Opportunity is passing us by

Survey of Sustainability Reporting 2022

KPMG New Zealand

November 2022

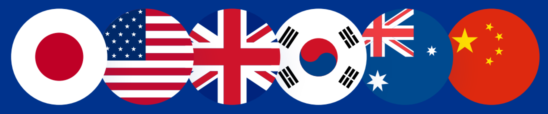
Contents

> **"We look forward to the day when comprehensive sustainability reporting is the norm rather than the exception.**

Executive summary

In the 2022 Survey of Sustainability Reporting, New Zealand has taken steps towards more comprehensive environmental, social, and governance (ESG) reporting in comparison to our 2020 report. However, our progress has been comparatively less than that of our key global partners (our top six trading partners).

Our peers (our top six trading partners)



Japan, US, UK, South Korea, Australia, and China

Given the scale of issues we face and the impacts corporate organisations have on society and the environment, our rate of progress is underwhelming.

So why has our progress slowed down? Why are we letting the significant opportunities that we could create from delivering world-class ESG reporting pass us by? What has driven our peers to provide their stakeholders and wider society with more relevant, comprehensive reporting than our large corporate entities?

In this report, New Zealand is ranked 38 out of 58 countries. We are ranked lower than all our peers.

In New Zealand, it is clear from the survey that climate is the top priority, and this is where our focus currently lies. With the release of the new Climate Standards next month, we expect these regulations to raise the bar on New Zealand's ESG reporting, even for those who won't fall under the scope of mandatory reporting.

We are seeing that, as ESG reporting topics grow, stakeholders are seeking more comprehensive information to help them make key decisions about the companies they choose to do business with, work for and allow to operate. It's clear the same level of rigour we have been used to delivering in relation to financial information is now necessary for non-financial information. New Zealand has made significant improvements in this space with a 17% increase in our top 100 organisations obtaining formal assurance over their ESG-related information; however, for many this is limited to assurance over a single element of their reporting.

We've introduced four new questions in this year's survey. They point to where stakeholder interest is increasing globally, and reporting should follow suit. New Zealand's performance is in line with global averages in these new areas, but our peers have outperformed us again.

We need a circuit breaker to grasp the opportunity that is passing us by.

EDITORIAL

Finding a circuit breaker

Finding a circuit breaker

KPMG's global survey of corporate sustainability reporting, *Big shifts, small steps*, tells of a world facing major challenges that are necessitating fundamental transformations in how we live and work: climate change, the cost of living crisis, the consequences of the pandemic, and food and energy shortages compounded by the war in Ukraine.

The survey highlights that these issues now clearly belong to the whole of society, not just governments or NGOs that have traditionally accepted responsibility and sought to bring solutions to the table. There is a growing expectation that companies, co-operatives and other commercial organisations will play a substantive role in initiating and delivering solutions that assist in transitioning society towards more equitable outcomes. These are the big shifts we have seen in the last two years.

Our global *CEO Outlook* survey reports C-Suite acknowledgement of this shift in societal expectations. However, there are questions about how well organisations are connecting words to actions. Globally, our survey shows growth in the number of organisations providing environmental, social and governance (ESG) reporting and an increase in the range of topics being reported on. Yet, given the scale of issues we face and the impacts they are having on society, the rate of progress is underwhelming. Small steps are better than no steps, but they leave significant room for corporates to better meet the expectations of all their stakeholders and take advantage of the opportunities that comprehensive, transparent reporting provides.

If the world is making slow progress, are we doing better in New Zealand?

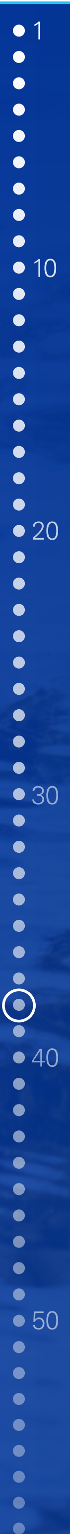
The previous global sustainability reporting survey in 2020, *The time has come*, noted the slow progress New Zealand corporates were making to advance ESG reporting.

However, there was hope that we were about to see a step change in reporting given the Government had just mandated climate reporting following the principles of the Task Force on Climate-Related Financial Disclosures (TCFD).

Unfortunately, there has been no step change in ESG reporting amongst our top 100 companies.

The progress our corporates have made has been comparatively less than that made in many countries,

which sees us ranked 38th for ESG reporting out of the 58 countries included in the survey.



The Aotearoa New Zealand Climate Reporting Standards will take effect from 1 January 2023 which, as we discuss later in this report, will provide some impetus to lift climate reporting across the economy. In our *submission* on the proposed Climate Standards we recognise that how we respond and adapt to the challenges and opportunities that climate change presents every organisation in New Zealand will shape our future and the outcomes every New Zealander experiences. Emphasis should be on investing time to do it right and report quality information that drives change, not mere compliance.

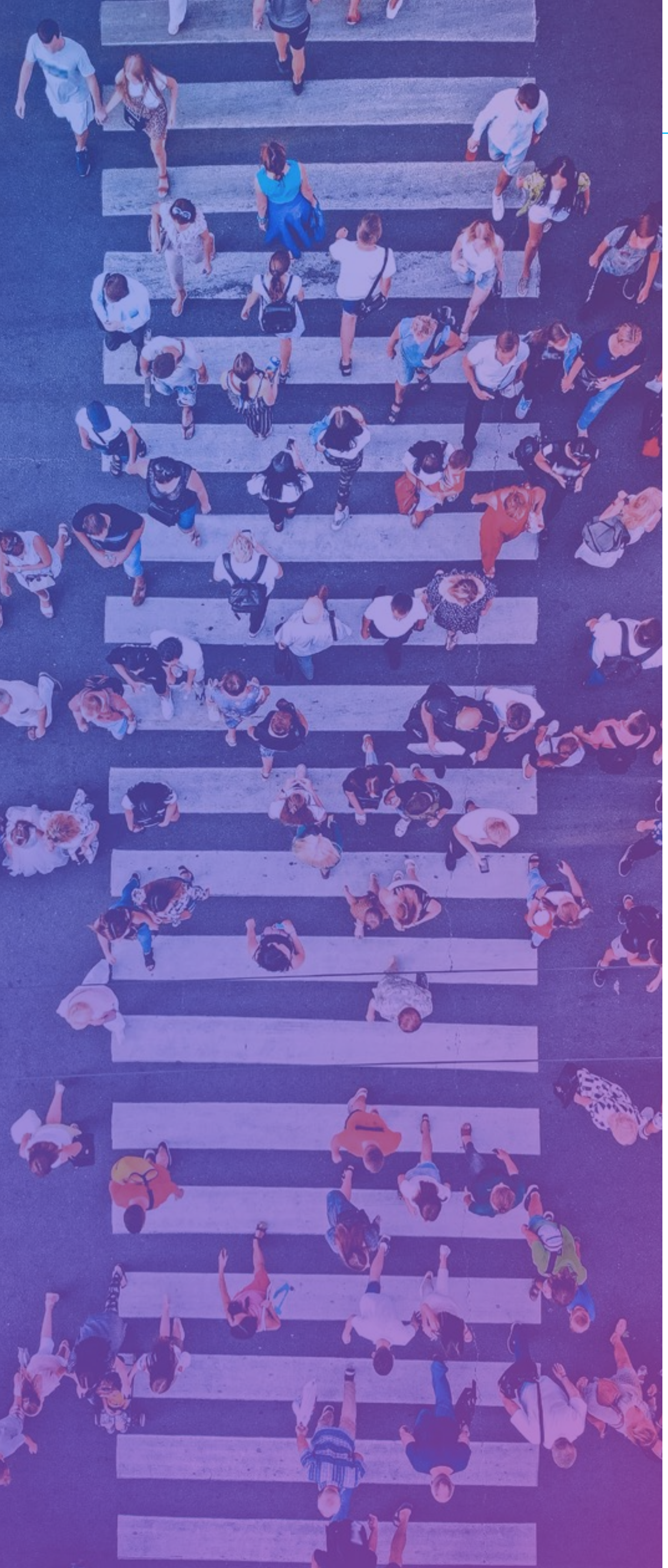
The timetable for adoption creates a risk that many organisations will treat reporting as nothing more than a compliance exercise rather than a driver for decarbonising their business. This is not a new problem in New Zealand. The key driver for broad adoption for disclosure of any non-financial metric has been regulation and a need to comply with the rules.

This is very different to what we see in many countries around the world, and particularly with our key peers (China, Australia, the UK, the US, Japan, and South Korea). In many of these countries, it is not regulation that is driving reporting but a recognition that comprehensive ESG reporting can be a significant contributor to an organisation's ability to create, and capture, value that benefits all stakeholders. This can be value creation through supporting an enhanced employee value proposition, through sharper articulation of organisational purpose, and enabling better designed and targeted community-based activities. It can be through providing investors with more relevant information, supporting improved access to capital to support earnings and share price growth.

Globally, corporates are enhancing their reporting because they are starting to realise benefits from doing more than the regulations require.

Our ESG reporting trajectory will make it harder for our companies to access capital, attract world-class talent, and develop new markets. Two years ago, the time had come for progress. Now it is time for action. The question is: who will create the circuit breaker that will drive us towards world-class ESG reporting?

"Who will create the circuit breaker that will drive us towards world-class ESG reporting?



Who will create the circuit breaker?

Directors and executive teams?

The evidence that embedding ESG principles into organisational strategy and reporting creates value for the organisation and its stakeholders is clear. Therefore, it should be a no-brainer for those directing our corporates to seek to lead a step change in reporting practices, without waiting for regulation to require reporting. We are sceptical that our current corporate leaders are driving the change we need to see. In New Zealand, there is a limited track record of organisational leaders who are prepared to move beyond regulated requirements and there are real questions as to whether the cost associated with doing more than the minimum will deliver a return to the business given the nature of our capital markets.

A more modern and holistic approach to embedding ESG principles into business strategy and reporting can differentiate an organisation, and create a return on investment. We are waiting for business leaders in New Zealand to align their apparent understanding of this with their actions, and consistently move beyond a compliance mindset in respect to non-financial reporting.

Financial institutions?

Banks, insurance companies and other large financial institutions control levers that can fundamentally shift reporting practices in an economy, and they are currently preparing to pull those levers in respect to climate reporting to ensure that they are able to meet their own disclosure requirements. Their need to report on their financed emissions will see banks incorporate reporting requirements for lenders on greenhouse gas (GHG) emissions into loan documentation over the next few years, while insurance companies will be looking to understand the climate risks that their customers are exposed to. This will undoubtedly extend the number of organisations that have to calculate their GHG footprint and make formal assessments of climate risk.

Financial institutions could be an ESG reporting circuit breaker. Our question is whether they are also willing to make a stand and use the influence they hold to leverage their customers to report on other critical ESG matters that underpin their credibility: modern slavery, the relationship with natural capital and biodiversity, gender diversity, and other metrics. An initial step in this direction could be achieved through banks committing to include sustainability-linked loan metrics into every loan they write, and requiring organisations to disclose their progress on these metrics publicly. This would strengthen banks' ESG position and assist in embedding reporting across the corporate sector.

Key organisational stakeholders?

A first step for any organisation looking to enhance ESG reporting is to understand material stakeholders, and the issues that are of the greatest importance to them. Historically, we have understood the needs of capital providers and delivered the reporting they need. However, an organisation draws not only on financial capital but on all six capitals (manufactured, natural, human, intellectual, social and relationship, as well as financial). These are provided by a range of stakeholders, all of which have different expectations and requirements of an organisation.

Financial capital providers have had their reporting needs protected in financial reporting regulation. We are starting to see other capital providers lobby organisations to make disclosures to provide them with the information they need (for example, human capital providers looking for consistent disclosure on pay equity). Stakeholders being vocal about their reporting needs, and highlighting organisations that are delivering, could act as a circuit breaker to accelerate our non-financial reporting performance. Stakeholder groups need to coalesce around their reporting needs, and then educate wider society on why the provision of high-quality information will lift outcomes for our society, to build pressure on organisations to report.

The wider community?

Currently, it appears that the most likely source of a circuit breaker is the wider community. One of the most notable events of 2022 has been the rapid deglobalisation and restrictions on Russia following the invasion of Ukraine. While governments have moved to implement sanctions, the unique feature of the deglobalisation has been the speed at which corporate entities have exited their trading activities in Russia. This has largely been a response to pressure from consumers around the world. Those organisations that have been slow to move have seen social media and commercial pressure quickly increase, forcing them to take action to minimise damage to their wider operations and brand equity.

The collective power of consumers has become easier to activate through digital connectivity. We expect to see more consumer activism shaping how companies respond to key societal issues. This will indirectly drive the reporting agenda for organisations. ESG reporting will become a key mechanism to share the actions they are taking on matters that are important to the wider community, both to protect their license to operate, and to attract new customers who connect with their purpose. The connection between reporting and opportunities for growth will become increasingly apparent to organisations that are listening to their customers.

While we have not seen the momentum we hoped for in ESG reporting enhancement over the last two years in New Zealand, we are confident change is possible.

The evidence is becoming increasingly clear about the benefits to organisations and society that come from comprehensive reporting. There are individuals and organisations that can initiate the acceleration we seek. Given the volatile and uncertain world we live in, the key question that remains is: how long will it be before commitment to comprehensive reporting on all the impacts that an organisation has on society becomes the norm rather than the exception?

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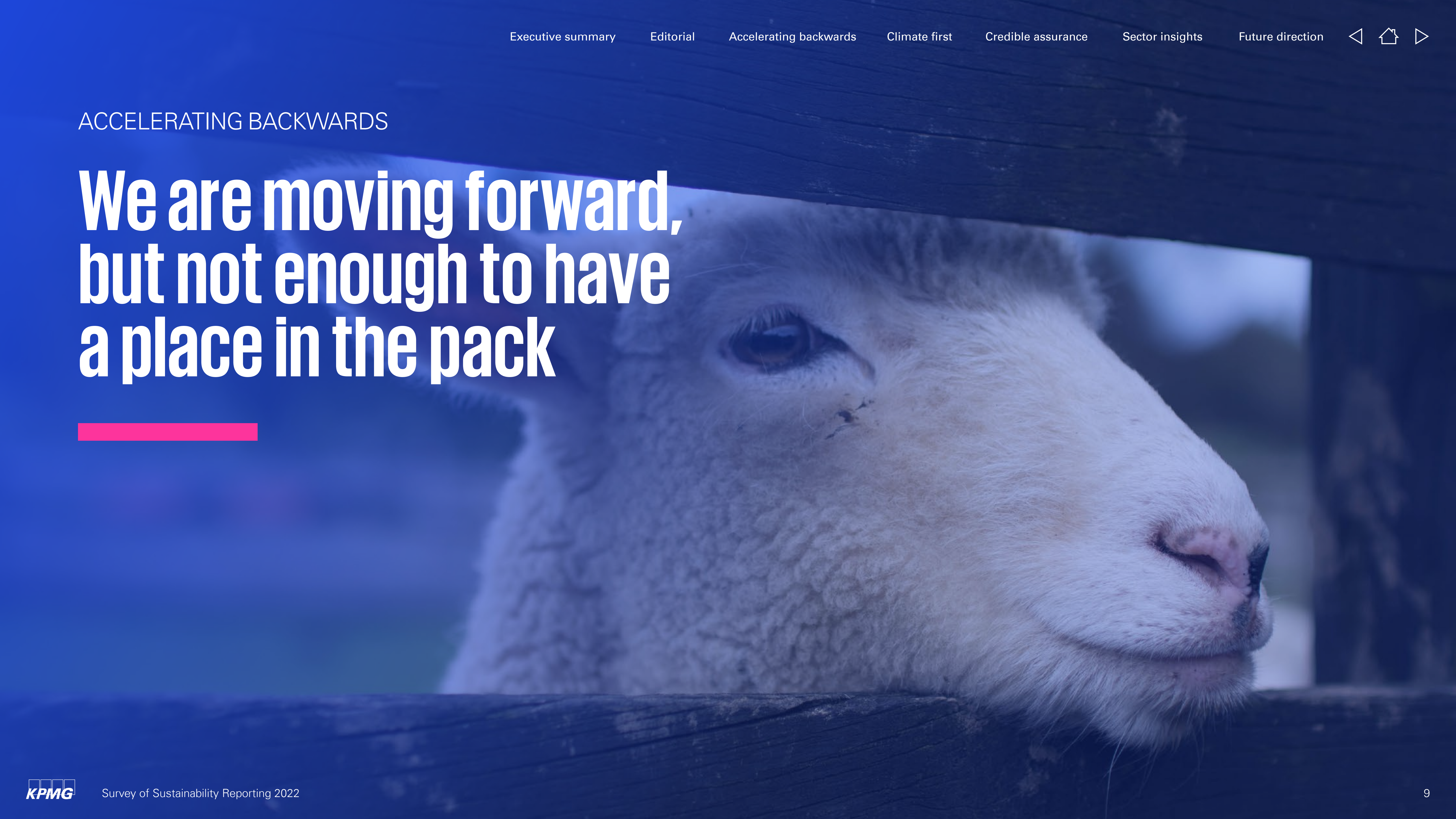
> **“With the big shifts we are facing, the time has most definitely come for New Zealand organisations to start to take bigger steps forward.**

ACCELERATING BACKWARDS

We are moving forward, but not enough to have a place in the pack



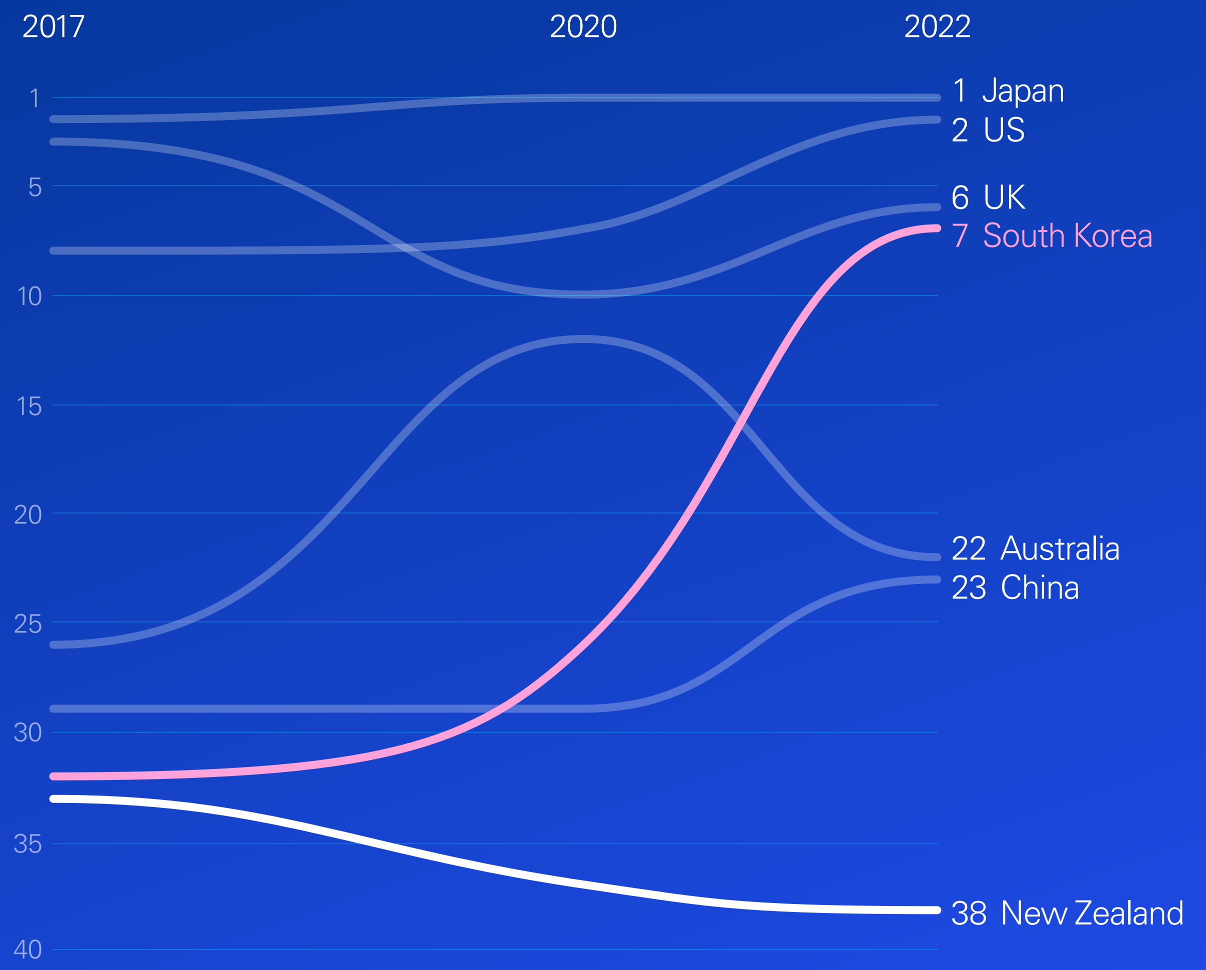
Accelerating backwards

We spent a lot of time trying to find the perfect chapter title to describe New Zealand's performance in the *2022 KPMG Global Survey of Sustainability Reporting*. We wanted one that captured the progress we have made over the last two years in adopting more comprehensive ESG reporting, but one that also told a story that our progress, particularly in comparison to some of our key trading peers, has been slower and less comprehensive.

After many iterations, we kept coming back to *Accelerating backwards*. It acknowledges that we are moving forward but not enough to have a place in the pack, best demonstrated by our achievement of a third quartile rank of 38 out of 58 countries in respect to our overall grade for ESG reporting (Rank of 37 out of 52 in 2020). While moving forward, we are going backwards faster. We have, in this survey, reported the lowest ranking amongst key economies that we trade with extensively (China, Australia, the UK, the US, Japan and South Korea).

Ranking of the top 6 trading partners based on percentage reporting on ESG performance

Preferences among Korean consumers, growth of ESG investments and action taken by the Korean regulators have led to their drastic improvement in reporting. Can New Zealand do the same?



Responses to key survey questions

We need to reduce the negatives and increase the positives

The survey compares the external reporting of the top 100 companies in each participating country, and only looks at what can be found amongst public information by an informed research analyst. Consequently, it is very likely that many New Zealand companies will have more information that they are collecting and using internally on ESG themes. Our survey does not give credit to them for collecting this information if it cannot be accessed publicly.

So, what are we doing well? In comparison to 2020, it was pleasing to see that the performance of New Zealand's top 100 companies has improved in respect to all the key performance metrics that we measure. The standout improvement has been the increase in the number of reporters that are seeking independent assurance, which has increased to 41% of the organisations sampled (up from 24% in 2020). As we note later in this report, there are a wide range of ways that independent assurance can be obtained, with not all delivering the confidence that we are used to receiving from an independent audit of financial statements.

Many of the organisations within our New Zealand sample will be captured by the mandatory climate reporting rules which will take effect from 1 January 2023. It is not surprising to see that more organisations are starting to make climate related disclosures.

Just over half of those included in the sample explicitly identify climate change as a risk to their organisation, while 67% have adopted a carbon reduction target.

Setting a target without recognition and assessment of risk could suggest that the target is not fully connected to the climate realities that an organisation faces. Only around half the organisations that have set a carbon reduction target have made the effort to set a science-based target. This further suggests that the analysis underpinning many decarbonisation pathways is being done to tick a compliance box rather than being based on a comprehensive understanding of the risks and, importantly, the opportunities that climate change creates for an organisation.

ESG is more than climate change

In respect to the 'E', there is growing evidence globally that organisations are increasingly providing more information information on the impacts that their business has on nature and biodiversity. Some organisations are already trialling the beta version of the reporting framework being developed by the Task Force for Nature Related Financial Disclosures (TNFD). Our analysis indicates that 36% of our New Zealand sample were already providing some level of reporting on the biodiversity risks that face their business. This appears to be a solid start on an emerging reporting area that will be of critical importance to Aotearoa, given the dependence of our economy on activities that interact with our land, soils, water, oceans, air, flora and fauna. Biodiversity risks were reported by 31% of the global sample.

However, our progress on 'S' and 'G' reporting, areas that are more established globally, is still in need of work. We identified 42% and 40% of New Zealand organisations reporting on social and governance risks respectively. In respect to governance risks, it is our impression that organisations are very good at reporting what they do to identify and mitigate generic business risk (disclosures that are mandated by the NZX Corporate Governance Code), but fewer companies go beyond compliance to explore the risks in a more holistic approach in their reporting. While the extent of reporting on social matters is increasing, the range of topics that might need to be covered in a comprehensive disclosure is also expanding, making this an area where constant work is required to ensure that relevant information is being delivered to stakeholders.

It is noticeable that fewer New Zealand reporters have adopted the Global Reporting Initiative (GRI) framework to shape their reporting, in comparison to those we see around the world. That said, we do have comparatively more organisations that have adopted the Integrated Reporting (<IR>) framework. The developers of both frameworks now form part of the DNA of the new International Sustainability Standards Board (ISSB), the sister organisation of the International Financial Reporting Standards (IFRS) Foundation which has been charged with developing consistent, globally relevant sustainability standards. While there remains much work to be done to develop a suite of global sustainability standards, we encourage reporters using both GRI and <IR> to keep a close eye on the international standards as they are released, to ensure their reporting reflects the evolution of best practice we expect to see in coming years.

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43% of New Zealand organisations use the GRI standards

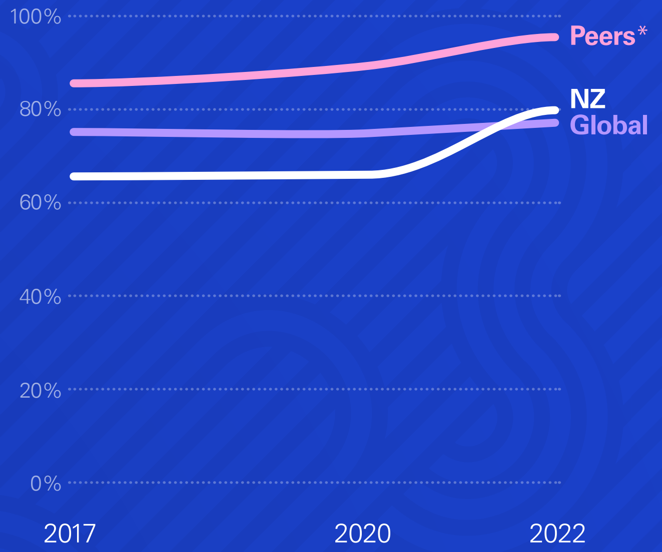
21% of NZ organisations report in accordance with the <IR> framework

> "Few companies go beyond compliance to explore the risks in a more holistic approach to their reporting.

The increase in the past two years is positive but it needs to be faster if we are to match our peers.

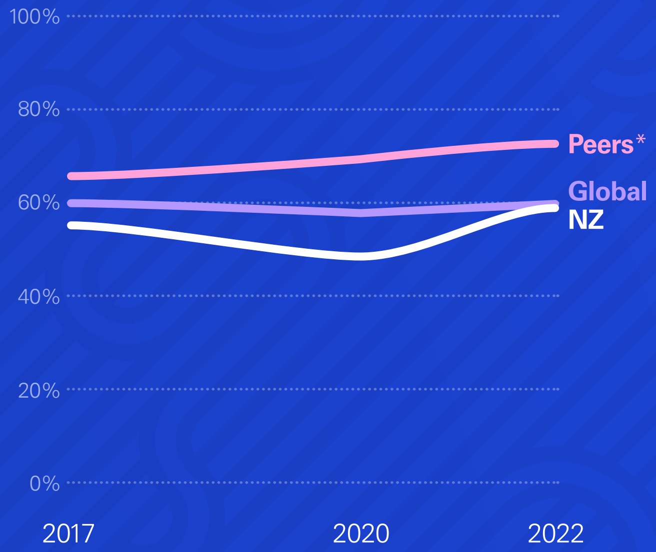
80%

of NZ organisations report on their ESG performance



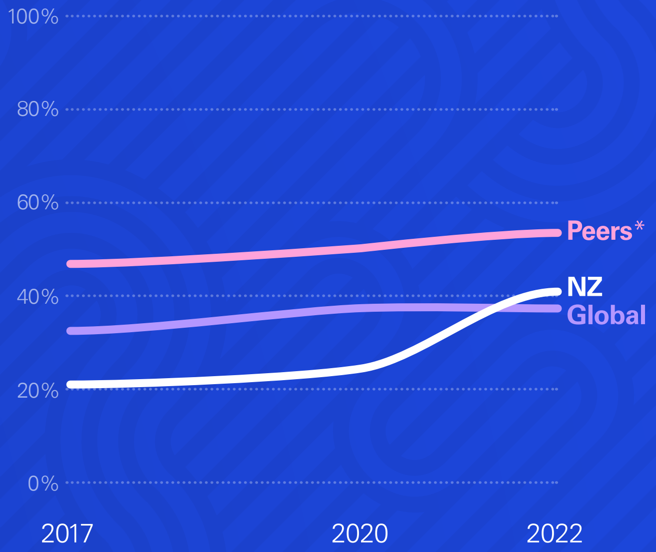
59%

of NZ organisations include ESG reporting in their annual report



41%

of NZ organisations' ESG information is independently assured[1]



Our peers* are accelerating ahead of us and global.

*  New Zealand's top six trading partners

1 The assurance figures for global above are based on the full sample size, whereas the global report only uses a subsection of the sample for their assurance reporting rates.
Note: New Zealand 2017 and 2020 reporting rates restated to adjust for the financial institutions that have been analysed separately.

CLIMATE FIRST

A great basis for accelerating the pace of change in the future

Climate first

The launch of the climate-related risk disclosure regime in New Zealand has already had a significant impact in helping to raise the bar on ESG reporting.

However, we're hearing from the market that while the standards will only mandatorily apply to around 200 of New Zealand's largest organisations, many others are choosing to follow them voluntarily. This is to meet the expectations of corporate customers, banks and other investment partners, and particularly for access to sustainability-linked finance. Climate change as a result is being unpacked across boardrooms and in the C-suite from a single, vaguely defined item on the enterprise risk register, to a collection of diverse material risks to an organisation's strategic direction, value chain and financial stability.

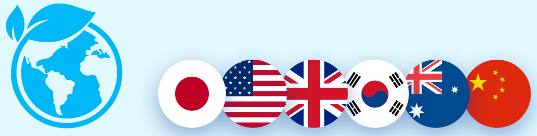
We're still waiting for the final version of the External Reporting Board (XRB) standards to be released before the end of 2022. Based on the drafts, we expect that it will be broadly equivalent to the application of TCFD recommendations in many other regimes, requiring scenario analysis using a range of climate projections and transition pathways, and encompassing both climate-related risks and opportunities, as well as emissions reduction targets and plans.

The challenge as we move through the first few years of reporting will be whether the disclosure standards are sufficiently well defined to enable comparable reporting across and between sectors. The XRB has tried to encourage this by recommending a sector-level scenario approach for organisations to share a common foundation set with their closest peers. This will only be truly effective in achieving comparability if the right representatives from each organisation work together to build their shared understanding of future pathways.

Another challenge with the scenario approach overall in New Zealand is that the relatively small scale of many organisations has meant that this level of sophisticated strategic foresight is not commonly used. Expert practitioners are limited in number and we're seeing this in the variable quality and robustness of the scenario sets.

It's this familiarity with the tools and techniques of advanced strategic planning, through the historical advantage of scale and organisational complexity, that is enabling our key trading partners to steam ahead by 22% points on TCFD reporting, 16% points on recognising climate change risk, and by 7% points on carbon reduction targets.

Climate-related disclosure cannot be treated in the same way as broader ESG reporting has conventionally been – left to the Corporate Social Responsibility (CSR) or environmental sustainability team to collect and format data annually to reflect what the organisation has been working on. TCFD and the XRB regime both require the discloser to tell the story of their organisation's journey of climate understanding, and the development of both current readiness and future, agile response options. The story's key characters must be



Our key trading partners are ahead of us on several climate reporting measures.

Ahead by +22% on TCFD reporting

Ahead by +16% on recognising climate change risk

Ahead by +7% on carbon reduction targets the Board and Executive Leadership Team. The supporting cast must represent the whole organisation and all stakeholder groups.

Quality scenarios should place the sector (for sector-level narratives) or the organisation (for entity-level narratives) squarely in the centre throughout the story arc. And most importantly, not be limited to the direct effects from physical climate change, or low-carbon transition. Climate change is a risk multiplier. The scenarios need to reflect the full range of drivers of change that the organisation is subject to, and then explore how climate change and varying transition pathways may potentially exacerbate or alter the organisation's operating environment.

New Zealand businesses are going through some growing pains right now, learning new ways of thinking and responding to the to the growing disclosure landscape.

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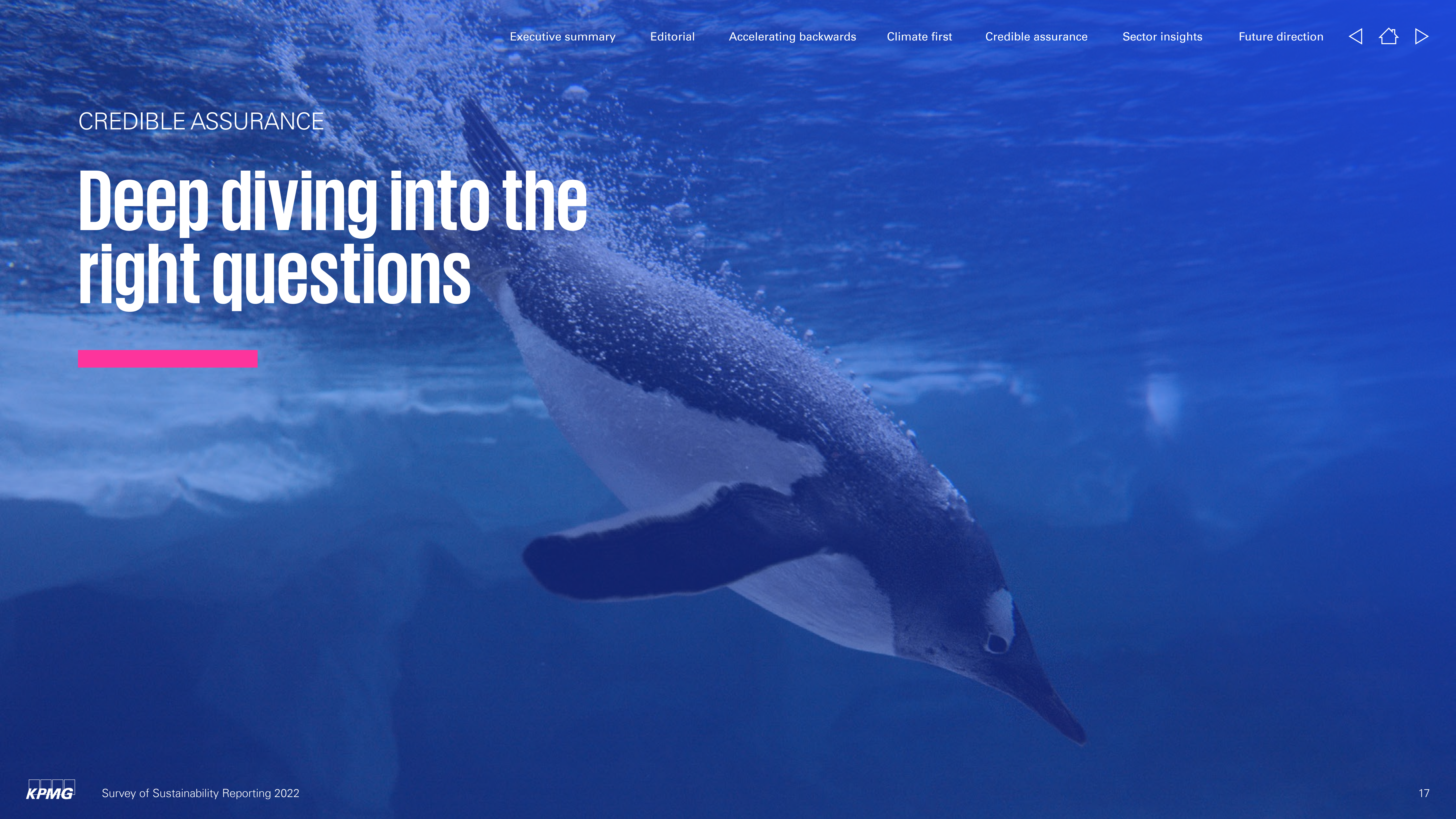
The focus on climate change has also limited the capacity of many organisations to focus on broader ESG risks. However, the experience and foresight generated through taking climate change seriously is likely to, in the medium-term, grow the resilience and agility of New Zealand organisations and provide a great basis for accelerating the pace of change in the future.



CREDIBLE ASSURANCE

Deep diving into the right questions

Credible assurance

In the last two years, New Zealand has seen a 17% point increase[1] in its top companies obtaining formal assurance over their ESG-related information. This is one of the largest increases globally. However, this is from a relatively low base, and only 41% of New Zealand organisations surveyed have had their information subject to some form of formal assurance. Due to the rate of increase, New Zealand is now slightly ahead of the 37% globally who have information formally assured, with rates expected to increase from 2023 as companies focus on adoption of the XRB Climate Standards. It is fantastic to see the significant step up over the last two years, although clearly there is a long way to go.

1. For the purposes of our NZ supplement analysis, we have removed the financial institutions from 2020 and 2017 and analysed them separately. This explains the difference with the global report of a 13% increase versus 17%.

Having formal assurance over non-financial information is critical to its integrity, in the same way that it is for financial information.

The parallels are obvious, and it is clear that non-financial information is being increasingly relied on for decision-making, whether it be for bank borrowing, contract tenders, or investment decisions. We believe that entities should focus on the quality of information being prepared, applying the same rigour that is used for financial information, and therefore subjecting it to the same independent audit process.

It is fantastic to see the significant step-up over the last two years, although clearly there is a long way to go

+17% increase in companies surveyed obtaining formal assurance over their ESG related information

Only 8% of New Zealand companies currently obtain Reasonable Assurance over ESG information

Ultimately this means targeting Reasonable Assurance, an equivalent standard to that used in financial statement audits. Our survey highlighted that only 8% of New Zealand companies currently obtain Reasonable Assurance over ESG information, with a further 2% having a mix of Limited and Reasonable Assurance. This is consistent with global trends, although there is significant change happening in 2023 and 2024 with the new Climate Standards that will raise the bar.

Of those currently obtaining assurance, the majority (71%) obtain Limited Assurance. We recognise that having a sensible and appropriate timeline for achieving assurance is critical, especially given the challenge that exists with the quality and maturity of data that underpins disclosures. Every organisation is different, and it isn't always clear where data challenges will occur. Therefore, it is appropriate that most are obtaining Limited Assurance while these challenges are being worked through. In the longer term, the greater rigour and quality that Reasonable Assurance provides should be everyone's goal.

There is a real risk, that, without good-quality, robust, independent assurance, organisations can be selective over the information they choose to share. It may be based on incorrect or incomplete data. At the extreme end, this could lead to accusations of 'greenwashing'.

Both globally and locally we have seen legal cases challenging statements that are being made. Audit has a key role to play in holding organisations to account and ensuring that the right questions are asked as they step into the increasing demands and requirements to provide non-financial information.

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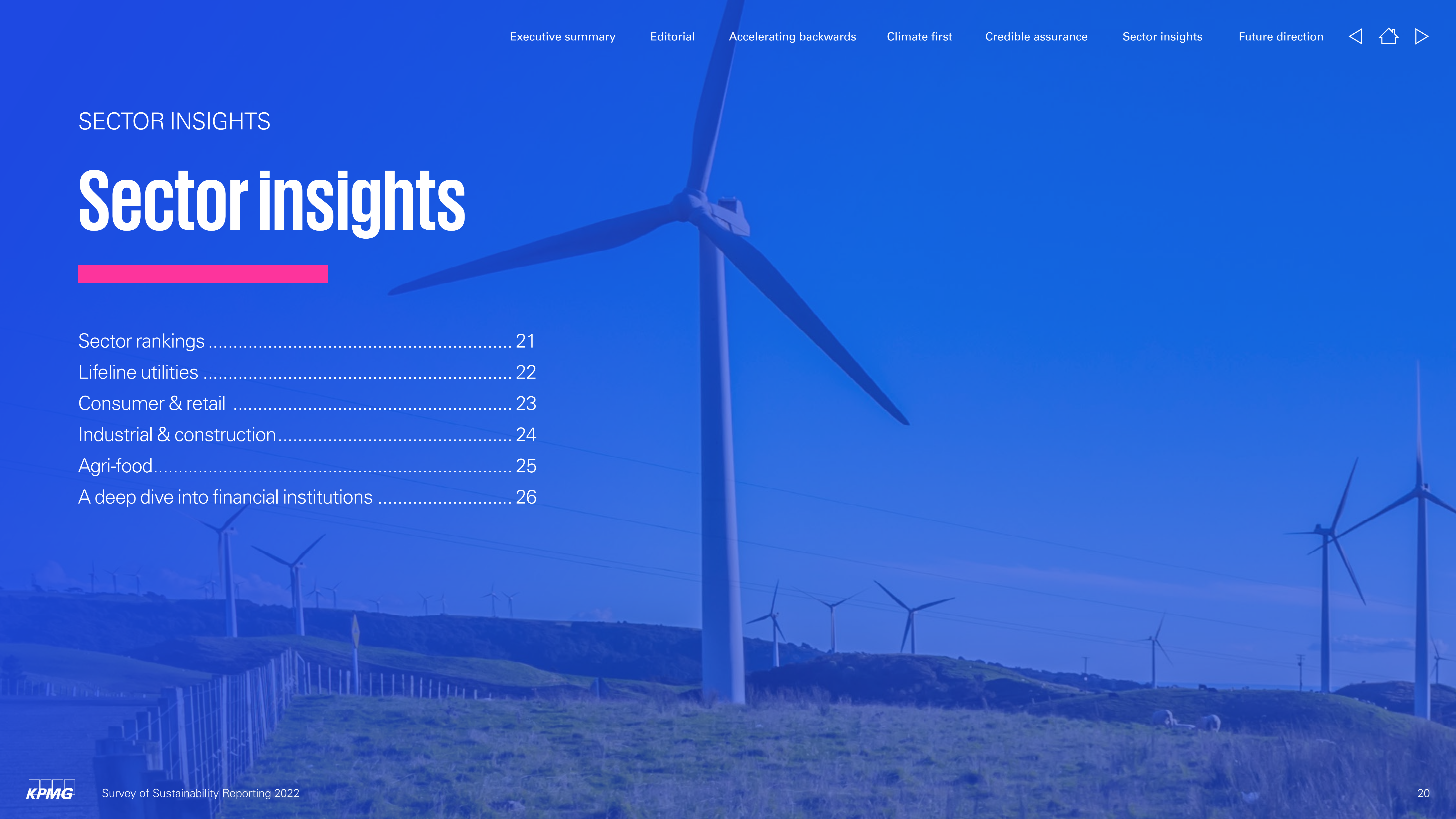


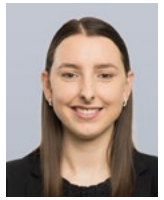
SECTOR INSIGHTS

Sector insights

Sector rankings

All sectors have made improvements in every area of reporting since 2020. However, each sector struggles to keep up with their global counterpart in some way, and our top 6 trading partners in almost all cases.

	#1 Lifeline Utilities	#2 Consumer & Retail	#3 Industrial & Construction	#4 Financial Institutions	#5 Agri-food
ESG reporting	94%	85%	85%	80%	72%
Climate change risk	82%	52%	55%	60%	40%
Biodiversity loss risk	59%	33%	35%	27%	40%
Social risk	59%	52%	50%	34%	24%
Governance risk	47%	56%	45%	47%	28%
Carbon reduction targets	88%	78%	60%	67%	56%
Science-based Targets	41%	37%	35%	40%	28%
Assurance	59%	52%	35%	40%	36%



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Lifeline utilities

Lifeline utilities are leading ESG reporting in the New Zealand market.

Although this sector was behind global average in 2020, they are now steaming ahead of them, and even asserting themselves against our top 6 trading partners.

The organisations in this sample are mainly producers and distributors of electricity and gas. Public perceptions of their assets and their role in society puts them more in the limelight on ESG topics, especially on climate and nature-related issues. As these organisations aim to be good corporate citizens in the light of their communities and investors, they have taken to reporting quickly in this space. Furthermore, the Government's focus on electricity and gas in its carbon reduction plan has been an additional driver for them.

While strong on climate, it was noted in 2020 that biodiversity loss is a critical environmental risk for this sector, as they utilise natural capital for their infrastructure, gas extraction and electricity generation. However, organisations did not acknowledge this until recently. 59% do now acknowledge biodiversity loss as a risk to their business. As many have already started early adoption of the Task Force for Climate-related Financial Disclosures framework in their reporting, they should be able to leverage this experience when it comes to nature disclosures using the Task Force for Nature-related Financial Disclosures framework.

It's encouraging to see these organisations also leading the charge on the new questions in the survey this year.

It's clear they appreciate that linking financial incentives to sustainability outcomes sends a clear message to stakeholders that this is being taken seriously and not simply a reporting task. Directing finances and allocating dedicated sustainability resource really is this sector 'putting their money where their mouth is'.

In the lifeline utilities sector

71% of organisations report in line with the TCFD

59% of organisations recognise biodiversity loss as a risk to the business

65% of organisations have ESG matters linked with compensation vs 34% across our top 6 trading partners

59% of organisations have a dedicated member responsible for ESG matters vs 43% of global organisations

Consumer & retail

Except for lifeline utilities, consumer and retail have some of the highest reporting levels in New Zealand. However, this is driven more by overseas parent companies who face greater regulation and stakeholder pressure.

The high reporting rates in this sector are largely due to the overseas-based companies – 73% of those carrying out ESG reporting in the sample are subsidiaries and the majority of these are only reporting via their parent company and not at a local level. Needing a 'social license to operate' is very real for this sector. With some strong global reporting such as Unilever producing what some call the 'gold standard' in ESG reporting, there is growing consumer pressure to meet the market's expectations in respect to the information provided. The Global Reporting Initiative (GRI) framework is common among these organisations as it enables identification of impacts on people and the planet, and guides reporting on climate and a range of other areas, which are highly relevant for this sector.

Social risks are also well-acknowledged by consumer and retail organisations, compared to the other sectors in New Zealand. Many of those who import could have long supply chains potentially spanning multiple countries, making modern slavery in their supply chain a real risk. Modern slavery reporting requirements are coming for New Zealand and organisations will need to perform a risk assessment of both upstream and downstream activities. Increased stakeholder demand for transparency means the whole supply chain will be under the microscope.

As 'ethical sourcing', 'sustainable products', and 'net-zero' become common buzzwords in this sector as a way for brands to promote themselves, 'greenwashing' has become its own buzzword for those demanding transparency.

Organisations should be getting assurance over these claims to protect themselves from reputational damage and legal action.

In the consumer & retail sector

85% of NZ organisations in this sector do ESG reporting

compared to 78% of global companies and 96% of our top 6 trading partners

73% of organisations who do report on ESG are subsidiaries of overseas organisations

52% of organisations in this sector report using the GRI framework

52% of organisations in this sector obtain assurance over their reporting

more than our top 6 trading partners at 45%, and globally at 37%

Industrial & construction

Of all the sectors, the industrial and construction sector is the most improved, with increases from 2020 across the board.

Most notably a 29% point increase in overall ESG reporting, a 34% point increase in adopting the GRI framework and a 27% point increase in recognising climate change as a risk.

This sector predominantly includes industrial metal companies who process and distribute steel and aluminium, and also construction and transportation companies. In addition to addressing climate risk, this sector is realising that ESG is evolving and other factors such as resource stewardship, waste reduction and recycling, and biodiversity protection are coming to the forefront. Their inherent dependency on natural resources, but also their greater impact on the environment, should see these topics high on the ESG agenda. The survey results have shown increases in these areas. However, it is still low in comparison to the other sectors when considering their impact.

This growing list of challenges is emerging against the ever-tightening safety standards which have always been a long-term focus for this industry. However, complying with health and safety rules is no longer enough.

Stakeholders now expect performance to be publicly reported. Employees are stakeholders with influence too. Reporting non-financial performance measures will be expected and used as a way to attract the best talent.

In the industrial & construction sector

35% of organisations recognise biodiversity loss as a business risk, up from 18% in 2020

50% of organisations recognise social elements as a risk to the business

Agri-food

The agri-food sector makes up a large portion of New Zealand's top 100 compared to global and our top 6 trading partners.

Considering the sector's contribution to New Zealand's economy, its reporting rates and acknowledgment of ESG risks are poor. Agri-food has the ability to assess climate change as a risk and turn it into an opportunity by working towards climate positive production. The sector could be leading the charge.

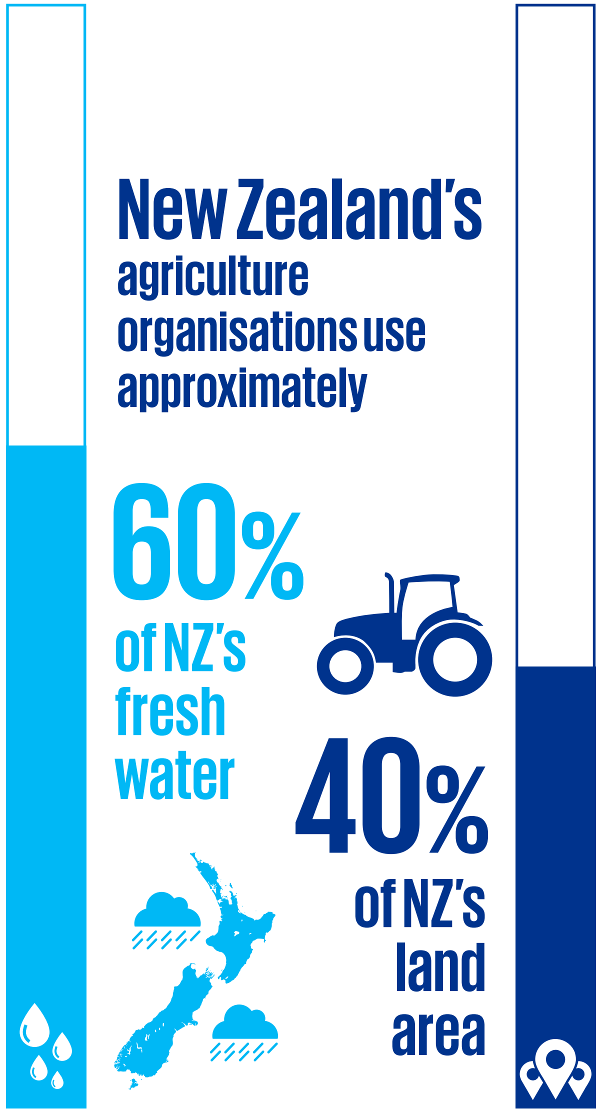
Although many of these large agri-food businesses are not in the capital markets and are therefore not exposed to questions from large international investors, customer pressure is building. Reporting will be vital to protecting their license to operate. By being open and telling their story, they can do this successfully, but at this stage they have not quite grasped the opportunity.

Being a sector that is so immediately and directly affected by weather changes influencing growing seasons and crop success, it also has an inherent dependency on nature. It is surprising how many in the sector do not recognise loss of biodiversity as a business risk. Lifting resilience in the sector's systems and tools will need to have climate and nature impacts central to the decision-making process.

"Land use that depletes nature will not be allowed to continue."

KPMG Agribusiness Agenda 2022

In very recent news, the New Zealand Government proposed farm-level emissions pricing to account for the different impacts of methane on the environment. This additional layer of government regulation, on top of encroaching customer pressure and the obvious weather impacts, will see this sector nearing several imminent hurdles.



In the agri-food sector

1/4 of NZ's Top 100 are in the agri-food sector in contrast to 8% of global companies

Only 72% of agri-food companies do ESG reporting, the lowest across the New Zealand sectors

40% recognise biodiversity loss as a risk, falling behind global at 42% and even further compared to top 6 trading partners at 64%

A deep dive into financial institutions

While financial institutions prioritise more imminent regulatory and reporting challenges, other sectors push ahead of them.

Despite seeing improvement from 2017 to 2020, overall ESG reporting has dropped in 2022. This can largely be attributed to the increased sample size; 15 financial institutions compared to only nine in 2020. All nine institutions reported in 2020, whereas only 12 of the 15 reported in 2022. In line with 2020, many in the financial institutions sector continue to rely on their Australian parents to undertake reporting on their behalf.

A common sentiment from this sector is a general sense of fatigue, as they have been tackling a multitude of new regulatory and reporting requirements. This additional reporting hurdle has been put on the back burner until it becomes too pressing to ignore, which will likely occur when the new Climate Standards come into effect in 2023. This sector plays a vital role in addressing the challenges of climate change given its far-reaching impacts and ability to direct capital towards positive outcomes. This sector also faces additional complexities when it comes to reporting.

Regulatory and reporting changes such as the new IFRS 9 and IFRS 17 standards, solvency standard amendments and changes to the Insurance Act have been more immediate priorities for the financial institutions.

Financial institutions tend to carry a greater burden when it comes to climate change, but also experience greater complexity in terms of identifying climate risks and opportunities, producing scenario analysis, and accounting for emissions. The wide scope of their boundaries and vast number of parties involved means the data to be collected can be wide-ranging in source, and of questionable quality. The question overwhelmingly on management's minds is, 'where does it end?' With 'financed emissions', for example those associated with loans and investments (Category 15 of the Greenhouse Gas Protocol's Value Chain Standard) likely making up most of their emissions, a materiality screening will be a crucial step to prevent the data gathering process feeling endless. This may explain the current, surprisingly low reporting rates of carbon reduction targets.

Collaborating on scenario analysis at a sector level should enable these required disclosures to be easier to put together.

However, it does rely on the whole industry working together, and this takes time. The insurance and banking industries are currently working on standardised scenario analyses which can be used by each individual organisation with only the added adaption for any unique operations. This should see scenario analysis reporting increase quickly, once they are finalised.

In the financial institutions sector

Including smaller financial institutions in the reporting results in reductions in reporting

60% of financial institutions recognise climate change as a risk down from 67% in 2020

67% of financial institutions report on carbon reduction targets, down from 78% in 2020

Three organisations report on the potential impacts of climate-related risks through scenario modelling, and this has only been done at a parent level where their headquarters are overseas.

Australia continues to carry the New Zealand financial institutions on its back

4 of 12 financial institutions who do ESG reporting, do so at a subsidiary/ local level

Social and biodiversity risks are a lower priority in this sector, according to the reporting rates on these elements. Social factors such as modern slavery issues in the supply chain, or gender inequality, and nature and biodiversity impacts such as degradation of our natural resources cannot be ignored in this sector; especially when considering their far-reaching and varied dependencies on both human and natural capital. With modern slavery legislation, and nature-related frameworks such as the Task Force for Nature-related Financial Disclosures looming large, these factors should be on their radar, more than these survey results would suggest.

Banks have an opportunity to drive sustainable practices by offering sustainability-linked loans and green bonds, enabling businesses to obtain better terms, if they meet certain ESG performance targets. This does add a layer of risk for the banks. Potential accusations of 'greenwashing' could occur if the targets are seen to be inadequate and not contributing to real change; or they receive inaccurate information from their customers when claiming they have met the targets. This is where assurance will become a necessity, and would need to be done both of the banks and for the banks.

Social and biodiversity risks tend to be put aside in favour of climate change risks

In the financial institutions sector

34% acknowledge social elements as a risk to their business

27% acknowledge loss of biodiversity as a risk to their business

67% acknowledge climate change as a risk to their business

No financial institutions acknowledged biodiversity loss as a risk in 2020

Our 2020 report expected to see this sector charging ahead in their reporting and early adoption of the upcoming mandatory standards. However, this has not been the case. An overwhelming number of other regulatory and reporting changes and the complexity of climate impacts in this sector have resulted in a 'back burner approach' to ESG reporting. The path to complete verified non-financial reporting is understandably complex given the scale and nature of their operating environments.

With the fast-approaching mandatory reporting deadlines, our discussions indicate the organisations are reviewing their existing operating model to be more dynamic in nature to look at all future reporting considerations, including reporting on their wider strategic objectives across the three ESG pillars.

With greenwashing a risk in this sector, assurance of and for the banks is crucial

40% **of assurance is limited assurance**

Only ONE **entity in the financial institutions sector gets its whole report assured**

Methodology

The New Zealand Top 100 companies were taken from the Top 200 index published by the NZ Herald which is a change to our methodology from the 2020 survey. This was due to it being determined that this index was a reliable, well-researched source. However, it excluded financial institutions. Due to the nature and importance of this subset of organisations, these have been separately analysed here. Furthermore, the 2020 and 2017 New Zealand data that has been used for comparisons has been restated to remove the financial service institutions.

FUTURE DIRECTION

Beyond climate reporting

Future direction

Our 2022 survey introduced a few new aspects that we will be monitoring going forward.

In particular it asked whether external reporting acknowledges:

- Q1 Social elements as a risk to the business;
- Q2 Governance elements as a risk to the business;
- Q3 A dedicated member of the Board and/or leadership team is responsible for sustainability matters; and
- Q4 Sustainability matters have been included in compensation within the company, either at Board or leadership team level.

These reflect the general trend that we've observed over the last few years. Stakeholders are increasingly interested to understand what organisations are doing around the 'S' in ESG. They are also increasingly interested to know how seriously ESG is taken within the organisation.

This is reflected by having responsibility for ESG at the top of the organisation and including ESG measures in performance pay.

Looking at the numbers relating to the various components that make up ESG, New Zealand is very much in line with its global counterparts, except for climate. This is likely due to the imminent introduction of mandatory climate reporting.

However, on all aspects New Zealand is tracking well behind our top 6 trading partners. It will be interesting to see if the reporting requirements that are on the horizon in New Zealand will change this.

	Top 6 trading partners	New Zealand	Global
Climate change risk	68%	52%	40%
Biodiversity loss risk	46%	36%	31%
Social (new Q1)	58%	42%	41%
Governance (new Q2)	55%	40%	42%
Dedicated member (new Q3)	50%	35%	34%
Included in compensation (new Q4)	33%	30%	24%

Climate-related reporting

The first significant reporting development for the coming year is in respect to climate change. The mandatory reporting regime becomes effective for periods beginning on or after 1 January 2023. There are several organisations in New Zealand that have been reporting under similar requirements on a voluntary basis for a number of years, consistent with their international counterparts. However, when the regime becomes mandatory, we will see a significant increase in the number of reporters.

You may be surprised to learn though, that in practice, it is not the regulatory requirements that drive the reporting.

We see more and more that it is market and societal pressures that are determining who make disclosures and are also driving the quality of disclosures. All businesses are part of the ecosystem, and you may be asked by your suppliers, customers, funders, the Government, and employees to provide information about your greenhouse gas emissions and how climate change will impact on your business. It makes good business sense to be prepared and do the work to know your number.

The Climate Standards provide a good framework to help an organisation through the reporting process, while at the same time encouraging it to think about the opportunities presented as New Zealand transitions to a sustainable, low-emissions economy. The requirements cover every aspect of the business: from the top of the organisation (the Board), through risk management and strategy, down to operational targets and metrics.

Of particular interest is the fact that the new standards are expected to require disclosure about the identity of the governance body responsible for oversight of climate risks and opportunities, and whether/how related performance metrics are incorporated into remuneration policies. These requirements are directly relevant to the new questions Q3 and Q4, described earlier.

In our view, the proposed new Climate Standards have real potential to drive the change that is needed in New Zealand, but not if adoption is seen as merely a compliance exercise. It is encouraging to hear that many organisations that have started their project have also realised the extent of benefits that could be achieved by doing this right and making the most of this opportunity.

> “The key is to keep the momentum going and have a good early draft of the report ready for ‘pre-assurance’; then a dry run before the assurance requirements become effective from 27 October 2024.

Nature-related reporting

The next wave of external reporting requirements that has already sparked conversations in New Zealand is around reporting and acting on evolving nature-related risks. You may have heard already the saying 'we cannot get to net zero (on climate) unless we become nature positive'.

Nature loss poses both risks and opportunities for business, now and in the future. A framework is currently being developed by the Task Force on Nature-related Financial Disclosures (TNFD) based on the same structure as the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) on which the New Zealand Climate Standards are based. Beta versions of the TNFD framework have already been released and updates are expected over the next few months with the aim to release the framework in September 2023.

Social-related reporting

In New Zealand we are expecting modern slavery legislation to be enacted in the coming year. The proposed legislation will create new responsibilities for all businesses across their operations and supply chains both within New Zealand and internationally.

The size of your business will determine the steps required under the proposed legislation. Medium and large sized organisations will be required to disclose steps they are taking to ensure there is no modern slavery or worker exploitation in their business operations or supply chains. Large organisations will also be required to undertake due diligence.

Bringing it all together – non-financial reporting framework

The XRB has initiated a project to develop a framework to support ESG reporting. It is referred to as Ngā pou o te kawa ora.

The first stage of the project aims to develop a draft principles-based framework focusing on Māori reporting entities to externally report the intergenerational and interconnected impact of the various activities they undertake.

The second stage of the project is expected to determine whether any amendments or further guidance is needed for application to other New Zealand reporting entities in different sectors – such as the private, not-for-profit, or public sectors. Each stage will be informed by other international ESG reporting frameworks to the extent they are deemed credible and suitable for use by New Zealand entities.

Ultimately, the framework will evolve and be sufficiently principles-based for use by many, and to hold organisations to account for uplifting the wellbeing of future generations in Aotearoa New Zealand.

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> **We're getting closer to the ultimate goal of integrated non-financial and financial reporting being the norm rather than the exception.**

"With the big shifts we are facing, the time has most definitely come for New Zealand organisations to start to take bigger steps forward. Who will create the circuit breaker needed to catch up to our peers?

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 reports (where relevant).

The research considered information published between 1 July 2021 and 30 June 2022 (in line with the global research methodology). If a company did not report during this period, reporting from 2020 was reviewed. However, no reports issued earlier than 1 July 2020 were reviewed. The survey findings are based on analysis of publicly available information only and no information was submitted directly by companies to KPMG firms.

The survey methodology stipulated that if a NZ Top 100 was a subsidiary, and the reporting was done only via a parent company (even if domiciled overseas), the organisation would still be counted as reporting on ESG.

NZ Top 100

These are the largest 100 organisations, by revenue, in New Zealand and were 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 sample did not include financial institutions as we have used the Top 100 companies from the Top 200 index published by the NZ Herald which did not include these. This is a reliable, well-researched source. Financial Institutions have been assessed separately. This is a change from the 2020 and 2017 methodology, as these included financial institutions in the top 100. For the purposes of our NZ supplement analysis, we have removed the financial institutions from 2020 and 2017 and separately analysed them.

Sector categorisation

To be able to create sector comparisons the following sector classifications were used:

Agri-food – Food Producers, Forestry & Paper.

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

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

Industrial & construction – Industrial Metals & Mining, Mining, Construction & Materials, Aerospace & Defence, General Industrials, Industrial Engineering, Industrial Transportation, Oil Equipment, Services & Distribution, Chemicals, Alternative Energy, Oil Equipment, Services & Distribution, Manufacturing of Other Transportation Vehicles, Diversified Industrials.

Healthcare and Technology & Media sectors have not been assessed as they represent too small a portion of the New Zealand Top 100.

Making real impact

At KPMG we partner with organisations to positively impact the UN's Sustainable Development Goals, helping them be sustainable, resilient, inclusive, and focused on their impact. Our approach brings to life five focus areas to help Māori, public and private sector organisations drive positive social and environmental outcomes for Aotearoa and all New Zealanders.

We are a multi-disciplinary team drawing on expertise from across KPMG to measure new metrics, develop new reports that look beyond pure financials, architect roadmaps for carbon neutral operations, and undertake reforms to progress social outcomes. We are united by our mission, offering a unique range of complementary skills including 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; integrated reporting; audit and assurance.

kpmg.co.nz/impact

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