

14 October 2016

To whom it may concern

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SBC Submission two on NZX's review of corporate governance reporting requirements within NZX Main Board Listing Rules

NZX is currently reviewing its corporate governance reporting requirements within the NZX Main Board Listing Rules and has released the proposed updated Code for feedback.

Sustainable Business Council has previously [submitted](#) in support of the key objectives NZX is seeking to achieve as part of this review. We think the proposed changes NZX are now suggesting are a solid step in the right direction and we commend you for this. We are particularly supportive of non-financial disclosure being a recommendation and not just commentary. As we have previously stated, this is a journey; the NZX Code, how it is being enacted with issuers, and whether it is meeting the desired outcomes should be reviewed at regular intervals.

Over time, we want to see a pathway toward all issuers using international best practice frameworks that allow non-financial information to be subjected to the same scrutiny as financial information.

Our Proposal

Based on our original submission, this is our further submission on the proposed changes this consultation round. In general, we would like NZX to strengthen the commentary in Section 4, and the commentary and recommendation in Section 6. We have proposed the additions in blue below to achieve this objective.

Specifically NZX has asked for feedback on the following questions:

Principle 4: Reporting and disclosure

- 1. Do you agree with the proposed recommendations?*

Yes. We strongly support recommendation 4.3 being 'comply or explain' as you have proposed.

2. Do you agree with the proposal to address ESG reporting within commentary?

Yes, as an initial step. However, given the extent to which non-financial matters affect the current and future finances of an organisation, we think this commentary should outline the need for balanced, transparent and public disclosure which connects financial, environmental and social performance. This allows the issuer's stakeholders to have a better understanding of overall performance, risks and opportunities. We suggest strengthening the commentary of 4.3 as follows (changes outlined in blue):

Commentary

*It is important that issuers provide **balanced and transparent** disclosure of both financial and non-financial matters affecting the issuer's ability to create or preserve value, such as the issuer's sustainability strategy.*

Financial reporting

Financial reporting should be quantitative and represent a balanced viewpoint on the issuer to ensure that information is factual and complete, and expressed in a clear and objective manner helping investors to make meaningful decisions.

Non-financial reporting

*Issuers should also determine the appropriate level of non-financial reporting to form part of its disclosure regime **based on those issues that are most material and affect the ability of the issuer to create or preserve value in the short, medium and long term.** The Sustainable Stock Exchange Initiative recognises reporting frameworks for environmental, social and governance (ESG) policies and practices and it is now commonplace for stock-exchanges world-wide to provide guidance to issuers for reporting on ESG. This form of reporting is also referred to as sustainability reporting or by similar names. In order for investors and other users of*

We think the use of the term "material" instead of "key" is important as The Sustainable Stock Exchange Initiative, Integrated Reporting Guidelines and GRI all use this term and using a different term will be confusing for issuers and their stakeholders. The term "material" is also used by the ASX in regard to material exposure to sustainability risk. Similarly the term value creation is used in the Sustainable Stock Exchange Initiative, Integrated Reporting Guidelines and by the ASX. Using the term 'material' and discussing value creation will provide a level of consistency for dual-listed issuers.

For this to be applied successfully we think it is also important to define what 'material' means. The definition could also usefully cover stakeholder interests given these were merged into the Shareholder section. The GRI and IIRC both have useful definitions of 'material' which could be drawn from. The ASX also has a good definition of material exposure in relation to risk which also discusses stakeholders.

3. *Do you agree NZX should develop its own ESG reporting guidance based on the SSEI's model guidance or alternatively allow for issuers to use the GRI framework?*

We think both are needed. SBC would like to offer our experience to NZX to help develop this guidance. We strongly support following the evolving best practice provided in the Sustainable Stock Exchanges Model Guidance for Companies on Reporting ESG Information and allowing for issuers to use the GRI framework if they choose. We want to see this developed guidance provide for consistent and comparable disclosure to allow informed decision making.

4. *Do you think another framework should be used instead?*

Not necessarily. Especially in the short term. As we have previously submitted, the important thing is, through the process of reporting, each company builds a better understanding of its material issues and opportunities and has a robust process for doing so. Over time, however we want to see a pathway toward using international best practice frameworks that allow non-financial information to be subjected to the same level of scrutiny as financial information.

5. *Do you agree that issuers should make key governance documents available to interested investors and stakeholders?*

Yes.

Section 6 – Risk

1. *Are there any other risk concerns you think should be specifically addressed in commentary?*

Yes we think this commentary could be clearer and more explicit about ESG risk instead of mainly referring back to the commentary and recommendation in Section 4. We think that reporting on ESG risks is relevant for all issuers regardless of size as all issuers will be subject to a range of non-financial risks.

We also think the recommendation could be strengthened (additions in blue):

*6.1 An issuer should have appropriate policies and procedures in place to identify and manage **the material risks** facing their businesses **including material ESG risks, in the short, medium and long term** and the issuer's Board should receive and review regular reports on the operation of the risk management framework.*

Commentary

*Issuers are best placed to determine the **material risks** facing their business and they should have appropriate processes in place to identify and manage these risks. The board should be responsible for determining the nature and extent of the **material risks** it is willing to take to achieve its strategic objectives. The board should track development of any risk. The board should receive appropriate reporting from management in relation to risk management. The **material risks** will vary between*

issuers depending on their size and the nature of their businesses but these may include health and safety, other ESG factors (see also recommendation 4.3) and cyber security.....

Again having a definition of 'material risk' would be crucial. ASX has a definition of "material exposure" to risk defined as "*a real possibility that the risk in question could substantively impact the listed entity's ability to create or preserve value for security holders over the short, medium or long term.*" The commentary adds "*...how a listed entity conducts its business activities impacts directly on a range of stakeholders, including security holders, employees, customers, suppliers, creditors, consumers, governments and the local communities in which it operates. Whether it does so sustainably can impact in the longer term on society and the environment.*" Having some consistency here for dual listed issuers would again be useful.

We have no objection to the release of information contained within this submission.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Abbie Reynolds', with a large loop at the start and a trailing flourish.

Abbie Reynolds

Executive Director
Sustainable Business Council