporting and Assurance. The Extended External Reporting regime will sit within the current institutional framework in place for financial reporting. The AASB will be tasked with developing reporting requirements for non-financial information (including climate-related risks) and the AUASB will support this with updates to relevant assurance standards and guidance. The FRC will continue to provide strategic oversight of the Boards. This model has been designed to take advantage of the significant experience, expertise, and credibility that the AASB and the AUASB have in standard setting.	Note only
Australia December 2021	**ASIC welcomed the announcement of the ISSB**, together with the prospect of global standard setting relating to climate and sustainability disclosures. ASIC reiterated its support for, and encourages listed Australian entities to use, the TCFD as the primary framework for voluntary climate-related disclosures.	Note only
Global February 2022	**CDSB consolidates into IFRS Foundation**	Note only
Global March 2022	**The IFRS Foundation and GRI agree collaboration agreement** The IFRS Foundation and GRI announced a collaboration agreement under which their respective standard-setting Boards, the ISSB Board and the Global Sustainability Standards Board, will seek to coordinate their work programmes and standard-setting activities.	See more details below based on May announcement

Date	Development	Implication for Australia companies
Global March 2022	**Exposure drafts released** The ISSB released exposure drafts of its first two proposed standards: • General Requirements for Disclosure of Sustainability-related Financial Information (draft IFRS-S1) • Climate-related Disclosures (draft IFRS-S2) These exposure drafts follow the structure of the TCFD framework and incorporate metrics from SASB within the climate-related disclosures ED.	Note that these exposure drafts give confidence to Australian companies to invest in use of the TCFD and business relevant SASB metrics in their future corporate reporting, (although further work is expected on how the SASB metrics will be used.)
US March 2022	**The SEC proposed rules to enhance and standardise climate-related disclosures for investors.** The proposed rule would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.	The SEC proposal includes a number of disclosures that align with TCFD requirements, but they are not the same. Foreign private issuers should monitor the SEC's progress as it moves toward final rule-making.
Australia March 2022	**AASB Position Statement on the Extended External Reporting Framework** The AASB formally endorsed its support of the voluntary adoption of the recommendations made by the TCFD. The statement is a means of providing direction for stakeholders prior to the AASB developing and adopting a framework for extended external reporting.	Note only
Australia April 2022	**The AASB issued ED 321 Request for Comment on the [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures with comment letters due by 15 July 2022.** Submissions on ED 321 assisted in informing the AASB's response to the ISSB on draft IFRS-S1 and draft IFRS-S2. Importantly they also provide input to the appropriateness of and support for the AASB's proposed approach to sustainability-related financial reporting in Australia.	Note only
Global May 2022	**The IASB and the ISSB to use the Integrated Reporting Framework when setting standards** The Integrated Reporting Framework will be used by the IASB (IFRS Standards), and the ISSB Board (IFRS Sustainability Standards), subject to due process, in their respective standard-setting work. The IASB and ISSB also commit to a long-term role for a corporate reporting framework, incorporating principles and concepts from the current Integrated Reporting Framework with similar concepts in the IASB and SASB conceptual frameworks into a cohesive whole. A corporate reporting framework would provide guidance to companies on how to prepare an integrated report and/or otherwise support connectivity between the reporting required by the IASB and the ISSB.	KPMG believe the statement by Chairs of the IASB and ISSB confirm their support of the Integrated Reporting Framework to help companies provide the connected information investors need to understand relevant financial and sustainability-related performance and prospects.

Date	Development	Implication for Australia companies
Global June 2022	**ISSB Board and GRI provide update on ongoing collaboration** "The ISSB is committed to creating a global baseline of reporting standards that meet the needs of investors. Our collaboration with GRI will bring clarity to the market on how our two sets of standards can interact to provide a comprehensive and seamless suite of reporting standards that meet the needs of broader stakeholders, while streamlining the process for companies." - **Emmanuel Faber,** Chair of the ISSB "The collaboration between GRI and the ISSB is significant because it reflects that both organisations value the importance of working together to align our sustainability-related standards. I believe this will not only give companies greater clarity on reporting expectations, it can ultimately improve the quality and relevance of reporting data." - **Eelco van der Enden,** CEO of GRI	It is important for Australian companies to understand that the ISSB is focused on material sustainability-related financial disclosures reported to the capital markets. Whereas the GRI standards relate to a company's broader impact and dependency on society, the environment, and the economy. It has a broader remit and includes matters that are not material now or likely in the future to enterprise value.
Australia June 2022	**The AASB issued insights into developing sustainability-related financial reporting standards in Australia.** This project insights publication provided a snapshot of the proposed Australian approach to developing sustainability-related financial reporting standards. Key points include: Sustainability Reporting: • Sustainability-related financial reporting falls within the AASB's mandate. • AASB will be responsible for developing a reporting framework and requirements for sustainability-related matters in Australia. • The AASB seeks to: – develop a separate, or independent, suite of standards that specifically address sustainability-related financial disclosures made as a part of general-purpose financial reporting; and – prioritise international alignment by using the work of the IFRS Foundation's ISSB as a baseline, with modifications for Australian matters and requirements when necessary to meet the needs of Australian stakeholders. • The AASB is leaving the decision to mandate (regulate) sustainability-related financial reporting with the relevant Australian legislators. Assurance on Sustainability Reporting: • The AUASB will update relevant assurance standards at the same time as AASB is developing its sustainability-related standards.	The AASB is currently deliberating on how the ISSB standards will be tailored and promulgated in Australia. The Government to determine if the standards will be mandatory or not, and for which type of organisation.
Global August 2022	**VRF and IFRS Foundation consolidation complete**	Note only

Date	Development	Implication for Australia companies
Global September 2022	**ISSB released workplan to 'redeliberate' on EDs in response to public comments.** The ISSB met to discuss comments received on draft IFRS-S1 and draft IFRS-S2, and tentatively decided on the following topics for redeliberation: • Scalability • Current and anticipated effects of sustainability-related and climate-related risks and opportunities on an entity's financial performance, financial position, and cash flows • Certain topics identified in feedback on draft IFRS-S1 an draft IFRS-S2, including the concept of enterprise value.	Deliberations on these two EDs will likely push their finalisation to 'as soon as possible in 2023'.
Global October 2022	**1. ISSB at its October meeting made a number of key decisions** To require company disclosures of Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, applying the current version of the GHG Protocol Corporate Standard. (The ISSB also agreed to develop support and guidance for disclosing Scope 3 emissions. That could include transition reliefs and will be discussed at future meetings.) **2. Clarifying key concepts in the proposed General Requirements Standard (draft IFRS-S1)** Confirmed that its requirements will focus on meeting the information needs of investors.Plans to fully align its description of materiality with IFRS Accounting Standards by removing the term 'to assess enterprise value'. It also plans to remove 'significant' from the description of which sustainability risks and opportunities to disclose. Instead, it will provide guidance to ensure that the concept of materiality is not applied too narrowly and companies understand which risks and opportunities to report on. Will consider whether to require companies to describe their approach for assessing and disclosing material information and/or their materiality judgements. **3. Facilitating interoperability with jurisdictional requirements** The ISSB prioritised several key topics for decision making to facilitate the ongoing dialogue with jurisdictions that are working on jurisdiction-specific disclosure requirements – such as the EU – to ensure the ISSB's global baseline of sustainability disclosures is interoperable, and can be built on, with jurisdiction-specific requirements. This included confirming use of the Task Force on Climate-related Financial Disclosures (TCFD) architecture as the basis for its Standards; confirming the GHG decisions as described above; and modifying some disclosures and language in relation to transition plans to facilitate alignment. **4. Setting out its approach to determining its future agenda priorities** Responding to feedback received, the ISSB has decided that it will focus its future work on two components – foundational work supporting the adoption and application of its first two Standards; and new areas of work on which it will consult in the first half of 2023. The foundational work will include providing supporting materials and developing a digital taxonomy to enable digital reporting; enhancing SASB Standards by making targeted improvements to make them more internationally applicable; coordinating work with IASB to support connectivity in the two Boards' requirements and considering operability with the work of others – including GRI and EFRAG; and researching areas for potential incremental enhancements to its proposed Climate Standard.	KPMG has created a resource centre to track the ISSB's redeliberations as well as host content about the proposals – we recommend companies keep up to date on latest developments and ISSB decisions through.

Expected future developments

Date	Expected Development	Implication for Australia companies
New Zealand January 2023	**New Zealand companies required to apply NZ version of TCFD** In October 2021, the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill (the Act) was passed and received Royal Assent. The Act sets out the definition and criteria for who are "climate reporting entities." It also extended the XRB's mandate to issue climate standards as part of a climate-related disclosures framework, and guidance on non-financial matters. The climate reporting regime will become effective after the release of the first climate standards expected in December 2022 (for financial years beginning on or after 1 January 2023). The climate statements are required to be lodged within 4 months of balance date so the first "official" public reporting will be by April 2024. **Assurance** The GHG emissions disclosures included in climate statements are required to be subject to limited assurance from October 2024.	To note for Large NZ listed entities (market cap> NZ$60 million) and large-licensed insurers, registered banks, credit unions, building societies and managers of investment schemes with more than NZ$1 billion in assets; and some Crown financial institutions (via letters of expectation).
Global As soon as possible in CY23	**ISSB expected to release the first two IFRS Sustainability Standards:** • General Requirements for Disclosure of Sustainability-related Financial Information (S1) • Climate-related Disclosures (S2) and further detail on their priorities and proposed timelines for specific activities.	To note, although continue to apply TCFD and consider adding relevant SASB metrics and Scope 3 with respect to climate related financial disclosures. Continue to apply Integrated Reporting and Integrated Thinking to frame investor reporting and internal decision making.
Global HI FY23	**Consultation on ISSB Agenda Priorities** ISSB expect to publish a public RFI to determine its future Agenda Priorities in the first half of 2023. (Staff highlighted earlier broad potential topics including human capital, human rights, biodiversity (incl. TNFD), circular economy, cybersecurity.	To note

Date	Expected Development	Implication for Australia companies
EU CY23/ 24	**Roll out of Corporate Sustainability Reporting Directive (CSRD) and related standards** The EU's Corporate Sustainability Reporting Directive (CSRD) will not become effective until it is formally approved by the European Parliament (expected in November 2022) and published in the EU Official Journal and transposed into local law by EU member states. The CSRD will come into effect for reporting periods starting from 1 January 2024 for large companies, with later start dates for the additional entities caught by the new directive including large foreign subsidiaries and branches. Additionally, groups with EUR 150 million or more revenues generated in the EU will have to apply the CSRD reporting requirements for the entire group, regardless of its domicile. The CSRD considers the TCFD, but significantly expands the scope and content of the EU's existing non-financial reporting regime. The CSRD also requires mandatory limited, and in the future reasonable assurance to ensure the reliability of data and avoid greenwashing. Entities in scope of CSRD will be required to comply with detailed sustainability reporting standards (the European Sustainability Reporting Standards being developed by the European Financial Reporting Advisory Group (EFRAG). These standards will specify the information that entities should disclose about material sustainability matters and ensure alignment with regards to existing disclosure obligations. The European Commission is required to adopt the first set of reporting standards by 30 June 2023; and the second set by 30 June 2024. The CSRD is just one component of a number of sustainability-related regulations under the European Green Deal that include reporting obligations – e.g. EU Taxonomy disclosures.	For Australian and other non-EU based companies that had been waiting for further clarity on the scope and reporting requirements under the CSRD, much of that clarity has now been provided. Get started by analysing your group structure, especially operations and revenues within the EU, to identify potential reporting obligations.

Roadmap to better business reporting

The roadmap to better business reporting and so enhanced transparency provides a 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. 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.

1	**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. We would encourage companies to complete the KPMG ESG Maturity Benchmarking Survey (see page 43) as input to discussions with the Board on the need for enhanced ESG reporting and business case for change.
2	**Benchmarking** Performing a gap analysis of current reporting against applicable frameworks and standards (GRI, SASB, Integrated Reporting Framework, TCFD, SDG, ASX CGP&Rs 4th Edition etc.) and benchmarking against good practice examples (ASX200 and global).
3	**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.
4	**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, Integrated Reporting Framework, SDGs, TCFD, ASX CGP&Rs 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.
5	**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 (Integrated Reporting Framework, GRI, SASB, 4th Edition etc.).

6	**Reports' portfolio development** Designing and drafting an overview of each report or other disclosure to be included in the company reports' portfolio. This includes each report's position in the portfolio, purpose, primary audience (stakeholders), framework requirements, timing, accountabilities, and material content elements (including material matters from stakeholder engagement, relevant frameworks, and legislation/ regulation).
7	**Understanding the value creation process** Holding value creation workshops to gain agreement of how value is created by the company. This includes identifying the key capitals (resources and relationships or value drivers) used by the company and the overarching outcomes the company is seeking to achieve and associated key performance metrics.
8	**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 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.
9	**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.

KPMG's ESG Maturity Benchmarking Survey

KPMG in Australia ('KPMG') is undertaking an ESG Maturity Benchmarking Survey ('survey program') which will be used to inform participating organisations on the current status of their ESG reporting against other companies surveyed, with a view to identifying opportunities for improvement and recommendations for action.

How the ESG Maturity Benchmarking Survey works

1. Data gathering

We hold a meeting with you to go through the survey and collect & record your responses (60-90 mins).

The survey comprises of 50+ questions and covers the following areas:

- ESG Awareness
- Governance & Business Model
- Strategy & Resource Allocation
- Risk & Opportunity Management
- Data & Systems
- Performance & Reporting
- Verification & Assurance
- Other Maters, if applicable:
  - Green finance / covenants
  - EU Operations

2. Benchmarking

The collected data, approved by you, is then aggregated with the data from many other organisations across the seven thematic areas to maintain anonymity of individual organisations.

The results are presented for each survey section, showing the maturity based on your answers compared with the average maturity for all other surveyed clients.

The maturity score is based on the following scale:

- None
- Building
- Foundational
- Advanced
- Mature

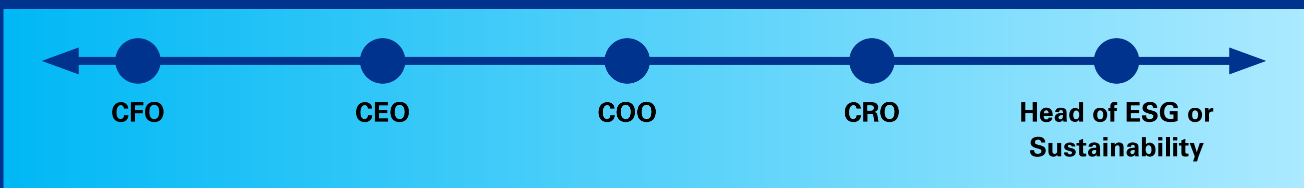
3. Insights

We hold a briefing session with you to:

- Discuss the maturity scores output
- Discuss insights on the average responses across the database
- Discuss any potential areas of weakness and opportunities to improve.

Completing the ESG Maturity Benchmark Survey

Engaging relevant stakeholders from organisations to gather insights into where your organisation is on its ESG journey, we engage with relevant senior executives, often the Head of ESG or Sustainability and the CFO in the first instance.



As we discuss the results of the survey, we also provide recommendations for improvement and contact you with relevant KPMG experts as required.

Benefit to your organisation	How KPMG can help you achieve this
Increase ESG awareness	Leveraging our Risk Advisory, Training and Development expertise to enhance ESG awareness.
Develop and embed Governance & Business Model	Conducting stakeholder and sustainability material risk assessments, Risk Management Framework Development, Better Business Reporting, Remuneration, Whistle-blower services.
Define and operationalise Strategy & Resource Allocation	Delivering stakeholder & sustainability material risk assessments, strategic development, and strategic implementation through our specialist teams.
Enhance Risk & Opportunity Management	Developing risk management frameworks that address entity wide risks, issues, and opportunities.
Understand ESG Data & Systems	Leverage our IT Architecture and Data Governance teams to help understand your infrastructure needs and priorities.
Embed Performance & Reporting	Help to develop and implement technical frameworks, Sustainability / ESG strategies and risk prioritisation, Better Business Reporting, Reporting Process Governance and Controls.
Deliver Verification & Assurance of ESG reporting	Conducting Audit and Assurance reviews over your reporting and operations.

If you would like to participate in this survey and find out how your current ESG reporting compares against other companies surveyed, please contact your local better business reporting representative. Contact details are at the back of this publication.

Appendix 1: Research methodology

The research in this report has been carried out by Better Business Reporting and ESG specialists at KPMG Australia in partnership with academic researchers from the Deakin Integrated Reporting Centre (DIRC).

This year the research methodology has been updated and is now based on the "Deakin University Integrated Reporting Quality Measure"; a qualitative assessment rating process designed by Deakin University that benchmarks each company's primary report to shareholders against the content elements and fundamental concepts in the Integrated Reporting Framework. The primary report to shareholders was considered to be the annual report for 99% of companies surveyed. For the remaining 1% it was the annual review. The updated methodology has been applied consistently across both the current and prior year reports.

Reports receive a grading for each content element and fundamental concept in the Integrated Reporting Framework, based on the information disclosed. The available gradings are poor, outmoded, informative and insightful (see grading characteristics below).

A small team of experienced research assistants assessed an initial batch of reports which were cross checked by other academics from the DIRC and Better Business Reporting and ESG specialists at KPMG Australia. The remainder of the research was completed by the same team of research assistants, with sample testing being undertaken by KPMG Australia.

The time period considered for this research was the financial year from 1 July 2021 and 30 June 2022. Reports available up to 30 September 2022 were reviewed, this has resulted in 175 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 companies to KPMG or Deakin University.

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 2022, 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 2022 (brlf.net).

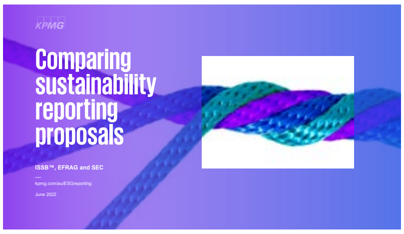
Grading	Characteristics of the disclosure
Poor	There is a focus on financial information, with limited (or no) discussion of the relevant content element in the Integrated Reporting Framework.
Outmoded	Contains 'boilerplate' discussions without consideration of future orientation and stakeholder relationships. The information is typically presented in siloed topics and the discussion lacks a logical flow.
Informative	Includes an informative discussion of the relevant content element in the Integrated Reporting Framework, with limited insightful analysis. The information is presented in siloed topics, and it is therefore hard to understand the connectivity among content elements.
Insightful	Presents deeper insight into the business, its performance and prospects that allow users to make informed decisions based on those insights. Typically includes ratio, sensitivity, scenario, or qualitative analysis. There is some connectivity, which indicates the underlying integrated thinking within the organization and there are diagrams and metrics providing insights into value creation.

Appendix 2: KPMG ESG and corporate reporting publications and websites

[ISSB | Sustainability reporting – KPMG Global (home.kpmg)]

This on-line KPMG resource centre provides practical guidance, latest thinking and our insights to help you get ready for the new ISSBs IFRS® Sustainability Disclosure Standards. Companies will need to implement these standards rapidly, so they need to start preparing now.

October 2022



[Comparing sustainability reporting proposals]

Sustainability reporting continues to develop at a fast pace across the globe. Three sets of proposed standards have been exposed for comment: from the ISSB, the US Securities Exchange Commission (SEC) and the European Financial Reporting Advisory Group (EFRAG). Read our publication comparing proposals from the ISSB, EFRAG and SEC.

June 2022

[Better business reporting]

This website provides KPMG Australia's research, experience and resources to support companies improve the quality and relevance of their internal through external reporting, including moving towards adoption of integrated reporting and integrated thinking.

2022

[Big shifts, small steps]

12th edition of the global KPMG Survey of Sustainability Reporting and accompanying key highlights for the ASX100.

October 2022

[Sustainability reporting]

Detailed analysis on the ISSB Exposure Drafts and explores some of the key impacts, and how companies might apply the proposals, using our insight and illustrative examples.

April 2022

[Environmental, Social & Governance (ESG) Services]

This website provides KPMG Australia's research, experience and resources to support companies identify, manage and report performance on their material ESG issues to their various stakeholder groups.

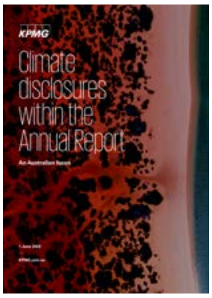
2022

Appendix 2: KPMG ESG and corporate reporting publications and websites

[Corporate reporting trends]

Review of ASX200 corporate reporting trends in the year to 30 June 2021.

November 2021



[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

[Get ready for ISSB™ sustainability disclosures]

High high-level summary of the issue, the impact, and the next steps - including ten key questions that can help you with your preparations.

April 2022

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