The time has come

The changing face of reporting in New Zealand

KPMG New Zealand's Survey of Sustainability Reporting 2020

December 2020

kpmg.com/nz

FOREWORD

It was never going to be easy, then 2020 happened

In a year when individuals and businesses might have been expected to become more self-centred, we've instead seen incredible examples in this country of working for the common good.

In a year when we might have expected investment in the long-term future sidelined, we've instead seen business and government leaders in this country take leaps forward. They have successfully tackled hard tasks and devised solutions that, previously, they would not have expected to achieve at such speed. They've also accelerated moves to digital operating models that are more productive, and lower carbon.

Yes, unfortunately we've seen businesses struggle and redundancies occur, and we'll likely see more. But we've also seen businesses cooperating to find work for the people laid off in a way that we could not have imagined in 2019. We've also seen the Government supporting job retention and investing in new jobs that speed up their environmental agenda.

In our own business, 2020 has brought home the realisation that we need to reset our core audit, tax and advisory businesses. We've substantially grown our teams in each Environmental, Social and Governance (ESG) discipline, but we've also acknowledged that we need those skills to be core for all of our people, across everything we do.

Acknowledgements

Research lead:
Ian Jameson

Authors:
Matt Prichard, Simon Wilkins, Ian Proudfoot, Dr. Charles Ehrhart, Kay Baldock and Justine Sefton.

Contributing team:
Niels Chlupka, Danica Holgado, Charlotte Burgess, Riria Te Kanawa, Andrew Watene, Dr. Stefan Gray, Victoria Bone, Fiona Woolley, Bruce Ravesloot, Damian Watson, Rebecca Lindegger, Lucie Greenwood, Annie Ren and Lily Quin.

Design:
Peter Howman

That's why I'm so energised by the recent launch of KPMG IMPACT, a global initiative to help our clients achieve growth with purpose, have a real and positive impact, and deliver against the Sustainable Development Goals (SDGs). Supporting world-class ESG reporting is one of the key elements of our IMPACT initiative and, as this report reveals, when it comes to New Zealand organisations, this is an area where there is room for improvement. It's vital that businesses share their ambitions and actions, provide stakeholders a window into the progressive work they are doing and are enabled to track progress and benchmark their efforts worldwide.

In a surprising way, the health, economic and social difficulties of 2020 have made the challenges of lowering our carbon emissions and addressing inequity in our communities more real. The difficulties we came up against this year and the way we've looked to solve them, has given us a glimpse of what we can actually achieve when faced with an immediate, in-your-face crisis.

There's genuine reason to be hopeful that some of those lessons will see us better positioned to address the longer term environmental and social challenges that we face over the rest of this decade.

Kotahi te aho ka whati, ki te kāpuia e kore e whati

One strand of flax is easy to break, but many strands together will stand strong

Matt Prichard
Executive Chairman
KPMG New Zealand

KPMG IMPACT

KPMG IMPACT delivers industry leading practices, research and trusted solutions to address the biggest issues facing our planet. Our aim is to deliver growth with purpose and have a real and positive impact – helping government, businesses and investors contribute to the UN Sustainable Development Goals (SDGs), so that all of New Zealand's diverse communities can thrive and prosper.

We are a multi-disciplinary team drawn from across KPMG, united by our mission, and offering a unique range of complementary skills that include strategy development, climate change modelling, adaptation and resilience; decarbonisation; financial analysis and business case development; corporate sustainability and regenerative business models; green finance; responsible investment; impact measurement; better business reporting; audit and assurance.

kpmg.co.nz/impact

The time has come

We are delighted to share the results of our latest ESG reporting research. Following our previous research three years ago, we wanted to know how reporting had advanced both in New Zealand and globally.

This year's research is the largest and most comprehensive to date with more than 5,000 organisations reviewed internationally, providing a tremendously rich dataset.

The data includes a review of the reporting of 100 of the largest revenue generating organisations in New Zealand, covering the public and private sectors – from large NZX listed entities to subsidiaries of multi-nationals; locally owned cooperatives to governmental agencies. We have gained insights into how New Zealand organisations have developed their ESG reporting over the last three years and how we compare to our international peers. We share our findings in this report – some news is encouraging, other aspects more confronting, but valuably it points us at areas where we can improve.

Our review of New Zealand's largest organisations uncovered four key themes:

— **Slow progress** in improving the quality of reporting compared to global organisations and our key trading partners.

— Many organisations are only just starting their **journey to the comprehensive assurance** necessary to add robustness to disclosure.

— When it comes to **climate change**, New Zealand organisations trail their peers when reporting on climate-related financial risks and opportunities.

— At a sector level it seems that **one size may not fit all**, with a myriad of reporting responses reflecting a range of industry drivers and stakeholder interests.

We also look at the **future direction of reporting in New Zealand** and provide our perspective on the rapid change under way in the reporting arena at the global and local level. Keeping pace is challenging for everyone. In this report we have offered ideas on what can be done by boards and executive teams until the picture becomes clearer and greater consensus emerges.

We trust this research will stimulate discussion. It is right that we acknowledge the progress that has been made, but more importantly we must recognise that the quality bar is being raised for a reason.

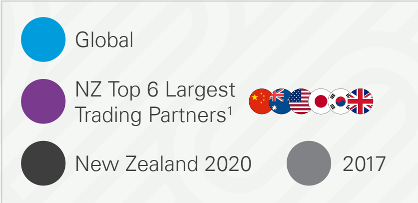
Significant improvement and substantive actions are needed if we are to play our part in meeting the challenges ahead.

“Sustainability reporting is a window into readiness to meet global environmental and social challenges. Organisations will be judged on whether they ‘get it’ or not. ‘Getting it’ means providing substantive, relevant, data rich information that demonstrates a real plan to meet the challenges ahead and charts progress. Not only is this doing the right thing, it is core to resilience and value.”

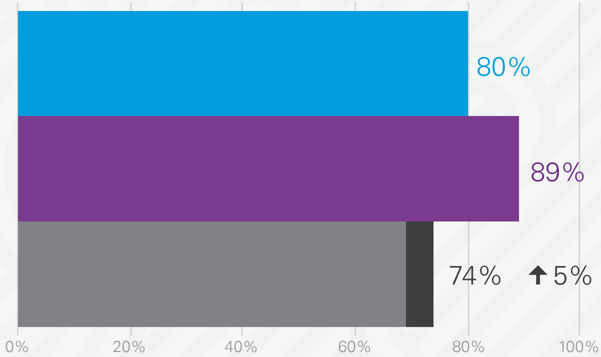
The time has come.

Simon Wilkins
KPMG IMPACT
Sustainable Value
Partner

Playing catch up on the global stage



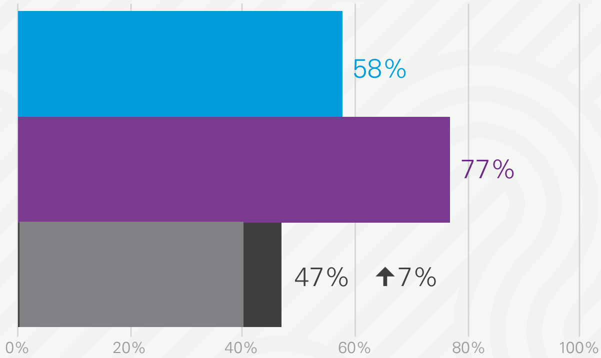
74% of NZ organisations report on sustainability performance



Improving the quality of sustainability information for stakeholders will help New Zealand organisations pick up the pace.

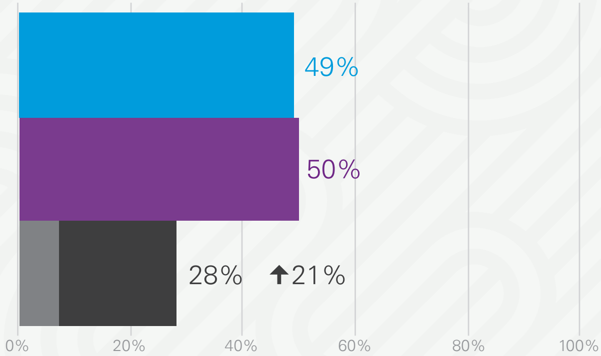
47% of NZ organisations include sustainability performance in their annual report

(as % of those organisations who report on sustainability performance)



The best and more mature reporters are telling an authentic story on business performance and impact.

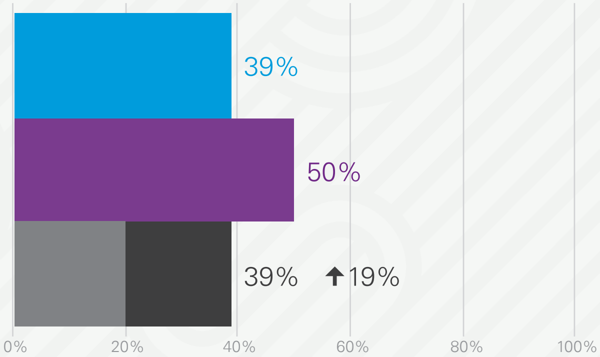
28% of NZ organisations' ESG information is independently assured



High quality authentic non-financial reporting will provide the evidence New Zealand needs to support its clean green image.

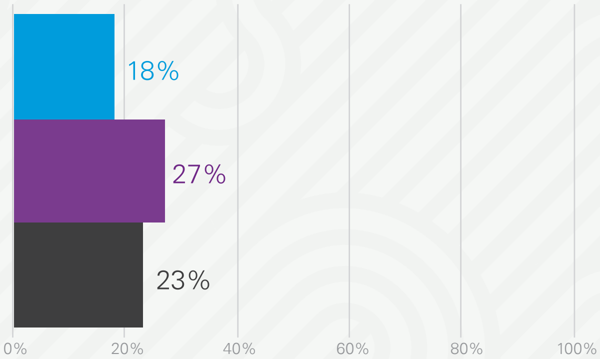
1. NZ Top 6 Largest Trading Partners (Source: https://www.stats.govt.nz/information-releases/overseas-merchandise-trade-january-2020), People's Republic of China, Australia, United States of America, Japan, Republic of Korea and United Kingdom). The figure is an average score across the selection of countries.

39% of NZ organisations acknowledge climate risk in their financial or annual report



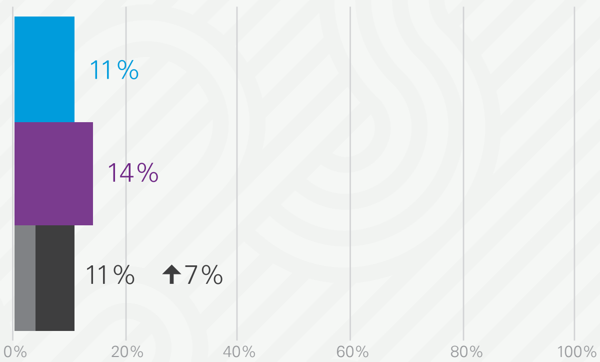
There has been a significant increase in organisations acknowledging climate risk. Including this in the annual report demonstrates its importance.

23% of NZ organisations report in line with the TCFD framework[2]



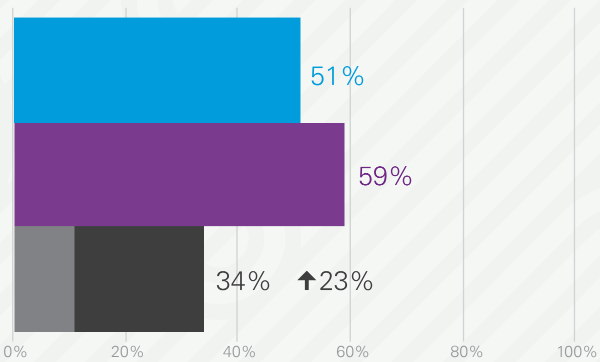
Early adopters are using TCFD to structure the response to climate risk.

11% of NZ organisations report in accordance with the <IR> framework



New Zealand organisations have selected frameworks and standards that suit their needs best.

34% of NZ organisations use the GRI Standards



New Zealand offshore owned organisations have been choosing more quantitative frameworks such as the Global Reporting Framework (GRI).

2. There is no comparison for application of the Task force on Climate-related Financial Disclosures (TCFD) as it was not included in the 2017 global analysis.

Slow progress

In 2017, New Zealand was one of the standout performers globally, for the largest increase of organisations including ESG/sustainability information in their annual reports. The expectation, with the arrival of the new NZX governance code that same year, was to see further growth and adoption of ESG reporting. This year's research however, suggests that we have not kept up with our global peers.

Some progress, but better quality needed

Since 2017, there has been a slight increase in the number of New Zealand entities reporting on ESG matters (up to 74% from 69%). While this improvement is broadly in line with several of New Zealand's primary trading partners (with the notable exception of Australia's 15-percentage point increase to 92%), closer scrutiny of the data reveals that New Zealand's performance is mixed.

The New Zealand dataset can be broken into two broad categories:

- New Zealand owned – which includes listed entities; public sector bodies and large privately-owned companies (representing 57% of the top 100); and
- Offshore owned businesses – typically local subsidiaries of multi-nationals (43%).

The extent of ESG reporting varies significantly, with offshore owned entities performing more strongly (86% reporting on ESG at the local level or aggregated into parent reporting) than New Zealand owned organisations (65% reporting). This is not surprising, given offshore owned organisations benefit from the greater resources of a multi-national group and, at the parent level, are likely subject to greater institutional investor scrutiny. The New Zealand owned dataset was pulled down by privately owned companies with only 38% reporting on ESG matters. These companies do not face the same investor scrutiny and may feel less pressure to report. This is likely to be a short-term reprieve though due to increasing customer demand for transparent ESG performance metrics, and the likelihood of banks and other debt providers requiring more ESG information when assessing risk and lending decisions.

Quality of ESG reporting

Our research examined a series of indicators that provided insights into

the use of international frameworks, the acknowledgement of risk and exposure to environmental factors and how we are using quantifiable metrics and targets. Again, there was some divergence between New Zealand and offshore owned organisations. New Zealand owned businesses are less likely to use quantitative frameworks such as the Global Reporting Initiative (GRI). They are also less likely to have committed to carbon reduction and science-based targets and have further to go on their Task Force on Climate-related Financial Disclosure (TCFD) reporting journey. The same picture emerges when compared with Australian peers. Australian businesses are more likely to report under GRI, much more likely to acknowledge climate risk and be using carbon and science-based targets, and are further along with TCFD (57% reporting).

It would be easy to dismiss these differences as a function of scale and resources. Undoubtedly this does play a role, given that even listed New Zealand businesses are small on the global scale. It is also argued that the picture is not helped by the raft of frameworks and standards with under-resourced New Zealand businesses wanting more clarity and a 'best' framework to emerge. The External Reporting Board (XRB) is examining this with the potential introduction of non-financial reporting standards and guidance.

What should boards and executive teams be doing?

Much of New Zealand's reporting appears qualitatively weighted towards future intentions and the business impact on the environment. There is a clear broadening of stakeholder groups to consider. These stakeholders are increasingly aware of – and invested in – the way in which ESG risks will impact business, the need for a business response to these challenges and how the effectiveness of this response will be tracked.

Anecdotal evidence indicates that substantive work is underway, particularly in the area of climate change with regulatory settings (e.g. Zero Carbon Act) supporting this shift. This needs to continue and be reinforced with a Science-based targets approach and should be supported by investment in systems, team capacity and reporting capabilities. Framework noise can be mitigated by organisations taking a pragmatic view. Pick a framework that works and then place a greater focus on the most meaningful metrics that contribute to Sustainable Development Goals (SDGs) that typically form the end game of much ESG reporting. This look-through approach will allow for a smoother transition should a common reporting pathway emerge.

While progress is being made, much remains to be done. We need to enhance the quality of ESG reporting if we intend to meet increasing international and domestic stakeholder expectations.

Simon Wilkins
KPMG IMPACT
Sustainable Value
Partner

The journey to comprehensive assurance

In a world where facts and alternative facts have become interchangeable, it is no surprise that consumers, regulators, employees, investors, communities and other stakeholders are looking for assurance that the information an organisation reports provides a reasonable and truthful interpretation of their activities.

Consequently, we're seeing more organisations around the world obtaining assurance over the most significant non-financial information they disclose. While we are geographically remote, we are part of the global economy and many of the stakeholders of our organisations expect to be continuously provided with more reliable information about all aspects of their operations. Meeting this expectation builds trust, which will help secure an organisation's licence to operate, a price premium for their products and services, and more cost-effective capital, all of which ultimately benefits all New Zealanders.

Our survey indicates more than 49% of organisations globally seek some form of assurance over their reported ESG information, compared to only 28% in New Zealand. While there are encouraging signs that organisations are taking steps to improve the quality of their non-financial information, we are not keeping pace with global best practice – this needs to change.

As purpose becomes more important to organisations, the range of relevant ESG considerations grows, in addition to regulatory requirements to report on climate change. The plethora of measures and reporting frameworks and standards (the 'alphabet soup' of acronyms that requires its own glossary) makes it challenging for organisations to work out what they really need to do.

The drivers for non-financial information assurance in Aotearoa are predominately compliance responses. Therefore, many organisations do the minimum and don't leverage the benefits assurance can provide to support them in confidently reporting their impact. With few stakeholders explicitly connecting investment decisions to assured non-financial information, the immediate drivers of change internationally are not as pressing in this country.

Internationally, the European Union's Non-Financial Reporting Directive requires organisations to report their social and environmental impact. This Directive is being revised and will lift expectations of organisations to seek high-quality assurance of non-financial information. This initiative and others will raise the bar on what is considered best practice globally – something we should aspire to meet.

The Government's move to make reporting on climate change risks and opportunities mandatory has set the wheels in motion for regulators, such as the External Reporting Board (XRB), to develop reporting standards that will, undoubtedly, be followed with guidance on assurance against these standards.

Any journey starts with a first step. For many organisations this will be establishing where they currently are, and where they intend to go.

Recognising that the journey will ultimately include expectations that key information will be assured, means plans should be made to use assurance to enhance an organisation's unique value story in the market. A 'pre-assurance' readiness assessment can provide an understanding of current reporting maturity and can help guide a fit-for-purpose assurance journey – with clear signage of potholes – and can also foster trust and rapport with stakeholders.

Ian Proudfoot
KPMG IMPACT
New Zealand
Assurance Lead
Partner

Climate change in the business context

Climate change poses both risks and opportunities to business, now and in the future. Shifting weather patterns, increasingly frequent and intense natural disasters, sea level rise, and disrupted ecosystems are already causing unanticipated business cost and threatening assets and infrastructure.

In response, governments and private sector entities are considering a range of options to reduce global emissions which will drive near-term disruptive change across economic sectors.

Investors, lenders, and insurers currently lack clear insight into which companies will struggle, endure or even flourish in the face of environment changes, evolving regulations, new technologies, and shifting customer priorities. Without reliable information, financial markets will be unable to price climate-related risks and opportunities. As a result, many of New Zealand's primary trading partners – including Australia, Japan, China, Canada, the United Kingdom, and European Union – are working towards some form of mandatory climate risk reporting.

In September of 2020, New Zealand became the first country in the world to make climate risk reporting mandatory for banks, asset managers, insurers, NZX listed equity and debt issuers, and certain Crown financial entities by 2023. Less than two months later, the United Kingdom announced that climate risk reporting will become mandatory for its financial institutions and large companies, with some entities required to start reporting as early as 2021.

Organisations are racing to keep pace with these fast-moving regulatory landscapes and even faster moving capital markets.

Rate of acknowledgement and adoption

While New Zealand's top organisations are in line with global averages for acknowledging climate-related financial risks (39% vs 39%) and broadly in line with reporting carbon reduction targets (55% vs 50%), we lag behind our primary trading partners in the OECD.

For example:

— 39% of New Zealand businesses acknowledge climate-related financial risks in annual or integrated reports compared to 69% in the UK, 64% in Japan, 60% in Australia, and 54% in the US.

— 55% of our biggest businesses are reporting carbon reduction targets vs 86% in Japan, 83% in the UK, 71% in the US, and 64% in Australia.

Disaggregating between New Zealand owned and offshore owned organisations paints an even starker picture. Just 43% of locally owned organisations acknowledge climate related financial risks vs 65% of offshore owned, while 62% of locally owned organisations report carbon reduction targets vs 70% of offshore owned.

Maturity of reporting

The maturity of climate-related reporting by New Zealand organisations is slightly better than the global average, with 23% vs 18% claiming to report in-line with the Taskforce on Climate-related Financial Disclosure's (TCFD) recommended framework, and 18% vs 16% having already adopted or planning to adopt science-based emissions reduction targets. The G20's Financial Stability Board TCFD is a market-driven initiative established to develop and promote a set of recommendations for robust, consistent, climate-related financial risk disclosures in mainstream filings. The TCFD framework is widely regarded as 'best practice.'

However, we are behind key trading partners and peers. For example:

— 23% of New Zealand's biggest organisations claim to report in-line with the TCFD's recommended framework compared to 47% in Japan, 46% in Australia, 34% in the UK, and 28% in the US.

— 18% of our organisations have adopted or plan to adopt science-based emissions reduction targets compared to 48% in the UK, 31% in Australia, 30% in the US, and 24% in Japan.

Disaggregating between locally and offshore-owned organisations, we find that:

— Just 14% of New Zealand's locally-owned top 100 organisations claim to report in-line with the TCFD's recommended framework vs 50% of offshore-owned businesses.

— 16% of New Zealand's locally-owned top 100 organisations have adopted or plan to adopt science-based emissions reduction targets vs 34% of offshore-owned organisations.

Where does this leave New Zealand organisations?

New Zealand organisations are currently trailing their international peers when it comes to reporting on climate-related financial risks and opportunities. Unless this changes, they may not be in a position to comply with rapidly evolving government requirements and investor expectations. This gap in reporting also indicates that a deeper understanding of - and ability to respond to - climate-related risks is required of New Zealand board and executive teams.

2021 is likely to see a substantial increase in the number of organisations beginning to report.

The challenge will be to produce reports that communicate an understanding of what's at stake and a credible plan to thrive in the global transition to a low-emissions, climate-resilient economy.

Dr. Charles Ehrhart
KPMG IMPACT
New Zealand
Sustainable Value
Director

One size may not fit all
The sector story

Given the breadth and depth of ESG issues, organisations' reporting responses to the various drivers are likely to reflect their individual facts and circumstances, especially when considering that mandatory reporting requirements, such as those in the climate change space, are only just starting to emerge.

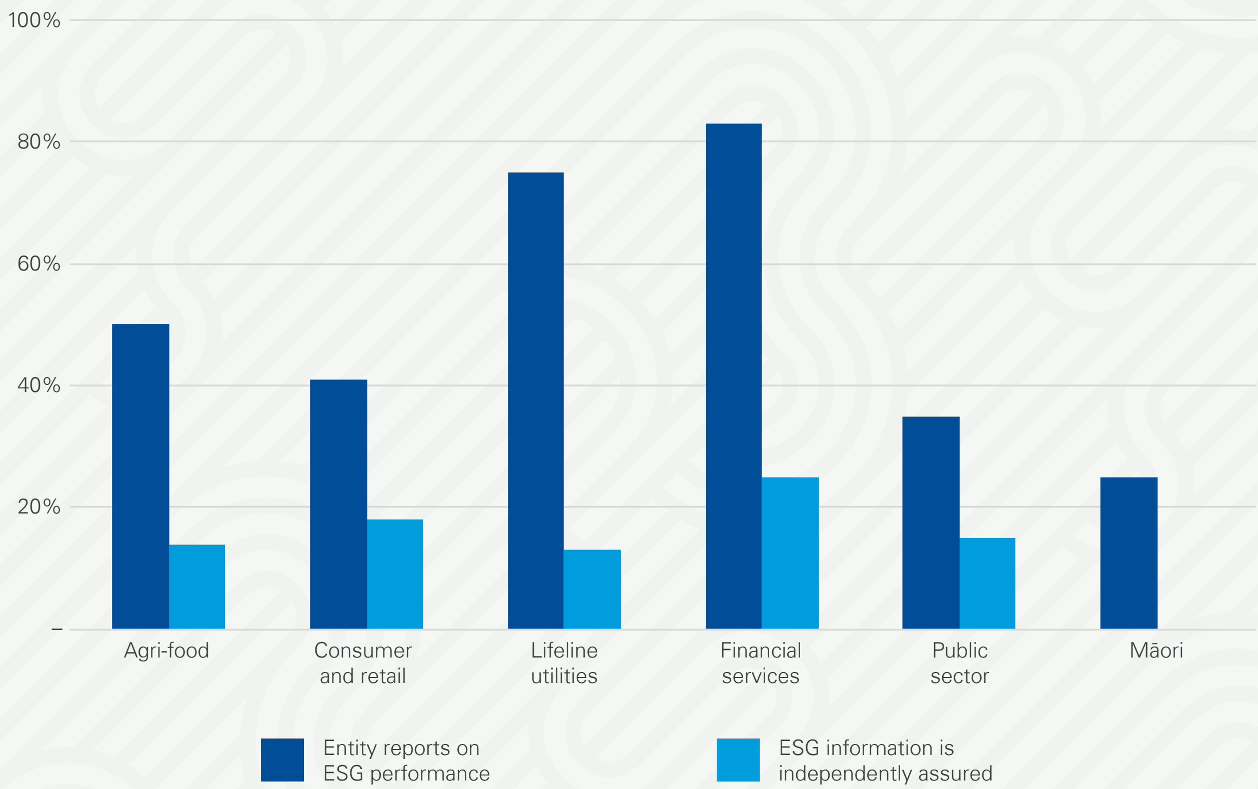
To better understand the impact of different drivers and business contexts affecting the way organisations approach their reporting, we reviewed the data from a sector standpoint. To improve coverage and alleviate the risk of small sample sizes, we extended the New Zealand dataset by a further 46 organisations, revealing both expected and unexpected results.

The following charts show the responses from six sectors (agri-food, consumer and retail, lifeline utilities, financial services, public sector and Māori owned organisations) across each of the key questions addressed in the research.

Careful interpretation is needed when comparing sectors.

While progress is being made, much remains to be done

The reporting and assurance of ESG information by sector demonstrates significant variation.



ESG concerns are core to many Māori organisations, yet the sector has placed less focus on international reporting frameworks and instead followed its own path, selecting only those of most relevance. Public sector reporting also requires some interpretation with adoption of the Four Capitals of the Living Standards Framework driving broad based reporting, but not necessarily in alignment with international reporting developments.

The expected

14% of Agri-food organisations in New Zealand have adopted use of the <IR> Framework, significantly more than their global counterparts (6%). The <IR> framework requires organisations to describe their value creation model and broader 'story' which fits well with export orientated businesses looking to be transparent and develop greater trust with consumers.

The financial services sector has been the quickest to report against its alignment with the Task Force on Climate-related Financial Disclosures (TCFD), as TCFD was specifically aimed at understanding the resilience of the financial system. This will have been reinforced by the expectations of the Reserve Bank when it comes to managing climate risk.

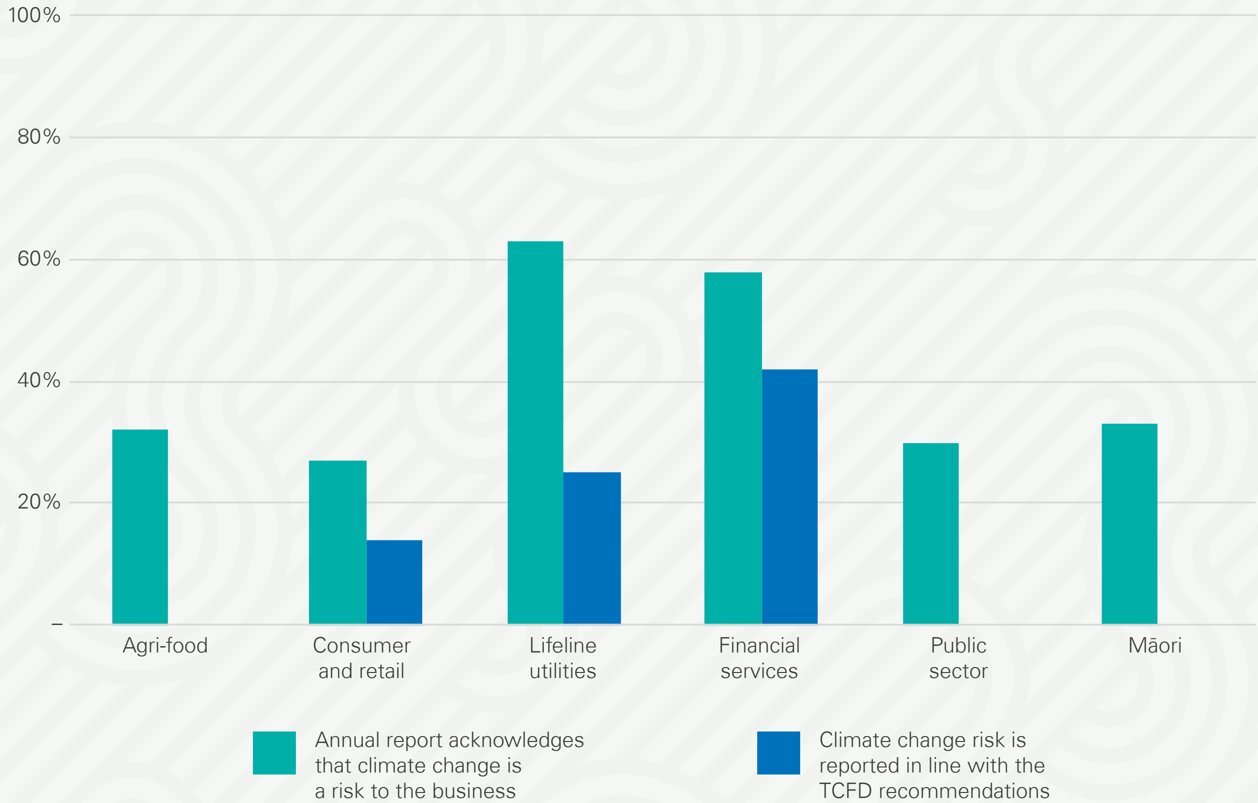
Lifeline utilities, which includes energy, telecommunication and infrastructure utilities have also been relatively quick to acknowledge climate risk (63%), though, as yet, without much TCFD reporting. This is to be expected, given the Zero Carbon Act specifically focuses on lifeline utilities as one of the targets for forthcoming mandatory climate reporting. It also likely mirrors stakeholder interest in infrastructure resilience and the ability of these organisations to develop climate compatible investment strategies and mitigate the risk of stranded assets.

The unexpected

There was extremely limited reporting (10%) on the impact of the loss of biodiversity. For an economy with significant reliance on the primary sector, this came as a surprise. While climate risk has dominated the environmental agenda in recent years, degradation of biodiversity arguably poses an even greater risk. The Task Force on Nature-related Financial

Acknowledging climate risk is driving TCFD adoption ahead of mandatory requirements

Lifeline utilities and financial services are leading the adoption of TCFD.



Disclosure (TNFD) was launched in July 2020, effectively as a 'sibling' to TCFD. Its intention is to steer finance towards outcomes that are nature-positive in the same way that TCFD is focused on climate positive responses. Locally, The Aotearoa Circle has recently begun work on its biodiversity domain with some initial research into ways to begin restoring biodiversity.

Pressure is likely to increase on New Zealand organisations to be more transparent in this area, especially in those sectors where New Zealand's 'clean, green' branding is important.

The need for clarity?

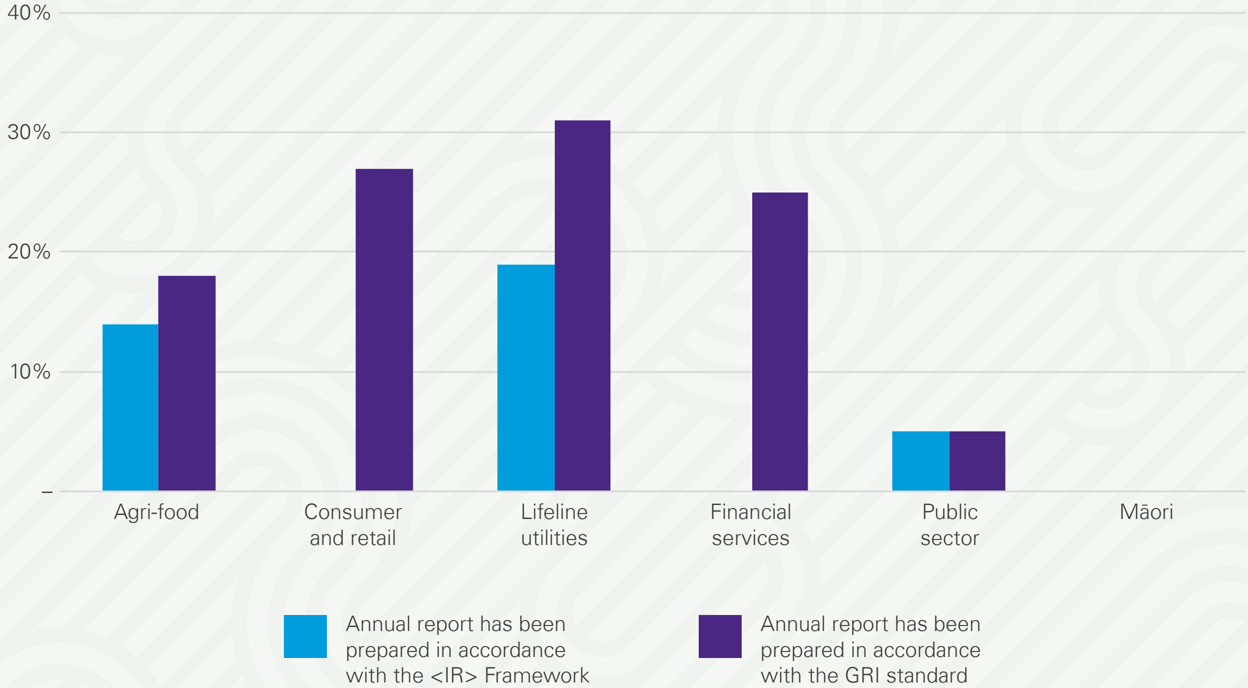
Despite increased interest in simplifying the reporting frameworks, one advantage of a largely voluntary reporting regime to date is that New Zealand organisations have selected frameworks and standards that suit their needs best. This is evident when looking across our sectors and considering that there is no clear standout in the reporting frameworks and standards used. When providing reporting guidance to New Zealand organisations, the External Reporting Board (XRB) will need to balance the desire for simplification with meeting the needs of multiple users. The increasing expectations and diversity of such users add to this challenge.

A one size fits all approach is unlikely to be suitable, unless it allows for a range of drivers and objectives to be met. Instead, a hybrid of a principles-based framework that adds context to mandatory reporting requirements may offer the most robust, yet versatile way forward.

Kay Baldock
KPMG New Zealand
National Managing Partner
Brand & Growth

A need for more clarity and the 'best' framework

Entities have been selecting reporting frameworks to suit their needs. Framework noise can be mitigated by choosing a framework that works across all sectors and by placing greater focus on the impact of Sustainable Development Goals (SDGs) that typically form the end game of much ESG reporting.



Financial services

New Zealand's financial institutions are performing ahead of peers in other sectors, particularly when reporting on climate change. However, this is largely driven by the performance of Australian parent entities.

What's happening in the sector?

Despite performing well in contrast to other sectors, there is a clear gap between local reporting metrics and those across the Tasman. Not-with-standing the reliance on Australia, recent developments in this sector are transformational and have the potential to have long-lasting impact on the economy – embedding sustainability and climate change considerations as core to investments and a driver for the financial system as a whole. The three significant observations in this sector are around regulatory and public expectations, and a focus on impact.

We expect to see further uplift in non-financial reporting for New Zealand's financial institutions.

Regulatory drivers

In September 2020, the Government announced the introduction of mandatory climate-related financial risk reporting for all publicly listed organisations and large financial services organisations from as early as 2023. The reporting will be developed by the External Reporting Board (XRB), based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, on a 'comply or explain' basis.

Globally, the United Nations Environment Programme Finance Initiative (UNEP FI) will be launching phase three of its TCFD banking pilot project in January 2021. This is targeted at stress testing the integration of climate-related risks at a sector level. The pilot will look to deepen the understanding and enhance the supplemental implementation guidance issued by the Financial Stability Board's (FSB) TCFD.

The Reserve Bank of New Zealand (RBNZ) has also made it clear that it considers climate change and reporting it to be a key issue. It expects banks to take a leadership position stating that "Climate change and its associated risks provide a direct challenge to financial stability". This expectation will permeate to the non-banking sector and will influence early adoption well before the 2023 mandatory reporting requirement is in place.

83% of New Zealand entities report their ESG information vs 78% of global entities.

There is limited uptake of assurance in the financial sector generally, with only 25% of New Zealand financial services, and 39% of global, receiving some form of assurance.

New Zealand financial services organisations prioritise the following Sustainable Development Goals (SDG):

Climate Action
17% of selected SDGs

Sustainable Cities and Communities
13% of selected SDGs

Decent Work and Economic Growth
10% of selected SDGs

Global Reporting Initiative (GRI) is the reporting framework of choice (at 49% globally and 25% for New Zealand entities). None of the New Zealand entities prepared a report using the Integrated Reporting <IR> framework.

New Zealand entities are relying on Australia to drive change. Taking a country lens, it is apparent that entities with Australian parents are lifting the local sector's performance average.

100% of Australian entities report their ESG information vs 60% for New Zealand entities.

43% of Australian entities have their ESG information independently assured vs 0% for New Zealand entities.

71% of Australian entities acknowledge the risk from climate change vs 40% for New Zealand entities (and of this, 57% report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations vs 20% in New Zealand).

86% of Australian entities report carbon reduction targets vs 40% for New Zealand entities.

Financial institutions in New Zealand are ahead of their global peers when it comes to engaging with climate change issues.

58% acknowledge the risk from climate change vs 41% globally.

57% report carbon reduction targets vs 44% globally.

25% adopt science-based targets vs 11% globally.

42% adopt the recommendations of the TCFD vs 25% globally.

Growing public expectations

Increasingly, customers in the sector are looking beyond financial metrics when deciding who to do business with. Organisations are being asked to earn their social licence to operate and there is an expectation that banks use their influence for good. They are now expected to have a genuine and positive impact on the communities they serve and are part of. These principles should be integrated into business as usual rather than through 'bolt on' ad hoc initiatives.

This potentially has far-reaching implications which will see financial institutions drive meaningful change via their investment and credit decisions, the way they act as a business, and how they encourage their customers to make change.

A focus on Impact-orientated investments and initiatives

The financial services sector is actively engaged in initiatives that are taking a lead to improve how capital can be mobilised and allocated towards investments that will have a positive outcome for society. Recently, the Aotearoa Circle's Sustainable Finance Forum (SFF) published recommendations for the development of standards that encourage positive ESG outcomes.

The sector seeks to enable action by recognising critical sustainability considerations as part of the investment process to propel a positive change towards tangible impacts. The collaboration with other sectors in the economy, such as agri-business, is likely to increase the expectation for credible ESG information to enable the allocation of capital and accelerate progress.

Key insights

— Financial services sector is leading climate change reporting, through the adoption of the TCFD framework.

— Opportunity for the sector to enable the transition to a low-emission economy through climate-focussed investments.

— New Zealand entities to mainstream their measurement of key non-financial metrics. Making it core to strategy and performance monitoring – what gets measured gets managed.

— Sector shift from 'transaction' to 'Impact' – requires credible, assured information.

"My advice to business leaders is to get your heads around biodiversity. Understand how your company is contributing to biodiversity loss and what risks it faces from it. You will be asked about this very soon by your investors, lenders, insurers, customers and consumers. You will also likely to be expected to make public disclosures on it sooner than you may think.
Get ready by starting now."

Adrian King
KPMG IMPACT Co-Chair
ESG & Sustainability Services
Partner, KPMG in Australia

Agri-food

The New Zealand brand story is underpinned by the international perception of our production practices, care for the environment and quality of our products. The success of our agri-food sector globally is often credited to the integrity of our organisations. However, our research shows that Kiwi organisations are behind the standard set by their global peers on most sustainability reporting measures, with the exception of Integrated Reporting (<IR>).

What's happening in the sector?

Environmental and societal considerations has moved to the forefront of the agri-food sector agenda over the last decade. Though progress has been made, the sector will need to keep pace with shifts in consumer values and community expectations. With increased scrutiny, it's important that organisations can demonstrate the integrity of their products in an honest and transparent manner.

A sector in the spotlight

Recent years have seen the wider community draw clearer links between the condition of our environment and the role that food and fibre producers play in protecting and enhancing outcomes for nature. The need to secure their licence to operate has seen companies, both listed and privately-owned, take steps to shine a greater light on their environmental practices and activities.

A good start

It is encouraging to see the agribusiness sector is leading the application of Integrated Reporting in New Zealand; given these businesses are inextricably linked to the utilisation of our natural capital of land, water, soils, oceans and flora.

But greater momentum is needed

New Zealand is by-and-large a business-to-business net exporter with low levels of consumer-facing products. This causes a delayed or latent sense of urgency from the consumers of our products in markets demanding change and poses a significant risk to our exports.

With a mandate for improved practices and transparency growing, organisations must begin to gain momentum. If they do not, there is a risk the effect will not be felt until our products have become obsolete.

A lack of action now increases the risk exponentially. The return-on-investment is not only about achieving better outcomes today; it is also about protecting our license to operate and access to our most valuable markets and consumers in the future.

Key insights

— Agri-food is embracing <IR> and broader reporting as part of a brand story narrative to maintain access to key export markets.

— Climate action – a priority and catalyst for tangible change. Sector will be impacted and needs to move faster.

— Reliable information fast becoming a consumer expectation (license to operate) – assurance of products and their impact on the value chain.

The Global Reporting Initiative (GRI) is the reporting framework of choice for 41% of global agri-food companies; while in New Zealand, there's a fairly even split between GRI (18%) and Integrated Reporting (14%).

There's limited uptake of assurance among agri-food organisations, with only 14% in New Zealand and 23% globally receiving some form of assurance.

32% of New Zealand organisations report their carbon reduction targets vs 45% globally. Similarly, the adoption of science-based targets is lower in New Zealand (at 14%) vs 17% globally.

23% of New Zealand agri-food organisations report on their impact on biodiversity/nature. Only 14% of New Zealand organisations set metrics and/or targets around reducing their impact.

While our agri-food organisations demonstrate an awareness of climate change risk, there's a distinct lack of action.

32% of New Zealand organisations in this sector acknowledge the risk from climate change, but 0% have adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) (vs 9% globally).

Public sector

The public sector is not yet utilising the full potential of the Living Standards Framework (LSF) and lags private sector reporting performance – particularly in the environmental domain.

Significant enhancements are coming, led by climate change reporting requirements and reinforced by the sector work needed to support the issuance of the Treasury's first Wellbeing Report by the end of 2022. Going forward, the sector is expected to move increasingly from standard setters to leading the way as standard bearers.

What's happening in the sector?

The Government's focus on wellbeing and holistic tools such as the [Treasury's Living Standards Framework] (LSF) has provided the public sector with a strong platform for ESG reporting. Despite this, the evidence to date is that this has not been fully harnessed with public sector ESG reporting lagging the private sector. It would seem however that change is in the works.

Signalling expectation for best practice

Government has affirmed the regulatory drivers on climate reporting and there are signs of key government entities preparing for the new requirements. As one of the principal sponsoring agencies of the climate related reporting regime, the Ministry for the Environment Manatū mō Te Taiao is intending to use its own reporting to demonstrate what sound disclosure might look like at current levels of maturity in New Zealand. While the contexts of other ministries and departments are likely to be different, this will nevertheless serve as an example and create momentum within the public sector to understand and report on their climate-related risks and opportunities. Changes will gather pace in 2021 with the Climate Change Commission releasing its first advice and recommendations for public consultation and submission to the Government. This advice is akin to a 'comply or explain' regime and is expected to carry the support of the Government and be enacted with little substantive modification. This will further set the expectations of the public sector in its own reporting.

Momentum is building

While not yet apparent in our data, this broadening expectation has already initiated some action by public sector organisations outside central government. Certain local authorities have taken substantive steps toward assessing and reporting on their climate-related risk exposure. Reporting in this space will attract significant stakeholder interest especially as planning broadens from a narrow initial focus on physical risks to better consider transition risks and the investment needs to develop a response. The associated funding options are likely to prompt much public debate.

Further evidence of progress can be seen with council-controlled entities,

such as Watercare, which has been acknowledged internationally for its 2019 annual report. The Guardians of New Zealand Superannuation have recently published a climate-related risk assessment, linking its findings to the Fund's wider climate strategy. Its aim is to forge an investment path that New Zealanders can be assured is not only financially secure, but also aligns with the Government's policy on emissions neutrality by 2050. While not yet the norm in the sector, these examples are encouraging and provide a trail for others to follow.

Wellbeing with impact?

While climate change will feature prominently, the direction of travel over the next couple of years is broader. The demand for action on social inequity and the broader wellbeing agenda has been building over the course of the previous Parliament but is now likely to gain further momentum as coalition-imposed restraints on action have been eliminated. Such action needs to be supported by better quality sustainability information. As an example, there is an opportunity to embed leading practice into Treasury's Wellbeing Report due to be issued in late 2022. This report is intended to provide insights into the state of wellbeing in New Zealand and the sustainability and risks to such wellbeing. An impact-orientated approach using reliable and consistent metrics would provide a robust framework and means to measure and monitor progress over time. Initiatives such as this will provide deeper insights and further support New Zealand's contribution to the UN Sustainable Development Goals.

Key insights

- The Living Standards framework provides a ready-made policy platform for sustainability reporting.
- Change is underway with certain ministries signalling good intentions.
- Further impetus for better reporting is expected with the Climate Change Commission recommendations to be released (and enacted) in 2021 and the first Wellbeing Report to be published in late 2022.

35% of New Zealand public sector entities (20 of New Zealand's largest public organisations (by revenue) across government departments, publicly owned enterprises, and councils) report their ESG information vs 51% in the private sector.

20% of New Zealand public sector entities include ESG information in their annual financial reports, vs 33% in the private sector.

Approximately 20% of the public sector entities surveyed have connected their sustainability activities with the LSF.

New Zealand public sector entities are less mature than their private sector peers when it comes to engaging with climate change issues.

25% of public sector entities acknowledge the risk from climate change vs 36% of private sector entities.

0% of public sector entities adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) vs 11% of the private sector.

15% of public sector entities report carbon reduction targets vs 32% for New Zealand entities (and 0% of public entities adopt science-based targets, vs 10% in the private sector).

Māori

Māori organisations have an undeniable and inherent cultural commitment to sustainability. However, due to a distinct lack of 'fit' of the global frameworks being adopted by other corporates with Māori perspectives, this is not reflected in reporting levels.

What's happening in the sector?

Our research and investigation for this report show that ESG practices among Māori entities are tipped far more heavily towards the 'doing' rather than 'reporting'. Māori entities have been leading best practice for quite some time as the corporate world begins to catch up.

A cultural imperative

In contrast to the rise and prominence of ESG reporting in the investment and corporate world, Māori have long valued their connection to the taiao (natural environment) and all beings within it. They innately understand that their own well-being is inextricably tied to that of the taiao.

To put it simply, indigenous people have had ESG-esque practice since they were placed on this earth. The fact there is now a business-led reporting framework should not overshadow the fact they have always been, and continue to be, leaders in this space.

(Not necessarily) a business imperative

ESG reporting is a growing focus for corporates who understand that their social license to operate among consumers, and their ability to attract investment, is increasingly focused on their environmental and social records. In contrast, Māori are not necessarily focused on attracting investment or increasing share price valuations of their own businesses and instead do this as a matter of course.

A people-centric approach to reporting

Annual reports for Māori entities are prepared with the view that their people are their most valuable stakeholders, whether that is shareholders of a Māori incorporation, beneficiaries of land trusts, or tribal members of iwi. They have invested in citizenship initiatives since their formation, aimed at reconnecting and growing the capability of their people, relieving hardship, supporting health needs and maintaining culture.

For Māori, integrating business goals with social and environmental goals is less about corporate perception, and more a result of aspirations for the wellbeing of their people. Different drivers mean variations in approaches to reporting. Māori have their own challenges that they are committed to contributing towards, and these may not fit neatly into globally-driven frameworks. Consequently, measuring Māori oranga taiao (environmental wellbeing) and oranga tangata (social wellbeing) practice against global reporting standards is unlikely to be suitable.

Applying frameworks where relevant

That is not to say however, that global frameworks and standards should be rejected entirely. There is absolute relevance in Māori entities understanding and/or reporting on those things that are in fact relevant including:

- impacts of climate change on and of the business
- impacts on biodiversity
- commitments to mitigation, adaptation and transition measures.

As we look ahead, it is not unreasonable to expect that corporate investors may like to partner with Māori organisations because of their commitment to 'ESG best practice' that goes beyond the surface.

If Māori were to adopt standardised systems it could support the business case for such initiatives, working towards a common goal.

Key insights

- Adopt kaitiakitanga as a model of thinking for sustainability reporting in New Zealand – must be led, informed and guided by Māori.
- Leverage global reporting frameworks (where relevant) to tell the story – supporting the New Zealand Brand.
- Climate change response needs to go beyond carbon reduction targets and be substantive in terms of the fundamental shift and impact of climate change risk and opportunities on Māori organisations and whānau.
- Focus on demonstrating impact (need for measurement and assurance) – particularly for biodiversity, air and water, and social and cultural impact.

Global reporting frameworks are not a good 'fit' with Māori perspectives on sustainability. Therefore the uptake and adoption of these frameworks should be considered with that context in mind.

25% of Māori entities report their ESG information versus 51% of New Zealand entities.

17% of Māori entities include ESG information in their annual financial reports, vs 33% of New Zealand entities.

While 33% of Māori entities acknowledge the risk from climate change, only 8% of these report carbon reduction targets.

Lifeline utilities

While 75% of New Zealand's lifeline utilities (which include energy, telecommunication and infrastructure utilities) publish their sustainability-related information to the market, they fall behind their global counterparts on most measures.

What's happening in the sector?

Sustainability is quickly moving up the strategic agenda for New Zealand's lifeline utilities, with it now viewed as more than just a compliance or PR activity. While more than half our organisations currently report on their sustainability performance in their annual report, we expect to see significant growth in the number of organisations seeking assurance over this data.

Climate change high on the agenda

The introduction of The Zero Carbon Act in late 2019 has had a significant impact on how organisations in this sector of our economy are thinking about sustainability, and in particular climate change. New Zealand's energy, utilities and telecommunications organisations are classed as 'lifeline utilities' and under the Act, they may be called on to disclose what they're doing to understand and mitigate the risks of climate change, both from a mitigation and adaptation standpoint.

To date, organisations have focused primarily on the physical risks of climate change (ie more frequent extreme weather events) and are underway in preparing their infrastructure. However, the transition risks to the organisation need to be more fully addressed. Stakeholders will increasingly look to an organisation's disclosures in this area as it provides insight into the organisation's long-term resilience and viability. Organisations in this sector that have major infrastructure assets and to access funding need to be able to provide investors with confidence that money will be well spent and will not be funnelled into potential stranded assets.

The growing adoption of the Task Force on Climate-rated Financial Disclosures (TCFD), widely regarded as the best practice framework for climate risk disclosure, should accelerate the shift to a more holistic view of climate risk to an organisation.

Biodiversity needs greater focus

While the sector is showing forward thinking when it comes to climate change, there's room for improvement when it comes to another critical environmental risk: the loss of biodiversity. Just 11% of entities report on their impact on biodiversity/nature and only 5% of our organisations have set targets to reduce their impact on biodiversity/nature.

Building on the success of the TCFD, the Taskforce on Nature-related Financial Disclosure (TNFD) is currently being developed to address this rapidly increasing risk.

Adoption of the TNFD is expected to be encouraged from the start of 2023. We anticipate investor and other stakeholder groups will embrace this framework as they have TCFD.

New Zealand organisations currently implementing TCFD will be in a strong position to leverage this experience for future reporting requirements.

Key insights

- Climate risk is a seen as a more prominent issue (relative to its global peers). However, lifeline utilities fall short in providing a credible response to the risk of climate change on their organisation.
- Climate reporting from the lifeline utilities will be an opportunity to innovate and to set the tone for 'substance over form', as an example for New Zealand entities that are starting to report in accordance with TCFD.
- Lessons learned through climate reporting will prepare organisations for future nature-related disclosure requirements being developed by the TNFD. This will be critical to support better understanding of measurement of biodiversity impacts and other natural capital issues.

New Zealand lifeline utilities lag behind their global peers on reporting of ESG information.

75% of New Zealand entities report their ESG information vs 82% globally.

This picture is also reflected in the lack of ESG information included in annual financial reports (56% for New Zealand entities vs 64% globally).

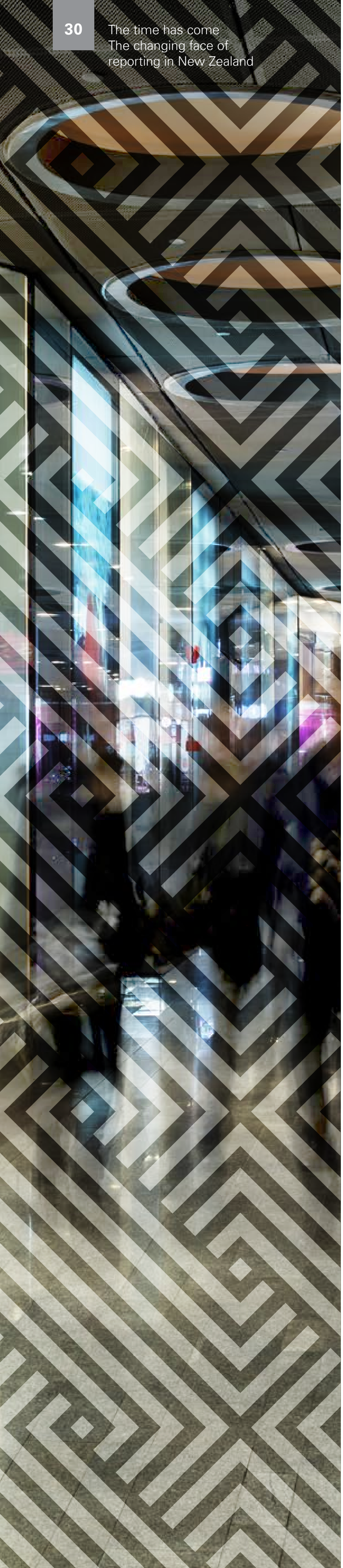
Globally, the Global Reporting Initiative (GRI) is the reporting framework of choice (31% for New Zealand entities vs 65% globally), while in New Zealand 19% prepare a report using the Integrated Reporting <IR> Framework vs 14% globally.

The uptake of assurance is lower in New Zealand (13%) than globally (50%).

New Zealand lifeline utilities are more mature than their global peers about the risk of climate change. 63% of New Zealand entities acknowledge the risk from climate change vs 53% globally.

To the contrary, New Zealand lifeline utilities are less mature than their global peers about their impact on climate change and the need to set carbon reduction targets. 44% of New Zealand entities report carbon reduction targets vs 61% globally, similarly the adoption of Science-based Targets is lower in New Zealand (6% for NZ entities vs 21% globally).

New Zealand lifeline utilities must understand their risk and impact on biodiversity/nature and develop targets to reduce their impact.



Consumer and retail

New Zealand's consumer goods and retail organisations are falling behind the global pace on most reporting metrics, albeit they are closing the gap when it comes to reporting on the risks of climate change.

What's happening in the sector?

Despite a lack of regulatory obligations in the sector, there is growing consumer demand for transparency and the demonstration of business practices and values with a broader societal purpose.

Lack of regulatory imperative

While there is no immediate regulatory obligation for organisations in the sector to report on their climate change and sustainability activities, it's clear that there is a strong business imperative. There is strong international evidence pointing to investors favouring those organisations that actively disclose ESG information, and customers are increasingly factoring organisational behaviour and culture into their purchasing decisions; 'social license to operate' is a very real consideration.

The growing consumer lobby

Consumers are increasingly voting with their wallets, leading the charge for sustainability. These trends permeate every aspect of retail; whether it's the movement away from 'fast fashion' and recycling of e-waste, to the rejection of plastic packaging, animal welfare concerns, and carbon miles of food and other products. The 'shop local' movement has also grown noticeably as a result of the Covid-19 pandemic.

The competitive advantage

With global consumer markets facing unprecedented challenges in 2020, our New Zealand organisations have the opportunity to leverage New Zealand's premium brand positioning.

In recent months, and in light of the pandemic, the New Zealand Government has launched global marketing campaigns that promote the desirability of New Zealand food and beverage products.

Effective ESG reporting (and ideally assurance) is a powerful tool to demonstrate that our companies are 'walking the talk'.

Key insights

— Organisations that front-foot their sustainability information with their investors and their consumers are likely to have a competitive advantage in the market.

— Telling the New Zealand brand story must be a priority, but with support by credible information.

— Consumers have an expectation that products are authentically considering key sustainability issues, such as climate change. This is a shift from 'tell me' to 'show me' through relevant metrics and targets.

41% of New Zealand entities report their ESG information vs 75% globally.

36% of New Zealand entities include this information in their annual financial reports, vs 54% globally.

The uptake of assurance in the sector is half that of globally (at 18% versus 36%).

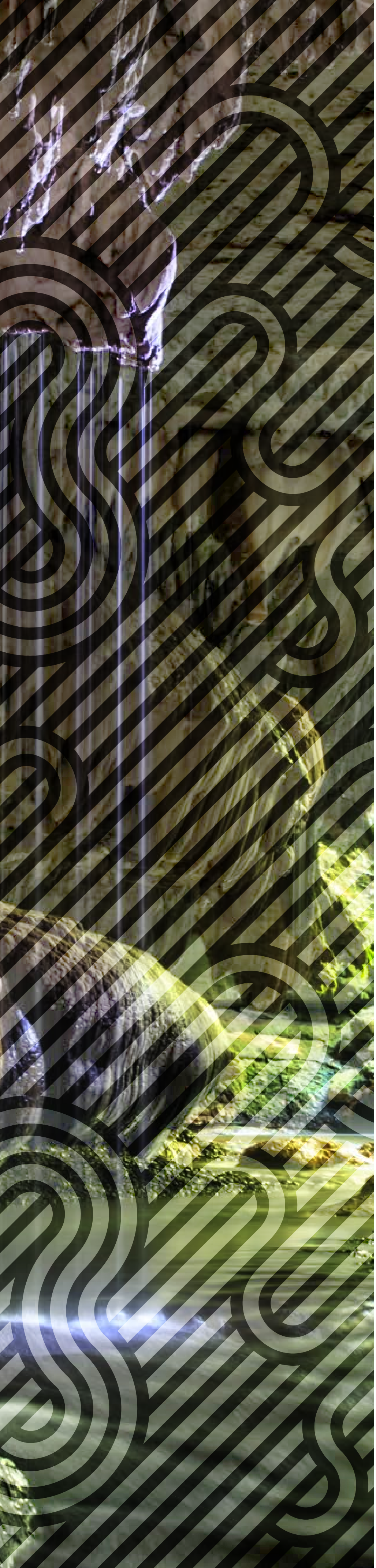
Global Reporting Initiative (GRI) is the reporting framework of choice (at 49% globally and 27% for New Zealand organisations). None of the New Zealand entities prepared a report using the Integrated Reporting <IR> Framework.

New Zealand consumer and retail entities are behind their global peers when it comes to engaging with climate change issues.

27% acknowledge the risk from climate change vs 33% globally.

14% adopt the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) vs 15% globally.

32% report carbon reduction targets vs 51% globally.



LOOKING FORWARD

The future direction of reporting in New Zealand

A fundamental re-think of economic and financial systems is underway, in New Zealand and internationally - reinforced and accelerated by the Covid-19 pandemic – driving the re-orientation of business and finance around 'impact' and the measurement of performance in terms of both financial and non-financial outcomes.

Future direction – re-orientation of business and finance around impact

The Aotearoa Circle's Sustainable Finance Forum (SFF) recently released its final report and roadmap, an industry-led initiative, drawing upon global thinking, setting out its vision and recommendations for a sustainable, resilient and inclusive financial system in New Zealand anchored in Te Ao Māori. It includes information on corporate and investor disclosure and accounting and valuing environmental and social outcomes.

The SFF acknowledges our current, unsustainable exploitation of natural and social capital to generate financial capital and calls for a whole new model – one of long-term, multi-stakeholder and holistic value creation. One where business and finance are understood to operate within natural, human and social constraints and dependencies, and the economy serves the needs and long-term wellbeing of society, while protecting and enhancing the wellbeing of people and planet.

All organisations need to care about their impacts and dependencies upon society and the environment, for two reasons.

First, these can translate into material financial risks and opportunities and have direct reputational, legal and capital raising implications. In addition, they aggregate to create a shared exposure to – and a shared interest in managing – systemic risks.

Secondly, the world is moving towards the mainstreaming of 'purpose-based' or 'impact-led' business and finance models, which seek not only to avoid harm but also to generate positive social and environmental benefits or contribute to solutions to sustainability challenges alongside financial returns. This is not only desirable from a societal standpoint but is increasingly expected to create long term organisational value and resilience.

Driving a growing demand for impact data and disclosure

This re-orientation is driving a growing demand for information from investors, regulators and other stakeholders about companies' sustainability impacts and risks. Investors, in particular, are seeking information that is reliable, comparable and useful for decision making – commensurate with the discipline and rigor of (globally standardised) financial reporting and accounting practices. Institutional investors, in turn, are under pressure to measure and disclose the sustainability impact and performance of their portfolios. Such data will also enable the incorporation of social and environmental impacts into financial accounting, asset valuations and credit ratings as well as pricing mechanisms and incentives linked to sustainability performance.

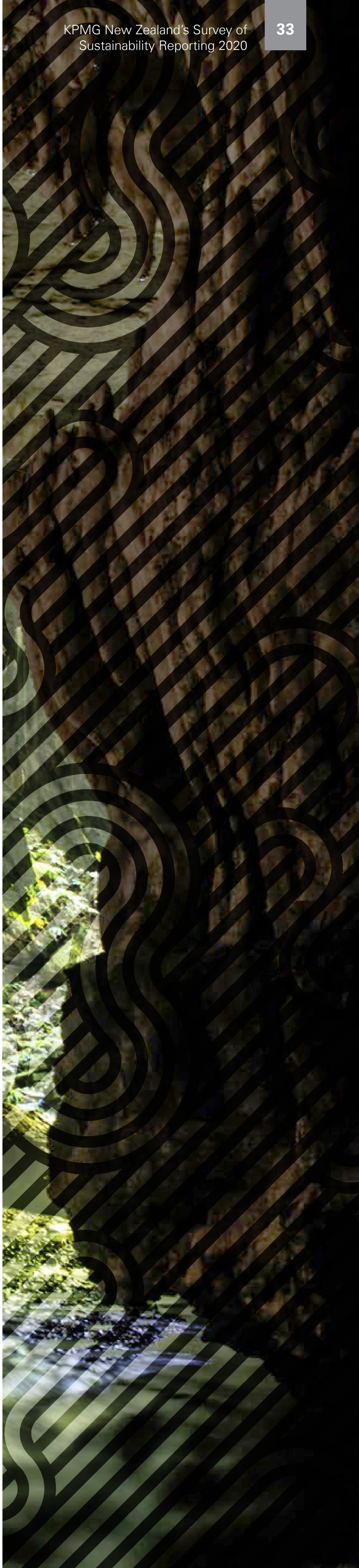
Towards convergence of sustainability reporting frameworks

Currently this is a proliferation of voluntary sustainability reporting frameworks and standards, and so we're seeing movement towards a more harmonised approach globally. The 'Big Five' corporate sustainability framework and standard setting institutions (Global Reporting Initiative (GRI), International Integrated Reporting Council (IIRC), Sustainability Accounting Standards Board (SASB), CDP and the Climate Disclosure Standards Board (CDSB)) recently committed to work together towards a more coherent, comprehensive corporate reporting system that can serve different audiences and concepts. This alignment was further accelerated with the announcement in November of the merger of the IIRC and SASB. As another step towards the same goal, the World Economic Forum, in collaboration with the 'Big Four' professional services firms, has published a set of common metrics and disclosures that can be used by

companies to report on their ESG performance and contribution toward the UN's Sustainable Development Goals in a consistent manner. The metrics are based on existing standards and aimed at accelerating convergence.

In the area of climate change specifically, the Task Force on Climate-related Financial Disclosures (TCFD) is an example of global convergence around a single framework. However, further work is required to translate that into an actionable and assurable standard.

The existing International Financial Reporting Standards (IFRS) reporting infrastructure is seen by some as a good platform to achieve harmonisation. In response, the IFRS Foundation proposes to create a Sustainability Standards Board (alongside the existing International Accounting Standards Board) mandated to develop and maintain a global set of sustainability reporting standards building upon existing initiatives. The 'Big Five' standard setters have expressed a willingness to work with the IFRS Foundation to develop the global architecture.



Compatiblity with impact investment frameworks

At the same time, corporate sustainability standard setters should have an eye to what is happening in the investor arena, and the frameworks being used to make investment decisions and assess and report on investment performance.

The next evolution of responsible investment (and banking) will consider not just integration of ESG risk, but also delivery of positive real-world impacts.

In that sense, mainstream investing is converging towards an impact investing mindset. And impact investing, which seeks to generate positive, measurable social and environmental impact alongside a financial return, is growing and expanding rapidly from what was once a small, niche market base. Looking at these two initiatives together, we're seeing demand for impact measurement and reporting at both investee enterprise and investment portfolio levels.

Here too, there is an explosion of frameworks, initiatives and efforts to collaborate towards more standardised approaches. The Impact Management Project (IMP) is arguably the current principal forum for building global consensus on how to set impact goals and strategies and to measure, manage and report sustainability impacts, with the IMP framework the most widely endorsed. Complementing this, the Global Impact Investing Network for example, has developed a common methodology to assess and compare impact performance of different investment opportunities with the hope of laying the foundations for market development of impact ratings, indices and benchmarks.

There are also many proprietary frameworks emerging, from large ESG research firms and boutique providers.

On the horizon in New Zealand

Currently, there are no mandatory sustainability reporting requirements or standards (for organisations or investors) in New Zealand. The Government has committed to introducing mandatory climate change-related financial risk reporting (TCFD-aligned) for listed issuers and other financial system actors, and the External Reporting Board (XRB) has been tasked with developing more detailed reporting stadards.

The SFF Roadmap also includes an assessment of the current sustainability reporting landscape in New Zealand and has made a series of recommendations that look to raise the bar on the quality, robustness and comparability of reporting.

Navigating a complex and rapidly changing landscape

Not surprisingly, organisations and investors are suffering from 'framework fatigue', struggling to keep abreast of developments and often grappling with multiple frameworks simultaneously, with smaller entities finding this especially challenging to resource. We are still in the relatively early stages of market development and given the complexity involved, it may take some time to reach the maturity of financial reporting and accounting practices.

In the meantime, organisations can:

Adopt a flexible, multi-stakeholder reporting structure

In its recent discussion paper on the future of corporate reporting, the Financial Reporting Council (FRC) questions whether the traditional concept of the annual report remains fit-for-purpose, observing that its intended purpose and audience is shifting. It calls for a more agile and holistic approach, proposing "a network of interconnected reports" encompassing both financial and non-financial information and applying the dual lens of sustainability impact and sustainability risk to the latter. While not perfect, existing sustainability reporting frameworks provide a well established means to do this.

Develop outcomes-based measurement and reporting approaches

Across the board, there is a shift in focus from measurement and reporting of inputs and outputs, to assessing outcomes and resulting impacts and the associated societal and/or enterprise value creation or destruction. Companies and investors will need to define impact goals and strategies and develop outcomes-based measurement and reporting frameworks and systems.

Prepare for valuation of environmental and social impacts

Already, we're seeing experimentation with impact accounting and valuation, with a view to incorporate into financial accounts as standard management and governance practice – for example the Impact-Weighted Accounts Project and the Value Balancing Alliance. These initiatives attempt to attribute monetary values to social and environmental impacts, as a means of translating into comparable units. The SFF Roadmap recommends keeping abreast of developments and, in the longer term, introducing accounting principles and standards which monetise social and environmental impacts and integrate with publicly reported financial accounts.

Boards and executive teams should recognise the strategic importance of sustainability reporting and take ownership of their story with a focus on quality data generation and disclosure. The future will reward those that embrace this change and respond proactively, using 'best endeavours' along the way.

Justine Sefton
KPMG IMPACT
Sustainable Finance Lead
Associate Director

The time has come… *to act*

The insights presented in this report put forward the case for substantive action.

Key considerations for the board and executive agenda:

Alignment: At a board level, provide the right support to CEOs and executive teams. KPMG's 2020 CEO survey indicated only a small percentage (12%) of New Zealand CEOs felt that they have the support of the board and major investors when it comes to tackling sensitive issues such as climate change. ESG matters are a key governance issue and boards and executive teams need to be aligned.

Talent and skills: Invest time in training and upskilling directors, executive teams and key employees. Add relevant sustainability skills to boards and invest in the right talent. The war for talent in the sustainability arena will be fierce, with the right skills not just about technical capabilities, but the ability to work across organisations. Integrating technical competencies from different parts of the organisation will be key to finding the right solutions.

Understand stakeholders: Invest in meaningful stakeholder engagement and identify those items that are most significant to a broader group of stakeholders. Many materiality assessments are narrowly focused and don't ask the right questions of the right stakeholders. As a strategic initiative it should be afforded appropriate focus and attention.

Frameworks: Broad-based reporting to multiple stakeholders will require a flexible, multi-stakeholder reporting structure. Framework noise can be mitigated by organisations taking a pragmatic view. Pick an approach that works and then place a greater focus on the most meaningful metrics that contribute to Sustainable Development Goals (SDGs) that typically form the end game of much ESG reporting.

Data needs: High quality ESG reporting will need high quality ESG data to support metrics and targets. Plan for future data needs and the level of robustness needed to report with confidence. Apply the rigour of financial reporting to sustainability reporting. Taking the first steps to assurance will provide further insights into readiness.

Don't wait for 2023: With mandatory climate reporting on the near-term horizon, get started with the substantive work now. Understand the climate change risks and opportunities that are likely to impact your business. This means doing the 'hard yards' to assess what these are and developing a resilient strategy and action plan that can be monitored, measured and reported in alignment with TCFD recommendations.

Methodology

The KPMG Survey of Sustainability Reporting – New Zealand supplement, reviewed the annual reports of the largest local organisations, by revenue. The research included the primary annual reports and any publicly available sustainability and/or TCFD reports (where relevant).

The research considered information published between 1 July 2019 and 30 June 2020 (in line with the global research methodology). No information was submitted directly by any organisations to KPMG New Zealand.

The New Zealand Supplement refers to two research samples:

The NZ100

These are the largest 100 organisations, by revenue, in New Zealand and was included in the KPMG global ESG research report. This sample was used to provide global comparability and analysis of key trends.

The sample includes publicly-listed, private and family-owned, as well as large public sector entities.

The NZ146

These are the largest 134 organisations who have a revenue above 200million NZD. It excludes companies whose ultimate parent is not based in New Zealand or Australia. This extended sample was used to provide further detailed analysis and insights at a sector level.

As above, the sample includes a selection of publicly-listed, private and family-owned, as well as large public sector entities.

12 Māori-owned entities were included in the research resulting in the NZ146 sample.

To be able to create sector comparison the following sector classifications[1] were used:

Agri-food

Food Producers, Forestry & Paper.

Consumer and retail

General Retailers, Food & Drug Retailers, Beverages, Tobacco, Household Goods & Home Construction, Automobiles & Parts, Personal Goods, Leisure Goods, Travel & Leisure.

Financial services

Financial Services, Banks, Life Insurance, Non-life Insurance, Real Estate Investment & Services, Real Estate Investment Trusts, Equity Investment Instruments, Non-equity Investment Instruments.

Lifeline utilities

Fixed Line Telecommunications, Mobile Telecommunications, Technology Hardware & Equipment, Electronic & Electrical Equipment, Electricity, Gas, Water & Multi-utilities, Oil & Gas Producers.

Māori[2]

A selection of 12 Māori entities.

Public sector[2]

Large government departments, state-owned organisations, local councils, council controlled organisations.

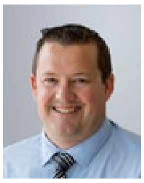
1. The sector classifications used for this research are aligned with the Industry Classification Benchmark (ICB), a globally utilized standard for the categorization and comparison of companies by industry and sector.

2. Public and Māori sectors are not part of the ICB classification but have been included in this research to provide a perspective on these sectors.

Contact

Dr. Charles Ehrhart
KPMG IMPACT Sustainable Value Director
M: +64 9 364 0976
E: cehrhart@kpmg.co.nz

Kay Baldock
National Managing Partner
Brand & Growth
M: +64 9 367 5316
E: KBaldock@kpmg.co.nz



Ian Jameson
KPMG IMPACT Better Business Reporting
Associate Director
M: +64 9 363 3509
E: ianjameson@kpmg.co.nz

Matt Prichard
Executive Chairman
KPMG New Zealand
M: +64 9 367 5846
E: matthewprichard@kpmg.co.nz

Ian Proudfoot
KPMG IMPACT Assurance Lead
KPMG Global Head of Agribusiness
Partner
M: +64 9 367 5882
E: iproudfoot@kpmg.co.nz

Simon Wilkins
KPMG IMPACT Sustainable Value Partner
M: +64 9 363 3480
E: SWilkins1@kpmg.co.nz

Justine Sefton
KPMG IMPACT Sustainable Finance Lead
Associate Director
M: +64 9 365 4005
E: jsefton@kpmg.co.nz

kpmg.co.nz/impact

kpmg.com/nz

SN13513