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Chartered Governance Institute of Southern Africa

CGISA Integrated Reporting Awards 2022

Integrated reporting for sustained outcomes

Judges' Report

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Contents

The role of CGISA

CGISA is the formal professional institute for the enabling of corporate governance and company secretaryship as well as the expert commentator and thought leader in Southern Africa on governance matters. CGISA is the professional qualifying body for chartered secretaries and chartered governance professionals, offering an international qualification recognised in more than 80 countries. The career-long programme comprises attainment of the professional qualification and continuing professional development (CPD), which ensures that members remain on the cutting edge of developments. CGISA represents Botswana, Lesotho, Namibia, South Africa and Eswatini.

For more information on the awards:
https://www.chartsec.co.za/

The role of PwC

PwC is a non-monetary sponsor of the Chartered Governance Institute of Southern Africa (CGISA) Integrated Reporting Awards (IR Awards) and acts as convener of judges during the awards evaluation process. Entries into the different categories are managed by CGISA.

The independent judges, who are selected by the CGISA, submit the completed assessments to the convenor of judges for consideration. The convenor of judges, in discussion with the judges, and based on the scores achieved in the assessment, identifies an overall winner for each category, as well as the merit award winner. The convenor also collates comments from the judges, which are summarised and presented in this report, along with key trends that PwC has identified through its active participation in the integrated reporting field.

For more information, please refer to the methodology discussed in section eight of this report.

2022 Winners

Overall winner: Nedbank Group Limited

2022 WINNERS

Top 40
Winner: Impala Platinum Holdings Ltd
Merit: Vodacom Ltd

Mid-Cap
Winner: Redefine Properties Ltd
Merit: Transaction Capital Ltd

Small Cap
Winner: Attacq Ltd
Merit: Pan African Resources PLC

Fledgling/AltX
Winner: Afrocentric Investments Corporation Ltd
Merit: Sea Harvest Group Ltd

NGO/NPO
Winner: Institute of Directors South Africa
Merit: Cotlands

Unlisted company
Winner: Fidelity Services Group

Regional
Winner: National Social Security Fund of Uganda
Merit: Safaricom PLC

State-owned companies
Winner: Development Bank of South Africa SOC Limited
Merit: Industrial Development Corporation SOC Limited

Public Sector
Winner: Auditor-General South Africa
Merit: Government Employees Medical Scheme

Introduction - A message from Stephen Sadie

We have come a long way since 1956 when these reporting awards first started. We changed the name from the Annual Report Awards to the Integrated Reporting Awards in 2012, which reflected the changes at the time. We are in the midst of another major upheaval as a host of reporting frameworks are consolidating and merging so that we may have one final reporting framework. This range of frameworks and bodies has become known as the alphabet soup.

We appreciate the partners who have joined us along the way. The JSE Ltd has been the co-host for the past 25 years. PwC joined us as the convenor of judges for the past ten years. It thus gives me great pleasure to write the foreword for this publication, which provides an overview of the issues that the judges found when assessing the various integrated reports.

South African companies were early movers globally in integrated reporting largely thanks to the drive and perseverance of Mervyn King. We need to work hard to retain our position. That is why these integrated reporting awards are so important.

Congratulations must go to Nedbank Group Ltd as overall winner. It has won various categories such as overall winner, Top 40 and banking sector 11 times since the inception of the awards. The company has consistently led the pack in integrated reporting.

We are grateful to PwC for its time and effort in compiling this publication. I do hope that you enjoy reading it.

Stephen Sadie

CEO CGISA

Changes in reporting - A message from Renitha Dwarika

Undoubtedly, numerous organisations have begun to cultivate ESG-centred messages and sentiments. While reflecting on this trend, I paused to ask myself the very important question of "Why has ESG reporting become a key focus area for organisations?"

The COVID-19 pandemic has really accelerated the focus on ESG or sustainability issues – bringing to the forefront issues such as the asymmetry in wealth across the globe, a rise in polarisation and a fracturing world. The 2022 Edelman Trust Barometer continues to evidence declining levels of trust. In addition, we also have the undeniable issue of climate change!

Governments, society, but most importantly companies as a key part of society, need to address these issues. Transparent ESG reporting is really a means for organisations to tell their compelling story of the impact their companies are making on the world. Transparency in turn ensures accountability. And that is really why ESG, or sustainability disclosure, is on everybody's mind. Moreover, if we're going to see the transition to a just-society and turn the tide on climate change, we need buy-in across the spectrum of institutions – public and private alike. Perhaps the 'E' in ESG transcends the environmental focus and encompassess a need for 'Everyone' to unite for a better future.

> **"If we're going to prevent further pandemics, reduce the risks of climate change, build a more equitable society and still generate growth, it's clear that we'll have to create more sustainable economies and systems.**
>
> *– PwC 2021 Private equity survey*

From a sustainability reporting perspective, currently we see companies making selective disclosures and using selective or varied metrics. This can result in investors making decisions based on incomplete – and sometimes inconsistent – information. But that won't last. In the current environment where trust, transparency and accountability are key to a company's success and credibility, integrated reporting has an increasingly important role to play. Quality reporting that stands up to scrutiny and tells a balanced story can ultimately set a company apart from its peers and build trust with stakeholders.

We are at a critical point in the evolution of corporate reporting and comparable globally aligned standards are certainly emerging in the form of the ISSB. In future, all forms of capital will flow to those organisations that can demonstrate that they are not only financially successful but also have a positive ESG impact. Yet, where does integrated reporting fit into all of this? Read on to find out more.

> **"Corporate reporting is the first port of call for investors trying to understand business performance and prospects – and the risks associated with them.**
>
> *– 2021 PwC Global Investor Survey[1]*

Renitha Dwarika

PwC Africa Reporting Leader

1 2021 PwC Global Investor Survey – https://www.pwc.com/gx/en/corporate-reporting/assets/pwc-global-investor-survey-2021.pdf

Integrated Reporting Awards: 2022 category highlights

Below, we present highlights from each category of the *2022 CGISA Integrated Reporting Awards.*

Top 40

Areas of strength

- The top 20% of integrated reports get better every year and it is increasingly difficult to separate them! The best integrated reporters have a clear understanding of the underlying requirements and spirit of integrated reporting.
- Strong integrated reporters are cognisant of the fact that the concept of risk is iterative and is constantly evolving. The impact of identified risks is very different for the various stakeholders. The identification, magnitude and likelihood of risks were comprehensively covered and communicated.
- We have seen that sustainability (current and long term) is the focus of the integrated report. The integrated report is not confined to the performance of the current year. ESG factors are here to stay: and the best integrated reporters have begun to explain how their integrated thinking model encompasses ESG.
- The purpose and beliefs of the organisation are introduced upfront to frame the integrated report and remains the main driver behind the organisation's value creation journey.

Areas for development

- Most integrated reports still do not really highlight any negative issues confronting the company. Thus, some might perceive the integrated report as a promotional document.
- Companies tend to go into great detail and this cluttering or obfuscation should be avoided.
- Linkage between strategy and performance measures (showing performance, targets, narrative explanations of performance) need to be enhanced.
- Although much improved, reporters should seek to better integrate their sustainability strategy into their core strategy.
- Stakeholders would like to see more clarity on the assurance approach adopted to ensure reliability of information presented in the integrated report.
- Materiality is often poorly documented, particularly the determination process and the definition of the reporting boundary. Many integrated reports failed to demonstrate that materiality in the context of an integrated report goes beyond financial matters.

Spotlight: Impressions of the JSE Top 40

By Yvette Lange – (Judging Panel)

Organisations within this category continue to demonstrate a solid understanding of the requirements of the IR framework. A number of integrated reports in this category demonstrate progressive and innovative enhancements to their integrated reports. A salient example of this is the articulation of the emerging concept of double materiality.

More can be done in terms of presenting concise integrated reports, although great progress has been made in this regard in general. This essentially entails re-examining reported content to ensure it contributes meaningfully to conveying the organisation's value creation story. Good examples of certain components of an integrated report have been demonstrated in these integrated reports, including the introduction of quality of stakeholder relationships and governance reporting which really reflects 'governance in action' and how the board contributes to the value creation journey of the organisation.

One particular area presented to different degrees across the integrated reports in this category, with some outstanding examples of reporting on this, relates to the "outlook" and "strategic focus". A number of companies have made the step towards being explicit regarding the different time horizons (short, medium and long term) of their strategy and incorporating future value creation potential throughout the various sections of reporting. Few integrated reports have successfully framed the content and value creation story with 'purpose'. This provides for sincere and meaningful messaging regarding the value creation story and the drivers for this.

Taking a step back, and thinking big picture, the higher rated integrated reports tend to:

- Be framed by purpose.
- Present a clear strategic focus addressing the different time horizons (and linking this to performance measures).
- Focuses on the interconnectedness of different elements of the report presented.

Mid cap

Areas of strength

- Integrated thinking attempts in the integrated reports have improved since 2021.
- The value creation process in the short, medium and long-term was addressed clearly. The discussion on the capitals and the links to SDGs was commendable; although not all integrated reports got this right!
- Materiality and the processes to determine material matters was addressed comprehensively in most integrated reports with specific detail on how the matters are identified and how they are linked to strategic risks.
- The governance sections showed an increased improvement of incorporating value creation discussions, and diversity targets were generally well addressed.
- The risk sections were also comprehensive, and most integrated reports made reference to future strategic risks and how they envision them being tackled.

Areas for development

- Continue to focus on providing a balanced perspective within the integrated report: discussing both positive and negative news. Integrated reports could better identify shortfalls and challenges encountered as well as obstacles in achieving future strategic goals.
- A more detailed discussion around why KPIs are important could be included going forward.

Spotlight: Impressions of the Mid cap category

By Elda du Toit and Sabrina Paxton – (Judging Panel)

Even though the integrated reports of listed companies tend to be of higher quality, there is still a lack of integration in the reports. As judges, we were particularly looking out for high-quality integrated reports that tackle the somewhat complex concept of double materiality – but few integrated reports made mention of this!

In the section on risks and opportunities, most companies focus only on risks and how those are addressed, and neglect opportunities. Overall, integrated reports tend to focus on positive news, therefore giving an unbalanced view. However, it is promising to note that there has been an improvement in integrated thinking since 2021. Companies should follow the IR framework closely to ensure they include all the necessary sections and required information.

Value creation for the various stakeholder groups was clearly identified and discussed, and there was an improvement on the discussion of trade-offs and positive and negative outcomes. Most companies made an effort in reporting on climate change in more detail with reference to actions in place and those to be undertaken to meet this rising challenge. Some integrated reports in this category were difficult to fault, but in general, further information on KPIs could be included particularly around why the chosen KPIs are seen to be important.

As we are in a technological age, the integrated report preparers ought to make sure the reports are easy to read on a screen. Some of the integrated reports' PDFs are printed very small, requiring the reader to scroll from side to side to read the page on the screen.

Small cap

Areas of strength

- References to ESG reporting are often conveyed and discussed within this category of integrated reports.
- The business model of most of the organisations has been clearly and succinctly disclosed using a comprehensive diagram which is effective and informative. The business model is clearly presented, providing information on how the entity creates and destroys value by disclosing, inputs, business activities, outputs and outcomes.
- The connectivity of information in these integrated reports enhances the value of information presented by connecting different factors such as the six capitals, the value creation process and relevant financial and non-financial information.
- The integrated reports provided insight into the nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent the organisation understands, takes into account and responds to their legitimate needs and interests.

Areas for development

- For this category, more disclosure can be given as to the meaning and choices for operating in certain territories and key markets.
- Increased disclosures can be made about the key stakeholders and how they are identified, what their needs are and how these will be met.
- Some of the integrated reports can be extremely lengthy, resulting in over 200 pages, which may be erring on the side of providing non-relevant information.
- In some cases organisations did not properly disclose their outcomes as the internal and external consequences (positive and negative) for the capitals as a result of their business activities and outputs.
- ESG reporting is to some extent still separate.

Spotlight: Small cap
By Rene de Klerk – (Judging Panel)

The quality of reporting in this sector was really mind-blowing!

It was really a pleasure to review (and critique) integrated reports in the small cap sector. It is clear that there is a much stronger focus on materiality determination and this was a pleasant development to observe. Most companies present their business models almost perfectly, where this was not the case in previous years.The majority of companies report really well on their stakeholder relationships and the risk reporting was really excellent!

State-owned entities (SOE)

Areas of strength

- Effective use of graphics and colour to make the integrated reports more interesting. Some reports were easy to read and navigate for information.
- Integrated reports in this category have improved on the level of the integration of the content. While performance reporting is generally good, there is still room for improvement in a number of areas, including how ESG is factored into the way in which these entities operate, as well as develop their strategy.

Areas for development

- Even though they are not bound by the requirements of the JSE, and only to some extent to other regulations such as King IV and the IR framework, SOEs should try to comply with those guidelines. It will ensure that their integrated reports are of the utmost quality and include everything that stakeholders want to see.
- It is important that SOEs also follow the IIRC Integrated Reporting Framework to make sure all the necessary elements are included in the reports. More integration is needed.
- Organisations should be careful not to make their reports too long.

Fledgling/AltX

Areas of strength

- The risk sections were well drafted, with detail on the magnitude of the risks, their likelihood of materialisation and mitigation measures in place. Some integrated reports went the extra mile and linked risks to outcomes.
- Engagement with stakeholders was captured in detail in most integrated reports. Meaningful engagement is vital to transparency and good governance and it was commendable to see companies report on the matters of importance to stakeholders and the present and future steps to be taken to improve relations.
- Diversity targets were generally well reported on, as was information on actions taken by boards in the year of review. Some companies showed clearly the link between governance and value creation in the short, medium and long-term.
- Although there's room for improvement, the entities report well on their risk management systems.

Areas for development

- Although the content elements and guiding principles have been addressed, there is room for improvement in terms of discussing the capital interdependencies and the integration of ESG-based metrics.
- The section on materiality could improve as a whole by disclosing more detailed information on the processes followed in determining material matters, the parties responsible and the frequency with which this is undertaken.
- Reporting on KPIs could be enhanced by disclosing why the KPIs have been identified as important, the targets in place, and more detail around why the targets have not been met. More connectivity could be included around KPIs and strategic objectives.
- Some companies failed to report on trade-offs in sufficient detail so as to disclose meaningful judgement applied and the positive and negative outcomes as a result. More information on negative outcomes could be disclosed with mitigation measures to address those.

Regional

Areas of strength

- The regional category comprises integrated reports which have applied the IR framework principles and content elements attentively.
- The integrated reports have made a concerted effort to ensure that the golden thread of impact is woven into the narrative and framed in line with the various SDGs. This has also been achieved through the disclosure of their stakeholder engagement activities.
- It is positive that companies have enhanced their disclosure on topical ESG-related themes such as diversity and environmental issues. Some integrated reports have also gone further and aligned their governance disclosure with King IV.
- Integrated reports varied in quality, from excellent to requiring improvement. Those that are excellent are on par with the top reporters on the JSE. The business models and the way in which the central themes relevant to the organisation are woven into the reporting is excellent.

Areas for development

- Integrated reports in the category would benefit from more connectivity and continuing to leverage innovative design considerations to make them more concise and easier to read.
- Further improvement could also be made to achieve more balance in areas such as highlights and challenges as well as risks and opportunities.
- There should be an enhanced focus on quantifying the inputs in the business models and establishing a stronger understanding of the fine line between outputs and outcomes. Furthermore, the disclosure of natural capital such as electricity and water usage should be encouraged.
- Integrated reports that need improvement generally require better integration of information and the application of integrated thinking.

Unlisted

Areas of strength

- The overall quality of integrated reports has improved, given the level of depth and breath of reporting which is in accordance with the IR framework.
- Companies have presented their approach, values, materiality and risks.
- Companies have also displayed a good understanding of combined risk assurance, strategy and business models including capitals, geographic reach, sustainability levers and governance functionality as depicted by sub committees.
- Moreover, the integrated reports are generally well designed and there is good connectivity between the content elements. The integrated reports could be significantly enhanced by ensuring that the KPIs/ metrics are supported by targets and historical comparatives.

Areas for development

- Integrated reports outline risks and opportunities that affect the organisation's ability to create value. However emerging risks such as climate change, and how they could impact the businesses, are not clearly outlined.
- Governance and leadership should transcend reporting on board composition, board charters, skills and competency mix to include key issues and resolutions within the remit of appropriate disclosure.

Public sector

Areas of strength

- Most of the integrated reports identify the organisation's mission and vision and provide information relating to culture and ethics in the organisational overview. The integrated reports also discussed operating structure, market position and position within the value chain.
- Entities reported in detail on their programmes that are linked to the strategic objectives and targets.
- Strategic objectives were well reported on. This includes a discussion on short, medium and long-term strategic objectives and how they will be achieved.

Areas for development

- Even though the reporting boundary is defined, the integrated reports did not explain how the organisations determined what matters to include in the integrated report (materiality determination process) and how such matters are quantified or evaluated.
- Descriptions of a business model were not good in this category. The organisations do not illustrate how they create and destroy value by disclosing inputs, business activities, outputs and outcome

NGO/NPO

Areas of strength

- The integrated reports are easy to read, and concise, which ensures that the readers are not bombarded with too much information while receiving a holistic picture of the entities.
- The integrated reports provide a useful overview of the organisations to allow the readers to gather a complete picture.
- The strategy of the organisation is evident throughout the integrated report and enables the readers to easily discern its contents.

Areas for development

- The disclosure regarding the risks and opportunities of the organisations within this category is not specific enough and the discussion around risks is very limited.
- More governance related information should be provided; including more detailed key performance metrics linked to the capitals.
- Overall, the organisations are missing disclosure on ESG information throughout their integrated reports.

Methodology

Process

Organisations can enter their latest integrated report in one of the nine categories:

- Top 40
- Mid cap
- Small cap
- Fledgling/AltX
- State-Owned Entities (SOEs)
- Regional Organisations
- Public Sector Entities
- Unlisted Organisations
- NGO/NPO

The JSE-listed companies' allocation to the category is determined by the respective company's market capitalisation on the JSE in September of the year in which the awards are adjudicated. The allocation of entrants into categories ensures that each organisation's integrated report is scored against those of its peers.

In a manner similar to the prior year, all of the Top 40 companies were adjudicated by the CGISA independent judges as part of the non-monetary sponsorship by PwC to CGISA.

The independent judges submit the completed evaluations to the convener of judges, PwC, for consideration. The convener of judges, in discussion with the judges and based on the scores achieved on the survey, identifies an overall winner per category and a merit award winner and collates comments from the judges for the judges' report. The judges' summary findings are contained in this report. Each entrant also receives detailed, personalised feedback from the two judges responsible for adjudicating their category.

Judging criteria

The survey is underpinned by the Integrated Reporting Framework and is broken down into three areas:

- guiding principles
- content elements
- fundamental concepts.

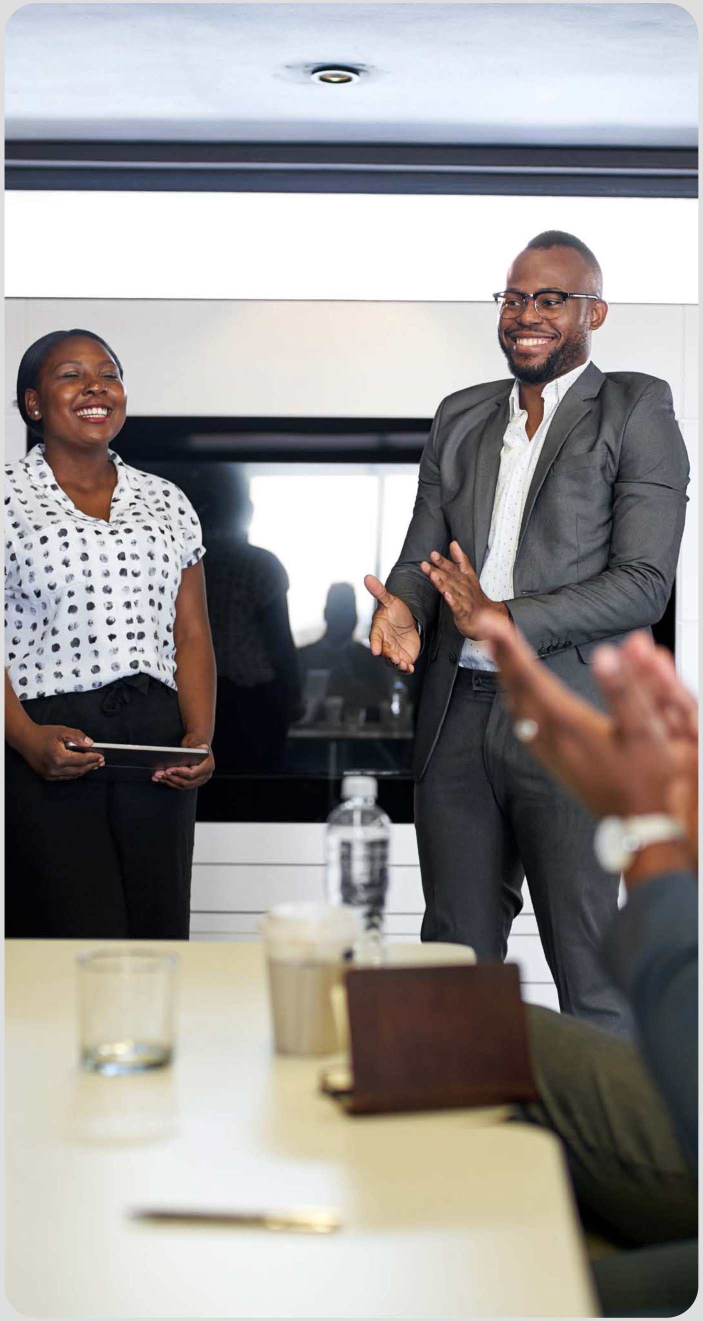
The judges' assessments cover a number of areas. Such as:

- overall presentation of the integrated report
- organisational overview and external environment and its impact on strategy
- disclosure of short- medium- and long-term strategy and resource allocation
- disclosure of performance against strategic objectives
- discussion of stakeholder engagement
- the impact of risks and opportunities.

Additional aspects considered by the judging criteria include:

- clear presentation of business model
- actions taken by the governing body and governance over key management remuneration
- discussion of drivers of performance and how the organisation's governance structure supports its ability to create value
- the overall integration of the above elements.

Given the increasing focus on ESG and sustainability disclosures, the 2022 score sheet was updated to incorporate elements of meaningful sustainability related information. This includes whether the reporting entity has articulated sustainability-related risks and opportunities within its report.



Judging panel

Prof John Ford
Associate Professor, Gordon Institute of Business Science
BCom, MCom, CA (SA)

Corli le Roux
Independent specialist: Sustainability; strategy; governance; reporting
LL.B, ICMQ (International Capital Markets Qualification)

Prof Warren Maroun
Professor, Wits School of Accountancy
MCom, CA(SA), PhD

Dr Nimrod Mbele
Managing Director, Knowledge Anchors Group
PhD Corporate Governance

Yvette Lange
Adjunct Professor, Wits School of Accountancy
MPhil, CA(SA), CIA, CCSA

Zubair Wadee
Adjunct Professor, University of the Witwatersrand and director, WithNova
BCom, BAcc, CA(SA), CGMA

Dr René de Klerk
Independent Academic Consultant
BCom, LLB, LLM and PhD

Claude Kamangirira
Assistant Company Secretary at Metair Investments Limited
BSocSc, PGDIR, ACG, MBA

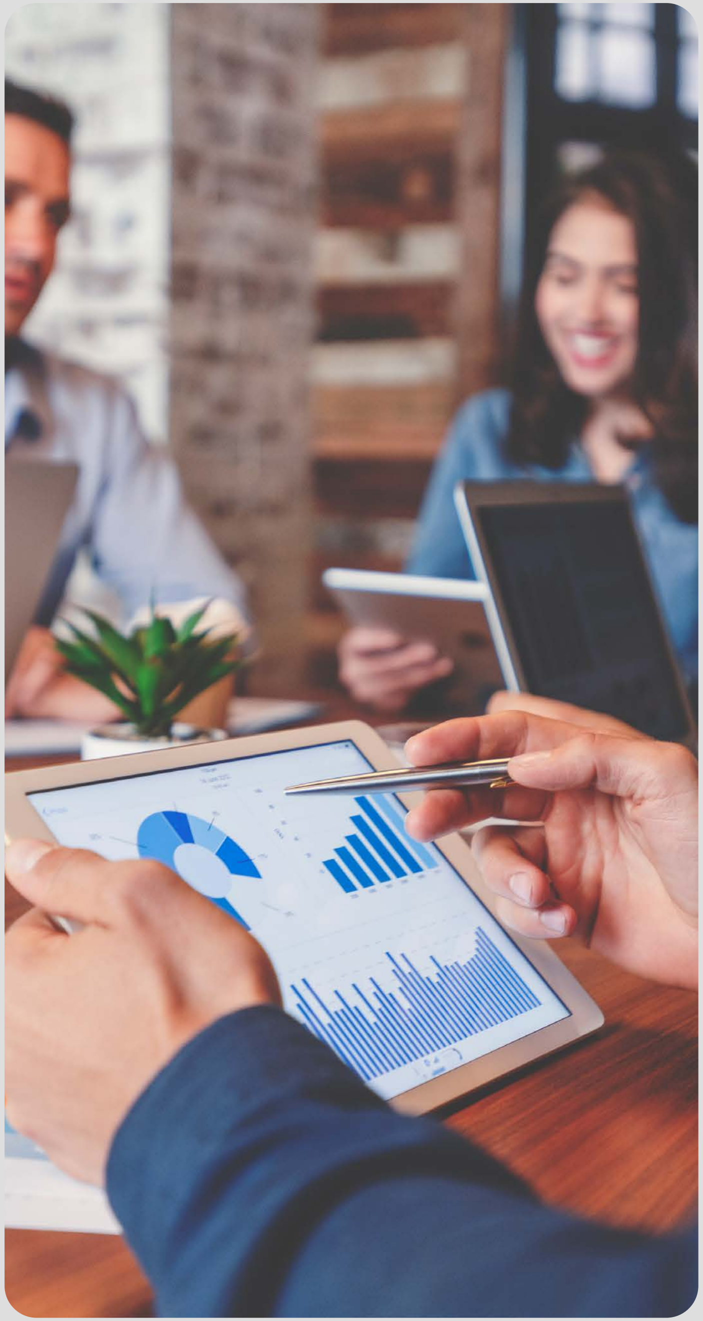
Garth Barnes
Senior Lecturer, University of Johannesburg
BCom, MCom, CA (SA)

Prof Elda Du Toit
Associate Professor, University of Pretoria
BCom (Hons), MCom, DCom, HDipp (Forensic Accounting), Professional Accountant (SA), ACMA, CGMA

Sabrina Paxton
Senior Client Success Manager Lumi Global
LLB, LLM

Acronyms

ESG	Environmental, Social, Governance
IR	Integrated Reporting
IIRC	International Integrated Reporting Council
TCFD	Task Force on Climate-Related Financial Disclosures
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
IASB	International Accounting Standards Board
SASB	Sustainability Accounting Standards Board



Four guidelines for a fresh approach to integrated reporting

It is clear from our reviews of the narrative in integrated reports over the years that there is an appetite and need for change to integrated reporting that reflects quality and accountability.

Of course there is also scepticism as to whether new efforts will be worthwhile. Some companies have taken the decision to create minimalistic integrated reports that arguably prioritise appearances over accountability and communication.

But we believe that the answer lies in a positive approach. It's time to take a step back and to develop a fresh approach to putting together an integrated report.

For the guidelines to be effective, they need to be underpinned by support from investors and regulators for companies that do something different and, of course, a sincere and open approach from management teams, audit committees and boards.

We have therefore put together four sets of suggested fresh-approach guidelines that could help to tackle much of what we have seen, and would move integrated reporting forward in a really significant way if done well. All of them are possible across the whole suite of company reports, including the integrated report and sustainability reports. We're confident, too, that they would be equally applicable under a future model, as envisaged by the ISSB and, indeed, could even be more effective in that context.

Leading reporters already reflect some of the ideas that we're proposing.

1. Report smarter, not harder

JSE Top 40 average scores *(out of 5)*

Ease of readability (conciseness)
3.2

Articulate materiality determination process
3.2

Clear and consistent message
3.4

What's involved

- Start with a clean sheet and only then decide on a particular number of pages.
- Identify the key strategic messages for the business and build the integrated report around them.
- Challenge why anything other than relevant matters identified during the materiality determination process is added to the integrated report, or used elsewhere.
- Question whether content that purely describes process, procedure or responsibilities is justified or could be reported on elsewhere.
- Use required disclosures (such as the business model and identified risks and opportunities) as an opportunity to report in a company-specific way that provides up-to-date information about the business.

What are the main benefits?

- Helps to focus on what is strategically important (and to guide thinking on materiality) and therefore is more relevant and useful as an output for stakeholders.
- Cuts the length of the integrated report.
- Avoids duplication and repetition.
- Creates a clearer set of messages that are not buried in boilerplate disclosure.

2. Create a feedback loop

JSE Top 40 average scores *(out of 5)*

Reported on performance against strategic objective targets

3.4

Explained key underlying drivers influencing strategy in the future

3.4

Insight into strategy, and ability to create value

3.5

What is involved?

- Make a standing plan for strategically important content that should be followed up across years.
- Report on this content in a way that sets expectations, without unintentionally giving a profit forecast or threatening commercial sensitivities.
- Establish the most appropriate timeframe (short, medium or long term) over which to look ahead.
- Report back on targets and plans in subsequent years in an open and transparent way.
- Communicate strategically important changes in the business as they happen or as they are foreseen.

What are the main benefits?

- Creates an automatic forward-looking slant to reporting.
- Helps investors and other stakeholders to build an understanding of the business, and confidence in management and the board.
- Particularly useful in areas including key assumptions and judgements, ongoing strategic plan developments, principal and emerging ESG risks.

3. Clarity of audience

JSE Top 40 average scores *(out of 5)*

Insight into nature and quality of key stakeholder relationships

3.6

Explained key underlying drivers influencing strategy in the future

3.4

Strategic objective in the short, medium and long-term

3.5

What's involved?

- Once the key stakeholder groups are identified, establish what is regarded as important to the different groups (both what they want and need to know) and show how this has been done.
- Always make it clear why a piece of information is being given and, where applicable, its relevance to strategy.
- Establish the most appropriate timeframe (short, medium or long term) over which to look ahead.

What are the main benefits?

- Helps to distinguish information that is relevant to the core business strategy from other content.
- Adds clarity around materiality and how it is arrived at for different pieces of reporting (which can also be a guide to length and complexity, particularly in relation to ESG information).
- Helps to manage stakeholder expectations and reputation risk.
- Ensures the information needs of stakeholders are met effectively.

4. Clarity of voice

JSE Top 40 average scores *(out of 5)*

Acknowledge board responsibilities relating to the IR

3.2

Detailed organisational overview

3.9

Governance in action

3.5

What's involved?

- Avoid content that is 'anonymous' or only refers to 'the company' or 'we'. Instead, be clear on who is 'speaking' (for example, the CEO or a committee chair, or the board).
- Involve those whose names will be attached to content in its development, or at least in its review.
- Ensure those drafting were 'in the room' or have direct access to those who were.
- Capture the language and tone used behind closed doors and use genuine management and board information where possible.
- Ensure there is an identifiable author or central voice to prevent inconsistencies and overlap.

What are the main benefits?

- Almost always makes content more authentic and increases its information value.
- Allows those who are responsible to demonstrate their personal attention and accountability.
- Says something meaningful about the culture of the organisation that is hard to capture by other means.
- Builds trust and confidence in management and the board and brings wider reputational benefits.

Sustainability reporting: A status update

> **People have been doing ESG long before it was called ESG. Many of these topics have been part of long-term investment thinking for quite a while, but perhaps haven't had that label.**
>
> *– Sustainable equities analyst*

79% Of investors, consider ESG risks and opportunities an imporant factor in investement decision making.[2]

49% Of investors, would sell their investment if a company is not showing enough action to adress ESG issues.

33% Of investors, believe the quality of current ESG reporting, on average, is good.

The reporting landscape is ever-evolving. With the rapid pace of change, it is important to pause and reflect on the key developments. The purpose of this article is, firstly, to provide a concise overview of the ISSB draft standards. Secondly, we consider where integrated reporting fits into the broader ISSB picture.

What is the ISSB?

The ISSB is a new standard-setting board. Its ambitious goal is to "*deliver a comprehensive global baseline of sustainability-related disclosure standards that provide investors and other capital market participants with information about companies sustainability-related risks and opportunities to help them make informed decisions*" [3]. The ISSB was born out of the International Financial Reporting Foundation.

What has the ISSB done so far?

On 31 March 2022, the ISSB released its first two draft sustainability standards. The standards are in lieu of its goal towards creating IFRS Sustainability Disclosure Standards. The two draft standards are:

- Proposed IFRS S1, 'General Requirements for Disclosure of Sustainability-related Financial Information' (S1)
- Proposed IFRS S2, 'Climate-related Disclosures' (S2)

What are the key points regarding S1?

S1 is comparable to International Accounting Standards (IAS) 1 (Presentation of Financial Information) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors). S1 provides a core framework for the disclosure of material information about significant sustainability-related risks and opportunities across an entity's value chain. S1 discusses the salient disclosures expected regarding the above mentioned risks and opportunities in order to provide clarity to users regarding the entity's future cash flows and the assessment of enterprise value.

What are the key points regarding S2?

S2 sets out requirements for entities to disclose information about significant climate-related risks and opportunities that will enable users of general purpose financial reporting to assess the impact of those risks and opportunities on the entity's:

- financial position, performance and cash flows
- enterprise value
- strategy and business model.

As the name suggests, S2 is focused on significant climate-related risks and opportunities. This information will enable users of the information to better understand the effects of climate-related risks and opportunities on the entity's enterprise value.

Where does integrated reporting fit in?

In August 2022 the Value Reporting Foundation (which was a combination of the IIRC and the SASB) merged with the IFRS Foundation. The IASB and the ISSB have made a long-term commitment to develop a corporate reporting framework that encompassess the principles and concepts from the current integrated reporting framework. Although, all standard setting is subject to due process.

This commitment is already coming to life. The ISSB has indicated that it will investigate the potential to draw on the Integrated Reporting Framework to improve its articulation of sustainability reporting information requirements.

2 2021 PwC Global Investor Survey – **https://www.pwc.com/gx/en/corporate-reporting/assets/pwc-global-investor-survey-2021.pdf**

3 ISSB Website, Accessed 25/10/2022: **https://www.ifrs.org/groups/international-sustainability-standards-board/**

What changes are on the horizon?

This article has used the word ‘significant’ several times in order to quote S1 and S2. Yet the ISSB, according to its October 2022 update, has tentatively decided to remove the word from the draft requirements of S1.[4] The ISSB has also tentatively decided to remove the definition of ‘enterprise value’ from S1; while it continues to redeliberate the inherent meaning of the term. In particular, the ISSB will continue to consider how to clearly articulate the term and how to relate it to sustainability information. Furthermore, at its October 2022 meeting, the ISSB voted unanimously to require company disclosures on Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions [5] .

On the 1st of November 2022, the IFRS Foundation Trustees announced the membership of a new advisory group, the Integrated Reporting and Connectivity Council (IRCC). This advisory body will provide guidance on how reporting required by the IASB and the ISSB could be integrated. The IRCC will also help the IASB and the ISSB understand how they can apply the principles and concepts from the Integrated Reporting Framework to their projects. The chair of the IRCC is Charles Tilley OBE, former CEO of the International Integrated Reporting Council and former CEO of the Chartered Institute of Management Accountants. The IRCC’s vice-chair is Suresh Kana, a trustee of the IFRS Foundation and former CEO of PwC.

Integrated reporting thus has the potential to underpin the subsequent efforts of the ISSB. This perspective is supported by Emmanuel Faber, chair of the ISSB, who said: The principles and concepts of integrated reporting can help businesses to translate how climate and other sustainability-related financial risks and opportunities are connected to the strategy and business model – meeting investors’ needs and creating the conditions for a comprehensive corporate reporting system.

4 ISSB Website, Accessed 29/10/2022: **https://www.ifrs.org/news-and-events/updates/issb/2022/issb-update-october-2022/**

5 Scope 1 covers direct emissions from a company; scope 2 covers indirect emissions from electricity purchased and used; and scope 3 covers all other indirect emissions from the value chain. **https://www.ifrs.org/news-and-events/news/2022/10/issb-unanimously-confirms-scope-3-ghg-emissions-disclosure-requirements-with-strong-application-support-among-key-decisions/**

Where can I read more information?

Viewpoint is a digital platform providing you with compelling accounting and business insights, all personalised for you. With powerful search, real-time updates and user-friendly sharing tools it helps you find and share the insights, intelligence and content when you need it. Viewpoint’s content includes hot topics hand-picked by PwC subject matter experts relating to ESG, audit and accounting.

PwC’s Viewpoint:

Environmental, Social and Governance (ESG) Viewpoint Landing Page:

Regulations and reporting

Sustainability and Climate Disclosure Guidance

In June 2022, the JSE published **guidance on Sustainability disclosures**. Whilst the guidance is designed with JSE-listed companies in mind, it can be of value to institutional investors as well as other stakeholders that are interested in sustainability/ESG disclosure and performance. We spoke to Shameela Soobramoney (nee Ebrahim), the JSE's Chief Sustainability Office, for more information.

Q With the plethora of reporting frameworks out there, what is the JSE's Sustainability Disclosure Guidance based on?

A The guidance is aligned with and leverages a multitude of frameworks, including GRI Sustainability Reporting Standards, the ISSB's S1 and S2 drafts, the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations, and the IIRC's International <IR> Framework – as well as an extensive range of other frameworks and standards. This guidance is not intended to replace any of these frameworks. Instead, it serves as a starting point to support companies to begin to find their feet in these frameworks and how they relate to each other and the reporting landscape. We identified that there was a need for clear guidance that helps local, South African, companies to navigate this rapidly changing landscape.

Q Does the JSE's Sustainability guidance constitute part of the JSE Listing Requirements?

A No. The sustainability guidance issued did not constitute disclosure or reporting obligations for issuers pursuant to the provisions of the JSE Listing Requirements.

Q What do you see the JSE's role to be in positioning sustainability disclosures? In other words, do you foresee being the first-mover in making such disclosures mandatory?

A The requirements for sustainability disclosures are bigger than just the JSE. We believe that change needs to be led on a wider, and harmonised national scale encompassing all relevant entities, both private, public and other. Mandating sustainability disclosures will need to be approached in a manner which has a wider reach withing South Africa than the listed space.

Q If you had to give one piece of advice to sustainability reporters, what would it be?

A Focus on disclosures that are meaningful and material and ensure your sustainability strategy is integrated. By reporting meaningfully on an entity-specific basis and integrating these considerations into the organisation's governance, strategy, and performance – the reporting organisation will demonstrate to shareholders and other stakeholders that it has a robust appreciation of the impacts, risks and opportunities associated with running its business.

Socio-economic context and the need for purpose-led growth

A challenging international and local economic context

The global economy is currently experiencing various headwinds associated with the fallout from the Russian invasion of Ukraine. These challenges include, among others: 1) elevated inflation caused by higher commodity prices, 2) associated sharp increase in central bank interest rates, and 3) disruption in normal business operations due to supply chain disruptions. The global economy is also feeling the impact from a slowdown in the Chinese economy – the second-largest in the world.

At the same time, the world is also grappling with global megatrends that were around before COVID-19 and accelerated by the pandemic. PwC's ADAPT framework delves into these factors, including:

- Increasing wealth disparity and the erosion of the middle class
- Disruption caused by technology, climate change and significant events
- Population shifts and demographic pressure
- Breakdown in global consensus and a fracturing world, with growing nationalism and populism
- Declining confidence in the institutions that underpin society

As a small, open economy, South Africa is directly impacted by this challenging global environment. For example, with commodity and financial markets in disarray, the local petrol price increased to a record-high of nearly R27/litre in July. This was one of the key factors driving local consumer price inflation to a 13-year high of 7.8% y-o-y in the same month. Alongside this, the South African Reserve Bank (SARB) implemented accelerated monetary policy tightening.

Aside from these global influences, long-standing domestic challenges are pressuring economic and employment growth. These factors include, amongst others: 1) increasing electricity load-shedding, 2) a mismatch between labour skills and what the job market needs, and 3) low private sector investment spending. None of these challenges will be resolved anytime soon, resulting in the country making little progress on its triple challenges of unemployment, poverty and inequality.

Declining social cohesion requires intervention from the private sector

These socio-economic challenges have in recent years resulted in a deterioration in social cohesion in the country. According to research by the University of Cape Town's Poverty and Inequality Initiative (PII), social cohesion includes the following dimensions in the South African context:

- **Inclusion:** access and participation in economic and social life, including quality of life indicators
- **Belonging:** identity, shared norms and values, as well as feelings of acceptance and belonging in society
- **Social relationships:** social networks, trust, as well as the acceptance and value placed on diversity in a society
- **Participation:** active involvement in political life
- **Legitimacy:** trust in institutions and feelings of representation

There is ample evidence that social cohesion has significantly deteriorated in South Africa over the past five to ten years. This, in turn, has raised the social risk to doing business in the country. In a report released by the presidency in February 2022, a panel of experts placed the deadly and damaging violence in KwaZulu-Natal and Gauteng during the previous July within the context of multiple socio-economic crises and challenges facing the country.

Business strategy driven by environmental, social and governance (ESG) considerations can create purpose-led growth

Solving these challenges is not easy and the public sector is having a tough time doing so. With this statement, we also deliver a message of hope. South African companies can make a meaningful and sustainable impact on their communities by adopting the right strategy for their business and stakeholders. To be clear: the private sector will need to play an increasingly important role in helping the state address socio-economic challenges – specifically at the community level.

Addressing the breakdown in social cohesion at a community level can best be achieved by implementing a comprehensive ESG approach that is embedded within an organisation's core business strategy. ESG is more than ticking boxes: it is about making a difference by creating sustained outcomes that drive value and fuel growth while strengthening our environment, societies and governance structures.

South African organisations can also help to build trust in our society and deliver sustained business outcomes by implementing effective ESG strategies. It is clear – now more than ever before – that South African organisations simply cannot afford to downplay the importance of ESG factors. Stakeholders increasingly expect organisations to communicate and deliver convincing, measurable and sustainable strategies that have embedded ESG matters.

Here, there is a key role to play by governance professionals. As one of the three pillars of the ESG challenges, governance is a key decision-making tool that can change an enterprise from being profit-driven to being purpose-driven. Governance determines the purpose of an organisation, the role and composition of boards and other leadership structures, and oversight of top executives. Indeed, there is much work to do in this regard.

For example, PwC's 25th Annual Global CEO Survey found that only 20% of CEOs in South Africa have greenhouse gas (GHG) targets linked to their remuneration versus 37% globally. Governance professionals play a crucial role in successfully integrating ESG issues (like GHG emissions and net zero) into an organisation's overall strategy and operating model.

One of the ways to approach this is by appointing a sustainability champion at the top of the corporate ladder. Among the C-suite acronyms, CSO (Chief Sustainability Officer) is growing in prominence, whether as an official title or a responsibility integrated into another job title. In the absence of an empowered CSO that can lead from the top, an organisation's ESG risks and opportunities are less clear. This slows the speed of transformation that companies need in order to keep pace with investor and consumer expectations, as well as with regulations and the competition.

A reorientation from being profit-driven to being purpose-driven does not necessarily come with financial sacrifices. There's growing acceptance that purpose is a commercial imperative amid evidence of a strong link between purpose-driven companies and strong financial performance. In order to thrive in the short and long term, organisations need to define their ambition for purpose, then articulate, demonstrate, embed, and track it.

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