MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

International Developments in Sustainability Reporting

Occasional Paper

June 2021

New Zealand Government

MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Authors

Daniel Meech Daniel.Meech@mbie.govt.nz

Tom Bayliss Tom.Bayliss@mbie.govt.nz

Acknowledgements

This paper was led by Daniel Meech (first author) with support from the Transitions Strategy Team. We would like to acknowledge Daniel's efforts and the high calibre of the work he produced during his Tupu Tai internship at MBIE. We would also like to acknowledge the wider support that we received from other teams across MBIE, including the Chief Economist Unit, Corporate Governance and Intellectual Property Policy, Employer Systems and Assurance, Investment Policy, Langa Le Va – Pacific Policy and Strategic Policy. We would also like to acknowledge the expert advice and peer review provided by our colleagues from the Ministry for the Environment and the External Reporting Board.

Occasional Paper

June 2021

Ministry of Business, Innovation & Employment
PO Box 1473
Wellington 6140
New Zealand
www.mbie.govt.nz
0800 20 90 20
Media enquiries: media@mbie.govt.nz

Disclaimer

The views, opinions, findings, and conclusions expressed in this paper are strictly those of the author(s). They do not necessarily reflect the views of the Ministry of Business, Innovation & Employment or the New Zealand Government. The Ministry of Business, Innovation & Employment and the New Zealand Government take no responsibility for any errors or omissions in, or for the correctness of, the information contained here. The paper is presented not as policy, but with a view to inform and stimulate wider debate.

ISBN (online) 978-1-99-100801-5

Contents

1 Executive Summary

Sustainability reporting is a mechanism for measuring and communicating performance against environmental, social and corporate governance (ESG) factors. Sustainability reports enable financial market participants (such as firms, investors and insurers) to accurately price assets and new investments, improve their reputation and stakeholder relations, enhance their ability to manage transitional[1] and physical risks[2], and align branding with consumer preferences. ESG indicators act as effective proxies for low risk, long term investments that deliver high financial returns. Over time, sustainability reporting can support sustainable transitions as capital is directed towards sustainable activities.

In Aotearoa New Zealand, many Māori businesses and iwi trusts are leaders in sustainably managing environmental resources and creating value for their communities. However, to be sustainable, the rest of the economy also needs to operate with long time horizons, and wider social and environmental aspirations. The New Zealand Government has taken a climate first approach to sustainability reporting. The introduction of the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Bill established mandatory climate-related disclosures for all listed issuers, large banks, non-bank deposit takers, insurers and managers of investment schemes. In Aotearoa there is growing interest in government doing more to accelerate toward the goal of strong and consistent sustainability reporting, and several government agencies and Independent Crown Entities have particular interests, responsibilities and existing functions to support progress in sustainability reporting.

This paper identifies and describes international trends in sustainability reporting to promote discussion around the potential role of government in laying the foundations for an effective sustainability reporting regime, which would facilitate sustainable transitions in Aotearoa New Zealand. This paper notes three key international developments in sustainability reporting:

1. **There is growing momentum for sustainability reporting within the private sector.** Support for sustainability reporting is increasing across a number of businesses, professional accountancy membership bodies, stock exchanges and private-public partnerships. There is also growing pressure from fund managers and insurers for information on how their investments perform against ESG factors.
2. **Sustainability reporting is increasingly seen as responsible business practice, and part of the fiduciary duties of managers and directors**. Business managers and directors are increasingly facing litigation for failing to adequately communicate the impacts of their business decisions on the environment and society (particularly regarding climate change risk).
3. **There is a convergence among sustainability reporting frameworks and standards**. This convergence will improve the consistency, comparability and quality of information provided in sustainability reports. Further, the speed of change looks set to increase in the near future with the five major framework and standard-setting institutions coming together to consolidate their rules and recommendations.[3] The International Financial Reporting Standards Foundation (whose accounting standards are used in more than 140 countries around the world) also received industry backing to

[1] Transitional risks include policy risk (due to evolving policy actions by governments and regulators), litigation risk, market risks (through shifts in supply and demand), and reputational risks, for example.
[2] Physical risks include the financial implications of direct damage to assets, and indirect impacts from supply chain disruption that are either event driven (such as extreme weather events) or driven by longer term shifts in climate patterns that may cause sea level rise or chronic heat waves.
[3] The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) have since announced their merger to form the Value Reporting Foundation.

accelerate the convergence of a global sustainability reporting framework through creating the International Sustainable Standards Board (ISSB).

Governments in other jurisdictions have intervened to strengthen the quality, comparability and uptake of sustainability reporting by introducing:

1. mandatory sustainability reporting regimes
2. complementary policies to build capability and expertise in sustainability reporting, and minimise the associated compliance costs.

There are risks associated with implementing a mandatory ESG sustainability reporting regime before a global framework is agreed. However, governments can conduct their own sustainability reporting to show leadership in this area, and help to enable high quality sustainability reporting in the private sector through complementary policies (eg data and information hubs, training programmes and avenues for sharing best practice).

These findings are useful for maintaining oversight of the direction of travel, and identifying potential areas where government can take action to facilitate effective sustainability reporting in Aotearoa New Zealand.

Keywords

Sustainability reporting, ESG reporting, integrated reporting, climate-related disclosures

Abbreviations

The following abbreviations are used in this paper:

C3IA	Canadian Centre for Climate Information and Analytics
COFR	Council of Financial Regulators
DIA	Te Tari Taiwhenua, The Department of Internal Affairs
EER	Extended External Reporting
ESG	Environmental, Social, and Corporate Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of financial market participants
EU	The European Union
FMA	Te Mana Tatai Hokohoko, Financial Markets Authority
GDP	Gross Domestic Product
GRI	Global Reporting Initiative, an international standards organisation advancing sustainability reporting
IFRS Foundation	International Financial Reporting Standards Foundation
ILO	The International Labour Organisation
ISSB	International Sustainability Standards Board
MBIE	Hīkina Whakatutuki, Ministry of Business, Innovation and Employment
MfE	Manatū Mō Te Taiao, The Ministry for the Environment
NZGIF	New Zealand Green Investment Finance
NZX	Te Paehoko o Aotearoa, New Zealand's Exchange
OECD	Organisation for Economic Co-operation and Development
PSI	Productive, sustainable and inclusive
RBNZ	Te Pūtea Matua, The Reserve Bank of New Zealand
SASB	Sustainable Accounting Standards Board
SMEs	Small and Medium sized Enterprises
TCFD	Task Force on Climate-related Financial Disclosures
TSY	Te Tai Ōhanga, The New Zealand Treasury
XRB	Te Kāwai Ārahi Pūrongo Mōwaho, The External Reporting Board

2 Purpose

This research paper describes international trends in sustainability reporting. The purpose of this paper is to:

- provide an overview of what sustainability reporting is
- consider the value and risks of sustainability reporting, and the characteristics of an effective sustainability reporting regime
- outline the state of sustainability reporting in Aotearoa New Zealand
- identify recent international developments in sustainability reporting
- describe international best practice programmes and policies for supporting effective sustainability reporting regimes.

The sustainability reporting landscape is developing rapidly and will continue to evolve. This research project is a point in time summary of the key features, developments, and players driving momentum for sustainability reporting. The main goal for this paper is to promote discussion on the potential role of Government in laying the groundwork for a sustainability reporting regime, and facilitating sustainable transitions in Aotearoa.

3 Context

This section describes:

- our policy interest in sustainability reporting and sustainable finance
- what sustainability reporting is
- the current state of sustainability reporting in Aotearoa New Zealand
- the characteristics of an effective sustainability reporting regime.

This paper focuses on sustainability reporting in particular, however it should be acknowledged that sustainability reporting does not exist in isolation from other aspects of corporate reporting (Financial Reporting Council, 2018a). Annex One describes the types of corporate reporting and how they differ.

3.1 What is Sustainability Reporting?

Sustainability reporting is a mechanism for measuring and communicating performance

Sustainability reporting measures and communicates performance against environmental, social and corporate governance (ESG) factors. Annex Two discusses the three important ESG factors and their potential application for sustainability reporting. A sustainability report usually discloses the entity's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. They also help entities to set goals and manage change more effectively (GRI, 2020).

It should be noted that there are other tools that are being used to communicate sustainable performance. For example, sustainable product labelling (for example, the Fairtrade mark) is used to communicate sustainability factors to consumers at the point of sale, and individual accreditation schemes communicate business sustainability performance (for example, B-corp certification and Toitū Envirocare certification). Sustainability reporting differs from these sustainability communication tools as it targets all financial market participants (eg insurers, businesses, fund managers, listed issuers ect) to ensure they routinely account for ESG factors. Sustainability reporting can be considered a top down approach to achieving sustainable finance systems by building non-financial factors into market decision making, whereas product labelling and business certifications can be considered bottom up approaches that primarily target and respond to consumer behaviour.

Sustainability reporting is relatively new (compared to financial reporting) and does not yet have universal performance communication practices or accepted sustainability accounting units to measure performance against (Edwards, 2018). However, as with financial reporting, consistency in the describing, measuring and accounting of sustainability is expected to develop over time (Herzig & Schaltegger, 2006).

Sustainability reporting is a rapidly evolving area in the field of sustainable finance

The New Zealand Government announced its economic plan to transition to a productive, sustainable and inclusive (PSI) economy by 2050 (MBIE, 2019). Sustainable transitions require changes across a range of socio-technical systems (including regulation, industry, infrastructure, energy, and finance; Geels, 2002). This includes 'top down' pressure on the environment in which business operates (such as international agreements on climate change), 'bottom up' pressure from alternative technologies, and direct pressure on the existing ways of operating through regulation and changing consumer preferences.

Sustainable finance is an area where governments are intervening to support a sustainable transition. A 'sustainable finance system' requires actors to routinely take account of the impacts of investment decisions on the environment and society (OECD, 2020). There is work underway across government to support sustainable finance systems (see Figure One on page 12). These interventions leverage the growing demand from business, investors, consumers and society for the economy and financial system to operate more sustainably. Government can support sustainable finance systems by playing a market shaping role, influencing and achieving a just transition by implementing programmes and policies that support the flow of capital to sustainable businesses and development priorities.

Market Shaping

Market shaping is notably different to market regulation. Government operates as regulator of the market to ensure market actors adhere to standards and rules. Government is passive in its role as a regulator, correcting mistakes as they occur, usually with a view to preventing market failures. Market shaping on the other hand, aims to go beyond preventing market failures by instituting programmes and policies to influence market outcomes and the allocation of resources, with the ultimate goal of creating socially desirable outcomes.

Institute for Public Care, 2015; UCL, 2018

MBIE has a number of roles and functions that help to shape a sustainable finance system, such as:

- **Financial Markets and Investment Policy**: Ensuring financial stability and resilience, including the appropriate pricing of assets and factoring long term risks into business and investment decisions.
- **Employment Standards and International Labour Policy**: Considering how financial settings can promote or undermine safe and fair employment practices, and exploring the implementation of modern slavery legislation in New Zealand.
- **Competition and Consumer Policy**: Maintaining consumer protection and enhancing consumer access to high quality information on the products they purchase, and the impact of their consumption on the environment and society
- **Transitions Strategy and Strategic Policy**: We have responsibilities in economic thought leadership, and an economic strategy that outlines our role in supporting the flow of capital to sustainable development priorities to transition towards a PSI economy.
- **Kānoa – the Regional Economic Development & Investment Unit:** We have direct funding levers to administer funding in a way that delivers sustainable outcomes. Kānoa is currently undertaking work on an impact management framework for the new Regional Strategic Partnership Fund. This will include establishing practical ESG style reporting measures for funded projects, in order to increase the understanding of the impact of government investment, and to support firms in developing sustainability reporting capabilities.
- **Procurement:** Implementing changes to ensure government agencies are incorporating broader outcomes into their procurement activities.
- **Science and Innovation:** We support the need for research into low emissions approaches, and the Government is committed to harnessing the Research, Science and Innovation system to transition to a clean, green and carbon neutral New Zealand.
- **Small Business Policy, Enterprise Policy and Business.govt.nz:** We administer business support and guidance on digital enablement, climate change action, and navigating relevant regulation, for example.

MBIE can play an important role in supporting sustainable finance systems

MBIE (in partnership with other government agencies) is well placed to support sustainable finance initiatives that cut across the business, employment, and environmental impacts of financial markets. The sustainable finance landscape (pictured below) includes a wide range of government programmes and projects, financial instruments (such as Green Bonds), discussion and decision forums, and domestic and international collaborations. The following diagram visualises sustainable finance programmes across government partners.

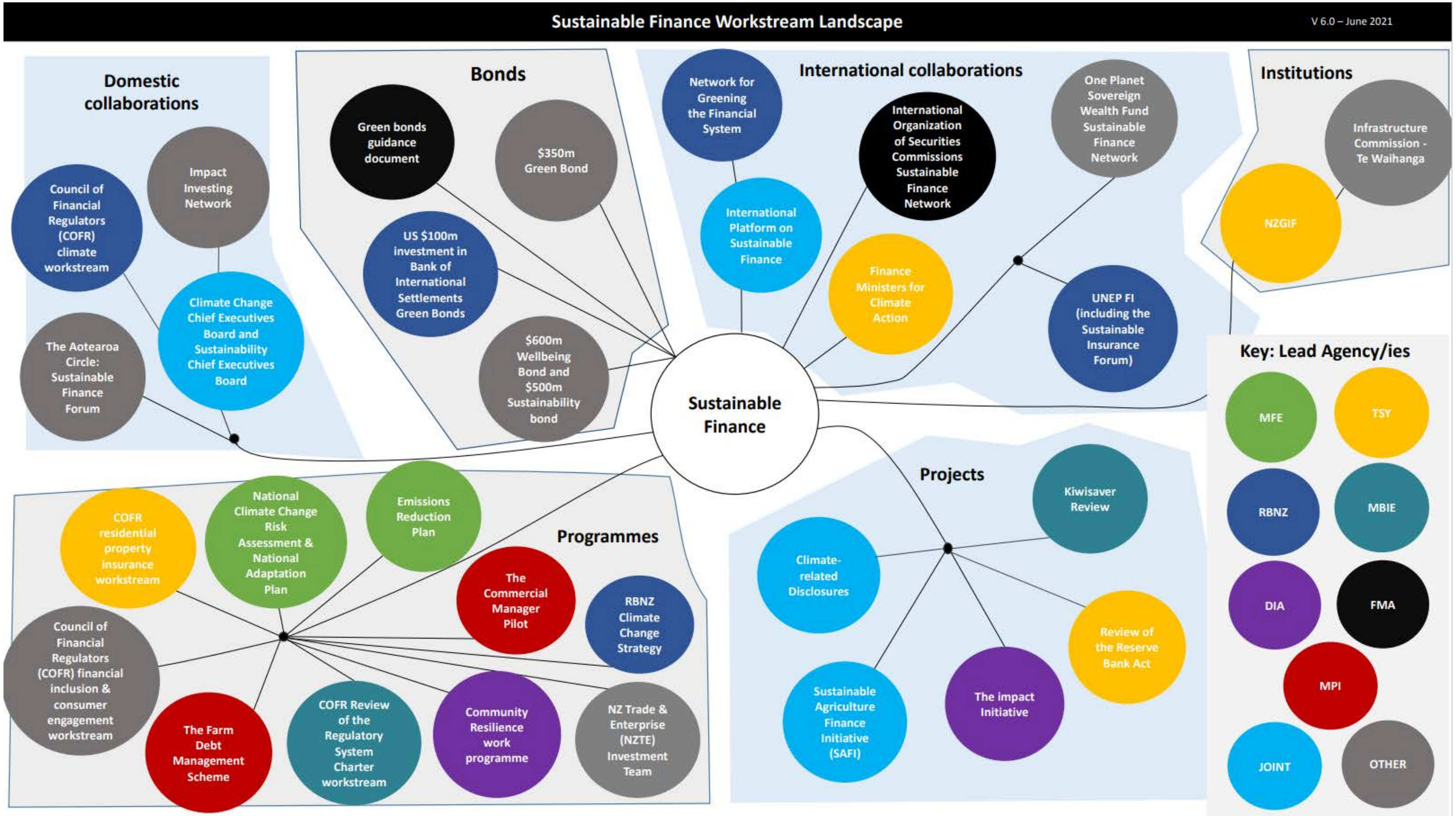

Figure One, Sustainable Finance Workstream Landscape. Source: Author.

3.1.1 Benefits of Sustainability Reporting

Sustainability reporting has growing support among governments and financial sector participants due to increasing awareness that:

- sustainability reporting can improve firm financial performance and value
- sustainability reporting can provide a mechanism for increasing financial returns (and reduce long term risks) for fund managers
- sustainability reporting provides a holistic mechanism for communicating important information
- sustainability reporting can be an effective lever for promoting sustainable transitions.

Sustainability reporting is associated with improvements in firm financial performance and value

There is a strong business case for firms to undertake sustainability reporting to better understand the full context of their organisation, rather than focussing on a narrow set of financial indicators (McKinsey, 2019). Anecdotal and empirical evidence associates sustainability reporting with improved firm financial performance and value (Cohen, Fenn & Konar, 2017; Hongming et al., 2020; Jones et al., 2007; Reddy & Gordon, 2010; Unruh, 2016;). However, fewer studies have used causal techniques to quantify the proportional increase in profitability experienced by firms undertaking sustainability reporting pre and post intervention, and it may be that businesses undertaking sustainability reports differ from the business population at large in ways that make them better-performing than non-ESG firms. In spite of the difficulties of measuring financial improvements that can be attributable to sustainability reporting, there is significant evidence that firms who undertake high quality sustainability reporting can benefit from:

- top line growth (McKinsey, 2019)
- cost reductions (eg more efficient resource use; Morgan Stanley, 2017)
- greater regulatory freedom (McKinsey, 2019)
- productivity boosts (White, 2010)
- improved stakeholder relationships and consumer branding (PWC, 2021)
- better access to capital (Moody's Investor Services. 2021)
- lower risk of stranded assets (MfE & MBIE, 2019).

Sustainability reporting enhances investment performance

Sustainability reporting is gaining momentum among investors globally. This has been driven by demand from beneficiaries and other stakeholders, pressure from regulators, and increased expectations for institutional investors to consider the adverse impacts of their portfolios on society and the environment. There is also strong evidence that sustainable investment strategies maximise long term financial returns for banks, insurers and managers of investment schemes. A 2015 study of the financial effects of sustainability reporting (that combined the findings of around 2200 individual studies) found that ESG investments outperform other investments. The study concluded that ESG factors should be important for all rational investors (Friede, Busch & Bassen, 2015). The findings were corroborated by a 2019 Bank of England study, which concluded that policy changes, new technologies, and growing physical and transitional risks mean investors will have to reassess the values of financial assets against ESG factors. Aligning operating models with sustainable practices will reduce the risk of a rapid adjustment if stock prices collapse for unsustainable investments.

The importance of a holistic approach to reporting

Sustainability reporting is a mechanism for communicating a wide set of information. Sustainability reports can communicate information to employees, customers, shareholders, local community, institutional investors, suppliers, analysts, governments and NGOs (Centre for Australian Ethical Research, 2006). Some industries are required to report separately on a range of factors that could fall within the scope of sustainability reporting. For example, in the near future in the agricultural sector, businesses could be required to report separately on:

- Employment standards and working conditions for employees
- Feed budgeting and winter farm plans
- Water quality
- Biodiversity
- GHG emissions
- Health and safety
- Food safety standards

The ability of companies to effectively measure and report on these factors is undermined if these reporting regimes are developed in isolation of each other, and administered by different government agencies. A key benefit of sustainability reporting is the opportunities for these reports to meet the information needs of a range of stakeholders.

Sustainability reporting can be an effective lever for promoting sustainable transitions

The expectation that improving information and transparency around business and investor behaviour will lead to positive environmental and social outcomes has prompted interest from governments. Studies have found links between firms undertaking sustainability reporting and improved sustainability performance over time (Herzig & Schaltegger. 2006). For example, UBS Bank used the Taskforce on Climate-related Financial Disclosures (TCFD) framework to measure, track and report on their greenhouse gas footprint (which decreased from 148 to 132 kilotons between 2017- 2018), climate-related sustainable investments (which increased from 74 Billion USD to 87.5 Billion USD between 2017-2018) and other important ESG factors (TCFD, 2019). Sustainability reporting helped UBS to track and reduce their impact on the environment, and to communicate the value of their efforts to shareholders, consumers and other financial market participants.

This example is consistent with empirical evidence that sustainability reporting creates value for communities and the environment, and leads to more efficient capital allocation to sustainable development priorities and sustainable business models (McKinsey, 2019; Barth et al., 2019; MfE & MBIE, 2019). Over time, sustainability reporting has the potential to improve the efficiency and stability of financial markets by increasing the transparency of business actions, and making businesses and investors more accountable for their impacts on the environment and society.

3.1.2 Risks, Costs and Challenges with Mandatory Sustainability Reporting

Policy makers need to carefully consider the risks, costs and challenges to implementing mandatory sustainability reporting. The ideal characteristics of sustainability reporting in section 3.2.3 gives guidance on best practices in sustainability reporting.

There are three main challenges associated with sustainability reporting that are discussed in this paper:

- compliance costs
- green washing
- the proliferation of standards and frameworks.

It is important for governments to consider the compliance costs of reporting for businesses

High compliance costs associated with reporting can disadvantage small businesses and be a barrier to engaging meaningfully with the purpose of compliance. For example, in the Australian Government inquiry (Parliamentary Joint Committee on Corporations and Financial Services) into sustainability reporting, the committee received a significant number of submissions on the additional compliance costs that a mandatory reporting regime would add to the operations of Australian companies (Parliament of Australia, 2007). A submission from Chartered Secretaries Australia estimated a figure of $50,000 per company based on a survey of members (Parliament of Australia, 2007).

The estimated cost would be significant for small businesses and could compound the barriers SMEs already face (eg accessing capital, limited time, technical expertise, and organisational resources; Conway, 2015; Rizos et al., 2016). This can result in compliance mentality, or meeting the minimum requirements of a mandatory reporting regime without taking associated actions to improve ESG performance (ie a 'tick box' exercise; OECD, 2007). Noting these factors, it is likely that the material benefits of sustainability reporting will not match the costs for some small businesses, such as non-listed companies with 5 FTEs or less. Complementary policies that can reduce compliance costs for businesses, and approaches taken overseas to exclude companies of certain sizes are discussed in further detail in section 5.3. In summary, the compliance costs of sustainability reporting are significant for smaller firms, and further work would be needed to consider the threshold for businesses (by turnover or number of employees) for sustainability reporting to be worthwhile.

Misleading and inaccurate disclosures are an associated risk for sustainability reporting

While sustainability reporting has increased significantly over the last two decades, there are concerns about whether improved reporting and branding are tied to meaningful improvements in businesses' environmental and social practices (MBIE, 2020a). The process of conveying misleading information about environmental or social performance is referred to as 'social washing' or 'green washing' (Horan et al., 2019).

Green washing and social washing can result if reports are not tied to the right information and measurement. For example, an Australian study reviewed the annual reports of 10 emission-intensive Australian companies that had embraced sustainability as a core value over 16 years (Deegan, & Islam, 2012). The study found that despite portraying an image of complying with community concerns, companies' claims about social and environmental related performance was not reflected in their decision making. The study found that meaningful change was not achieved and organisations continued to prioritise maximising financial returns (Deegan, & Islam, 2012).

Those developing standard metrics for sustainability reporting are aiming to minimise green washing, or social washing, making it difficult for firms to hide the environmental and social impacts of their operations. This ensures that genuine efforts to operate sustainably and create value for communities is appropriately rewarded. The International Platform on Sustainable Finance's Taxonomy working group is an international collaboration that is working to get alignment, and provide clarity around a classification system for environmentally sustainable economic activities to address greenwashing concerns (more information is provided in the box below). Auditing requirements/third party verification can also be valuable tools for ensuring accurate and high quality reporting.

International Taxonomy Developments

New Zealand is observing the International Platform on Sustainable Finance's Taxonomy working group. In March 2021, the People's Bank of China (PBC) announced they will be working with the European Union to adopt a common green taxonomy across the two markets later this year. The EU Taxonomy Regulation will take effect on a phased basis from 1 January 2022. The EU Taxonomy Regulation is intended to prevent greenwashing, and aims to support EU countries to reach the Paris Agreement climate goals. EU Taxonomy Regulation has the potential to form the basis of the global standard for ESG investing due to its international reach, and the huge size of the asset pool it encompasses.

The multitude of existing standards and frameworks undermines the comparability and value of reporting

A main challenge with implementing a sustainability reporting regime is that a large number of reporting frameworks and standards already exist. Broadly, frameworks are high level and principle based guidance on reporting, whereas standards are more detailed and often assured. There are a large range of ESG sustainability reporting frameworks and standards that have been developed that differ in various ways, such as intended audience, level of details and/or the metrics used. To date, the proliferation of frameworks and standards has caused confusion for preparers and users of reports. Producers of sustainability reports are unclear about what a sustainability report should include, and which high level framework or specific standard to adhere to. As a result, there is variation between sustainability reports that then requires the users of reports to understand and negotiate these differences (for example, KPMG, 2020). This challenge is explored in greater detail in sections four and five, where the authors identify the work underway to converge on a single sustainability reporting framework that can then inform a single, detailed reporting standard with comparable metrics.

3.1.3 Ideal Characteristics of a Sustainability Reporting Scheme

Based on the risks, costs and challenges noted above, our research suggests four key characteristics for an effective sustainability reporting regime. An effective regime is (Herzig & Schaltegger, 2006; TCFD, 2017):

- **Credible**: A credible sustainability reporting framework gives investors access to high quality information which paints an accurate picture of the sustainability performance of a business. This empowers investors to direct capital toward sustainable and long term risk-weighted economic activities and business models (Hall & Lindsay, 2017). A credible reporting scheme prevents companies from green washing their products.
- **Consistent:** The reports produced under the sustainability reporting regime should be consistent and comparable. This makes it easier for users to understand and compare reports between different companies.
- **Widely adopted:** Wide uptake of sustainability reporting ensures investors have the information necessary to distinguish between sustainable and unsustainable businesses in all sectors. It also ensures as many companies as is practically possible are encouraged to enhance their sustainability performance.
- **Accessible:** The burden on companies (time, money and other compliance costs) should be minimised.

Although these characteristics are easy to identify, it can be difficult to institute them in practice. The following section describes the current sustainability reporting climate in Aotearoa New Zealand. This provides the baseline for identifying our distinct advantages and challenges to achieving an effective sustainability reporting regime in Aotearoa New Zealand.

3.2 Existing Sustainability-Related Reporting in Aotearoa New Zealand

Aotearoa New Zealand does not have a government-mandated ESG sustainability reporting framework or standard. Currently, there is a range of voluntary and mandated corporate reporting that relates to climate and sustainability. These existing practices would support the potential establishment of a mandated sustainability reporting regime. This section describes the existing sustainability-related reporting mechanisms in Aotearoa New Zealand.

3.2.1 Corporate Sustainability Reporting

In the last decade, uptake of voluntary sustainability reporting has increased, along with a deepened understanding of environmental and social risks for corporate New Zealand (Wright Communications, 2020). Recent Wright Communications and Proxima reports provide valuable insights on the current state of corporate sustainability reporting in Aotearoa New Zealand (Proxima, 2019; Wright Communications, 2020). The NZX Corporate Governance Code (Principle 4) adopts a 'comply or explain' model for sustainability disclosures (see text box below for more information on the comply or explain model). However, only around 45 percent of listed issuers reported on sustainability factors under the Corporate Governance Code in 2019 (Proxima, 2019). Overall, the level of sustainability reporting and usage of international reporting frameworks among the S&P NZX50 increased in 2020, with more companies using the GRI, Integrated Reporting and Taskforce for Climate-related Financial Disclosures (TCFD) frameworks or guidelines (Wright Communications, 2020).

A small proportion of Aotearoa New Zealand companies voluntarily report on sustainability

Large firms in Aotearoa New Zealand have stronger uptake of voluntary sustainability reporting. A Proxima survey found that in 2019, 80 percent of the NZX top 100 companies reported some sustainability-related information. However, there was significant variation in the standard and type of information voluntarily reported (Proxima, 2019).

Limitations of voluntary reporting in Aotearoa New Zealand undermine the value of current reporting practice

Companies in Aotearoa New Zealand use varying frameworks and standards[4] for sustainability reporting. This practice causes inconsistency across reports and it can be difficult, or even impossible, to compare between reports. Further, the self-selected nature of the information provided in voluntary reporting can undermine its perceived or real credibility (TCFD, 2017). Greater consistency, comparability and accountability is required for sustainability reporting to be an effective tool to support sustainable finance systems in Aotearoa New Zealand.

The Comply or Explain Model and Alternative Approaches

Under a comply or explain model, companies are expected to disclose their sustainability performance unless they have a legitimate reason not to (Ho, 2017). Where companies have a legitimate reason not to disclose on a particular aspect of the sustainability reporting scheme, they are expected to explain why they have not disclosed. For example, under the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Bill, entities are not required to prepare climate statements if companies reasonably determine that the activities of the entity are not materially affected by climate change. However, an entity is still required to prepare a document explaining their reasoning, and lodge this document to the Registrar for Lodgement.

The comply or explain model helps to reduce the compliance burden for companies by preventing them from being forced to provide irrelevant information (Ho, 2017). One concern with the comply or explain model is that some companies may try to exploit the flexibility of the approach to escape relevant reporting requirements (Climate Disclosure Standards Board, 2020).

One alternative to the comply or explain model is the 'ultra-mandatory' approach. Under the ultra-mandatory approach, companies are required to disclose on all aspects of the reporting regime, and cannot escape disclosure requirements (Varottil, 2017). The drawback of this approach is that it is rigid and can increase compliance costs for businesses that are required to report on factors that are immaterial to them (Deloitte, 2016).

---

[4] For example, the Global Reporting Initiative Standards (2020a), Integrated Reporting, Taskforce on Climate-Related Financial Disclosure Recommendations, Sustainable Development Goals, and the Future-Fit Business Benchmark.

3.2.2 Climate-related Disclosures

In April 2021, the Financial Sector (Climate-related Disclosure and Other Matters) Amendment Bill (The Bill) was introduced into the New Zealand parliament. The Bill will establish mandatory climate-related disclosures on a comply or explain basis (MfE, 2020). The earliest these disclosures would be released on a mandatory basis would be 2023. Under the Bill, the disclosures will be issued by the External Reporting Board (XRB) and reported against climate standards. Three quarters of Aotearoa New Zealand business and industry respondents to the MBIE and MfE discussion document supported the introduction of mandatory climate-related disclosures. The standards will be developed in line with recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD). It is important to note that although climate disclosures are important to sustainability reporting, they only fulfil one criteria of ESG and require the complementary factors to constitute ESG sustainability reporting.

Organisations required to report under The Bill will include:

- all registered banks, credit unions, and building societies with total assets of more than $1 billion
- all managers of registered investment schemes with greater than $1 billion in total assets under management
- all licensed insurers with greater than $1 billion in total assets or annual premium revenue greater than $250 million
- all equity and debt issuers listed on the NZX
- Crown financial institutions with greater than $1 billion in total assets under management.

In total, around 200 entities will be required to report under this new regime. 14 NZX S&P 50 companies have already made a start on TCFD reporting in 2020 (Wright Communications, 2020).[5] Under the bill, large financial sector entities will have to describe how their entities consider climate-related factors when making investment decisions. The Bill will also require them to:

- disclose whether they are exposed to climate-related risks
- report the entities' greenhouse gas emissions
- report on how they will manage those risks
- explain how climate change may impact on the organisation's business, strategy and financial planning (TCFD, 2017).

3.2.3 Emissions Reporting Under the Carbon Neutral Government Programme

In 2020, the New Zealand government announced the Carbon Neutral Government Programme. This programme aims to make the government carbon neutral by 2025, showing leadership and demonstrating what is possible to other sectors in the Aotearoa New Zealand economy. This programme will require entities in the public sector to set credible gross emissions reduction targets and plans for 2025 and 2030, and publicly report against them (MBIE, 2020b).

3.2.4 Sustainability Reporting under Mātauranga Māori

Government would benefit from learning from mātauranga Māori (Māori cultural intelligence) and has legislative obligations to partner with Māori in developing corporate reporting standards. Many Māori businesses and iwi trusts voluntarily report on wider ESG outcomes (see, for example, Raukawa Settlement Trust, 2020; Ngāi Tahu, 2020; Te Runanga a Iwi o Ngāpuhi, 2019). For example, Ngāti Hauā Iwi Trust use tangata, taiao and tikanga (people, environment, and culture) to report on activities and achievements such as the distribution of pataka kai, revitalisation of te reo Māori and restoration of whenua (Ngāti Hauā Iwi Trust, 2020).

[5] In addition, section s5ZW of the Zero Carbon Act requires public entities to report using TCFD derived aspects.

Many iwi trusts are already leaders in sustainably managing environmental resources and creating value for their communities.

Similarly, many Māori businesses already operate with long time horizons and wider social and environmental aspirations, where looking after the land, supporting their communities, and regenerating ecosystem services is a core part of their mahi (Wakatū, 2020; BDO, 2019). Māori businesses and iwi trusts that embody mātauranga Māori (Māori cultural intelligence) frameworks offer a fundamentally different approach to large scale, profit driven, and unsustainable business models; the rest of the economy could learn a lot from the way the Māori economy operates (Hutchings et al., 2020). Further work is needed to consider how the Crown can partner with Māori to embrace mātauranga Māori principles and practices in sustainability reporting requirements. This would need to consider how flexibility could be given to high performing Māori businesses that operate under Te Ao Māori frameworks, and the need for alignment with international sustainability reporting frameworks.

4 Interest in Expanding Sustainability Reporting

There is growing interest in wider government-mandated sustainability reporting

The Aotearoa Circle, an organisation that brings together government and private actors to pursue sustainability goals, published the Sustainable Finance Forum Roadmap for Action in 2020. The Roadmap considered how the New Zealand government and private sector might work together to shift to a financial system that supports sustainable social, environmental and economic wellbeing (Sustainable Finance Forum, 2020). The Roadmap recommends that the government should put in place a mandatory regime for foundational sustainability metrics and disclosures. The recommended regime includes disclosures on "social purpose, material issues, long-term purpose, and the integration of environmental and social risks and opportunities into strategy" (Sustainable Finance Forum, 2020). The Roadmap sets a bold target for the Government and highlights the demand for an effective sustainability reporting regime in Aotearoa New Zealand.

4.1 Government Actors, and our Roles and Responsibilities

A number of government agencies and Independent Crown Entities have particular interests, responsibilities and existing functions relating to sustainability reporting. Any action taken to consider expanding sustainability reporting in Aotearoa New Zealand would likely involve, or consult the following government actors:

- **The External Reporting Board (XRB):** The work of the XRB focuses on developing a financial reporting strategy for New Zealand, preparing and issuing accounting standards, preparing and issuing standards for assurance practitioners, and liaising with national and international organisations that have similar standard setting functions. The XRB use the term EER (Extended External Reporting) to refer to broader and more detailed types of reporting beyond financial reporting. The Bill extends the mandate of the XRB to develop climate-related disclosure standards and to issue non-binding guidance on reporting of non-financial matters.

- **The Ministry for the Environment (MfE):** As the government department charged with advising on policies and issues relating to the environment and environmental standards, MfE have a strong interest in Sustainable Finance policy work. They have a particular interest in how the financial sector can support positive environmental outcomes, and co-lead the work on Climate Related Disclosures.

- **The Ministry of Business, Innovation and Employment (MBIE):** MBIE plays a central role in shaping and delivering standards, programmes and regulation relating to employment, business support, economic and regional development, investment policy, and competition and consumer policy, for example. MBIE also has a strong interest in facilitating sustainable transitions across the economy, and minimising disruption through change for businesses and workers.

- **The Treasury:** The Treasury advises on economic policy, and assists with improving the performance of New Zealand's economy and managing financial resources. The Treasury uses the Living Standards Framework to support sustainable public finances that consider the Four Capitals (natural, human, social and financial and physical capitals; The Treasury, 2021).

- **The Financial Markets Authority (FMA):** The FMA is the government agency responsible for regulating financial market participants, exchanges and setting and enforcing financial regulation. The FMA have released a disclosure framework for integrated financial products (FMA, 2020). The FMA is supporting New Zealand's transition to an 'integrated financial system' that takes financial and non-financial factors into account, aligning with the Treasury's Living Standards Framework.

5 International Developments in Sustainability Reporting

Globally, momentum for sustainability reporting is accelerating rapidly. This section summarises international trends in sustainability reporting. The summary provided in this paper is based on case study analysis of Australia, Canada, China, the European Union, the United Kingdom, and the United States. These case studies were selected based on countries' international leadership in sustainability reporting and accessibility of relevant information.[6] Detailed country by country analysis is provided in Annex Three. Key trends in sustainability reporting discussed in this paper include:

- private sector momentum for sustainability reporting
- growing risk of litigation
- convergence of sustainability reporting standards.

5.1 Private Sector Momentum for Sustainability Reporting

Sustainability reporting has evolved significantly in recent years

Sustainability reporting was initially driven by environmentalists as a mechanism for achieving sustainable outcomes, and gained momentum through the wider sustainable development movement (for example, in the United Nations Brundtland Report; Lamberton, 2005; Brockett & Rezaee, 2012). Sustainability reporting is now increasingly driven by private sector investors, accountants and insurers, as a mainstream language for improving financial performance, and assessing a wider scope of opportunities and risks (Global Reporting Initiative, 2020b). The corporate backing of sustainability reporting on ESG factors does not necessarily equate to a sudden shift in business ethics and investor behaviour. It does, however, represent increasing awareness that sustainability reporting allows firms and investors to better understand the full context (beyond financial indicators) of an organisation. Having a broader understanding of ESG performance enables firms and investors to:

- more accurately price assets and new investments
- improve their reputation and stakeholder relations
- enhance their ability to manage transitional[7] and physical risks[8]
- align branding with consumer preferences.

There is increasing private sector buy-in

Increasingly, key financial market actors are seeking information on how they perform and how their investments perform against ESG factors. As ESG performance measures act as effective proxies for low risk, long term investments that deliver high financial returns, improving ESG performance (under sustainability metrics) also improves financial performance under traditional metrics (profit margins, productivity) (Deloitte, 2017; 2020). The case study below demonstrates the growing momentum for sustainability reporting from traditionally profit driven market actors (BlackRock, 2020).

---

[6] India, Japan and Malaysia, for example, also have mandatory regimes for sustainability reporting. However, insufficient information could be obtained on the characteristics and impacts of these reporting frameworks for them to be included in this study.
[7] Transitional risks include policy risk (due to evolving policy actions by governments and regulators), litigation risk, market risks (through shifts in supply and demand), and reputational risks, for example.
[8] Physical risks include the financial implications of direct damage to assets, and indirect impacts from supply chain disruption that are either event driven (such as extreme weather events) or riven by longer term shifts in climate patterns that may cause sea level rise or chronic heat waves.

Case Study: BlackRock Sustainable Investment

BlackRock, the largest asset manager in the world ($12.3 trillion NZD), overhauled its investment approach to make ESG factors a core component of investment decisions. BlackRock announced plans to halt investment in unsustainable businesses, and has started lobbying companies to improve their performance against ESG factors. In addition, BlackRock has launched giant sustainability funds. More than $1.7 billion USD was invested in the BlackRock US and World exchange *Carbon Transition Readiness Funds* in the first day of launch. Investment firms such as BlackRock are driving global demand for consistent and comparable information on ESG factors, and partnering access to capital with sustainability reporting requirements (BlackRock, 2020).

There is a growing expectation that market actors should regularly take account of ESG factors

Sustainable investment is no longer a niche market for a minority of social enterprises and ethical investors (Bank of England, 2019; BlackRock, 2020). Private sector momentum for sustainability reporting has been driven by a number of non-government financial market participants, including:

- **Asset managers**: As identified in the BlackRock case study, there is growing demand from asset managers for information on investment ESG performance. A report issued by Morgan Stanley found around 80 percent of identified asset managers have begun using ESG performance as a criteria for investment (Morgan Stanley, 2020).
- **Stock exchanges**: More than 20 stock exchanges around the world have pledged to introduce guidance on sustainability reporting as part of the Sustainable Stock Exchanges Initiative.[9] Sustainability reporting is voluntary on most of these stock exchanges, but some stock exchanges are beginning to enforce sustainability reporting requirements. For example, as of 2017 the Singapore Exchange requires companies to prepare sustainability reports on a comply or explain basis.[10]
- **Firms**: Globally, the number of companies issuing sustainability reports is on the rise, even in countries where sustainability reporting is voluntary. A recent KPMG global survey of 4,900 high-performing businesses, 77 percent had produced a sustainability report in 2020 (KPMG, 2020). The growing uptake of ESG reporting suggests that major companies are responding to investment and consumer pressure.
- **Standard setters:** There are a number of influential global standard setters in the corporate reporting space.[11] These standard setters support effective sustainability reporting regimes by developing principles and recommendations for measuring, accounting for, and reporting on sustainability.
- **Professional accountancy membership bodies**: These bodies represent large membership bases of accounting professionals, for example, the Chartered Accountants Australia & New Zealand (CA ANZ) and the American Institute of Certified Public Accountants (AICPA). These bodies play an influential role in supporting the interpretation and uptake of sustainability reporting frameworks.
- **Private-public partnerships**: Public-private partnerships have been influential forums for advocating for sustainability reporting, and lobbying Governments to play a role in supporting effective sustainability reporting regimes. For example, The Australian Sustainable Finance Initiative (2020) and the Aotearoa Circle Sustainable Finance Forum have provided Roadmaps for Action. These Roadmaps are intended to change mind-sets, transform the financial system and finance the transformation (Sustainable Finance Forum, 2020).

[9] An initiative that brings together regulators and companies to explore how corporate transparency can be enhanced.
[10] The SGX does not require a specific reporting framework to be used, but a guidance note published by the SGX suggests companies use a "globally-recognised framework".
[11] For example, the International Organization of Securities Commissions (IOSCO), the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the Financial Stability Board, the Financial Accounting Standard Board (FASB), the TCFD, and the International Accounting Standards Board (IASB).

Given the range of players driving momentum for sustainability reporting, it is likely a case of *when,* not *if,* sustainability reporting becomes common practice and an expectation for financial market participants. If New Zealand businesses fall behind, or lack the capability to perform high quality sustainability reports, maintaining access to international capital may become more difficult.

5.2 Growing Risk of Litigation

Conducting sustainability reporting is increasingly being seen as responsible practice. Failing to make reasonable efforts to measure and report on ESG factors can expose business owners and fund managers to litigation. For example, there has been increased filing of human rights claims in courts, and modern slavery and human trafficking lawsuits have been growing internationally (Nicolsen et al., 2020). In addition, climate lawsuits are also becoming increasingly common internationally, against both fund managers and governments (Viglione, 2020).

Global decisions may encourage domestic legal action

Australia has seen a greater volume of climate change litigation over recent years (MfE, 2020). Claims were filed against the Commonwealth Bank of Australia for not disclosing climate change related financial risk (Kaye, 2017). There was also a settlement in the Australian case: McVeigh v Retail Employees Superannuation Trust (2019), for failure to sufficiently disclose their investment strategy relating to climate change risk (Kavanagh, 2020). In additional, the influential Hutley Opinion (2016) found that as a matter of Australian law, company directors should consider the impact of climate change risks on their businesses where they intersect with the interests of the company. The 2019 update of the Hutley Opinion emphasises the increasing litigation risks since 2016 and the need for company directors to take account of climate change risks appropriately to reduce exposure to liability. The McVeigh v Retail Employees Superannuation Trust (2019) settlement is highly relevant to New Zealand fund managers considering the impact of climate change on their investors. This case could potentially encourage more legal proceedings on climate-related disclosure in Aotearoa New Zealand (McVeigh v Retail Employees Superannuation Trust, 2019).

Failure to report on ESG factors could also lead to fiduciary duty litigation

Directors may be exposed to fiduciary duty litigation[12] for failing to account for ESG factors. Judiciaries in several commonwealth countries (including Aotearoa New Zealand) have indicated consideration of ESG factors (particularly climate-related factors) may be within the remit of a fiduciary duty. For example, in Canada, a legal opinion issued by Hansell LLP found there was sufficient case law to suggest directors are required to analyse climate risks arising from their decisions as part of their fiduciary duties (Canada Climate Law Initiative, 2020).

In Aotearoa New Zealand, a legal opinion issued by Chapman Tripp found that, although it would "likely be difficult to show a breach [of fiduciary duty] in a climate change context", there is a growing body of evidence to suggest courts may view climate-related risk as falling within the remit of a fiduciary duty in certain circumstances (Chapman Tripp, 2019). In addition, the Chapman Tripp toolkit for directors suggests that decisions made now are likely to be retroactively assessed in the context of the social pressures from climate change in the next 10-15 years (Chapman Tripp, 2020). Recent international developments in the common law of the countries studied in this paper demonstrate that fiduciaries may also have to take account of environmental and social risks in their decisions, to the extent they impact on profitability or financial risk. A wider interpretation of fiduciary duties would not only lead to legal risks, but consequently require the consideration of, and active manage of environmental and social risks, opportunities, and 'real-world' impacts.

[12] In the context of businesses, a fiduciary duty is a legal commitment that requires directors to act in the best interests of shareholders. Historically, fiduciary duties have required the fiduciary to consider profitability, legality, and financial risk when making decisions that affect their clients. Failure to meet requirements can expose directors to litigation.

This would also encourage directors to increase their prioritisation of the environment and society relative to short-term shareholder returns.

5.3 Convergence of Sustainability Reporting Standards

There is a global trend towards consolidating sustainability reporting frameworks

There are international collaboration efforts underway to bring cohesion to the landscape of sustainability reporting frameworks, standards and metrics. Firstly, the International Financial Reporting Standards (IFRS) Foundation (whose accounting standards are used in more than 140 countries around the world) has received backing from the Financial Stability Board, International Organisation of Securities Commissions, regulators, corporations, institutional investors and other stakeholders to establish an International Sustainability Standards Board (ISSB) with the aim of issuing a single set of best practice sustainability standards, with a climate-standards first mandate. The IFRS Foundation Trustees have stated that they will finalise proposals before the United Nations Climate Conference (COP26) that will be held in Glasgow in November 2021. There are significant challenges in achieving the convergence objective, but sustainability reporting standards published by the IFRS Foundation have the potential to be influential in bringing cohesion to the sustainability reporting landscape.

In addition, the Corporate Reporting Dialogue brings together the major financial and non-financial standard setters, and has provided a space for the Better Alignment Project (2019). In September 2020, five major framework and standard-setting institutions (CDP, CDSB, GRI, IIRC and SASB) published a Statement of Intent, committing to work together towards comprehensive corporate reporting as an alliance to consolidate their rules and recommendations. Since the release of the Statement of Intent, IIRC and SASB have officially announced their merger, now operating as the Value Reporting Foundation (Value Reporting Foundation, 2021). The Value Reporting Foundation has reported that the merger better positions them to support key bodies such as the IFRS Foundation and continue to drive progress towards a comprehensive corporate reporting system (Value Reporting Framework, 2021).

Parallel discussions have also taken place in the European Union to work towards harmonizing European reporting requirements, which may result in a European reporting standard for ESG information (Wright Communications, 2020). In addition, the World Economic Forum and the International Business Council (IBC) launched a project to develop a common set of baseline ESG metrics to enable the IBC members to demonstrate their contribution to sustainable development. The World Economic Forum has now released its paper on common metrics and consistent reporting for sustainable value creation, defining 21 core metrics (World Economic Forum, 2021). These international developments signal the direction of travel towards a consistent way of measuring and accounting for ESG factors.

In summary, the next 12 months will see a focus on harmonizing sustainability reporting based on common metrics (KMPG, 2020). Government officials will maintain a watching brief on these international alignment trends, and the IFRS Foundations work to develop the International Sustainability Standards Board, to ensure we are able to respond if a sustainability reporting standard is developed and widely endorsed by financial market participants.

6 What Role Can Governments Play?

A number of governments have developed interventions to support effective sustainability reporting regimes. These jurisdictions provide valuable insights into the important role governments can play to facilitate effective sustainability reporting regimes. This includes:

- mandating sustainability reporting against international standards
- building capability and expertise
- reducing the costs of reporting for businesses.

6.1 Mandating Sustainability Reporting Against International Standards

One role governments can play to support the wide uptake of consistent and comparable sustainability reporting is to make sustainability reporting mandatory. A key question for policymakers considering implementing or expanding mandatory reporting regimes is whether to take a climate-first approach or a broader ESG approach. This section explores the implications of each approach.

6.1.1 Climate First Approach

Many governments have made (or investigated making) TCFD-aligned climate-related disclosures mandatory. The table below summarises key information on the selected case studies and their sustainability reporting instruments, demonstrating that New Zealand, Canada and the United Kingdom have taken a climate first approach to sustainability reporting.

Table One, overview of mandatory reporting regimes across case studies. Source: Author.

Country	TCFD Climate-Related Disclosures	Environmental Disclosures	Social Disclosures	Governance Disclosures
New Zealand	✓✓	X	X	X
Australia	X	X	✓	X
Canada	✓	X	X	X
China	X	✓	✓	✓
European Union	✓✓[13]	✓✓	✓✓	✓✓
United Kingdom	✓✓✓[14]	X	X	✓
United States	X	X	X	✓

✓ *Disclosures required in very limited circumstances.*

✓✓ *Disclosures required in some circumstances.*

✓✓✓ *Disclosures required in most or all circumstances.*

[13] The EU's 'Non-Financial Reporting Directive' makes sustainability reporting mandatory for public interest entities on a comply or explain basis. In January 2019, the European Commission published new climate reporting guidelines for companies. These guidelines integrate the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

[14] The UK has announced its intention to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

The focus on the climate-related aspects of sustainability reporting reflects the urgent need for action to address climate change. It also indicates clear government commitments to mitigating carbon emissions in legislation and international climate agreements (HM Treasury, 2020a). A climate first approach (Robins, 2020):

- ensures that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions, building capability and expertise in measuring and reporting on important non-financial factors (TCFD, 2019)
- helps climate reporting entities better demonstrate responsibility and foresight in their consideration of climate issues, with flow on benefits for financial performance
- leads to more efficient allocation of capital and helps to support sustainable transitions to low emissions economies
- refines the focus to one aspect of sustainability reporting, which can make the initial implementation and oversight of climate-related disclosures easier for financial regulators.

A climate first approach does not result in comprehensive sustainability reporting. This approach does not take account of other important ESG factors, such as biodiversity, water security, upholding human rights in supply chains, promoting inclusive workplaces, and increasing transparency in business leadership decisions, for example. However, even if the goal is economy-wide ESG sustainability reporting, a climate first approach to sustainability reporting complements future implementation of a broader ESG sustainability reporting regime.

6.1.2 Broader ESG Approach

The EU has taken a more comprehensive ESG approach to sustainability reporting directives issued to EU nations[15]. Only the EU have implemented both climate-related disclosures and broader sustainability reporting requirements. The EU's Non-Financial Reporting Directive has required public interest entities to produce sustainability reports on a comply or explain basis since 2017 (European Commission, 2021). However, companies are free to choose how they present their sustainability reports, as it remains difficult for government to 'pick a winner' by selecting a sustainability reporting framework or standard that holds up to international best practice and scrutiny by key financial market actors (European Union, 2014). The European Council reviewed the Non-Financial Reporting Directive in 2020. The most notable benefits of taking a broader ESG approach to mandatory sustainability reporting were increased uptake in sustainability reporting, and broadening of ESG factors covered in reports (including entity practices and policies regarding environmental impacts, treatment of workers, community engagement, respecting human rights, combatting corruption and bribery, and ensuring diversity on company boards; European Union, 2014).

In the EU case study, there were several drawbacks to introducing a mandatory sustainability regime in advance of a single ESG sustainability standard with common reporting metrics, for example:

- climate-related risk reporting was a key weakness for 78 percent of Europe's top 50 companies, indicating that a broader sustainability reporting framework has the potential to dilute the value of climate-related information disclosed (CDSB, 2020).
- the users of sustainability reports found that reporting under the EU directive did not meet their needs (Turley-McIntyre, Marchl & Stasuik, 2016; Townsend & Kelly, 2020). In particular, information was provided under principles-based frameworks without strong supporting evidence and metrics, was not comparable or reliable, and investors and other users of the reports found reports difficult to access (Townsend & Kelly, 2020).

[15] It is important to note that the European Union does not create new law itself. Instead, it creates legal requirements for member states to create laws which fit within frameworks it sets out.

This case study does not represent limitations of sustainability reporting regimes in general, but does suggest that there are limitations to governments making broader ESG sustainability reporting mandatory when they are not required to be conducted in line with a single, best practice standard and common reporting metrics.

6.2 Building Capability and Expertise

Internationally, governments have supported sustainability reporting regimes through implementing initiatives that support company and practitioner expertise. These initiatives support companies and practitioners to develop high quality sustainability reports.

Sustainability reporting is in its infancy

Sustainability reporting regimes are yet to mature in the same way as established regimes (like financial reporting), so there is less depth and breadth of knowledge in the sustainability accounting and reporting field (Herzig & Schaltegger, 2006). An analysis of sustainability reporting amongst companies listed on the Singapore Exchange found that sustainability reports scored an average of 60.6 out of 100 points when they were marked against a scorecard issued by the Singapore Exchange (Singapore Exchange, 2019). The report found that the relative poor performance of sustainability reports against the scoring system was a natural result of the sustainability reporting field being in an early stage of development (Singapore Exchange, 2019).

To accelerate the maturity of sustainability reporting, governments have:

- **Shown leadership**, by conducting their own sustainability reporting and asking their suppliers to do the same. Several countries have legislation requiring state-owned companies to produce sustainability reports (Global Reporting Initiative, 2020c). In China, a number of central government agencies are required to release regular reports on their corporate social responsibility performance (SASAC, 2011). Sustainability reports conducted by government agencies can help to influence private sector reporting practices.
- **Provided guidance on sustainability reporting**, through financial market regulators and reporting boards. In New Zealand, The Bill before Parliament extends the XRB's mandate to issue non-binding guidance for reporting of non-financial matters. The XRB's website provides resources to support entities to make informed decisions when selecting a reporting framework to implement (External Reporting Board, 2021).
- **Developed industry partnerships** with key financial market actors to help facilitate regular dialogue, multi-stakeholder consensus building, and providing technical assistance and advisory services to private sector partners as appropriate.[16]
- **Partnered financial support with sustainability reporting expectations,** such as the Large Employer Emergency Financing Facility (LEEF) funding, that tied access to funding to commitments for companies to publish annual disclosures in line with the TCFD recommendations.
- **Required reports to be independently audited.** Independent assurance is a punitive measure for verifying the accuracy of sustainability reports. For example, in the European Union, auditing of reported information is required under the Proposal for a Corporate Sustainability Reporting Directive (European Union, 2021).

It is likely that pressure from the users of sustainability reports (such as fund managers) will be the most significant driver of accurate and useful information being disclosed by companies, however governments can also play a supportive role in helping businesses to perform high quality sustainability reporting.

[16] See, for example, the approach of the Sustainable Stock Exchanges initiative (UN Partnership Programme) to encourage sustainable investment through facilitating a network and discussion/consensus finding forum.

6.3 Reducing the Costs of Reporting for Businesses

A key part of the compliance costs of sustainability reporting for small businesses, particularly in the case of climate reporting, is access to and affordability of data. Reports commissioned by the United Kingdom and Canadian governments found that some businesses (especially small, time-poor and resource constrained businesses) had difficulties managing the compliance costs of undertaking sustainability reporting (Green Finance Taskforce, 2018; Government of Canada, 2019). Both reports recommended reducing compliance costs by improving companies' access to relevant data and information (Green Finance Taskforce, 2018; Government of Canada, 2019). The Canadian Centre for Climate Analytics (C3IA) and the Green Finance Institute were subsequently established to alleviate some of these compliance costs. C3IA collects, synthesises, and provides relevant climate, economic and financial data to support businesses to measure and track their performance against ESG factors (Government of Canada, 2019).

Governments are exempting small business from reporting requirements until sustainability reporting regimes have matured

Other jurisdictions have reduced compliance costs for small businesses by exempting them from reporting requirements in the initial stages of a sustainability reporting regime. Countries such as the UK have focused reporting requirements on large banks, fund managers and the largest firms, which are better able to weather the additional compliance burden. SMEs have typically been excluded from reporting requirements in the short-term. Although SMEs account for about 90 percent of businesses globally, only about 10 percent of reports captured in the GRI Sustainability Disclosure Database were from SMEs (Havrysh, 2020). While some countries (eg the UK) are moving towards economy wide reporting, many governments are using exemptions to avoid burdening small businesses with compliance costs while their reporting regimes mature.

7 Conclusion

Sustainability reporting has undergone a significant shift from being a novel approach championed by environmentalists, to a corporate proxy for business and investment performance. The private sector momentum for sustainability reporting demonstrates that it is both a mechanism for progress on environmental and social issues, and also that the business case for sustainability reporting is sound. The push for sustainability reporting is now largely driven by asset managers, accountancy bodies and stock exchange managers, and companies face growing pressure from fund managers to produce sustainability reports. Sustainability reporting is also increasingly seen as responsible business practice. This perception is driving an increased risk of litigation for company directors and government agencies that fail to adequately communicate the environmental and social impacts of their decisions (particularly climate-related disclosures).

The proliferation of sustainability reporting frameworks and standards has created consistency and comparability problems for both users and producers of sustainability reports. However, there are promising signs that a convergence of the standards may occur in the near future. Five major framework and standard-setting institutions have come together to consolidate their rules and recommendations, and the IFRS Foundation has received industry backing to accelerate the convergence in global sustainability reporting standards through the creation of the International Sustainable Standards Board. Government actors should maintain a watching brief on international alignment trends, and ensure they are well placed to respond when a single sustainability reporting standard emerges that captures strong backing from financial market participants.

A number of governments have already taken action to strengthen the quality, comparability and uptake of sustainability reporting. This has mainly been through introducing mandatory sustainability reporting regimes, complementary policies to build capability and expertise in sustainability reporting, and minimising compliance costs. Government agencies can show leadership in this area by conducting their own sustainability reporting, and putting pressure on their suppliers to do the same. Governments can also ‘lay the foundations’ for mandatory reporting by investigating complementary measures to introduce alongside, or prior to mandatory reporting requirements (such as improving access to data, training programmes and avenues for sharing best practice).

The direction of travel is clear and there are roles that government can play to accelerate Aotearoa New Zealand toward an effective sustainability reporting regime. Further work is now needed to build on the findings of this paper, and to resource next steps.

8 Annexes

8.1 Annex One: Key Terms and Definitions in Reporting[17]

8.1.1 Financial Reporting

The scope of general purpose financial reports is clearly defined and is well understood. Reporting comprising financial statements, with accompanying notes that disclose significant accounting policies and other explanatory information (External Reporting Board, 2019). Recently, there have been international concerns that the information contained in GPFRs relates mainly to past performance. There are also concerns that financial reports can be large and complex, and are not effective means of communicating with investors and other users. Sustainability reporting, climate-related reporting and other frameworks have been developed in response these concerns.

8.1.2 Integrated Reporting

Integrated reporting is about explaining how an entity creates value over the short, medium and long term. Integrated reporting uses a combination of quantitative and qualitative information, much of it forward-looking. It is founded on the idea that an entity can best tell its value creation story in terms of six capitals: financial, manufactured, intellectual, human, social relationships and natural capital. An integrated report aims to explain how the entity draws on the six capital inputs, and show how its activities transform inputs into outputs.

8.1.3 Sustainability Reporting

A sustainability report is a report about the economic, environmental and social impacts caused by an entity's activities. It also usually discloses the entity's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy. The main objective is to help entities measure, understand and communicate their economic, environmental, social and governance performance, set goals, and manage change more effectively (GRI, 2020).

8.1.4 Climate-related Disclosures

Climate-related disclosures are reports on how organisations factor climate change risks and opportunities into their governance, strategy, risk management, and metrics and targets (MBIE, 2021). Climate-related disclosure regimes aim to address an ongoing and systemic overvaluation of emissions-intensive activities by ensuring that the effects of climate change are routinely considered in business, investment, lending and insurance underwriting decisions. Recommendations from the TCFD on climate related disclosures are considered international best practice and are already being applied in Aotearoa New Zealand (and other countries).

8.1.5 Extended External Reporting

Extended External Reporting (EER) is an umbrella term that refers to broader and more detailed types of reporting than those presented in an entity's statutory financial statements. EER encapsulates integrated reporting, sustainability reporting, non-financial reporting, ESG reporting (environmental, social and governance), corporate responsibility reporting, and other types of corporate reporting.

---

[17] The majority of this information has been sourced from the Climate-related financial disclosures public discussion document: Ministry for the Environment & Ministry of Business, Innovation & Employment. (2019). Climate-related financial disclosures – Understanding your business risks and opportunities related to climate change: Discussion document. Wellington: Ministry for the Environment.

8.2 Annex Two: Breakdown of Environmental, Social and Corporate Governance factors

8.2.1 Environmental Sustainability

Taking account of the environment in business and investment decisions is a primary aspect of sustainable finance. Historically, the risks of environmental degradation and the opportunities to tackle environmental challenges have not been factored into business and investment decisions. This has left a legacy of misallocating resources to unsustainable business practices. For example, it has been calculated that $2.2 trillion USD worth of capital expenditures in fossil fuels would need to be forfeited to stay within 2°C warming (stranded assets; Climate Tracker Initiative, 2015).

The financial sector is exposed to risks that result from interconnected forms of environmental degradation, including:

- climate change
- biodiversity loss
- water security.

Climate change is a leading global issue

Conservative estimates see unabated climate change leading to global costs of between 5-20 percent of global GDP each year (UNEP, 2020). In Aotearoa New Zealand, a study from Westpac NZ compared the cost of taking immediate action with the abrupt action we would need to take in a delayed response. The study estimated that (by 2050) we would save $30 billion NZD if we act now (Westpac, 2018).

The opportunities from tackling climate change have not been adequately factored into business and investment decisions to date (MfE & MBIE, 2019). Accounting for climate change impacts under the ESG framework requires the financial sector to rapidly invest in the transition to a low carbon economy, and account for the impacts of climate change that are already in train. The financial risks of climate change include:

- **transitional risks** as greenhouse gas emitting assets become stranded
- **reputational risks** to consumers and investors
- **litigation risks** for failing to take appropriate action to mitigate climate change
- **physical risks** of climate change to infrastructure and the economy

Ensuring that financial systems have the tools to account for climate risks and support decarbonisation is a key priority for achieving sustainable finance and maintaining financial stability.

Banks, investors and insurers play a role in financing unsustainable environmental degradation

There are short and long term financial risks to investing in activities that cause biodiversity loss and contribute to the collapse of ecosystem services (such as animal pollination, natural water treatment and biotic soil fertilisation). Dutch financial institutions, for example, have €510 billion in exposure to companies with high or very high dependency on one or more ecosystem service (about 35 percent of investors' portfolios) (De Nederlandsche Bank, 2020). A joint Nederlandsche Bank and PBL Netherlands Environmental Assessment Agency study asserts that consistent, widely applied standards for measuring and disclosing biodiversity impacts and risks are critical. Standard and accessible biodiversity disclosures enable investors to direct investments away from companies that contribute to biodiversity loss, and towards those that maintain or support sustainable ecosystems (De Nederlandsche Bank, 2020).

Water security is also an important environmental consideration for the financial sector. Applying standard tools to assess, value and respond to water risk can help companies better understand future water risks and drive water resilience (World Wildlife Fund, 2020). A new Water Risk Filter Tool (aligned with TCFD scenarios) has been adopted by companies to understand how water security risks can affect their operations and their long-term investments (World Wildlife Fund, 2020).

The work of the Task Force on Nature Related Disclosures (TNFD) could build international best practice recommendations on wider environmental disclosures (beyond climate-related disclosures). The TNFD aims to replicate the effectiveness of the TCFD recommendations in encompassing a wider scope of non-financial considerations in decision making. The TNFD has established an informal working group to research and develop the scope for the nature related disclosures. They aim to have the Taskforce fully established by the second half of this year, and expect the Global Dissemination of a finalised FNFD Framework in Q3/Q4 2023. These standards are set to encompass these key environmental considerations (water, biodiversity and climate change) to ensure finance systems account for their impacts on the environment.

8.2.2 Social Sustainability

The social impacts of business operations are another key component of sustainable finance and ensuring long term risk-adjusted returns. Accounting for social impacts in sustainable finance builds shareholder value by advancing social justice issues for an inclusive and robust economy. It is important for financial systems to direct investment away from socially unsustainable practices towards inclusive, safe and fair business cultures that tap into the full potential of the population. Evidence shows that socially responsible businesses are better positioned to benefit from diversity of thought, improved job satisfaction, productivity and performance, all of which maximises shareholder value (Taylor, Marsh, Nicol, & Broadbent, 2017). There is no common international basis for socially responsible business conduct, however, key components of the social element of ESG include (Danish Standards for Danish Business Authority, 2015):

- human rights
- safe and fair work
- diversity and inclusion.

Human rights are a fundamental baseline used to assess the social performance of corporations and businesses

Corporations' and businesses' operations should not adversely impact human rights. Significant negative impacts on human rights can arise if businesses do not appropriately consider and account for the direct and/or indirect impacts of their work on people. For example, an estimated 40.3 million people (globally) work against their will (often in forms of debt bondage). 75 percent of modern slaves work in global supply chains, where the poor treatment of workers is often hidden from the final product (International Labour Organization and Walk Free Foundation, 2017; United Nations, 1948). The United Nations Universal Declaration of Human Rights includes 30 articles that accord universal human rights to protect people against slavery, discrimination and torture, and assert human rights to freedom of thought, opinion, and free speech. In Australia, the Modern Slavery Act (2018) requires some (particularly large) entities to report on the risks of modern slavery in their operations and supply chains, and actions they are taking to address those risks (Australian Government, 2018). New Zealand is currently exploring the implementation of modern slavery legislation in New Zealand to eliminate exploitation in supply chains. Building social responsibility into financial decisions involves encouraging companies to identify any adverse impacts on human rights, and take the appropriate measures to prevent such impacts.

Sustainable employment is mutually beneficial

Sustainable employment supports investment decisions towards both environmentally and socially sustainable companies. Evidence suggests that sustainable employment models enhance firms' branding, improve productivity, reduce turnover, and encourage workers to invest in job-specific skills (Taylor, Marsh, Nicol, & Broadbent, 2017). Sustainable employment can also be thought of as 'safe and fair work' where minimum rights of employment are upheld.

In Aotearoa New Zealand, the minimum standards of employment govern: annual leave, public holidays, pay and employment equity, health and safety, and rights to collective bargaining (Employment New Zealand, 2018). The International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work is a widely ratified instrument for minimum standards of work, including rights to collective bargaining, elimination of all forms of forced labour, child labour and discrimination in employment (ILO, 1998).

Social responsibility in employment relations extends beyond the minimum rights of employment

A range of factors (eg development and career progression opportunities) can also determine whether a job is considered 'good' or not. While there is no universal standard for assessing job quality, The Scottish Fair Work Framework, The OECD Job Quality Framework, The ILO Decent Work Indicators, and Taylor Review of Modern Working Practices all provide qualities and measurements that relate to good work (Fair Work Convention, 2016; Cazes, Hijzen & Saint-Martin, 2015; ILO, 2010; Taylor, Marsh, Nicol, & Broadbent, 2017). Figure One below provides a useful diagram of some key determinants of 'good' work:

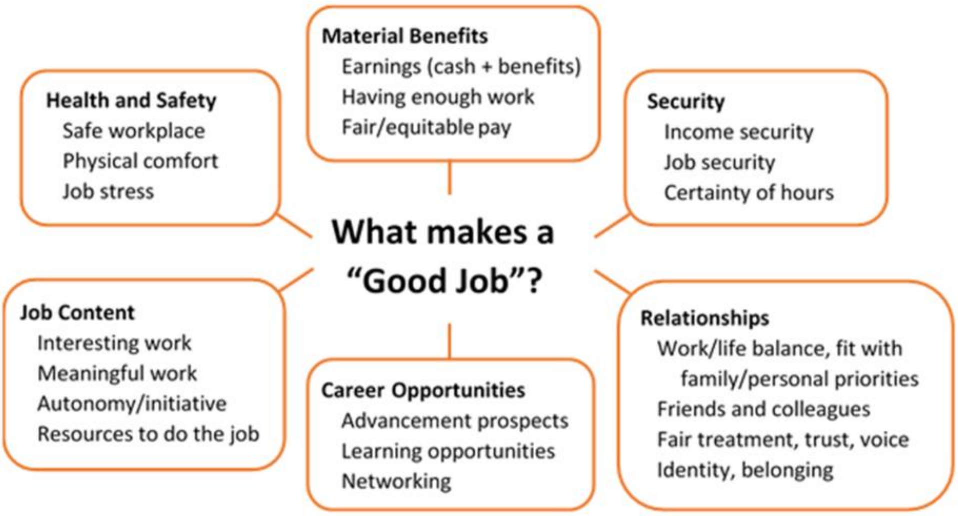

Figure One, Diagram of key aspects of 'good' work. Source: Cazes, Hijzen &. Saint-Martin (2015).

Data from the Household Labour Force Survey indicated that the majority of NZ employers provide socially responsible employment and high quality jobs (with respect to hours worked, flexibility, security, and aspects of workplace health and safety). However, a significant number of employees are exposed to physically dangerous or risky conditions, are not offered work related training opportunities, and are afforded low levels of employment security (Statistics New Zealand, 2018). For finance systems to play a role in incentivising sustainable and high quality forms of employment – consistent, comparable and accurate information about job quality must be considered in business and investment decisions.

Diversity and inclusion is another component of socially responsible business practice

A leading example of how diversity is being factored into investment decisions to improve financial results, is the growing uptake of the Gender Diversity Index (Morningstar, 2020). Research has shown that companies committed to robust gender diversity policy and practice achieve superior financial results. Japan's Government Pension Investment Fund (the world's largest pension fund with ¥1.5 trillion in assets) uses the Gender Diversity

Index to inform investment decisions (Morningstar, 2020). The use of the index creates transparent incentives for businesses to advance gender representation to improve their access to capital. This shapes corporate behaviour and improves workplace cultures and gender equality. Expanding the use of such indexes can also improve other measures of diversity and inclusion for groups that are under-represented in the workplace. Adequately factoring human rights, safe and fair work, and diversity and inclusion into business and investment decisions has the potential to direct capital to socially responsible businesses and improve investment outcomes.

8.2.3 Sustainable Governance

Sustainable governance relates to the management of a company including its board, shareholders, and key stakeholders. Sustainable Governance is about transparency, business leadership, strengthening stakeholder relations, and positioning companies to effectively manage risks and make the most of future opportunities (White, 2010). There are several prominent international guidelines for ethical corporate governance, including:

- **UN Global Compact Guide to Corporate Sustainability**, a framework for disclosure of governance information (and Environmental and Social factors) by the Global Reporting Initiative.
- **The principles of corporate governance advocated by the OECD** (United Nations Global Compact, 2015; OECD, 2015).
- The **UK Corporate Governance Code** sets sustainable corporate governance standards and expected actions and behaviour of the board directors in relation to issues such as leadership, values, transparency, accountability, remuneration, and relations with shareholders (Havrysh, 2020).

Codes like the UK Corporate Governance Code require board directors to comply or explain how their own and company remuneration policy aligns with the overall objective of delivering long-term benefit to the company (Financial Reporting Council, 2018). Other provisions require companies to explain what action they intend to take in response to situations where a significant proportion of votes have been cast against a resolution at any general meeting. This provision improves the transparency of company decision making. The OECD Corporate Governance Factbook provides comparable and up-to-date information about the institutional, legal and regulatory frameworks for corporate governance across 49 jurisdictions worldwide. The Factbook is a valuable tool for assessing the measures that are being worldwide to promote ethical corporate governance (OECD, 2019).

8.3 Annex Three: Country by Country Analysis

8.3.1 Australia

Key points:

- The Australian Sustainable Finance Initiative has published the Australian Sustainable Finance Roadmap (2020). The Roadmap calls for sustainability reporting and assurances to be made mandatory in the near future.
- Financial regulators have recognised the TCFD recommendations as one way of providing the market with robust and reliable climate-related information.
- The Australian Federal Government has not implemented, or committed to implementing a mandatory sustainability reporting regime.

Australia's corporate reporting and disclosure guidelines are captured in the Australian Securities and Investments Commission's (2019) Regulatory Guidance 247 (Effective disclosure in an operating and financial review), Regulatory Guidance 228 (Prospectuses: Effective disclosure for retail Investors) and the Australian Securities Exchange's Corporate Governance Principles and Recommendations (2019).

The Australian Sustainable Finance Initiative (a non-government initiative comprised of environmentalist organisations and financial service providers) has advocated for an expansion of sustainability reporting requirements beyond non-binding guidelines in the Australian Sustainable Finance Roadmap (2020). The Roadmap considered the role of sustainability reporting and climate-related disclosures in empowering financial service providers to funnel capital towards sustainable businesses (Australian Sustainable Finance Initiative, 2020). The Roadmap proposed that large financial institutions and companies on the Australian Securities Exchange should provide TCFD-aligned climate disclosures on an 'if not, why not' basis by 2023 (in practice, this would operate similarly to the 'comply or explain' approach; IBID). To assist companies with creating the reports, the Roadmap also calls for the government to meet with key stakeholders in the industry to develop guidance on how these reporting practices can be developed and implemented.

The Australian Sustainable Finance Roadmap also suggests implementing mandatory sustainability reporting for all listed entities and unlisted entities owned wholly by financial institutions (IBID). The roadmap does not discuss what form these sustainability reports would take or whether there would be a standardised set of rules or principles that companies must follow. Instead, it notes that there is growing momentum for a unified sustainability reporting framework, and that government and the private sector should work together to align themselves with international developments. The Roadmap also strongly suggests that assurances should be made to verify sustainability reporting.

A number of financial market regulators in Australia have drawn attention to the importance of assessment and disclosure of climate risk (Hutley & Davis, 2019). These include the Reserve Bank of Australia (RBA), the Australian Securities and Investment Commission (ASIC), and the Australia Prudential Regulation Authority (APRA). For example, ASIC published a report in 2018 indicating directors and officers need to understand and continually reassess existing and emerging risks, including climate risks. However, The Australian Federal Government has not committed to legislative change to mandate TCFD climate related disclosures (Bali, 2021; O'Malley & Foley, 2020).

8.3.2 Canada

Key points:

- The Final Report of the Expert Panel on Sustainable Finance called for climate-related disclosures (one aspect of sustainability reporting) to be made mandatory.
- Canada required companies seeking financial relief from the effects of COVID-19 to commit to disclosing climate-related information in future.
- Collecting reliable data for climate-disclosures is a major barrier to companies making effective climate disclosures. The Final Report of the Expert Panel recommended establishing a new Canadian centre for data and analytics to combat this.
- Canadian case law suggests fiduciary duties may require fiduciaries to consider the environmental risks inherent in their decisions.

The Canadian government commissioned an expert panel to investigate options for working towards a sustainable finance system. The expert panel's final report, *Mobilizing Finance for Sustainable Growth*, recommended pursuing a phased comply or explain approach to TCFD climate related disclosures (Government of Canada, 2019). The final report did not discuss broader sustainability reporting against ESG factors. The report's TCFD-related recommendations have not been implemented at time of writing. However, when the Large Employer Emergency Financing Facility (LEEFF) was established in 2020 (a fund Canadian companies could access to help them survive the impacts of COVID-19), Prime Minister Justin Trudeau announced companies would only be able to access the LEEFF funds if they committed to publishing annual disclosures in line with the TCFD recommendations. This suggests Canada may consider implementing widespread TCFD-aligned disclosures in the future.

The *Mobilizing Finance for Sustainable Growth* report also recommended that the Minister of Finance should explicitly state the consideration of climate factors is within the remit of fiduciary duty. This declaration would not be legally-binding (the courts decide whether particular considerations are inside or outside the scope of fiduciary duties), but it would help lead conversation in the area. Canada has not implemented the report's fiduciary duty recommendation at time of writing. However, a recent study of the Canadian courts suggests they consider climate-risk to be a matter for consideration already (Hansell, 2020).

Canada has had an exceptionally high number of companies take up sustainability reporting on a voluntary basis. A KPMG Global 2020 report found that 92 percent of the top 100 Canadian companies (measured by revenue) had issued a sustainability report that year (KPMG, 2020). Although a large number of Canadian companies are conducting sustainability on a voluntary basis, there are barriers that limit the ability of companies to provide high quality sustainability reports. For example, the lack of access to reliable and consistent climate data has been a major barrier to firms being able to effectively report on climate-related matters (Government of Canada, 2019). Information can be costly to access, preventing some businesses from being able to use reliable data and metrics to inform their reporting. This expense is compounded by the fact that companies often have to take different pieces of information from different institutions to make effective disclosures. The proliferation of private data centres inflates the overall cost of accurately reporting on sustainability metrics and can make it difficult for companies to know where they need to go. For this reason, the Final Report of the Expert Panel suggested creating a new Canadian Centre for Climate Information and Analytics (C3IA). C3IA would synthesize information collected by a variety of Canadian data centres that specialise in collecting climate, economic, academic, and financial information. It would make this data broadly available for others to use to reduce the information burden for private companies (Government of Canada, 2019).

8.3.3 China

Key points:

- China has a number of mandatory and voluntary rules that encourage or require companies to disclose sustainability information.
- The Chinese government is considering options to make sustainability reporting mandatory for all listed companies.

At time of writing, there is no single comprehensive sustainability reporting regime in China. Instead, there are a number of disparate rules, regulations, and guidelines that mandate or encourage some businesses to disclose ESG information in particular circumstances (Wong, 2020; Carrots & Sticks, 2021). These include:

- **The Shanghai Stock Exchange Guidelines on Environmental Disclosure and Exchange Notice on Strengthening Listed Companies' Assumption of Social Responsibility**. The guidelines on environmental disclosure require certain companies to disclose their performance on resource usage, greenhouse gas emissions, and investment in environmental protection or regeneration programmes, for example (SSE, 2008). Companies are expected to report on factors relevant to their activities. The notice on social responsibility encourages companies to disclose on certain ESG factors (it does not make disclosures mandatory; SSE, 2008). Companies are encouraged to outline social programmes they are engaged in (eg protection of employee welfare), the company's ethics code, and what steps companies are taking to promote long-term sustainable economic development.
- **Guidelines for Establishing the Green Financial System**. In 2016, the People's Bank of China issued guidelines suggesting adopting mandatory environmental impact disclosures for all listed companies and bond issuers (The People's Bank of China, 2021). Mandatory environmental disclosures for all listed companies were expected to come into force in 2020, however this has been delayed, likely due to COVID-19 (Tan, 2020).
- **The State-owned Assets Supervision and Administration Commission Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities**. This requires state-owned enterprises run by the central government to release regular reports on their corporate social responsibility (CSR) performance (SASAC, 2011; China Daily, 2011). The report does not set out what constitutes a CSR report, but many considerations generally understood to fall within the remit of CSR (programmes to improve local communities, for example) can also be seen as ESG considerations.

The lack of alignment between requirements and guidelines has made it difficult for some companies to understand what is required of them (Tan, 2020). Moreover, since no reporting framework has been prescribed in instances where disclosures are mandatory, it can be difficult for companies to understand what information is material in their circumstances (IBID). Companies have also struggled to access and collect high quality ESG data (IBID).

8.3.4 The European Union

Key points:

- The EU's 'Non-Financial Reporting Directive' requires public interest entities to produce sustainability reports on a comply or explain basis. Companies are free to choose how they present their disclosures.
- The EU subsequently released guidelines on non-financial reporting on climate-related information. This non-binding guidance outlines that companies should consider climate disclosures if they decide that climate change is an issue from the perspective of financial materiality or the environmental and social materiality of a company's activities (double materiality).
- On 21 April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive.

The European Union introduced the Non-Financial Reporting Directive (hereafter, the Directive 2014/95/EU; 2014). The Directive has made aspects of sustainability reporting mandatory for public interest entities since 2017 on a comply or explain basis. The Directive has required public interest entities to discuss their performance, position and impact relating to environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters (European Union, 2014; European Commission, 2020). The Directive was principles-based. This mean it set out broad topics that must be discussed in sustainability reports, but the directive did not initially outline how that information must be presented or discussed.

It is important to note that the European Union does not create new law itself. Instead, it creates legal requirements for member states to create laws which fit within frameworks it sets out. For this reason, sustainability reporting laws and the entities considered public interest differ slightly between member states. In France and Greece, for example, they have an expanded interpretation of entities that must disclose on sustainability factors (eg. in Greece companies with over 10 employees must disclose in certain circumstances; Datamaran, 2021). Similarly, Italy and France are more prescriptive in their implementation of the Directive than other European Union countries, as they outline specific topics that are expected to be reported on. For example, Italy expressly requires companies to disclose information on greenhouse gas emissions and air pollution, and France requires companies to disclose measures taken to tackle discrimination and promote diversity (Jeffwitz & Gregor, 2017).

The EU subsequently released guidelines on non-financial reporting on climate-related information in June 2019. This non-binding guidance outlines that companies should consider climate disclosures if they decide that climate is a material issue from either financial materiality, or the environmental and social materiality of a company's activities (European Commission, 2019). The double materiality guidelines refer to the need to disclose climate related information to improve the understanding of the financial value of entities, and to improve the understanding of the external impacts of entities.

The European Council reviewed the Directive in 2020. The review was sparked by concerns that the non-financial information disclosed by companies was not meeting the needs of investors. In particular, the information was not comparable or reliable, not all non-financial information that was necessary was reported, and investors found it difficult to access the information reported (Townsend & Kelly, 2020). One report *Falling Short?* published by the Climate Disclosure Standards Board looked at how companies' environmental reporting had been affected by the Directive. This report found that climate-related risk reporting was a key weakness for 78 percent of Europe's top 50 companies (CDSB, 2020). The report also found that the standard of reporting needed to be improved, and called for a reform of the Directive. It was also suggested that incorporating 'climate' into the wording of the Directive would ensure companies explicitly dealt with these matters, and the report recommended embedding the TCFD recommendations into the Directive so that climate-related disclosures were in line with that framework (IBID).

Further investigation of the Directive has revealed that the principals-based approach is problematic (Townsend & Kelly, 2020). In consultation on the Directive, 82 percent of respondents believed that the Directive needed to implement a common standard for companies to follow that outlines what is required and how information should be presented. Adopting a common standard was considered to help make reports more comparable, reliable, and comprehensive (Townsend & Kelly, 2020). In a letter sent to the European Financial Reporting Advisory Group, the Commission wrote it had found it necessary to launch technical preparatory work to allow for the swift adoption and implementation of European standards (Dombrovskis, 2020; Hahnkamper-Vandenbulcke, 2021).

Additionally, on 21 April 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which would amend the existing reporting requirements of the Non-Financial Reporting Directive. The proposal (European Commission, 2021):

- extends the scope to all large companies and all companies listed on regulated markets (except listed micro-enterprises)
- requires the audit (assurance) of reported information
- introduces more detailed reporting requirements, and a requirement to report according to mandatory EU sustainability reporting standards
- requires companies to digitally 'tag' the reported information, so it is machine readable and feeds into the European single access point envisaged in the capital markets union action plan.

This proposals acknowledges the need for mandatory sustainability reporting requirements to align with a single standard with comparable metrics.

8.3.5 The United Kingdom

Key points:

- The United Kingdom (UK) has announced plans to make climate-related disclosures mandatory across the economy by 2025.
- The Accelerating Green Finance Report commissioned by the UK Government recommended mandatory sustainability reporting in the near future. The report also found that companies needed better access to reliable data if their climate-related disclosures were to be meaningful. The government has since established the Green Finance Institute, an organisation that serves as a central hub for climate-related data and sustainability reporting standards.
- The UK Financial Conduct Authority will publish its consultation paper next month, featuring proposals to require climate-related disclosures by asset managers, life insurers, and Financial Conduct Authority regulated pension providers, aligned with the recommendations of the TCFD.

Discussions around sustainability reporting in the UK have focused primarily on the TCFD recommendations and the climate-related aspects of sustainability reporting. The UK has published its consultation on requiring large companies to undertake TCFD reporting by 2022 (Department for Business, Energy & Industrial Strategy, 2021). The UK has also announced plans to make TCFD-aligned climate disclosures "fully mandatory" across the economy by 2025 (HM Treasury, 2020a).

In the Interim Report of the UK's Joint Government-Regulator TCFD Taskforce, the decision to make disclosure economy-wide (as opposed to the more targeted approach other countries have pursued) is intended to give the financial system the right information to ensure informed and efficient capital allocation (IBID). The Interim Report indicates that further refinements will be made in 2024-2025 to capture a larger range of financial market participants (HM Treasury, 2020b). The UK Financial Conduct Authority will publish its consultation paper next month, featuring proposals to require climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers, aligned with the recommendations of the TCFD (Financial Conduct Authority, 2021).

The United Kingdom has also announced plans to create and implement a green taxonomy – a framework that would determine activities that could be defined as environmentally sustainable (HM Treasury, 2020a). This taxonomy is expected to help firms understand how their activities impact on the environment. This would also help firms to prepare sustainability reports, and would aim to prevent greenwashing. This was one of the recommendations made in the Accelerating Green Finance Report prepared by the Government convened Green Finance Taskforce.[18] A key recommendation of the Green Finance Report was for the government to establish a Green Finance Institute. This recommendation has been followed, and the institute launched in mid-2019. The purpose of the Green Finance Institute is to serve as a central hub that specialises in sustainable finance. The institute has been given several tasks: it provides a repository of information, documentation, and knowledge; it commissions and creates research; it provides green finance training and advice to the government; and more (IBID).

Similarly, the Climate and Environmental Risk Analytics for Resilient Finance (CERAF) programme is being developed to drive research and innovation to support climate and environmental risk analytics capability and capacity in the UK. Following a successful competition, Oxford University have been selected to lead the development of The UK Centre for Greening Finance and Investment (CGFI) funded by UK Research and Innovation (UKRI; Natural Environmental Research Council, 2021). The CERAF programme will be aligned to the specific requirements of the financial services sector such as banks, insurers, asset managers, pension funds and ratings agencies. Programme outputs are expected to deliver information to enhance the resilience of the financial system to the increasing impact of climate and environmental variability and change and drive more sustainable investment of capital.

As with other Commonwealth countries, there is discussion as to whether fiduciaries are required to consider environmental, social and governance risk factors when making decisions. The Accelerating Green Finance report (mentioned earlier) found that the law is currently unclear as to whether fiduciaries are required to consider ESG factors (Green Finance Taskforce, 2018). The report recommended for the government to amend legislation to make environmental, social, and governance risks an explicit factor for consideration. The Accelerating Green Finance report also suggested the government should set itself the long-term target of going further than enforcing climate-related disclosures, by establishing a new sustainability-related disclosures framework. This framework would be voluntary and would be created in consultation with various government bodies and private sector stakeholders (IBID). At time of writing, the government has not committed to implementing this recommendation.

It is also worth noting that the UK also requires companies with a premium listing[19] of equity shares to disclose whether, and how, they are complying with the UK Corporate Governance Code (Financial Reporting Council, 2018b). Under the Financial Services and Markets Act 2000, the Financial Conduct Authority is empowered to

[18] Off the back of the Green Finance Report, the Government published a Green Finance Strategy (HM Government, 2019).
[19] A premium listing is a special designation for companies that achieve higher standards of regulation, making them more appealing to investors.

set regulations that companies listed on the stock exchange must adhere to. The UK Corporate Governance Code was introduced by the Financial Conduct Authority, requiring companies to disclose information about their leadership practices, effectiveness, accountability, remuneration, and relations with their shareholders. In this way, the United Kingdom requires some companies to disclose how they are performing against corporate governance factors.

8.3.6 The United States

Key points:

- There is growing momentum for mandatory climate-related disclosures. Some companies are required to make governance-related disclosures, however, there are currently no mandatory requirements for ESG sustainability reporting in place.
- The US Securities and Exchange Commission has opened a consultation on climate change disclosures.
- The Financial Accounting Standards Board (FASB) sets accounting standards in the United States. It works closely with the IFRS Foundation, so that their standards are aligned.

There are no mandatory requirements for companies to issue sustainability reports in the United States, either at a federal or state level (Clarkin, Sawyer, Levin, Hu & Lindsay, 2020). Some companies are currently required to make governance-related disclosures. Section 406 of the Sarbanes-Oxley Act 2002 requires investment companies to disclose whether they have adopted a code of ethics that applies to key decision-makers, and the New York Stock Exchange Listed Company Manual requires listed businesses to adopt and disclose a code of business conduct and ethics that binds directors, officers, and employees (both of which are a form of governance disclosure; JD Supra, 2013; KPMG, 2016).

As with Canada, there has been significant voluntary take-up of sustainability reporting in the US. One report found that 90 percent of companies on the S&P 500 Index issued a sustainability or responsibility report in 2020 (compared to less than 20 percent in 2011; Governance and Accountability Institute, 2020). However, the voluntary nature of these reports makes them less reliable and complete than they otherwise might have been (D'Aquila, 2018). As noted earlier, this is largely because companies can choose which standards to use and interpret how to apply them. Notably, the Financial Accounting Standards Board (the non-profit organisation responsible for setting accounting reporting standards in America) has worked closely with the IFRS Foundation to align their reporting standards in the past (Ecosystem Marketplace, 2021). As discussed earlier in this report, the IFRS Foundation is investigating sustainability reporting standards. The IFRS Foundations work to establish the International Sustainability Standards Board may put pressure on the FASB to align reporting standards with sustainability reporting standards (IBID).

There is also growing interest in climate-related disclosures, for example:

- several committees have been convened over the last few years to investigate how climate risks can be addressed in the United States.
- in 2019, Elizabeth Warren reintroduced the Climate Risk Disclosure Act 2019 (GovTrack, 2019). It is awaiting a vote to determine whether or not it will be passed into law. The bill would require American public companies to disclose several climate-related risks to the U.S. Securities and Exchange Commission (SEC). The bill was introduced in 2018 but it was not voted on by the time Congress closed in January 2019.
- in November 2020 Allison Lee, the Commissioner of the SEC, gave a keynote speech about the growing interest in climate change risk and climate-related disclosures (Lee, 2020). Setting out the long-term

vision for the SEC, Lee said "the SEC should work with market participants toward a disclosure regime specifically tailored to ensure that financial institutions produce standardized, comparable, and reliable disclosure of their exposure to climate risks".

- later that month, President Joe Biden unveiled his 'Plan for a Clean Energy Revolution'. The plan lists a series of actions that will be taken to help ensure the United States to achieve net-zero emissions by 2050. The plan calls for "requiring public companies to disclose climate risks and the greenhouse gas emissions in their operations and supply chains" (Biden, 2020).
- the SEC has recently opened a consultation on climate change disclosures, noting that investor demand for information about climate change risks, impacts, and opportunities has grown dramatically (Lee, 2021). Consultation has sought information regarding how the Commission can best regulate climate change disclosures, including a question on whether climate-related requirements should be one component of a broader ESG disclosure framework.

Together, these developments demonstrate growing interest in mandating sustainability reporting, particularly climate-related disclosures.

9 References

Australian Government. (2018). Modern Slavery Act, 2018. Retrieved from URL: https://www.legislation.gov.au/Details/C2018A00153

Australian Sustainable Finance Initiative. (2020). *Australian Sustainable Finance Roadmap*. Retrieved from URL: https://www.sustainablefinance.org.au/roadmap

Australian Securities & Investment Commission. (2019). *Regulatory Guides: RG 247 Effective disclosure in an operating and financial review*. Retrieved from URL: https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-247-effective-disclosure-in-an-operating-and-financial-review/

Australian Securities & Investment Commission. (2019). *Regulatory Guides: RG 228 Prospectuses: Effective disclosure for retail investors*. Retrieved from URL: https://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-228-prospectuses-effective-disclosure-for-retail-investors/

Australian Securities Exchange. (2019). *Corporate Governance Principles and Recommendations*. Retrieved from URL: https://www.asx.com.au/documents/regulation/cgc-principles-and-recommendations-fourth-edn.pdf

Bali, M. (2021). *Australia quietly updated its emissions targets, but it's not the change climate advocates had hoped for*. Retrieved from URL: https://www.abc.net.au/triplej/programs/hack/australia-climate-change-target/13043266

Barth, M. E., Cahan, S. F., Chen, L., & Venter, E. R. (2017). The economic consequences associated with integrated report quality: Capital market and real effects. *Accounting, Organizations and Society, 62*, 43-64.

BDO. (2019). *Māori business survey*. Retrieved from URL: https://www.bdo.nz/en-nz/industries/maori-business/maori-business-survey

Biden, J. (2020). *The Biden plan for a clean energy revolution and environmental justice*. Retrieved from URL: https://joebiden.com/climate-plan/

BlackRock. (2020). *Annual Report*. Retrieved from URL: https://www.blackrock.com/corporate/investor-relations/2020-annual-report

Brockett, A., & Rezaee, Z. (2012). *Corporate sustainability: integrating performance and reporting* (Vol. 630). John Wiley & Sons.

Canada Climate Law Initiative. (2020). Putting Climate Change Risk on the Boardroom Table. *A Conversation with Carol Hansell and Gigi Dawe*. Retrieved from URL: https://law-ccli-2019.sites.olt.ubc.ca/files/2020/06/Hansell-Climate-Change-Opinion-1.pdf

Carrots & Sticks. (2021). *Reporting instruments*. Retrieved from URL: https://www.carrotsandsticks.net/reporting-instruments/?status=Forthcoming&status=Current&country=China

Cazes, S., A. Hijzen and A. Saint-Martin (2015), "Measuring and Assessing Job Quality: The OECD Job Quality Framework". *OECD Social, Employment and Migration Working Papers*, No. 174, OECD Publishing, Paris, https://doi.org/10.1787/5jrp02kjw1mr-en

CDSB. (2020). Falling short? Why environmental and climate-related disclosures under the EU Non-Financial Reporting Directive must improve. Retrieved from URL: https://www.cdsb.net/sites/default/files/falling_short_report_double_page_spread.pdf

Chapman Tripp. (2019). *Sustainable Finance Forum Legal Opinion 2019.* Retrieved from URL: https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5f8e0158c25b93160fb19ae1/1603141987306/SFF_Climatepercent2BChangepercent2BRiskpercent2BLegalpercent2BOpinion_301019.pdf

Chapman Tripp. (2020). *Managing climate risk in New Zealand in 2020: A tool kit for directors*. Retrieved from URL: https://chapmantripp.com/media/zynfua4g/managing-climate-risk-in-new-zealand-nov2020.pdf

China Daily. (2011). *Guidelines on the State-owned Enterprises Directly under the Central Government*. Retrieved from URL: https://govt.chinadaily.com.cn/s/201112/06/WS5c076933498eefb3fe46e2c6/guidelines-on-the-state-owned-enterprises-directly-under-the-central-government.html

Clarkin, C. Sawyer, M. Levin, J. Hu, J. & Lindsay, S. (2020). *The Rise of Standardized ESG Disclosure Frameworks in the United States*. Retrieved from URL: https://corpgov.law.harvard.edu/2020/06/22/the-rise-of-standardized-esg-disclosure-frameworks-in-the-united-states/

Climate Disclosure Standards Board. (2020). *Listing Requirements*. Retrieved from URL: https://www.cdsb.net/listing-requirement/1019/cdsb-warns-comply-or-explain-approach-not-sufficient-reaction-uk-fcapercentE2percent80percent99s

Climate Tracker Initiative. (2015). *The $2 trillion stranded assets danger zone: How fossil fuel firms risk destroying investor returns*. Retrieved from URL: https://carbontracker.org/wp-content/uploads/2017/09/Synthesis-infographic-01.png

Cohen, M. A., Fenn, S. A., & Konar, S. (1997). *Environmental and financial performance: Are they related?* Washington, DC: Investor Responsibility Research Center, Environmental Information Service.

Conway, E. (2015). Engaging small and medium-sized enterprises (SMEs) in the low carbon agenda. *Energy, Sustainability and Society, 5*(1), 1-9.

Corporate Reporting Dialogue. (2019). *Better Alignment Project*. Retrieved from URL: https://corporatereportingdialogue.com/better-alignment-project/#introduction

D'Aquila, J. M. (2018). The current state of sustainability reporting. *CPA Journal, 88*(7), 44-50.

Danish Standards for Danish Business Authority. (2015). *A comparison of 4 international guidelines for CSR*.

Datamaran. (2021). *The Non-Financial Reporting Directive: What You Need To Know*. Retrieved from URL: https://www.datamaran.com/non-financial-reporting-directive/

De Nederlandsche Bank. (2020). *Indebted to Nature*. Retrieved from URL: https://www.dnb.nl/en/binaries/Indebtedpercent20topercent20naturepercent20_tcm47-389172.pdf

Deegan, C., & Islam, M. A. (2012). Corporate Commitment to Sustainability–Is it All Hot Air? An Australian Review of the Linkage between Executive Pay and Sustainable Performance. *Australian Accounting Review, 22*(4), 384-397.

Deloitte (2016). *King IV: Bolder Than Ever*. Retreived from URL: https://www2.deloitte.com/za/en/pages/africa-centre-for-corporate-governance/articles/kingiv-report-on-corporate-governance.html

Deloitte. (2017). *Seek and you may find: How CFOs can manage sustainability risks and find long-term value.* Retrieved from URL: https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-gra-sustainability-reporting.pdf

Deloitte. (2020). *Sustainability and ESG reporting*. Retrieved from URL: https://www2.deloitte.com/nz/en/pages/risk/solutions/sustainability-reporting.html

Department for Business, Energy & Industrial Strategy. (2021). *Mandatory climate-related financial disclosures by publicly quoted companies, large private companies and LLPs*. Retrieved from URL: https://www.gov.uk/government/consultations/mandatory-climate-related-financial-disclosures-by-publicly-quoted-companies-large-private-companies-and-llps

Dombrovskis, V. (2020). *Preparatory work for the elaboration of EU non-financial reporting standards*. Retrieved from URL: https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Letterpercent2520EVPpercent2520annexNFRDpercent2520percent2520technicalpercent2520mandatepercent25202020.pdf&AspxAutoDetectCookieSupport=1

Ecosystem Marketplace. (2021). *Mandatory Sustainability Reporting Moves Closer to Reality*. https://www.ecosystemmarketplace.com/articles/mandatory-sustainability-reporting-moves-closer-to-reality/

Edwards, J. R. (2018). *A history of corporate financial reporting in Britain*. Routledge.

Employment New Zealand. (2018). *Minimum rights of employees*. Retrieved from URL: https://www.employment.govt.nz/starting-employment/rights-and-responsibilities/minimum-rights-of-employees/

European Commission. (2019). Guidelines on non-financial reporting: Supplement on reporting climate-related information. Retrieved from URL: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN#:~:text=They%20should%20also%20consider%20the,(3)%20comprehensive%20but%20concise%3B

European Commission. (2021). *Corporate sustainability reporting*. https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

European Union. (2014). *Directive 2014/95/EU of the European Parliament and of the Council*. Retrieved from URL: https://eur-lex.europa.eu/eli/dir/2014/95

External Reporting Board. (2019). *Complete Set of Financial Statements*.

External Reporting Board. (2021). *Ongoing Activities*. Retrieved from URL: https://www.xrb.govt.nz/extended-external-reporting/ongoing-activities/

Fair Work Convention. (2016). *The Fair Work Framework*. Retrieved from URL: https://www.fairworkconvention.scot/the-fair-work-framework/

Financial Reporting Council. (2018a). *Guidance on the Strategic Report*. Retrieved from URL: https://www.frc.org.uk/accountants/accounting-and-reporting-policy/clear-and-concise-and-wider-corporate-reporting/narrative-reporting/guidance-on-the-strategic-report

Financial Reporting Council. (2018b). *The UK Corporate Governance Code*. Retrieved from URL: https://www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.pdf

FMA. (2020). *Disclosure framework for integrated financial products*. Retrieved from URL: https://www.fma.govt.nz/compliance/guidance-library/disclosure-framework-for-integrated-financial-products/

Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210-233.

G. Unruh, D. K. (May 2016). *Investing For a Sustainable Future*. Boston: MIT Sloan Management Review.

Geels, F. (2002). Technological transitions as evolutionary reconfiguration processes: a multi-level perspective and a case-study. *Research policy, 31*(8-9), 1257-1274.

Global Reporting Initiative. (2020a). *How to use the GRI standards*. Retrieved from URL: https://www.globalreporting.org/how-to-use-the-gri-standards/

Global Reporting Initiative. (2020b). *Why Report?* Retrieved from URL: https://www.globalreporting.org/how-to-use-the-gri-standards/

Global Reporting Initiative. (2020c). *Working with Governments*. Retrieved from URL: https://www.globalreporting.org/public-policy-partnerships/working-with-governments/

Governance and Accountability Institute. (2020). *Flash Report S&P 500*. Retrieved from URL: https://www.ga-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html

Government of Canada. (2019). *Final Report of the Expert Panel on Sustainable Finance - Mobilizing Finance for Sustainable Growth*. Retrieved from URL: https://www.canada.ca/en/environment-climate-change/services/climate-change/expert-panel-sustainable-finance.html

GovTrack. (2019). H.R. 3623 (116th): *Climate Risk Disclosure Act of 2019*. Retrieved from URL: https://www.govtrack.us/congress/bills/116/hr3623/summary#:~:text=Thepercent20Climatepercent20Riskpercent20Disclosurepercent20Actpercent20wouldpercent20requirepercent20American,theypercent20own.percent20Thepercent20companypercentE2percent80percent99spercent20greenhousepercent20gaspercent20emissionspercent20total.

Green Finance Taskforce. (2018). *Accelerating Green Finance*. Retrieved from URL: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/703816/green-finance-taskforce-accelerating-green-finance-report.pdf

Hahnkamper-Vandenbulcke,N. (2021). *Non-financial Reporting Directive*. Retrieved from URL: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/654213/EPRS_BRI(2021)654213_EN.pdf

Hall, D. & Lindsay, S. (2017). *Climate Finance Landscape for Aotearoa New Zealand: A Preliminary Survey, Report Prepared for the Ministry for the Environment*, Auckland: Mōhio. Retrieved from URL: https://www.mfe.govt.nz/sites/default/files/media/Climatepercent20Change/Climatepercent20Financepercent20Landscapepercent20forpercent20Aotearoapercent20Newpercent20Zealandpercent20-percent20Apercent20Preliminarypercent20Surve....pdf

Hansell. (2020). *Putting climate change risk on the boardroom table*. Retrieved from URL: https://law-ccli-2019.sites.olt.ubc.ca/files/2020/06/Hansell-Climate-Change-Opinion-1.pdf

Havrysh, N. (2020). *Mandatory sustainability reporting: what countries have it and should other join?* Retrieved from URL: https://medium.com/age-of-awareness/mandatory-sustainability-reporting-what-countries-have-it-and-should-other-join-1eacf05f267c

Herzig, C., & Schaltegger, S. (2006). Corporate sustainability reporting. An overview. *Sustainability accounting and reporting*, 301-324

HM Treasury. (2020a). *Chancellor sets out ambition for future of UK financial services*. Retrieved from URL: https://www.gov.uk/government/news/chancellor-sets-out-ambition-for-future-of-uk-financial-services

HM Treasury. (2020b). *Interim Report of the UK's Joint Government-Regulator TCFD Taskforce*. Retrieved from URL: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933782/FINAL_TCFD_REPORT.pdf

HM Government. (2019). Green Finance Strategy: Transforming Finance for a Greener Future. Retrieved from URL: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/820284/190716_BEIS_Green_Finance_Strategy_Accessible_Final.pdf

Ho, V. H. (2017). Comply or explain and the future of nonfinancial reporting. *Lewis & Clark L. Rev.*, *21*, 317.

Hongming, X., Ahmed, B., Hussain, A., Rehman, A., Ullah, I., & Khan, F. U. (2020). Sustainability Reporting and Firm Performance: The Demonstration of Pakistani Firms. *SAGE Open, 10*(3), 2158244020953180.

Horan, J., A. Hosking, S. Moe, J. Rowland, and P. Wilkie. 2019. Structuring for impact: Evolving Legal Structures for Business in New Zealand. Wellington: Social Enterprise Sector Development Programme - Department of Internal Affairs, the Ākina Foundation and the Community Enterprise Network Trust.

Hutchings, J., Smith, J., Taura, Y., Harmsworth, G., & Awatere, S. (2020). *Storying Kaitiakitanga*. Retrieved from URL: http://www.journal.mai.ac.nz/sites/default/files/MAI_Jrnl_2020_V9_3_Hutchings_FINAL.pdf

Hutley, N. & Hartford-Davis, S. (2016). *Climate Change and Directors Duties*. Retrieved from URL: https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf

Hutley, N. & Hartford-Davis, S. (2019). *Climate Change and Directors Duties: supplementary memorandum of opinion*. Retrieved from URL: https://cpd.org.au/2019/03/directors-duties-2019/

IFRS. (2021). *IFRS Foundation Trustees announce next steps in response to broad demand for global sustainability standards*. Retrieved from URL: https://www.ifrs.org/news-and-events/news/2021/02/trustees-announce-next-steps-in-response-to-broad-demand-for-global-sustainability-standards/

ILO. (1998). *The ILO Declaration on Fundamental Principles and Rights at Work*. Retrieved from URL: https://libguides.ilo.org/c.php?g=657806&p=4649148

ILO. (2010). *ILO Framework for Measuring Decent Work*. Retrieved from URL: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---integration/documents/presentation/wcms_166196.pdf

Institute for Public Care. (2015). *What is Market Shaping?* Retrieved from URL: https://www.thinklocalactpersonal.org.uk/co-production-in-commissioning-tool/commissioning-market-shaping/In-more-detail/What-is-market-shaping/

International Labour Organization and Walk Free Foundation. (2017). *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage*. Retrieved from URL: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_575479.pdf

JD Supra. (2013). *Codes of Ethics: SEC Requirements*. Retrieved from URL: https://www.jdsupra.com/legalnews/codes-of-ethics-sec-requirements-26240/#:~:text=honestpercent20andpercent20ethicalpercent20conductpercent20(including,internalpercent20reportingpercent20ofpercent20violationspercent3Bpercent20and

Jeffwitz, C., & Gregor, F. (2017). *Comparing the implementation of the EU non-financial reporting directive*. Available at SSRN 3083368.

Jones, S., Frost, G., Loftus, J., & van der Laan, S. (2007). An empirical examination of the market returns and financial performance of entities engaged in sustainability reporting. *Australian Accounting Review, 17*(41), 78-87.

Kavanagh, L. (2020). *Settlement in climate-related financial disclosure case*. Retrieved from URL: https://www.minterellison.co.nz/our-view/settlement-in-climate-related-financial-disclosure

Kaye, B. (2017). *Commonwealth Bank in new lawsuit over climate risks*. Reuters.

KPMG. (2016). *Corporate Governance Standards*. Retrieved from URL: https://assets.kpmg/content/dam/kpmg/pdf/2016/07/kr-aci-law-4-4.pdf

KPMG. (2020). *Canadian companies exceed global benchmark for reporting on sustainability, but lag in other key areas: KPMG report*. Retrieved from URL: https://www.newswire.ca/news-releases/canadian-companies-exceed-global-benchmark-for-reporting-on-sustainability-but-lag-in-other-key-areas-kpmg-report-819150891.html

KPMG. (2020). *The time has come: The KPMG survey of sustainability reporting in 2020*. Retrieved from URL: https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

Lamberton, G. (2005). Sustainability accounting—a brief history and conceptual framework. In *Accounting forum* (Vol. 29, No. 1, pp. 7-26). Elsevier.

Lee, A. (2020). *Playing the Long Game: The Intersection of Climate Change Risk and Financial Regulation*. Retrieved from URL: https://www.sec.gov/news/speech/lee-playing-long-game-110520

Lee, A. (2021). *Public Input Welcomed on Climate Change Disclosures*. Retrieved from URL: https://www.sec.gov/news/public-statement/lee-climate-change-disclosures

MBIE. (2019). *Government Plan for a Productive, Sustainable and Inclusive Economy*. Retrieved from URL: https://www.beehive.govt.nz/release/govt-plan-productive-sustainable-and-inclusive-economy.

MBIE. (2020a). *Leading the Way: Establishing a Carbon Neutral Government Programme*. Retrieved from URL: https://www.mbie.govt.nz/dmsdocument/13511-leading-the-way-establishing-a-carbon-neutral-government-programme-minute-of-decision-proactiverelease-pdf

MBIE. (2020b). Trends in business models and practices. Internal Report.

MBIE. (2021). *Mandatory climate-related disclosures*. Retrieved from URL: https://www.mbie.govt.nz/business-and-employment/business/regulating-entities/mandatory-climate-related-disclosures/

McKinsey. (2019). *Five ways that ESG creates value*. Retrieved from URL: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value#

McVeigh v Retail Employees Superannuation Pty Ltd. (2019). *FCA 14.*

MfE & MBIE. (2019). Climate related financial disclosures – Understanding your business risks and opportunities related to climate change: Discussion document. Wellington: Ministry for the Environment. Page 12.

Ministry for the Environment. (2020). *Climate Related Financial Disclosures*. Proactively Released Cabinet Paper. Retrieved from URL: https://www.mfe.govt.nz/more/briefings-cabinet-papers-and-related-material-search/cabinet-papers/cabinet-paper-climate-0

Moody's Investor Services. (2021). *ESG Outlook Report 2021*. Retrieved from URL: https://www.moodys.com/newsandevents/topics/ESG-Impact-00702C/reports

Morgan Stanley. (2017). *Why Sustainable Companies Can Outperform*. Retrieved from URL: https://www.morganstanley.com/access/why-sustainable-companies-can-outperform

Morgan Stanley. (2020). *Sustainable Signals: Asset owners see sustainability as core to the future of investing*. Retrieved from URL: https://www.morganstanley.com/content/dam/msdotcom/sustainability/20-05-22_3094389percent20Sustainablepercent20Signalspercent20Assetpercent20Owners_FINAL.pdf

Morningstar. (2020). *Gender Diversity Index: Providing Greater Transparency into Gender Diversity Policy and Practice*. Retrieved from URL: https://indexes.morningstar.com/our-products/gender-diversity

Natural Environmental Research Council. (2021). *Climate and Environmental Risk Analytics for Resilient Finance (CERAF)*. Retrieved from URL: https://nerc.ukri.org/research/funded/programmes/ceraf/

Ngāi Tahu. (2020). *Annual Report 2019-2020*. Retrieved from URL: https://ngaitahu.iwi.nz/investment/ngai-tahu-annual-reports/2020-annual-report/

Ngāti Hauā Iwi Trust. (2020). *2020 Annual Report*. Retrieved from URL: https://ngatihauaiwitrust.co.nz/publications/annual-report/

Nicolsen, R., Banyasz, D., Turnbull, E., McAvaney, H., Lampe, N., & Percy, G. (2020). *Tracking the modern slavery landscape: recent developments*. Retrieved from URL: https://www.allens.com.au/insights-news/insights/2020/09/tracking-the-modern-slavery-landscape-recent-developments/

NZX. (2020). *NZX Corporate Governance Code*. Retrieved from URL: https://www.nzx.com/regulation/nzx-rules-guidance/corporate-governance-code

O'Malley, N. & Foley, M. (2020). *Climate of change puts business and Coalition at odds*. Retrieved from URL: https://www.smh.com.au/environment/climate-change/climate-of-change-puts-business-and-coalition-at-odds-20201218-p56oqb.html

OECD. (2015). *G20/OECD Principles of Corporate Governance*. Retrieved from URL: http://www.oecd.org/corporate/principles-corporate-governance/

OECD. (2019). *OECD Corporate Governance Factbook*. Retrieved from URL: http://www.oecd.org/corporate/corporate-governance-factbook.htm

OECD. (2020). *Developing Sustainable Finance Definitions and Taxonomies*. Retreived from URL: https://www.oecd-ilibrary.org/sites/134a2dbe-en/index.html?itemId=/content/publication/134a2dbe-en

Parliament of Australia. (2007). *Sustainability reporting: background and current status*. Retrieved from URL: https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Completed_inquiries/2004-07/corporate_responsibility/report/c06

Proxima. (2019). *Towards Transparency*. Retrieved from URL: https://proxima.global/towards_transparency2020.pdf

PWC. (2021). *ESG reporting - an opportunity for companies to build greater trust with stakeholders*. Retreived from URL: https://www.pwc.com.au/assurance/esg-reporting.html

Raukawa Settlement Trust. (2020). *Raukawa Annual Report 2019-2020*. Retrieved from URL: https://raukawa.org.nz/rct/wp-content/uploads/sites/2/2020/11/Raukawa-Annual-Report-FINAL.pdf?fbclid=IwAR24QGfl46KFdosjYQ83-KdioNsD4cNBoaf5RJ6tr5AHyXFD7BTa2galWs0

Reddy, K., & Gordon, L. (2010). The effect of sustainability reporting on financial performance: An empirical study using listed companies. *Journal of Asia Entrepreneurship and Sustainability 6*(2), 19-42.

Rizos, V., Behrens, A., Van der Gaast, W., Hofman, E., Ioannou, A., Kafyeke, T., Topi, C, et al. (2016). Implementation of circular economy business models by small and medium-sized enterprises (SMEs): Barriers and enablers. *Sustainability, 8*(11), 1212.

Robins, N. (2020). The Road to Net-Zero Finance. A report prepared by the Advisory Group on Finance for the UK's Climate Change Committee.

SASAC. (2011). *Guidelines to the State-owned Enterprises Directly under the Central Government*. Retrieved from URL: http://en.sasac.gov.cn/2011/12/06/c_313.htm

Singapore Exchange. (2019). *Sustainability Reporting: Progress and Challenges*. Retrieved from URL: https://bschool.nus.edu.sg/cgio/wp-content/uploads/sites/7/2019/12/SGX-CGIO-Sustainability-Reporting-Progress-and-Challenges-Report-2019.pdf

SSE. (2008). *Notice on strengthening the social responsibility of listed companies and issuing the Guidelines for Environmental Disclosure of Listed Companies on the Shanghai Stock Exchange*. Retrieved from URL: http://www.sse.com.cn/lawandrules/sserules/listing/stock/c/c_20150912_3985851.shtml

Statistics New Zealand. (2018). *Survey of working life*. Retrieved from URL: https://www.stats.govt.nz/reports/survey-of-working-life-2018

Sustainable Finance Forum. (2020). *Roadmap for Acton*. Retrieved from URL: https://static1.squarespace.com/static/5bb6cb19c2ff61422a0d7b17/t/5f9f7a83aa6e763a1b0f6759/1604287127400/20207-000234_Sustainable+Finance+Forum+Final.pdf

Tan, J. (2020). *A green wave of ESG is poised to break over China*. Retrieved from URL: https://www.weforum.org/agenda/2020/12/green-wave-of-esg-investment-is-breaking-in-china/

Taylor, M. Marsh, G. Nicol, D. & Broadbent, P. (2017). *Good Work: The Taylor Review of Modern Working Practices*. London: Department for Business, Energy & Industrial Strategy.

TCFD. (2017). *Implementing the Recommendations of the Task Force on Climate Related Disclosures*. Retrieved from URL: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-TCFD-Annex-Amended-121517.pdf

TCFD. (2019). *Task Force on Climate-related Financial Disclosures: Status Report*. Retrieved from URL: https://assets.bbhub.io/company/sites/60/2020/10/2019-TCFD-Status-Report-FINAL-0531191.pdf

Te Runanga a Iwi o Ngāpuhi. (2019). *Toro mai*. Retrieved from URL: https://ngapuhi-runanga.nz/Data/Sites/3/downloads-folder/annualreports/traion_ar-2018_document_lo-res.pdf

The People's Bank of China. (2021). *The People's Bank of China and six other agencies jointly issue "Guidelines for Establishing the Green Financial System*. Retrieved from URL: http://www.pbc.gov.cn/english/130721/3131759/index.html

The Treasury. (2021). *The Treasury Statement of Intent July 2021 – June 2025*. Retrieved from URL: https://www.treasury.govt.nz/system/files/2021-02/si-treasury-21-25.pdf

Townsend, M. & Kelly, I. (2020). *Review of the Non-Financial Reporting Directive: towards an EU-wide ESG reporting standard*. Retrieved from URL: https://www.allenovery.com/en-gb/global/news-and-insights/publications/review-of-the-non-financial-reporting-directive

Turley-McIntyre, B., Marchl, A., & Stasuik, B. (2016). Sustainability reporting in Canada's financial institutions. *Journal of Co-operative Accounting and Reporting, 4*(1), 35-58.

UCL. (2018). *The economics of change: Policy and appraisal for missions, market shaping and public purpose*. Retrieved from URL: https://www.ucl.ac.uk/bartlett/public-purpose/publications/2018/jul/economics-change-policy-and-appraisal-missions-market-shaping-and-public

UNEP Finance Initiative. (2020). *Working with financial institutions to accelerate the transition to low-carbon economies.* Retrieved from URL: https://www.unepfi.org/climate-change/climate-change/

United Nations Global Compact. (2015). *Guide to Corporate Sustainability*. Retrieved from URL: https://www.unglobalcompact.org/library/1151

United Nations. (1948). The Universal Declaration of Human Rights*. UN General Assembly, 302(2), 14-25.*

Value Reporting Framework. (2021). *IIRC and SASB form the Value Reporting Foundation, providing comprehensive suite of tools to assess, manage and communicate value*. Retrieved from URL: https://integratedreporting.org/news/iirc-and-sasb-form-the-value-reporting-foundation-providing-comprehensive-suite-of-tools-to-assess-manage-and-communicate-value/

Varottil, U. (2017). Corporate governance in India: The transition from code to statute. In *Corporate governance codes for the 21st century* (pp. 97-114). Springer, Cham.

Viglione, G. (2020). *Climate lawsuits are breaking new legal ground to protect the planet*. Retrieved from URL: https://www.nature.com/articles/d41586-020-00175-5

Wakatū. (2020). *Identity and Principles*. Retrieved from URL: https://www.wakatu.org/identity-values

Westpac. (2018). *Climate Change Impact Report*. Retrieved from URL: https://www.westpac.co.nz/who-we-are/sustainability-and-community/looking-after-our-environment/climate-change/climate-change-impact-report/

White, A. (2010). Coming of Age: A Global Perspective on Sustainability Reporting. *Landcare Research*. Retrieved from URL: https://digitalscholarship.unlv.edu/cgi/viewcontent.cgi?referer=http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwjRgZLklq7uAhXxzTgGHUwGDcoQFjACegQIARAC&url=httppercent3Apercent2Fpercent2Fdigitalscholarship.unlv.edupercent2Fcgipercent2Fviewcontent.cgipercent3Farticlepercent3D1000percent26contextpercent3Dsustain_pubs&usg=AOvVaw01f--jF9CMwtp9Aam9ZKB6&httpsredir=1&article=1000&context=sustain_pubs

Wong, D. (2020). *Sustainability Reporting in China: The Rise of CSR and ESG Reporting by Businesses*. Retrieved from URL: https://www.china-briefing.com/news/sustainability-reporting-china-csr-esg-reporting-business-accountability/

World Economic Forum. (2020). *Global Business Leaders Support ESG Convergence by Committing to Stakeholder Capitalism Metrics*. Retrieved from URL: https://www.weforum.org/press/2021/01/global-business-leaders-support-esg-convergence-by-committing-to-stakeholder-capitalism-metrics-73b5e9f13d/

World Wildlife Fund. (2020). *New Water Risk Filter Scenarios will help companies and investors turn risk into resilience.* Retrieved from URL: https://wwf.panda.org/wwf_news/?933366/New-Water-Risk-Filter-Scenarios-will-help-companies-and-investors-turn-risk-into-resilience

Wright Communications. (2020). *Insights into New Zealand's ESG reporting*. Retrieved from URL: https://wrightcommunications.co.nz/media/2960/nzx-wright-esg-report-2020_web_percentC6percent92.pdf