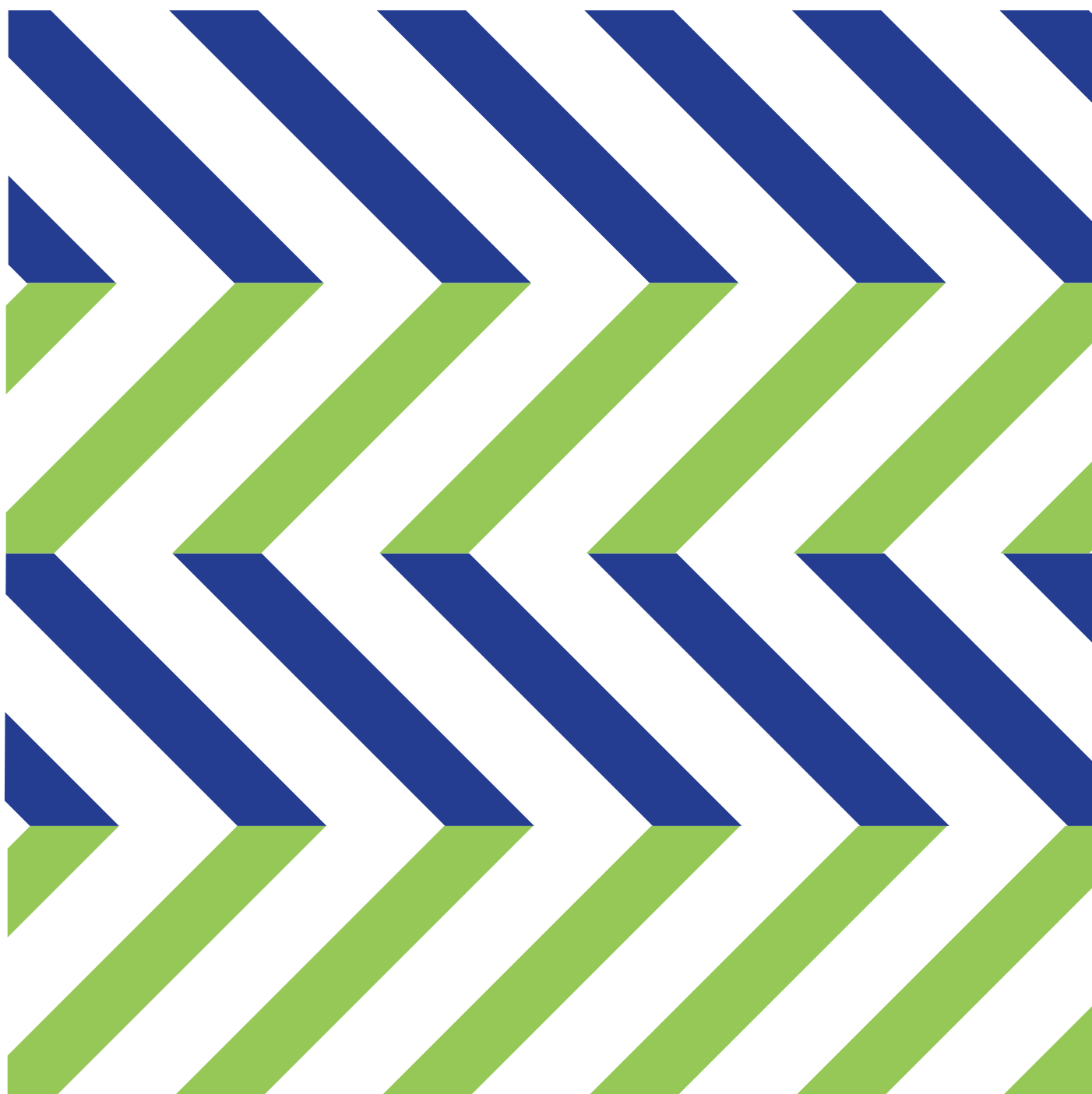


Survey Insights: An analysis of the 2017 Extended External Reporting Surveys



This research is a collaboration between the External Reporting Board and the McGuinness Institute.

Survey Insights:
An analysis of the 2017 Extended
External Reporting Surveys

March 2018

Title	<i>Survey Insights: An analysis of the 2017 Extended External Reporting Surveys</i>
Published	Copyright © McGuinness Institute and External Reporting Board (XRB), March 2018 ISBN 978-1-98-851855-8 (Paperback) ISBN 978-1-98-851856-5 (PDF) This document is available at www.mcguinnessinstitute.org and www.xrb.govt.nz , and may be reproduced or cited, provided the source is acknowledged.
Prepared by	The McGuinness Institute and XRB, as part of the McGuinness Institute's <i>ReportingNZ</i> project.
Authors	Wendy McGuinness, Isabella Smith and Karri Shaw
Research assistants	Sally Hett, Madeleine Foreman and Nicholas Shackleton
Editors	Ella Reilly and Eleanor Merton
Designer	Ashley Brown
For further information	McGuinness Institute Phone (04) 499 8888 Level 2, 5 Cable Street PO Box 24222 Wellington 6142 New Zealand www.mcguinnessinstitute.org
Disclaimer	The McGuinness Institute has taken reasonable care in collecting and presenting the information provided in this publication. However, the Institute makes no representation or endorsement that this resource will be relevant or appropriate for its readers' purposes and does not guarantee the accuracy of the information at any particular time for any particular purpose. The Institute is not liable for any adverse consequences, whether they be direct or indirect, arising from reliance on the content of this publication. Where this publication contains links to any website or other source, such links are provided solely for informative purposes and the Institute is not liable for the content of any such website or other source.
Publishing	This publication has been printed by companies applying sustainable practices within their businesses. The body text and cover is printed on DNS paper, which is FSC certified.



The McGuinness Institute is grateful for the work of Creative Commons, which inspired our approach to copyright. This work is available under a Creative Commons Attribution-Noncommercial-Share Alike 3.0 New Zealand License. To view a copy of this license visit: www.creativecommons.org/licenses/by-nc-nd/3.0/nz

Contents

Preface	1
Executive Summary	3
1. Introduction	5
1.1 How to read this paper	5
1.2 About Extended External Reporting	5
1.3 About the 2017 Preparers' and Users' Surveys	5
1.4 About the 2011 Preparers' survey	5
1.5 About the 2017 Survey Highlights paper	5
1.6 Limitations	5
1.7 Acknowledgements	6
2. User survey comments	8
2.1 Four comment groups	8
2.1 Method of analysis to identify the four comment groups	8
3. Accessibility	10
3.1 Commonalities between Preparers and Users	10
3.2 Differences between Preparers and Users	10
3.3 Other insights from the Preparers' Survey	10
3.4 Other insights from the Users' Survey	11
3.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey	11
4. Engagement	12
4.1 Commonalities between Preparers and Users	12
4.2 Differences between Preparers and Users	12
4.3 Other insights from the Preparers' Survey	12
4.4 Other insights from the Users' Survey	13
4.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey	13
5. Content	14
5.1 Commonalities between Preparers and Users	17
5.2 Differences between Preparers and Users	18
5.3 Other insights from the Preparers' Survey	18
5.4 Other insights from the Users' Survey	19
5.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey	19
6. Frameworks	20
6.1 Commonalities between Preparers and Users	21
6.2 Differences between Preparers and Users	21
6.3 Other insights from the Preparers' Survey	21
6.4 Other insights from the Users' Survey	21
6.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey	22
7. Assurance	23
7.1 Commonalities between Preparers and Users	23
7.2 Differences between Preparers and Users	24
7.3 Other insights from the Preparers' Survey	24
7.4 Other insights from the Users' Survey	24
7.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey	24
Glossary	24
Final word	25

Preface

The External Reporting Board (XRB) is an Independent Crown Entity engendering trust and confidence in New Zealand organisations' external reporting through the establishment of an accounting and assurance standards framework. Under these frameworks, accounting and auditing & assurance standards are developed and issued. These will assist entities to compete internationally and enhances entities' accountability to stakeholders.

This work was undertaken in collaboration with the McGuinness Institute to survey the Extended External Reporting (EER) of for-profit reporting entities. This research is intended to inform XRB of the current provision of information by reporting entities and a comparison to user needs. This information will in turn assist XRB to evaluate the quality of current guidance on best-practice EER to determine the best direction for our future work on the New Zealand financial reporting strategy and associated accounting standards and auditing & assurance standards. This research will also assist us in liaising with national and international organisations with similar functions to the XRB, to ensure that New Zealand is consistently at the forefront of best-practice reporting across the for-profit, not-for-profit and public sectors.

We acknowledge that EER is still a developing practice, but our early experience in this area has revealed strong developments in recent months and the emergence of some promising examples within New Zealand. We look forward to applying this research to better equip preparers of external reporting to meet the needs of their users. We are confident that New Zealand has the capacity and capability to be at the forefront of transparent public reporting, with an exemplary framework that creates a level playing field for the disclosures of both New Zealand and overseas companies.

We commend the team from the McGuinness Institute for their achievements in undertaking these surveys together with this compilation of the results. This output will be most useful for our future activities.



Warren Allen
Chief Executive
External Reporting Board

Preface

The World Economic Forum's recent *Global Risks Report 2018* (13th edition) emphasises the breadth and impacts of risks that lie ahead. Countries and companies that work hard to identify and manage risks so they are 'future ready' are more likely to build resilience into their systems. This is not just good for the country but also a real value-add for investors, employees, consumers, suppliers and bankers.

This *Project ReportingNZ* research aims to contribute to the global conversation on how to improve the quality of EER by looking at the challenges and opportunities that exist within New Zealand. It builds on research undertaken in 2011, the *Integrated Annual Report Survey of New Zealand's Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*.

Although the quality of corporate reporting from 2011 to 2017 did not improve as rapidly as we had anticipated, we are confident that if New Zealand as a nation desires better reporting, the change from 2018 to 2025 could position New Zealand as a world leader in EER, not only improving investment decisions but also reinforcing our clean green brand.

We wanted to learn more about the current reporting landscape, what obstacles to EER currently exist and what key players think about the quality of reporting. My hope is that together we might be able to manage a more consistent, comparable and relevant way of reporting on risks and opportunities for New Zealanders.

The McGuinness Institute hopes this *Survey Insights* paper will be used as a tool to inform Chief Financial Officers and company boards, industry organisations, standard-setters, policy makers and other innovators. We have outlined our key takeaways in terms of results, but there is still a great deal more to learn from the data. This will be discussed in future reports and papers. As we expect to undertake further work in this field of study, we would also appreciate your feedback and observations.

This *Survey Insights* paper, the *Survey Highlights* paper and the two surveys are part of a collaboration between the ERB and the McGuinness Institute. The McGuinness Institute would like to acknowledge the important role that the XRB has in strengthening the external reporting landscape in New Zealand. We commend them for their work in this area.



Wendy McGuinness
Chief Executive
McGuinness Institute

Executive Summary

Survey Insights: An analysis of the 2017 Extended External Reporting Surveys is a key output of the McGuinness Institute's *Project ReportingNZ*, which aims to contribute to a discussion on how to build an informed society in New Zealand. *Survey Insights* analyses qualitative and quantitative data from two surveys undertaken in mid-2017. The objective is to present key insights to interested parties on the current state of EER from the perspective of Preparers and Users of this information.

The surveys asked respondents to tell us about the challenges and opportunities that currently exist for them as either Preparers or Users of EER.

Our findings highlight the challenges that lie ahead in balancing User needs with Preparer concerns. The key takeaways are as follows:

- 1. Both Preparers and Users welcome mandatory filing of annual reports.**
It is a simple way to improve access to EER information disclosed in annual reports.
- 2. Preparers and Users have different views over whether the audience should remain the shareholders or be extended to stakeholders.**
Wider engagement ensures all stakeholders can obtain relevant EER information.
- 3. Both Preparers and Users welcome reporting on goals, strategies and targets, but Users want more information than Preparers provide.**
Users do not think this information is reported on well.
- 4. Industry statistics are increasingly seen as a key requirement.**
They enable comparability between companies/industries and contribute to a deeper understanding of risks and trends over time.
- 5. Future orientation information is an emerging key requirement.**
It delivers better decision making for existing and potential investors, government and other stakeholders.
- 6. Preparers are not aware of the range of EER frameworks available.**
While some are very proactive in seeking out alternative ways to provide EER, others are not interested.
- 7. Preparers and Users have different views over whether EER should remain voluntary or move towards a more mandatory approach.**
In an increasingly complex world, Users want to make decisions based on timely, reliable, relevant and comparable EER information.
- 8. XRB is the favoured standard-setter for mandatory requirements.**
Both Preparers and Users look to the XRB for EER guidance or mandatory requirements.
- 9. Independent assurance is an emerging key requirement for EER information.**
It inspires trust which enables companies to build good relationships with stakeholders, including suppliers, consumers and the wider public.

Section 1 introduces the purpose and limitations of this research.

Section 2 discusses the four different comment groups found when analysing User responses. These four groups consistently expressed similar views on EER (see Table 2 on p. 9). These groups can be summarised as follows:

EER Sceptic (approximately 10% of Users)	EER supporter (approximately 30% of Users)
Pragmatic sceptic (approximately 20% of Users)	Pragmatic supporter (approximately 40% of Users)

To communicate the research results, the data was further divided into five key aspects of EER: accessibility, engagement, content, frameworks and assurance (Sections 3–7). Each section begins with a recap of the data and high-level findings found in the *Survey Highlights: A summary of the 2017 Extended External Reporting Surveys* (see cover image below right) and concludes with a discussion on the commonalities and differences between the 2017 Preparers and Users, as well as other insights.

The two surveys and their responses can be read in full in the *Preparers' Survey: Attitudes of the CFOs of significant companies towards EER* booklet and the *Users' Survey: Attitudes of interested parties towards EER* booklet (see cover images below). Soft copies of all four documents in the series can be found at www.reportingnz.org and www.xrb.govt.nz.

Publications in this series



(This document)

1. Introduction

Project ReportingNZ was developed as a response to the important role businesses play in society and looks specifically at how public reporting works as a tool for improving the relationship between businesses and the communities in which they operate.

This paper, *Survey Insights*, is a key output of the McGuinness Institute's *Project ReportingNZ*. The project was initiated as a policy project in 2016 to recognise that effective strategy requires reporting, reporting is necessary for developing foresight and foresight drives strategy. This policy project has focused on EER as an important tool for decision making, particularly in public policy development.

The 2017 surveys follow on from a survey the Institute undertook in 2011, the *Integrated Annual Report Survey of New Zealand's Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues* (what we have called the 2011 *Preparers' Survey*).

The two 2017 surveys aim to:

- raise awareness about the importance of non-financial information;
- learn more about what is and is not working in the current reporting landscape; and
- understand the barriers to and enablers of EER.

1.1 How to read this paper

This paper focuses on the findings of the surveys only; it does not aim to draw conclusions. To visually distinguish between the 2017 Preparers and 2017 Users, blue and green font and text boxes are used (respectively) throughout this paper.

The paper is broken up into seven sections. Section 2 examines the different opinion groups that became evident within the User survey comments and assesses current views on EER from users of this information. The remainder of the paper analyses what Users and Preparers think of the accessibility, engagement, content, frameworks and assurance of EER. Sections 3–7 begin with a recap of the relevant findings in *Survey Highlights: A summary of the 2017 Extended External Reporting Surveys*, which are then elaborated on. This is indicated in a grey box at the beginning of each section. In this paper each section is further split into five subsections: (i) commonalities between Preparers and Users, (ii) differences between Preparers and Users, (iii) other insights from the *Preparers' Survey*, (iv) other insights from the *Users' Survey* and (v) comparing the 2017 *Preparers' Survey* with the 2011 *Preparers' Survey*.

1.2 About Extended External Reporting

For the purposes of *Project ReportingNZ*, EER is defined as follows:

Extended External Reporting (EER) includes all information above and beyond what a company is required to provide under the Companies Act 1993 and the Financial Reporting Act 2013. EER can include information on a company's outcomes, governance, business model, risks, prospects, strategies and its economic, environmental, social and cultural impacts.

1.3 About the 2017 Preparers' and Users' Surveys

The surveys explored the current and future landscape of reporting in New Zealand and the usefulness of EER for corporate and public decision making. Graph 1 overleaf shows the Preparers based on their areas of primary activity and Users based on their the capacities and reasons of interest.

1.4 About the 2011 Preparers' Survey

In 2011, the McGuinness Institute undertook the 2011 *Preparers' Survey*. This focused on Integrated Reporting (IR), which has a narrower definition than EER (see 1.2 of this introduction) in that it asked 2011 respondents to focus on their annual report.

Integrated Reporting (IR), as defined in the 2011 *Preparers' Survey*, refers to the integrated representation of a company's performance in terms of both financial and non-financial results. This was assumed to be included as an extended version of an annual report, in a specific document.

1.5 About the 2017 Survey Highlights paper

This is a six page summary of the 2017 *Survey Insights* paper. It contains the data and high-level findings repeated at the beginning of Sections 3–7.

1.6 Limitations

Limitations are to be expected when the views of a small sample of respondents are analysed in order to understand the views of a large and diverse community like those interested in EER. Given the respondents self-selected to undertake these surveys, those reading these results should be aware that the Preparers who took the time to complete the survey are likely to be those interested in reporting for the wider public good. This means the survey results are likely to overrepresent the views of Preparers who focus on best practice and Users who actively support EER. We also observed that a greater number of CFOs from NZSX-listed companies answered the 2017 *Preparers' Survey* than from the 2016 Deloitte Top 200.

Specific limitations that we are conscious of include:

i. Timing issues

The list of significant companies invited to complete the *Preparers' Survey* covers a six month period. Potential respondents to the *Preparers' Survey* included the 129 companies listed on the NZSX Board (as at 30 June 2017) and the 200 companies published on the 2016 Deloitte Top 200 (as at December 2016). As the Deloitte Top 200 is announced at the end of each year we decided a more recent list from the NZSX Board was desirable. 53 companies [19%] were on both lists. Over half of the *Preparers' Survey* respondents were from NZSX-listed companies, compared to Deloitte Top 200 list-only.¹

ii. Comment group analysis

Individuals who respond to a voluntary survey on EER information are more likely to support the implementation of EER. Therefore, the results for the *Users' Survey* may be weighted to supporters of EER. It is also important to note that over half of the *Users' Survey* respondents self-identified as company shareholders. The range of User opinions on EER is explored further in Section 2 of this paper, where we split the Users into the four comment groups. Three of the four groups could be persuaded to support EER.

iii. Percentages and the optional Q&A

The majority of the questions in each survey were not compulsory, allowing respondents to skip questions. The derived percentages presented in this paper are taken from the number who responded to each question, not from the overall number of individuals who responded to the survey. There are two exceptions to this approach. Questions 9 and 11 in the *Preparers' Survey* accounted for the number skipped as the questions asked if they knew of the EER frameworks; we have assumed those that skipped the question were unaware of the frameworks.

iv. Industry analysis

We took an industry-based approach with the surveys. Preparers were asked to answer questions with reference to the industry in which they operate. Users were asked to choose, if they wished, to answer the questions in terms of the industry they were interested in. There are weaknesses in this approach, but it was chosen to enable comparison between answers from Preparers and Users that required industry-specific perspectives.

¹ See 2017 *Preparers' Survey*, Appendix 1. It is important to note that there were some irregularities in the responses to the questions 'Is your company one of the 2016 Deloitte Top 200?' and 'is your company listed on the New Zealand Stock Exchange (NZSX)?' and the initial data gathered by the McGuinness Institute for this project, namely that some respondents said their companies were listed when not and vice versa. Thus, the listings on the Top 200, the NZSX or both were determined by our own data collection rather than by Preparer responses (see Limitation iv – Comparing results).

v. Comparing results

In analysing the results we compared the 2017 Preparers with 2017 Users and also Preparers from 2017 with Preparers from 2011. Both comparisons have limitations:

A: Reviewing the results of the 2017 surveys and then comparing the supply side (Preparers) with the demand side (Users) created challenges. The Preparers are CFOs of significant companies while the Users cannot necessarily be similarly qualified as significant (although, as noted earlier, half self-identified as shareholders). We were delighted by the extent Users provided detailed comments. What was surprising was the strong views of some respondents. This led to a deeper analysis of the User comments (Section 2).

B: Reviewing the 2011 *Preparers' Survey* against the 2017 *Preparers' Survey* provided a narrative of what has changed and what has remained constant over the last few years in the reporting landscape. However, the results are limited in two ways: Firstly, two different key terms were used. The 2017 surveys used the term EER while the 2011 *Preparers' Survey* used IR. Secondly, the 2011 *Preparers' Survey* only surveyed the 2009 Deloitte Top 200 companies (not NZSX-listed companies), meaning that the two Preparers' surveys were not necessarily comparable. Therefore, we wanted to establish whether there were any significant differences between the responses of NZSX-listed companies and Deloitte Top 200 companies to the 2017 *Preparers' Survey*. We found there were some differences in responses between the two, but that they did not preclude a comparison between the 2011 and 2017 surveys (e.g. Section 6.3 of this document).

vi. Responses delegated to New Zealand subsidiaries

Two New Zealand subsidiaries of NZSX-listed companies responded on behalf of the parent company. This may have impacted on the responses to the questions, particularly in terms of accessibility and content. Notably, this has affected responses as to whether a company opts out of disclosing certain information in an annual report through applying the concessions of s 211(3) of the Companies Act 1993. As the NZSX-listed companies must adhere to all legislative disclosure requirements under the NZX Listing Rules, and cannot apply the concessions, the responses from the subsidiary companies misrepresents the NZSX-listed companies. See the discussion in Footnote 1 of Section 3 and Section 5.3

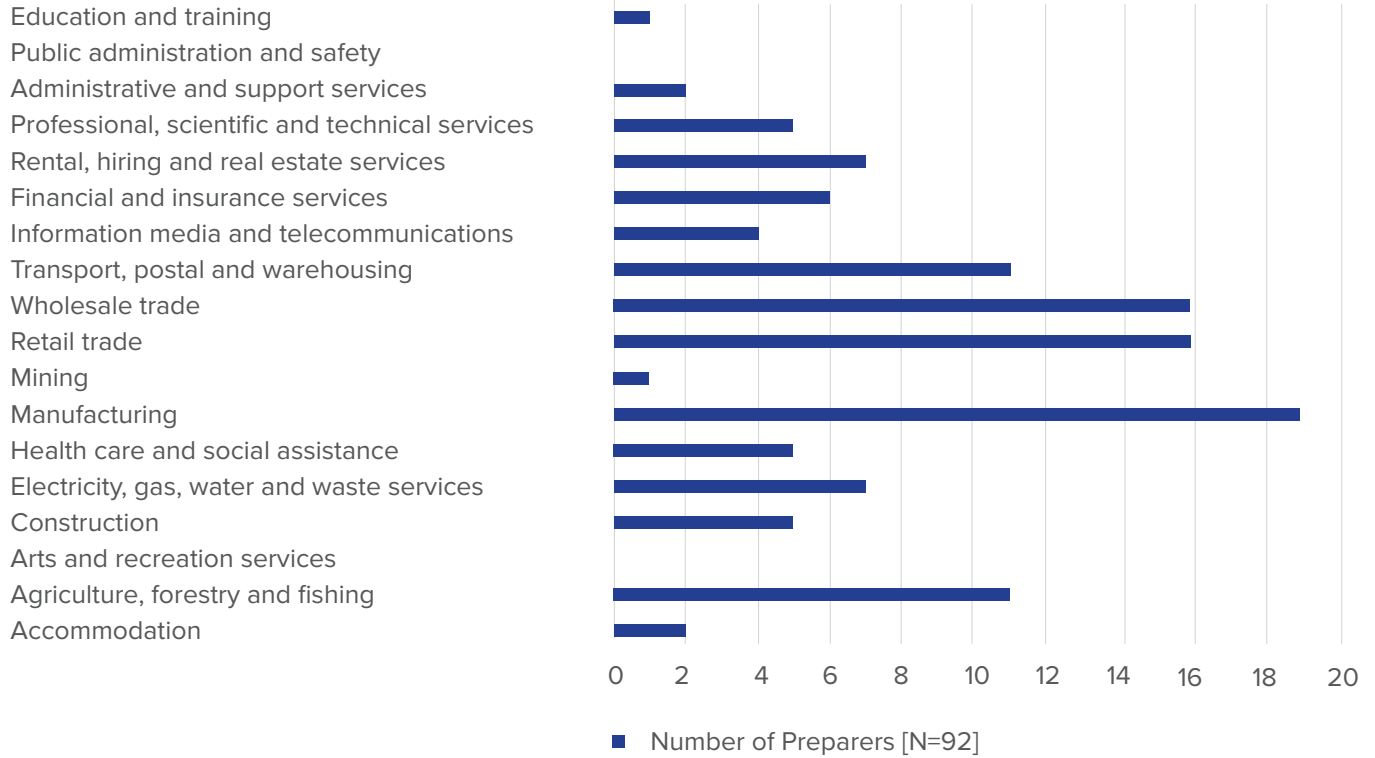
1.7 Acknowledgements

Both the McGuinness Institute and the XRB appreciate the efforts of the survey respondents who gave up their time to provide valuable insight into an evolving area of reporting.

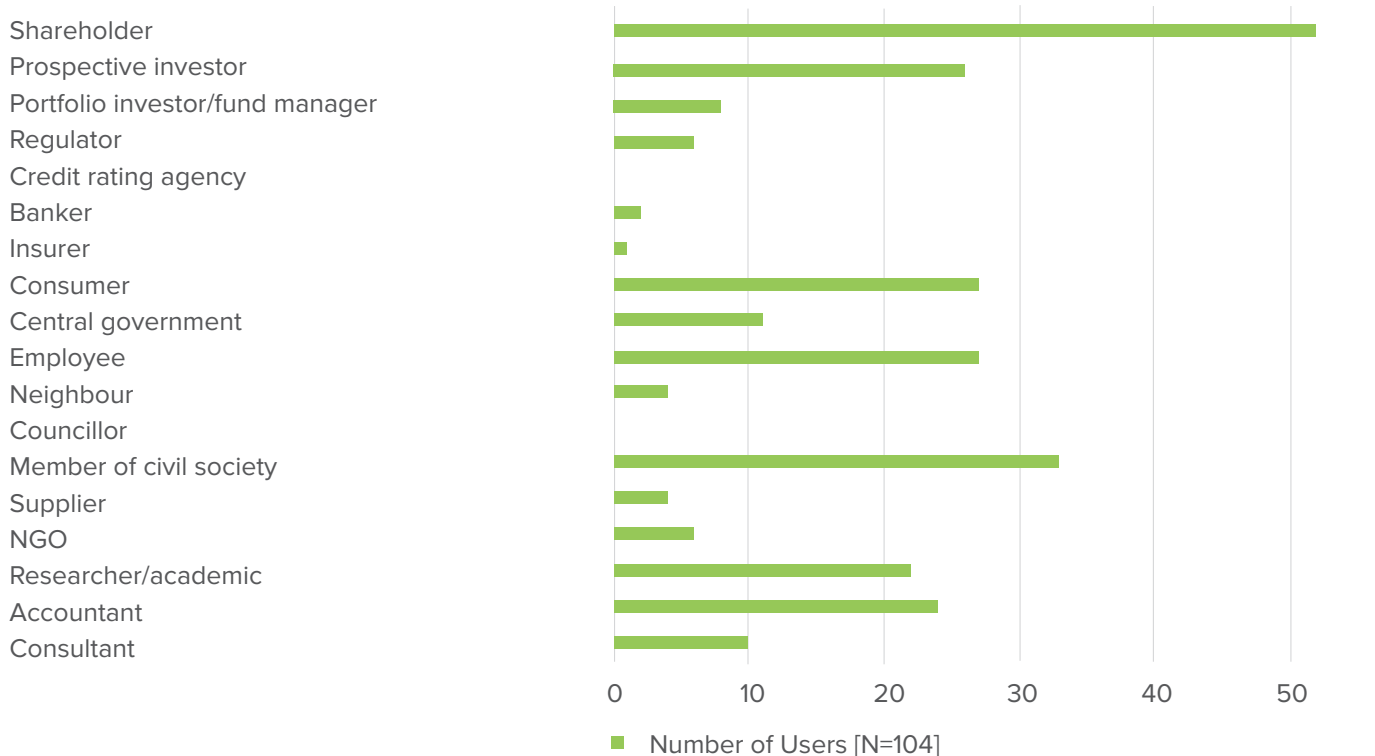
1. Introduction

Graph 1: Respondents by primary activity or capacity and reason for interest

Preparers' areas of primary activity



Users' capacities and reasons for interest



Note: Both Preparers and Users could select more than one option in this section. Responses to the questions throughout the survey may therefore be a response from more than one industry or capacity.

2. User Survey comments

There was a high level of engagement from Users responding to the survey. Users left qualitative insights through detailed comments about the questions raised. From these comments four key perspectives were identified.

2.1 Four comment groups

This section splits the Users into the four comment groups that expressed similar views on EER:

- 1. EER sceptic** – Opposes EER information and sees no value in its provision.
- 2. Pragmatic sceptic** – Suggests that EER information is not always relevant, material or complete. Raises practical concerns over its implementation, but is open to the discussion.
- 3. Pragmatic supporter** – Agrees that EER is in the public interest and will be more relevant in the future, but that it needs to be considered in balance with the private good.
- 4. EER supporter** – Supports EER information as it is for the public good and outweighs shareholder interests.

Table 1 overleaf describes the different comment groups, provides an approximate percentage of each User group and illustrates these differing views through their comments.

2.2 Method of analysis to identify the four comment groups

Stage 1: User comments were printed in their raw form (i.e. unedited) with the corresponding question and respondent numbers. They were individually cut and laid out to enable research analysts to highlight dominant themes and trends.

Stage 2: The comments for each question were analysed thematically. These themes were colour-coded for ease of reference. Comments with multiple categories were coded to several colours, but finally grouped in the most relevant category.

Stage 3: The researchers then identified the survey questions that could not be qualitatively analysed due to their specificity and limited range of possible answers (i.e. a question such as 'How often are you contacted by a for-profit entity or industry to learn about your information needs?' had six answer options, with very few respondents leaving further comments). These questions were excluded from the analysis.

Stage 4: The remaining survey comments were reviewed against relevant groupings to determine the key concerns emerging from respondents. Comments that summarised concerns particularly well were noted as significant. These key concerns informed the key elements, while the initial groupings became general observations. Four distinct groups of respondents were identified as belonging to the key comment groups (EER supporter, Pragmatic supporter, Pragmatic sceptic and EER sceptic).



User comments are colour-coded

2. User survey comments

Table 1: The four comment groups that expressed similar views on EER

High ↑ ↓ Extent position entrenched Low	<p>EER sceptic (approximately 10% of Users)</p> <p>View: Opposes EER information and sees value in its provision.</p> <p>Reasons:</p> <ul style="list-style-type: none"> • Believes there is already too much information available; • Believes companies should not be spending time preparing EER reports; and • Believes the information should remain between the company and its shareholders. <p><i>‘...The people going down this track need a dose of reality, or is socialism the goal?’ – User comment (Q28)</i></p> <p><i>‘Are you trying to find a solution to a problem that doesn’t exist?’ – User comment (Q28)</i></p> <p><i>‘We have access to enough information. We do not want to go down the road of “information overload” and create another unnecessary level of bureaucracy.’ – User comment (Q18)</i></p>	<p>EER supporter (approximately 30% of Users)</p> <p>View: Supports EER information as it is for the public good and outweighs shareholder interests.</p> <p>Reasons:</p> <ul style="list-style-type: none"> • Believes there is not enough information available; • Believes New Zealand is behind on international reporting practices and that companies are not spending enough time on ensuring EER meets the needs of users; • Believes mandatory requirements are needed to deliver timely, reliable, relevant and comparable EER; and • Believes companies should be held accountable. <p><i>‘If we wish to see step change in behaviours, practices and outcomes linked to sustainability/pollution/risk management etc., then reporting needs to demand accountability for reporting on these things.’ – User comment (Q12)</i></p> <p><i>‘As it becomes increasingly the case... companies’ value is not in their financial and physical assets, the issue of EER will become increasingly important and the trend will (desirably) be for it to be regulated’ – User comment (Q27)</i></p>
	<p>Pragmatic sceptic (approximately 20% of Users)</p> <p>View: Suggests that EER information is not always relevant, material or complete. Raises practical concerns over its implementation, but is open to the discussion.</p> <p>Reasons:</p> <ul style="list-style-type: none"> • Believes there are benefits of EER information for stakeholders, but see it as expensive to produce and is wary of commercial sensitivity and information overload; • Believes there is, as yet, no significant demand in the market for EER or evidence of its value; • Believes there is room for improvement in EER reporting; • Believes frameworks need to be more consistent and relevant for EER; and • Believes EER information should be voluntarily disclosed but only if a company sees value in doing so. <p><i>‘I see no evidence of this sort of reporting coming through, but it is expensive to produce and not everyone has the pockets to do it. Cost and benefit play a role here’ – User comment (Q10)</i></p> <p><i>‘The requirement or desire of different stakeholder groups for greater disclosure on an even wider range of issues need [to] be balanced with pragmatism and value judgments, otherwise the burden can become unreasonable on companies and their shareholders’ – User comment (Q12)</i></p>	<p>Pragmatic supporter (approximately 40% of Users)</p> <p>View: Agrees that EER is in the public interest and will be more relevant in the future, but that it needs to be considered in balance with the private good.</p> <p>Reasons:</p> <ul style="list-style-type: none"> • Believes that EER aids investor decision making and would prefer to see a mandatory approach (e.g. ‘comply or explain’) and independent assurance of key data; • Believes there is room for improvement in EER but is wary of information overload and concerned about the large number of different frameworks in the public arena; • Believes that New Zealand is lagging behind international reporting practices, in particular companies are not reporting well on the wide range of risks they face; and • Believes data needs to be comparable to support industry benchmarking and looks towards frameworks such as the Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC). <p><i>‘Compliance requires enforceability. Without compliance measures, disclosures will be meaningless’ – User comment (Q24)</i></p> <p><i>‘...We need industry related minimum requirements for reporting, which allow for simple benchmarking and comparison. This will, by the sheer nature of competitiveness, compel organisations to pull their socks up when they see how their peers are doing...’ – User comment (Q12)</i></p>
	Level of support for EER →	High

3. Accessibility

A. ACCESSIBILITY | Ability to find EER information

43% of CFOs did not consider their companies to have prepared EER information (Q6).

CFOs identified the following key challenges in preparing EER (Q15):

63% generating new information in-house

61% sensitivity of information

60% time constraints

56% gathering available information in-house

27% indicated they applied concessions under s 211(3) of the Companies Act and therefore did not disclose information on the company's state of affairs or governance (Q22). The main reason listed was to prevent competitors from having that information (Q23).

53% indicated they would support mandatory filing of both listed and non-listed company annual reports on the Companies Office website (Q29).

63% of Users did not consider EER information to be easily accessible (Q14).
95% of Users indicated they primarily access EER in an annual report (Q15).

'NZ is quite a few years behind best practice.' – User comment (Q14)

'[If] disclosed on a central depository, it would be easily accessible for all companies. However, it is primarily the company's information, and they demonstrate ownership by having it on their website.'
 – User comment (Q20)

85% indicated they access annual reports on the for-profit entity's website, while 23% indicated they access annual reports on the Companies Office website (Q16).

1. Both Preparers and Users welcome mandatory filing of annual reports.



It is a simple way to improve access to EER information disclosed in annual reports.

About this section

Accessibility considers the ease by which EER could be obtained.² Preparers were asked about where they should file EER and the kinds of issues that challenged and prevented them from preparing EER.³ Users were asked about the difficulties they experienced accessing EER and how they hope to access it in the future.

2 Currently, '[s]ome large New Zealand, and all large overseas companies [large companies are defined under s 45 of the Financial Reporting Act 2013 in terms of total assets and/or revenue], must file annual audited financial statements under the Companies Act 1993. All Financial Markets Conduct (FMC) reporting entities must lodge annual audited financial statements under the Financial Markets Conduct Act 2013' (see companies-register.companiesoffice.govt.nz/help-centre/financial-reporting/who-needs-to-submit-financial-statements). In contrast, annual reports only need to be prepared and do not need to be published. This means that although companies are obliged to prepare annual reports under s 208 of the Companies Act 1993 they do not need to file them on the Companies Register. A number of companies do file their annual report on the Companies Register, as a matter of good practice. In our other research, *Working Paper 2018/01 – NZSX-listed company tables*, Table 3a, we found 72% of the 2017 NZSX-listed companies do, as a matter of good practice, publish their annual reports in addition to their financial statements on the Companies Register.

3 Section 211 of the Companies Act 1993 sets out a list of requirements as to the content of an annual report. Section 211(3) of the same Act enables certain companies to opt-out of disclosing certain information in an annual report through applying the concessions under the Act. As NZSX-listed companies must adhere to all legislative disclosure requirements under the NZX Listing Rules, the 27% listed above (Q22) are likely to refer to 2016 Top 200 companies-only. NZSX listed companies cannot apply the concessions. See limitations (Section 1.6 (vi)) and implications (Section 5.3) in this paper.

3.1 Commonalities between Preparers and Users

Desire for a central filing repository for annual reports

A number of Preparers and Users preferred a central repository be created to provide a single platform for Users to access a company's annual report from (e.g. on the Companies Register).

3.2 Differences between Preparers and Users

Preparers and Users were not asked the same questions for this section and therefore the results cannot be compared.

3.3 Other insights from the Preparers' Survey

Preparers supported mandatory filing of annual reports on the Companies Office website

53% of Preparers indicated they would support the mandatory filing of annual reports on the Companies Office website for both listed and non-listed companies.⁴ This indicates a shift towards supporting a central repository that makes EER easily accessible.

⁴ See 2017 *Preparers' Survey*, question 29.

Preparers believed the current threshold to prepare external reports is sufficient

56% of Preparers believed that the current legislative threshold ('total revenue' or 'total assets') that determines whether a company must prepare and make publicly accessible their financial statements is sufficient.

They showed little interest in including non-financial factors (such as 'percentage of voting shares held overseas' or 'full-time equivalents (FTEs) employed') into the determination of whether a company should produce publicly available financial statements or annual reports.⁵

3.4 Other insights from the Users' Survey

Annual reports are where Users sought EER

95% of Users indicated they primarily access EER in an annual report.⁶ They also indicated that they found this information on the for-profit company's website.⁷

Users found EER information difficult to access

63% of Users thought EER information was difficult to access. 83% of Users indicated that in the future they would continue to access EER within an annual report and 69% believed EER should be hosted on a company's own website.⁸

'Given the size/nature of NZ businesses, many of them do not have to disclose information publicly, therefore [it is] hard to find information unless listed.' – User comment (Q14)

3.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey

Ownership structures continue to limit reporting

Many Preparers in the 2011 and 2017 surveys identified ownership structures as the reason their company provided limited information in their reports, or applied the reporting concessions available in s 211(3) of the Companies Act 1993. The 2011 CFOs whose companies did not produce an integrated report indicated that subsidiary companies wholly-owned by foreign companies followed minimum requirements. This illustrates the two types of companies that tend not to pursue EER:

- international companies that may produce EER information as part of a group (but do not report information specific to New Zealand); and
- privately-owned New Zealand companies.⁹

Reliance on technology more evident

Responses to the 2011 *Preparers' Survey*, when compared with the 2017 *Preparers' Survey*, indicated that since 2011 there has been a notable increase in companies relying on technology as a means of distributing information.

The 2011 Preparers were asked whether web-based technologies were beneficial in the preparation, publication and communication of integrated reports. While the options included blogs, SlideShare, social media and video sharing (different forms of communication to the options available in the 2017 *Preparers' Survey*), there was a general consensus that these technologies provided minimal benefit.¹⁰

The 2017 Preparers saw mail (email or post), the company's website and the Companies Office Register to be the most beneficial tools to provide shareholders with the company's financial statements (84%, 71% and 59% respectively).¹¹ 85% of Users also indicated that they access annual reports via the company's website.¹²

⁵ See 2017 *Preparers' Survey*, question 28.

⁶ See 2017 *Users' Survey*, question 15.

⁷ See 2017 *Users' Survey*, question 16.

⁸ See 2017 *Users' Survey*, questions 19 and 20.

⁹ See 2011 *Preparers' Survey*, p. 13.

¹⁰ See 2011 *Preparers' Survey*, p. 15.

¹¹ See 2017 *Preparers' Survey*, question 25.

¹² See 2017 *Users' Survey*, question 16.

4. Engagement

B. ENGAGEMENT | *Communication with stakeholders*

87% indicated that the biggest opportunity in preparing an annual report was to communicate with shareholders (Q8).

74% thought their company should engage with shareholders every 12 months or less (Q17).

21% thought their company should contact members of civil society every 6–12 months (Q17).

71% said they had never been contacted about their information needs (Q17), BUT **33%** said they would like to be contacted ‘as needed’ by a company (Q22).

2. Preparers and Users have different views over whether the audience should remain the shareholders or be extended to stakeholders.



Wider engagement ensures all stakeholders can obtain relevant EER information.

About this section

Engagement seeks to understand the level of communication between companies and their stakeholders. This section addresses the frequency of communication, who is engaging with companies and whether communication is meeting User needs. For administrative purposes, this section also looks at how Users and Preparers engaged with the surveys.

4.1 Commonalities between Preparers and Users

User needs aligned with the communication practices of Preparers

57% of Users stated that they would prefer to be contacted ‘as needed’ or ‘annually’ by companies regarding their information needs.¹³ This is in line with the Preparers, who believed shareholders should be contacted ‘within 12 months or less’ and other stakeholders ‘as needed’.¹⁴

4.2 Differences between Preparers and Users

Preparers’ views on communicating with shareholders and other stakeholders differed from Users’ experiences

The most common capacity selected by Users to complete the *User Survey* was as a shareholder or an existing investor [56%].¹⁵ 87% of Preparers felt that EER delivered the most opportunities for communicating with shareholders.¹⁶ While Preparers indicated that companies should engage with shareholders every 12 months or less, 71% of Users reported never being contacted by a for-profit entity or industry to learn about their information needs.¹⁷

¹³ See 2017 *Users’ Survey*, question 22.

¹⁴ See 2017 *Preparers’ Survey*, question 17.

¹⁵ See 2017 *Users’ Survey*, question 3.

¹⁶ See 2017 *Preparers’ Survey*, question 8.

¹⁷ See 2017 *Users’ Survey*, question 17.

4.3 Other insights from the Preparers’ Survey

The majority of survey respondents were from NZSX-listed companies

58% of Preparers who responded to the survey were from NZSX-listed companies, compared to 42% that were only on the 2016 Deloitte Top 200 list.¹⁸ This suggests NZSX-listed companies are more likely to engage in public good initiatives (such as this survey). There may be a number of reasons for this, including a stronger commitment to New Zealand, CFOs are used to meeting requirements under New Zealand law and/or they have a stronger interest in EER.

It was difficult to identify and contact CFOs

The initial process for contacting CFOs spanned several months and brought to the McGuinness Institute’s attention the difficulties of contacting senior management within companies. The initial process of obtaining the CFOs contact details proved challenging as they are often not publicly available on the company’s website, and some companies did not provide contact details over the phone, mostly due to company policy. The second step of encouraging the CFO to respond was equally difficult, CFOs were contacted via emails and phone calls a number of times, which were received with apprehension. Despite this, 92 responded to the 2017 survey.

It is important to acknowledge that many CFOs were in the middle of their busy year-end preparations, making their contributions particularly appreciated.

¹⁸ See 2017 *Preparers’ Survey*, question 3 and Appendix 1.

It is important to note that there were some irregularities between the responses to the questions ‘Is your company New Zealand Stock Exchange (NZSX)?’ and the initial data gathered by the McGuinness Institute for this project, namely that some respondents said their companies were listed when not and vice versa. Thus, the listings on the Deloitte Top 200, the NZSX or both were determined by our own data collection rather than by Preparer responses (see Limitation v – Comparing results).

4. Engagement

4.4 Other insights from the Users' Survey

Users are not asking companies for EER information

81% of Users indicated that over the past two years they had not requested EER information from a for-profit entity or industry. A number of comments from Users suggested that they rely on reports and information found on company websites.¹⁹

'EER' is an unfamiliar term for some Users

A number of Users questioned the relevance of the survey to them. It was observed that 'User' was an unfamiliar term, as many survey respondents and potential respondents were unsure how they used or could have used EER. This was particularly prevalent amongst respondents who focused mostly on the financial aspect of their role and did not see how EER applied to them.²⁰ This suggests that the general public are unaware of the capacity of EER to be used as a tool by Users beyond the corporate world.

However, Users did provide a substantial number of detailed comments containing valuable critiques and insights that expressed a range of strong supporting and opposing views to EER. See Section 2.

4.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey

Content of the 2011 *Preparers' Survey* did not align with content of the 2017 *Preparers' Survey* therefore comparisons could not be made.

¹⁹ See 2017 *Users' Survey*, question 13.

²⁰ During the process of contacting prospective *Users' Survey* respondents to encourage them to take part, many stated that they did not know how the survey and the EER information was relevant to them. This was reflected in various comments recorded by the *Users' Survey*; see for example responses to questions 3, 10 and 19.

5. Content

C. CONTENT | Elements of EER disclosure

90% considered governance to be an important/very important disclosure in an annual report (Q12).

97% thought governance information was important/very important to disclose (Q6), BUT only **68%** considered it to be reported on well (Q9).

Q: Do you think it is important/very important to disclose information on the following four capitals in EER?

56% Natural capital (Q12)	→	87% Natural capital (Q6), BUT only 33% considered it to be reported on well (Q9)
53% Human capital (Q12)	→	86% Human capital (Q6), BUT only 33% considered it to be reported on well (Q9)
46% Economic capital (Q12)	→	84% Economic capital (Q6), BUT only 31% considered it to be reported on well (Q9)
42% Social capital (Q12)	→	75% Social capital (Q6), BUT only 24% considered it to be reported on well (Q9)

Q: Do you think it is important/very important to disclose the following performance details in EER?

69% Reporting back on goals/performance (Q13)	→	94% Reporting back on goals/performance (Q7), BUT only 45% considered it to be reported on well (Q10)
66% Reporting on goals/targets (Q13)	→	95% Reporting on goals/targets (Q7), BUT only 54% considered it to be reported on well (Q10)
63% Strategies to achieve goals (Q13)	→	95% Strategies to achieve goals (Q7), BUT only 42% considered it to be reported on well (Q10)

3. Both Preparers and Users welcome reporting on goals, strategies and targets, but Users want more information than Preparers provide. Users do not think this information is reported on well.



4. Industry statistics are increasingly seen as a key requirement.

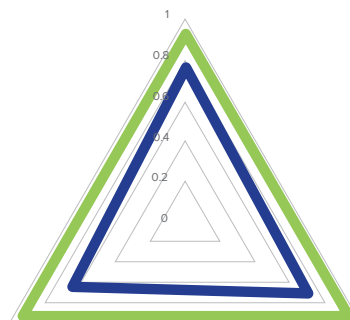
They enable comparability between companies/industries and contribute to a deeper understanding of risks and trends over time.



Graph 2: Preparers' and Users' views on performance details that are considered to be important or very important to disclose

See question 13 (Preparers) vs question 7 (Users)

Reporting back on goals/performance



Strategies to achieve goals Reporting on goals/targets

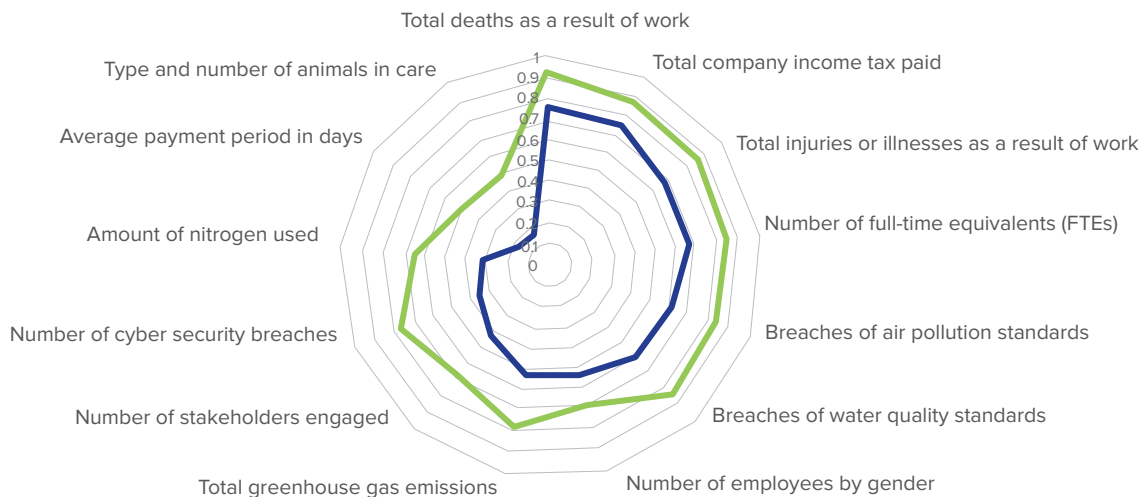
■ Preparers
■ Users

C. CONTENT CONT. | Elements of EER disclosure

Q: Do you think it is important/very important to disclose the following statistics in EER?

77% Total deaths as a result of work (Q14)	→	93% Total deaths as a result of work (Q8), BUT only 37% considered it to be reported on well (Q11)
76% Total company income tax paid (Q14)	→	88% Total company income tax paid (Q8), BUT only 59% considered it to be reported on well (Q11)
68% Total injuries/illnesses as a result of work (Q14)	→	87% Total injuries/illnesses as a result of work (Q8), BUT only 36% considered it to be reported on well (Q11)
68% Number of full-time equivalents (FTEs) (Q14)	→	85% Number of full-time equivalents (FTEs) (Q8), BUT only 53% considered it to be reported on well (Q11)
61% Breaches of air pollution standards (Q14)	→	84% Breaches of air pollution standards (Q8), BUT only 8% considered it to be reported on well (Q11)
60% Breaches of water quality standards (Q14)	→	86% Breaches of water quality standards (Q8), BUT only 12% considered it to be reported on well (Q11)
54% Number of employees by gender (Q14)	→	70% Number of employees by gender (Q8), BUT only 37% considered it to be reported on well (Q11)
53% Total greenhouse gas emissions (Q14)	→	79% Total greenhouse gas emissions (Q8), BUT only 18% considered it to be reported on well (Q11)
42% Number of stakeholders engaged (Q14)	→	69% Number of stakeholders engaged (Q8), BUT only 23% considered it to be reported on well (Q11)
36% Number of cyber security breaches (Q14)	→	77% Number of cyber security breaches (Q8), BUT only 9% considered it to be reported on well (Q11)
31% Amount of nitrogen used (Q14)	→	66% Amount of nitrogen used (Q8), BUT only 8% considered it to be reported on well (Q11)
18% Average payment period in days (Q14)	→	50% Average payment period in days (Q8), BUT only 14% considered it to be reported on well (Q11)
17% Types and numbers of animals in care (Q14)	→	49% Types and numbers of animals in care (Q8), BUT only 10% considered it to be reported on well (Q11)

Graph 3: Preparers' and Users' views on statistics that are considered to be important or very important to disclose
See question 14 (Preparers) vs question 8 (Users)



C. CONTENT CONT. | Elements of EER disclosure

85% indicated future orientation was an important/very important disclosure (Q12).

Other comments: 'As a subsidiary of a foreign-listed company, we report to external stakeholders under our group-wide approach rather than a market-specific [approach] and therefore provide limited information at a local market level.' – Preparer comment (Q12)

Other comments: 'Key stakeholders [are] viewed as owners. Other mechanisms [are] in place to report to these stakeholder groups [these statistics] that sit outside of the financial reporting frameworks.' – Preparer comment (Q12)

Other comments: 'My experience of reporting risks has been that whenever government organisations get involved, the usefulness tends to get diluted and generalised.' – Preparer comment (Q12)

96% indicated future orientation was an important/very important disclosure (Q6), BUT only **56%** thought future orientation was being reported on well (Q9).

Yes: 'For understanding the longer-term health and prospects of the for-profit entity.' – User comment (Q5)

92% accessed EER information to understand the company's business model (Q5).

92% accessed EER information to understand the company's strategies and future prospects (Q5).

90% accessed EER information to make judgments about the operations and wider impacts of the company (Q5).

Users indicated that over the next five years they expected to use EER for:

33% making investment decisions (Q21)

26% making informed judgments about the operations and wider impacts of the company (Q21)

Other comments: 'Assess the sustainability, integrity, ethics and reliability of an entity based on all of the above for the purpose of building and establishing partnerships or relationships and responding to needs for development and improvement including research and development activities and opportunities.' – User comment (Q21)

5. Future orientation information is an emerging key requirement.



It delivers better decision making for existing and potential investors, government and other stakeholders.

Graph 4: Preparers' and Users' views on content that is considered to be important or very important to disclose
See question 12 (Preparers) vs question 6 (Users)



About this section

Content looks at the different kinds of disclosure information that can make up an annual report. It is broken down into three categories: strategic elements, performance details and statistics. Strategic elements refers to general information on governance, business model, strategies, purpose, risks and the four capitals (economic, social, human and natural). Performance details looks at goal setting, performance measurements and the assessment of these measures. Statistics focuses on numerical data and information like health and safety, environment, technology and stakeholders.

Preparers and Users were asked to rate the importance of the various EER components. In addition, Users were asked to indicate how well they thought the components were currently being reported on, and how they expected to use EER in the future.

5.1 Commonalities between Preparers and Users

Preparers and Users were concerned with ‘information overload’

Preparers and Users were concerned with the risk of ‘information overload’ if EER were to become normal practice. Some Users and Preparers felt that quality and relevance could be diluted by too much information and requirements should encourage targeted, measurable and effective information. Preparers raised a concern that too much information leads to a weaker competitive edge and that withholding information protects the privacy of directors and employees. They also indicated that gathering this information would be time consuming. These opposing views were in line with the difference in responses between Users and Preparers around how to manage EER. While 80% of Users believed EER should either be mandatory or on a ‘comply or explain’ basis, 68% of Preparers believed that it should remain voluntary.²¹

‘Our industry is very competitive and some of these competitors will be sole traders who will never publish their financials and will use ours against us to tell customers we make too much money when in reality we just run a good business and pay staff well.’ – Preparer comment (Q20)

‘Mandating reporting makes it generalised and less meaningful ... it can be so theoretical and standardised that it becomes meaningless and an unnecessary imposition, which generates quantities of data that will not be used.’ – Preparer comment (Q20)

²¹ See 2017 Preparers’ Survey, question 20 and Users’ Survey, question 24.

Both recognised value in disclosing EER information

(i) Strategic elements

What Preparers valued was in line with what Users viewed to be reported on well. When asked what strategic elements they considered most important, Preparers and Users tended to place the greatest value on elements associated with the existing statutory requirement, ‘governance’ and other company focused information such as ‘future orientation’, ‘vision’, ‘values’, ‘purpose’, ‘mission statements’, ‘risks and opportunities’ and ‘strategy and resource allocation’.²² When Users were asked what information they felt was presently disclosed well, these same categories were ranked the highest. Both Users and Preparers ranked ‘basis of how you/the entity select the content of your annual report’ to be the least important information to be disclosed in an annual report.²³ See Graph 4.

‘The practices adopted in NZ are many and varied, with no real consistency from one organisation to the next. Without prescriptive guidance it is very difficult to adopt standard practices that are both relevant and enable comparability between organisations.’ – User comment (Q12)

(ii) Performance details

Over half of Preparers consistently considered performance details on economic, human, social and environmental ‘goals/targets’, ‘strategies’ and subsequent ‘reporting back’ to be important. Over 90% of Users considered performance details to be important disclosures.²⁴

(iii) Statistics

In terms of statistics, both Preparers and Users ranked ‘total deaths as a result of work’ and ‘company income tax paid’ as the most important information to disclose, whilst ‘type and number of animals in your care’, ‘average payment period days’ and ‘amount of nitrogen used’ were considered least important.²⁵ Many comments from both Users and Preparers indicated that a number of statistics are industry dependent and cannot be universally required. It was surprising that ‘average payment period in days’ was not rated higher by Preparers (see Graph 3), given this is a universal measure not specific to a given industry.

Transparency over how an entity selected the content of its annual report was generally considered not important, but was rated more important by Users than Preparers

This is illustrated in Graph 4.

²² See 2017 Preparers’ Survey, question 12 and Users’ Survey, question 6.

²³ See 2017 Preparers’ Survey, question 12 and Users’ Survey, question 9.

²⁴ See 2017 Preparers’ Survey, question 13 and Users’ Survey, question 7.

²⁵ See 2017 Preparers’ Survey, question 14 and Users’ Survey, question 8.

5.2 Differences between Preparers and Users

Users valued EER more highly than Preparers

This gap is illustrated in Graphs 2–4. Overall, Users considered all three categories of EER content (strategic elements, performance details and statistics) to be important. Some Users commented that they found current reporting lacked depth, that New Zealand is behind in best practice and that there is variation from entity to entity.²⁶ Cross-tabulation was used to track how Users responded to the survey. The professional capacity of Users and the industries that they were interested in did not appear to influence their responses to the surveys.²⁷

Industry mismatch between Preparers' primary area of activity and the industries Users were most interested in

Users were primarily interested in EER information from the 'financial and insurance services', 'electricity, gas, water and waste services' and 'health care and social assistance' industries.²⁸ In contrast, most Preparers who responded were from companies in the 'manufacturing', 'retail trade' and 'wholesale trade' industries.²⁹ This might suggest these industries are more aware of the needs of their stakeholders.

5.3 Other insights from the Preparers' Survey

Preparers who opted in to provide basic annual report content did not experience significant issues as a result

43% of Preparers' indicated their company did not produce EER information. Preparers whose companies produce EER information [57%] commented that it provided transparent and valuable insights on the 'inner workings' of the company.³⁰ This included information on operations, strategies, value creation and helping to build an understanding of the company's story and increasing awareness of the company's wider impacts.³¹

Those who experienced issues in preparing basic annual report content under s 211(1) of the Companies Act 1993 primarily expressed concern over the amount of time taken to prepare the report and having to disclose director remuneration and salary bands.³² Preparers who experienced issues in preparing EER indicated the following issues: 'generating new information in-house', 'sensitivity of information', 'time constraints' and 'gathering available information in-house'.³³

26 See 2017 *Users' Survey*, question 14.

27 See 2017 *Preparers' Survey*, questions 12–14 and *Users' Survey*, questions 6–8.

28 See 2017 *Users' Survey*, question 4.

29 See 2017 *Preparers' Survey*, question 1.

30 See 2017 *Preparers' Survey*, question 6.

31 See 2017 *Preparers' Survey*, question 7.

32 See 2017 *Preparers' Survey*, question 24.

33 See 2017 *Preparers' Survey*, question 15.

This suggests that while many companies operate in an open and transparent reporting culture, a number of companies do not.

Preparers who opted out of providing basic annual report content did so to keep the information private

27% of Preparers indicated that their company applied the concessions of s 211(3) of the Companies Act 1993, opting out of disclosing basic annual report content including the company's state of affairs, selected governance information, and information on employees and directors.³⁴

Unlike those who did not opt out with s 211(1), 'time taken to prepare' was not a significant issue. However, 'preventing competitors from having that information', 'cost to prepare' and 'protecting the privacy of the directors and employees' were considered significant reasons by Preparers to withhold information.³⁵

Overseas-owned companies tend to report to rule

Preparer comments suggested that companies with private or overseas ownership tended to refrain from going beyond minimum reporting requirements. For instance, 31% of Preparers who did not prepare EER explicitly stated that their company's main reason was that their parent company did not require them to do so.³⁶ A number of Preparers indicated they applied the concessions under s 211(3) due to their company being a subsidiary of an overseas entity.³⁷ This suggests that companies adhere to group-wide rather than market-specific reporting practices and that it is not in the interest of the parent company to extend beyond the minimum reporting requirements for New Zealand subsidiaries.

'Companies 100% owned overseas should not have to publish local extended reporting. The reporting does not add value to local investors and becomes a burden with extreme extra cost for these companies for zero value. Suppliers and IRD can access financials as required.'
– Preparer comment (Q28)

Industry types influenced Preparers' responses to the survey

Preparers were heavily influenced by the industry their company operated within and their responses were based on the relevance to the industry. This resulted in more diverse responses to the various EER components compared with the Users. For example, Preparers that worked in labour-intensive industries placed high importance on the disclosure of human capital, the number of full time equivalents (FTEs), and the total number of deaths, injuries and illnesses as a result of work when compared to industries that were less labour-intensive.

34 See 2017 *Preparers' Survey*, question 22 and Companies Act 1993, s 211(1).

35 See 2017 *Preparers' Survey*, question 23.

36 See 2017 *Preparers' Survey*, question 10.

37 See 2017 *Preparers' Survey*, questions 22 and 23.

While few Preparers overall thought that disclosing the type and number of animals under their care was important or very important, 56% of Preparers who identified their primary area of activity as 'agriculture, forestry and fishing' ranked it as an important disclosure.³⁸

By comparing results based on the industries CFOs identified their company to be operating within, trends were identified as to which industries saw the most value in all EER components. This exercise showed that the top five industries (in no particular order) that support EER disclosures are:

1. Agriculture, forestry and fishing;
2. Manufacturing;
3. Retail trade;
4. Transport, postal and warehousing and
5. Wholesale trade.

Most Preparers did not have a policy on or disclose alternative performance measures (APMs)

APMs are considered to be EER information as they are not specifically required under New Zealand accounting standards. Therefore, proper disclosure of APMs is important. 27% of Preparers indicated that their company has an approved policy on APMs. Preparers that did have a policy were more likely to disclose these measures than those that did not.³⁹

5.4 Other insights from the Users' Survey

EER information helped Users understand company operations

The reasons for using EER that Users ranked most important tended to have a company focus. For example, at least 90% of Users accessed EER to understand the business model, make informed judgments about operations and wider impacts, be informed of strategies and future prospects and understand how entities generate sustainable value. While Users mostly considered all reasons to be important, the reasons ranked least important by Users were outside of management operations.⁴⁰

Overall, Users did not consider EER components to be reported on well

(i) Strategic elements

The majority of Users considered information on the four capitals (economic, human, social and natural), to be 'important' or 'very important', illustrating the value placed on EER.⁴¹ However, only one third considered this type of

information to be reported on well.⁴² In comparison, only half of Preparers considered disclosure on capitals to be 'important' or 'very important'.⁴³ This highlights a key gap.

(ii) Performance details

Performance details were considered to be more important than not by both Preparers and Users. However, only half of Users considered this information to have been reported on well.⁴⁴ In particular, 95% of Users considered 'strategies to achieve goals' to be an important disclosure yet only 42% of Users considered it to be reported on well.⁴⁵

(iii) Statistics

Users did not consider EER statistics to be reported on well. The greatest gap between the value placed on the information, and its perceived quality, was in terms of disclosing statistics about the company. Environment related statistics were ranked highly by Users, for example, 79% of Users considered 'greenhouse gas emissions' to be important and 84% considered 'breaches of air pollution' to be important or very important. Yet Users viewed environment related statistics to be reported on most poorly, with Users considering only 18% of 'greenhouse gas emissions' being reported on well and only 8% of 'breaches of air pollution' being reported on well.⁴⁶

Users expected to use EER increasingly over the next five years

Users indicated that within the next five years they expected to use EER information to make investment decisions and informed judgments about the operations and wider impacts of the for-profit entity's business.⁴⁷ In terms of current content, an overwhelming majority [96%] viewed 'future orientation' to be important, highlighting a view that information on the future goals and prospects of the company are crucial disclosures.⁴⁸

5.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey

Social responsibility continues to be a driving factor

The 2011 *Survey*, when compared with the 2017 *Survey* indicated that social responsibility continues to be an ongoing driving factor. The 2017 respondents considered 'positioning the company as socially responsible' to be the second greatest opportunity.⁴⁹ 2011 Preparers saw 'positioning the company as socially responsible' to be the greatest opportunity EER provides.⁵⁰

⁴² See 2017 *Users' Survey*, question 9.

⁴³ See 2017 *Preparers' Survey*, question 12.

⁴⁴ See 2017 *Users' Survey*, question 10.

⁴⁵ See 2017 *Users' Survey*, questions 7 and 10.

⁴⁶ See 2017 *Users' Survey*, questions 8 and 11.

⁴⁷ See 2017 *Users' Survey*, question 21.

⁴⁸ See 2017 *Users' Survey*, question 6.

⁴⁹ See 2017 *Preparers' Survey*, question 8.

⁵⁰ See 2011 *Preparers' Survey*, p. 17.

³⁸ This data was obtained by cross-tabulating 2017 *Preparers' Survey* results.

³⁹ See 2017 *Preparers' Survey*, question 26.

⁴⁰ See 2017 *Users' Survey*, question 5.

⁴¹ See 2017 *Users' Survey*, question 6.

6. Frameworks

D. FRAMEWORKS | Legislation, rules and guidance

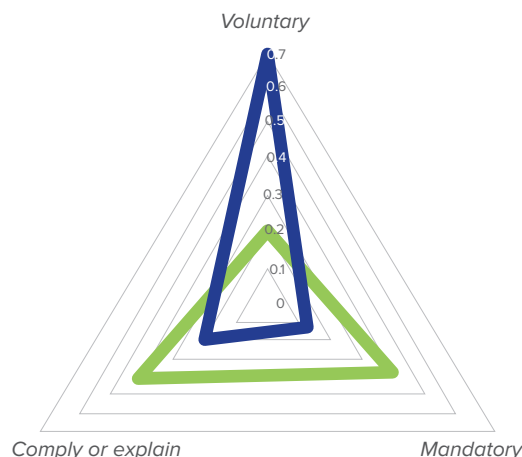
23% of CFOs' survey results suggested that they used an external reporting framework when preparing EER (Q9).*

Preparers' Survey results suggested that they were not aware of the following frameworks (Q11):*

- 84%** Global Reporting Initiative (GRI)
- 96%** AccountAbility
- 83%** Accounting for Sustainability (A4S)
- 91%** International Integrated Reporting Council (IIRC)

*Please note: Respondents who skipped these questions were assumed to be unaware of the listed frameworks. See *Survey Insights* for further information.

Graph 5: Preparers' and Users' views on whether EER should be mandatory, 'comply or explain' or Voluntary
See question 20 (Preparers) vs question 24 (Users)



8. XRB is the favoured standard-setter.
Both Preparers and Users look to the XRB for EER guidance or mandatory requirements.

6. Preparers are not aware of the range of EER frameworks available.
While some are very proactive in seeking out alternative ways to provide EER, others are not interested.

7. Preparers and Users have different views over whether EER should remain voluntary or move towards a more mandatory approach.
In an increasingly complex world, Users want to make decisions based on timely, reliable, relevant and comparable EER information.

Q: Should EER be mandatory, 'comply or explain' or voluntary?

68% Voluntary (Q20)	→	20% Voluntary (Q24)
20% Comply or explain (Q20)	→	41% Comply or explain (Q24)
13% Mandatory (Q20)	→	39% Mandatory (Q24)

Q: If EER became expected practice, who should set guidance?

51% FMA (Q18)	→	31% FMA (Q23)
47% XRB (Q18)	→	57% XRB (Q23)
44% CAANZ (Q18)	→	28% CAANZ (Q23)
21% NZX (Q18)	→	23% NZX (Q23)

Q: If EER became mandatory, who should set the requirements?

45% XRB (Q21)	→	41% XRB (Q25)
20% FMA (Q21)	→	12% FMA (Q25)
18% Legislation (Q21)	→	27% Legislation (Q25)
11% NZX (Q21)	→	11% NZX (Q25)

About this section

Frameworks looks at the legislation, rules and guidance that currently encourage the preparation of EER. The relevant survey questions asked Preparers and Users about their desired futures for EER frameworks in New Zealand.

6.1 Commonalities between Preparers and Users

Both emphasised the need for differential EER standards

Preparers and Users raised concerns over a 'one-size-fits-all' approach to standardising EER due to the varied relevance of different information between industries. This was raised particularly in the context of statistical disclosures, as many statistics were not necessarily relevant to certain industries. In their comments, Preparers and Users suggested that industry-specific frameworks would work better than a universal framework. They suggested that although different industries may warrant different standards, the standards or measures within those industries should be consistent to allow for comparability and benchmarking.⁵¹

Both considered independent crown entities best for issuing EER guidance

Regardless of support for/opposition to EER requirements, both Preparers and Users tended to believe more guidance would be required if EER became the expected practice in New Zealand. Preparers and Users both considered independent crown entities to be the most suitable for issuing guidance. 57% of Users thought the XRB should issue guidance, while 51% of Preparers thought it should be the Financial Markets Authority (FMA) and 47% thought it should be the XRB.⁵² See Graph 6. Both Preparers and Users indicated that, if EER were to become mandatory, the XRB would be their first choice as an independent body to issue the necessary requirements.⁵³ See Graph 7.

6.2 Differences between Preparers and Users

Most Preparers thought EER should be prepared voluntarily

The majority of Preparers thought EER should be 'voluntary'. It was suggested that the lack of widespread EER may be indicative of perceived low demand for this kind of information. Many Preparers embraced what they saw as relevant parts of EER, with one respondent stating that preparing EER created value for the company, and

suggesting this value could be undermined if EER were to become mandatory. Others were concerned that EER was underdeveloped, with one respondent suggesting that although it may be best to start as 'voluntary', it could move to a 'comply or explain' basis over time.⁵⁴

'... I think people should be encouraged to report more – however in our current environment being more transparent actually results in more criticism. We need a more mature environment, especially commentators that respect areas of weakness and plans to address [them] being reported, rather than crucifying people for it.' – Preparer comment (Q30)

Users had a different view, as 39% indicated that EER should be completely mandatory and 41% indicated that EER should be on a 'comply or explain' basis. A number of User comments suggested that EER would never be prepared if it was not required or incentivised.⁵⁵

6.3 Other insights from the Preparers' Survey

Global Reporting Initiative (GRI) and the International Integrated Reporting Council (IIRC), were the most common frameworks used by Preparers

Of the 39 Preparers who responded to this question, 16 indicated they were aware of Accounting for Sustainability (A4S). However, only one said that their company prepared EER information in accordance with this framework.

Of the 21 Preparers whose company used a framework, 12 (57%) reported in accordance with the GRI or the IIRC. A substantial proportion were not aware of any reporting frameworks given. The low response rate to this question suggests that most Preparers are unaware of existing recognized external reporting frameworks.⁵⁶

NZSX-listed companies were more likely to use a recognized framework when preparing EER

When comparing the Preparers, there were three times the number of NZSX companies using a recognised EER framework when preparing their annual report than companies that were only on the 2016 Deloitte Top 200.⁵⁷ This suggests the NZX rules and guidelines are improving reporting and/or these companies are more open to EER.

6.4 Other insights from the Users' Survey

There were no additional insights from the *Users' Survey* in this section.

51 See 2017 *Preparers' Survey*, question 14 and *Users' Survey*, question 8.

52 See 2017 *Preparers' Survey*, question 18 and *Users' Survey*, question 23.

53 See 2017 *Preparers' Survey*, question 21 and *Users' Survey*, question 25.

54 See 2017 *Preparers' Survey*, question 20.

55 See 2017 *Users' Survey*, question 24.

56 See 2017 *Preparers' Survey*, questions 9 and 11.

57 This data was obtained by cross-tabulating 2017 *Preparers' Survey* results.

6.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey

IR/EER has become more familiar to Preparers

The 2011 *Preparers' Survey* asked whether respondents would support the creation of a filing programme for Integrated Reporting. 64% of respondents stated they had not discussed this sort of requirement.⁵⁸ While EER is a much broader concept, 32% of the 2017 *Preparers' Survey* respondents indicated they believed EER information should be made mandatory or observed on a 'comply or explain' basis.⁵⁹ This indicates that while EER or IR has not yet been assimilated into the traditional standard of reporting, there is an increasing consensus that this kind of reporting should be encouraged and supported.

Greater range of standard-setting guidance

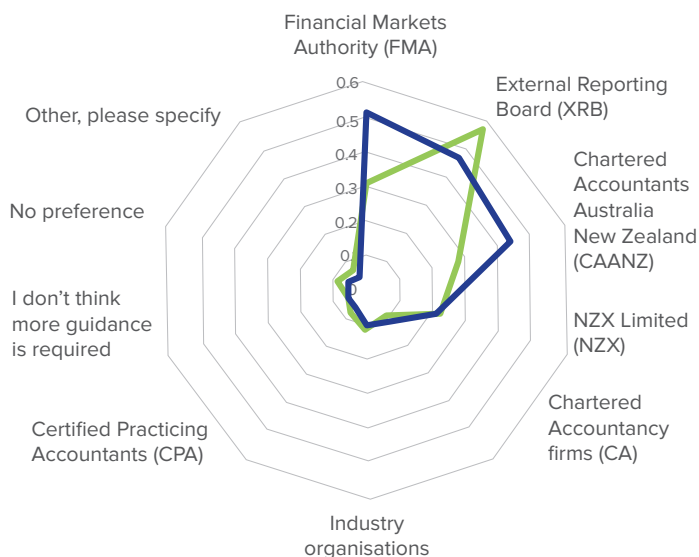
Respondents to the 2011 *Preparers' Survey* and the 2017 *Preparers' Survey* shared similar challenges when it came to preparing information beyond mandatory requirements. Both saw time constraints and the generation of in-house information as a limitation on their ability to produce these kinds of outputs.

However, the 2011 Preparers noted that inadequate guidance from standard-setters was the second highest-ranked reason hindering IR.⁶⁰ In 2017 a number of Preparers indicated they used a specific framework, and/or recognised a number of reporting frameworks (as discussed in Section 6.3).

The results suggest that the number and range of voluntary frameworks have increased over recent years and that Preparers are now seeking one consistent framework.

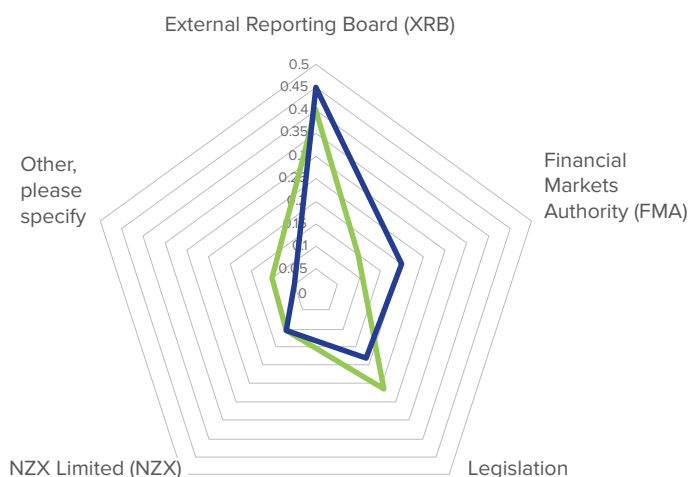
Graph 6: Preparers' and Users' views on who should issue guidance if EER were to become the expected practice in New Zealand

See question 18 (Preparers) vs question 23 (Users)



Graph 7: Preparers' and Users' views on who should issue guidance if EER were to become mandatory in New Zealand

See question 21 (Preparers) vs question 25 (Users)



58 See 2011 *Preparers' Survey*, p. 18.

59 See 2017 *Preparers' Survey*, question 20.

60 See 2011 *Preparers' Survey*, p. 16.

7. Assurance

E. ASSURANCE | Verification, reliability and trust

56% thought that EER should be independently assured (Q19).

Yes: 'Must be reliable to avoid temptation to fluff.' – Preparer comment (Q19)

No: 'Compliance cost would be an unnecessary burden and barrier to completion.' – Preparer comment (Q19)

36% thought they [the CFO] should sign off the financial statements (Q27).

Yes: 'I believe it is a reasonable stance to take. It feels like common sense.' – Preparer comment (Q27)

No: 'Directors should sign. I would expect that they would seek their own representation from the CFO and CEO.' – Preparer comment (Q27)

9. Independent assurance is an emerging key requirement for EER information.



It inspires trust which enables companies to build good relationships with stakeholders, including suppliers, consumers and the wider public.

76% thought that EER should be independently assured (Q26).

Yes, for credibility and assurance: 'In my experience, company systems for reporting this information are not mature and they are more prone to error. I have assured a number of sustainability reports and have identified contextual errors, issues of balance that need to be addressed and potential bias towards a more positive story. The board is responsible for the content of such a report and needs to have independent assurance (as do the users) that the data is faithfully represented and reporting principles have been applied.' – User comment (Q26)

Other comments: 'The extended reporting will be varied across entities and industries and will be very difficult to standardise and assure. Any assurance process will add time, cost and complexity to an organisation. Emphasis should be placed on improving and standardising disclosures.' – User comment (Q26)

Other comments: 'The extent to which an entity is transparent is evidence of itself from my perspective – tells you a lot about an organisation's culture and commitment.' – User comment (Q26)

Graph 8: Preparers' and Users' views on whether EER should be independently assured

See question 19 (Preparers) vs question 26 (Users)

Users (data in proportion to total responses)

76% supported independent assurance

24%

Preparers (data in proportion to total responses)

56% supported independent assurance

44%

About this section

Assurance looks at what mechanisms are currently in place and what mechanisms should be in place to assure the credibility of EER. The term assurance is broader than auditing. All audit engagements are assurance engagements but not all assurance engagements are audit engagements. Assurance engagements can be reasonable assurance engagements, limited assurance engagements or other assurance engagements.

7.1 Commonalities between Preparers and Users

Both considered assurance important

Users showed greater support for independent assurance than Preparers. 76% of Users supported independent assurance compared to 56% of Preparers. See Graph 8. Based on their comments, Preparers were concerned with compliance costs and perceived inefficiency. Over three quarters of Users supported independent assurance of EER information on the basis that this would ensure accuracy,

Glossary

comparability, relevance and quality.⁶¹ This suggests both Preparers and Users are seeking more assurance over information provided in EER.

7.2 Differences between Preparers and Users

Further content of the 2017 *Users' Survey* did not align with content of the 2017 *Preparers' Survey* therefore no other comparisons can be made for this section.

7.3 Other insights from the Preparers' Survey

Preparers thought the CFO should not be required to sign off financial statements

Current legislation requires two directors to sign off financial statements. The CFO previously also had this role. 64% of Preparers did not think the CFO should be one of the parties required by law to sign the financial statements. In contrast, 36% of Preparers said CFOs should be required to sign the financial statements; this was higher than we expected. A number of Preparers' comments suggested that no changes needed to be made due to there being existing internal processes and checks from the CFO to provide their Board with accurate financial statements.⁶²

7.4 Other insights from the Users' Survey

There were no additional insights from the *Users' Survey* in this section.

7.5 Comparing the 2017 Preparers' Survey with the 2011 Preparers' Survey

Content of the 2011 *Preparers' Survey* did not align with content of the 2017 *Preparers' Survey*, therefore comparisons could not be made.

Annual report is a report prepared under s 208 of the Companies Act 1993 and other legislative requirements.

'Comply or explain' is a regulatory approach requiring compliance with a set of standards. However, where a company does not comply, a public explanation of why they do not is required.

Financial statements is defined in the Financial Reporting Act 2013, s 6: 'the statements for the entity as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the entity by an applicable financial reporting standard or a non-GAAP standard; and ... any notes giving information relating to those statements that are required by an applicable financial reporting standard or a non-GAAP standard.'

Extended External Reporting (EER) includes all information above and beyond what a company is required to provide under the Companies Act 1993 and the Financial Reporting Act 2013. EER can include information on a company's outcomes, governance, risks, prospects, strategies and its economic, environmental, social and cultural impacts.

Greenhouse gas emissions are 'gases that trap heat in the atmosphere'. Greenhouse gases can include carbon dioxide, methane, nitrous oxide, and sulphur hexafluoride, hydro fluorocarbon, perfluorocarbon.⁶³

Integrated reporting (IR), as defined in the 2011 *Preparers' Survey*, refers to the integrated representation of a company's performance in terms of both financial and non-financial results. This was presumed to be included as an extended version of an annual report, in a specific document.

Preparers are CFOs of significant companies in New Zealand. The survey focuses on significant companies in New Zealand because of their impact on our economy and because we see them as potential drivers of change in EER practices.

Users are any interested parties who use the reports of companies to learn more about their operations.

Significant companies are the 129 companies listed on the NZSX Board (as at 30 June 2017) and the 200 companies listed on the 2016 Deloitte Top 200 (as at December 2016). Please note, we are aware that five of the 2016 Deloitte Top 200 are public benefit entities. Despite this, we continue to refer to companies, as our interest is primarily in the reporting practices of for-profit entities.

Stakeholders are groups or individuals who have an interest in an organisation and can be affected by their actions. Examples include shareholders, employees, suppliers, consumers, neighbours and the general public.

61 See 2017 *Preparers' Survey*, question 19 and *Users' Survey*, question 26.

62 See 2017 *Preparers' Survey*, question 27.

63 See www.epa.gov/ghgemissions/overview-greenhouse-gases

The surveys

About the process

S1: The first survey, titled *Preparers' Survey: Attitudes of the CFOs of significant companies towards Extended External Reporting (2017 Preparers' Survey)*, was sent to the Chief Financial Officers (CFOs) of NZSX-listed companies (from the list as at June 2017) and the 2016 Deloitte Top 200 companies (from the list as at December 2016). We followed up by phone where appropriate and of the 277 CFOs who were sent the survey, we received 92 responses between 10 April (first response) and 3 July 2017 (final response).

S2: The second survey, titled *Users' Survey: Attitudes of interested parties towards Extended External Reporting (Users' Survey)*, was sent to a wide range of potential EER users including investors, industry organisations, NGOs and universities. It was also promoted on various websites and social media pages, and opened to the general public. There were 104 survey respondents between 29 May (first response) and 21 August 2017 (final response).

Other publications

The two surveys and their responses can be read in full in the *Preparers' Survey: Attitudes of the CFOs of significant companies towards EER* booklet and the *Users' Survey: Attitudes of interested parties towards EER* booklet.

An overview of the surveys can be read in *Survey Highlights: A summary of the 2017 Extended External Reporting Surveys*.

These documents can be found at www.reportingnz.org and www.xrb.govt.nz.

Final word

About XRB

The XRB is an independent Crown Entity responsible for financial reporting strategy and for accounting, and auditing and assurance standard-setting in New Zealand. The XRB aims to engender trust and confidence in New Zealand organisations' external reporting, assist organisations across the for-profit, public and not-for-profit sectors to compete internationally and to enhance their accountability to stakeholders.

About McGuinness Institute

The McGuinness Institute is a non-partisan think tank working towards a sustainable future for New Zealand. The Institute undertakes research and analysis with a view to contributing to a national conversation on New Zealand's long-term future.

Wendy McGuinness BCom, FCA, MBA

Reporting for the common good is a thread that runs through Wendy's career. In 1988 she prepared a report, *Implementation of Accrual Accounting for Government Departments*, for the New Zealand Treasury. In 2002 she was a member of the New Zealand Institute of Chartered Accountants' Taskforce on Sustainable Development Reporting. This led to the formation of the National Sustainable Development Reporting Committee in 2003–2004, of which Wendy became Chair. She was a judge of the Sustainability Awards from 2004–2009. In 2004 she set up the McGuinness Institute, which in 2011 published the *Integrated Annual Report Survey of New Zealand's Top 200 Companies: Exploring Responses from Chief Financial Officers on Emerging Reporting Issues*.

The research team included: Isabella Smith, BA; Sally Hett, BA; Karri Shaw, BCom; Nicholas Shackleton, BSc; and Madeleine Foreman, LLB (Hons)/BA.

The team at the McGuinness Institute would also like to thank the XRB and, in particular, Lay Wee Ng for her feedback and guidance on this work.

Special thanks

Thank you to all the survey respondents. It was important to hear your thoughts and ideas on EER. Without your hard work, investors and other stakeholders would struggle to understand the contribution your company makes to the economy. Thank you again for taking the time to complete the survey.

This research is a collaboration
between the External Reporting Board
and the McGinness Institute.



MCGUINNESS INSTITUTE
TE HONONGA WAKA