



Article by Nicola Hankinson
NATIONAL TECHNICAL MANAGER
nicola.hankinson@stapleswellington.co.nz



HIGHLIGHTING SUSTAINABILITY IN FINANCIAL REPORTING



THERE ARE GROWING DEMANDS FOR more holistic performance information, particularly from investors and the wider community as awareness of climate change and sustainability issues continues to grow. Stakeholders are demanding more information about how businesses are identifying and managing the key risks including risks to their long-term sustainability and impact on the environment. Providing financial information in isolation is no longer enough.



NZX LEADING THE CHARGE

The NZX are actively encouraging businesses to report information about what they call environmental, social and governance (ESG) factors. In 2017, they updated their Corporate Governance Code to promote disclosure of ESG factors recommending that issuers: "...provide non-financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non-financial targets are measured."

The NZX suggests using a recognised international reporting framework, such as the Global Reporting Initiative guidelines or Integrated Reporting, to ensure that your business's information can be easily compared. Smaller businesses may find it is more appropriate to select key non-financial matters to report upon rather than adopting a formal reporting framework.

DIFFERENT REPORTING FRAMEWORKS AVAILABLE

There are a number of different reporting frameworks available to help you get started. These include:

Financial Stability Board Taskforce on Climate Related Financial Disclosures (FSB-TCFD)

This provides a framework to:

- Disclose the **measures** used by an organisation to assess climate related risks and opportunities in line with its strategy and risk management processes
- Describe the **targets** used by the organisation to manage climate-related risks and opportunities and performance against targets
- Disclose greenhouse gas (GHG) emissions and the related risks

Global Reporting Initiative (GRI)

Global Reporting Standards are the most widely used standard for reporting on ESG impacts. These standards are based on reporting against modules relevant to each business, such as stakeholder engagement, biodiversity, water and effluents, and waste.

Integrated Reporting (<IR>)

The International <IR> Framework is based on recognising six capitals (financial, manufactured, human, natural, intellectual, social and relationship) that drive the creation of business value. The focus of <IR> is on reporting what is driving the creation of value in respect of each capital, such as Sanford's reporting their commitment to healthy oceans as a key part of its 'natural' capital. Sanford reports proactive initiatives such as



LEADING LIGHTS

Many of New Zealand's leading companies have adopted one of these frameworks to communicate their broader performance to stakeholders. These include:

SANFORD

Adopted both <IR> and the core principles of GRI in developing its 2017 Annual Report, The Power of AND. The Report focusses on how Sanford is performing and adding value now and into the future and how this drives their decision-making.

NZ POST

Adopted the <IR> framework to produce its 2017 Integrated Report to tell their 'value creation story' for the short, medium and longer terms. NZ Post provides insight into the six capitals and the material issues that influence their ability to create value using a 'Materiality Matrix'. NZ Post was awarded supreme winner in the 2017 NZI Sustainable Business Network Awards for its strong commitment to sustainability.

AIR NEW ZEALAND

Adopted the GRI principles to develop its 113 page dedicated 2017 Sustainability Report. The Report includes Air New Zealand's Sustainability Framework which reports on goals, targets, activities, challenges and aspirations for each of Air New Zealand's six target areas as well as providing links to the United Nations Sustainable Development Goals (UN SDGs).

THE WAREHOUSE GROUP

Included within its 2017 Annual Report is the Group's reporting on GHG emissions. The Warehouse Group achieved Certified Emissions Measurement and Reduction Scheme (CEMARS) certification in recognition of their commitment to managing and reducing its emissions.

its newly signed dolphin protection plan and reducing plastics initiative, as well as adverse events, such as the number of seabirds and marine mammals caught dead. Balanced reporting is critical to ensuring that integrated reports are not seen as marketing documents. (cntd. over)

KEY STEPS TO GET STARTED

As with most things in life, the hardest part is often getting started. Here are some ideas on how to kick-start reporting on your business's broader performance, including longer-term sustainability information:

- Identify your stakeholders — who is likely to be interested in your business and what it is delivering in a broader sense? You would be surprised at just how wide this group is.
- Determine what your stakeholders are most interested in — ask them! In the formal reporting framework sense this is often referred to as identifying your 'material matters'.
- Assess which ESG factors are most relevant to your business model and strategy. This will help you focus your efforts and allow you to zone in on the 'material matters'.
- Articulate how each of these factors are likely to impact on your business.
- Develop strategic goals for each factor and then agree some more intermediate targets to help you achieve these goals. From a practical perspective it is important to narrow this down to between 3 and 6 factors to enable sufficient focus to be maintained and resources to be assigned.
- Determine the most appropriate reporting format (i.e. perhaps creating a separate report to include on your website or including broader ESG information within your Annual Report)
- Develop systems to capture data against each target area and collate information that is complete, accurate, reliable, timely and consistent.
- Report this information, ensuring that it is balanced and links back to your financial information.
- Further down the track you may want to get assurance over your reporting framework and/or the processes used to report this information.

Staples Rodway is committed to helping businesses meet the growing demands for broader sustainability and environmental performance reporting. We have a wealth of expertise in working with businesses to develop appropriate reporting frameworks. Ask your local Staples Rodway advisor on how to get started. If you are interested in achieving CEMARS, our Auckland office can help, having achieved the certification themselves in 2017.