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Chartered Governance Institute of Southern Africa

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CGISA Integrated Reporting Awards 2023

Fit for purpose: The pivotal role of the integrated report

Judges' Report

Contents

Acronyms

CSRD	Corporate Sustainability Reporting Directive
EC	European Commission
EFRAG	European Financial Reporting Advisory Group
ESG	Environmental, Social, Governance
ESRS	European Sustainability Reporting Standards
FASB	Financial Accounting Standards Board
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS S1	IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information
IFRS S2	IFRS S2: Climate-related Disclosures
IIRC	International IR Council
IR	Integrated reporting
ISSB	International Sustainability Standards Board
KPI	Key Performance Indicators
NFRD	Non-Financial Reporting Directive
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
TCFD	Task Force on Climate-Related Financial Disclosures
US SEC	United States Securities and Exchange Commission

The role of CGISA

The Chartered Governance Institute of Southern Africa (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.

Hosted by CGISA in partnership with the JSE, the IR Awards has been rewarding excellence in corporate reporting since 1956. The institute pioneered these types of awards, which have become more widespread in recent years. The name of the awards was changed to “IR Awards” in 2013 to reflect the changed focus.

The awards offer an opportunity for a peer-on-peer comparison and measure of good corporate governance and risk management practices. The primary objective of the awards is to encourage accurate and transparent financial reporting and full disclosure of all relevant information to stakeholders.

Entrance into the awards is on a voluntary basis, with companies electing to submit their integrated reports to the panel of judges in predetermined categories. Each judge individually assesses the reports against the stringent criteria, ensuring that there is no collusion on the adjudication. Entries into the awards and allocations of entrants into each of the respective categories are managed by CGISA. PwC is appointed as the convenor of judges.

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

The role of PwC

PwC is a non-monetary sponsor of the CGISA IR Awards (IR Awards) and acts as convener of judges during the results evaluation process.

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 corporate reporting field. 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.

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

2023 Winners

Overall winner: Exxaro Resources Ltd

2023 WINNERS

Top 40
Winner: Nedbank Group Ltd
Merit: MTN Group Ltd

Mid Cap
Winner: Redefine Properties Ltd
Merit: Netcare Ltd

Small Cap
Winner: Pan African Resources PLC
Merit: Oceana Group Ltd

Fledgling/AltX
Winner: Sea Harvest Group Ltd
Merit: ArcelorMittal South Africa Ltd

NGO/NPO
Winner: Cotlands

Unlisted company
Winner: SAICA
Merit: Fidelity Services Group (Pty) Ltd

Regional
Winner: National Social Security Fund of Uganda
Merit: ABSA Bank, Kenya

State-owned companies
Winner: Development Bank of Southern Africa
Merit: Industrial Development Corporation Ltd

Public Sector
Winner: Government Employees Medical Scheme

Introduction – A message from Stephen Sadie

I write this foreword a few days after the Springboks won the Rugby World Cup. I hope you will forgive me for bringing rugby analogies into the IR Awards. The rugby fever that gripped South Africa shows that when we all work together, we are stronger. The exceptional leadership of Siya, Rassie and Jacques showed us what good leadership looks like. It showed us how the players, week after week, drew deep and never gave up, pushing back against all odds.

So, you may ask, what does this have to do with IR? South Africa has always been world leaders in IR. We have always known what we were doing, and we got on with it. However, while we were early movers in IR, there are now many countries snapping at our heels. The challenge is for us to remain ahead. We can still continue being the world champions in IR if we put our minds to it.

However, there are now new rules to contend with. There are the financial reporting standards – IFRS or FASB, sustainability reporting standards – ISSB, GRI, ESRS, US SEC climate disclosures and TCFD. Additionally, we also still have the IR Framework to align with.

We have to get our heads around all these new rules because they can be a little confusing. We are not always sure which rules the referee is applying. We don't have a backline, instead we have a global baseline. We don't have two scrums pushing against each other, we have double materiality. We don't have lineouts, we have outside-in and inside-out. Although sometimes the Springboks don't throw the ball in straight from the outside-in, and the other team then gets a penalty which they kick inside-out for touch. We don't have up and unders, we have interoperability. It all depends on who can jump the highest and still hold on to the ball. We don't have Rassie's 7-1 reserves, we just have the six capitals. When the referee is unsure of a decision, he sends it upstairs to the television match official.

Well, we just use the King IV™ and check with Mervyn King as to what the final decision is. Sometimes, if a person is given a yellow card, the JSE can even upgrade it to a red card, which should be avoided at all costs. Also, one should be very careful of one's language on the field, because that can get you into a lot of trouble, similar to how reporting language is scrutinised and challenged by activist groups.

In a nutshell, what I am trying to say is that South Africa needs to continue to maintain its position as world champions in corporate reporting, and that is why the CGISA is once again the proud host of the IR awards. We want to evaluate all the teams and then give prizes to those who are best in their respective categories. So when we play that next World Cup in four years' time, Southern African organisations will still be ahead of the pack.

Stephen Sadie

CEO CGISA

A message from the PwC Africa Reporting Leader, Renitha Dwarika

The theme of our publication this year positions IR as 'fit for purpose', based on a quotation from Professor Mervyn E. King:

> **"The IR can continue to have a pivotal role in reporting in the years ahead because it is fit for purpose. It provides the crucial organisation-wide view of key external factors, the business model with inputs and outcomes, stakeholder relationships, overall strategy, risks and opportunities, performance and governance. The integrated report shows the organisation's value creation, preservation or erosion process over time.**

With the advent of the ISSB inaugural standards— the IFRS® Sustainability Disclosure Standards, IFRS S1 and IFRS S2— a new epoch of sustainability reporting has begun. Inherent in these standards is the underlying concept of IR. The embedded nature of IR within the ISSB's standards is evident in IFRS S1, paragraph 2, which discusses how an entity's ability to generate value over the short, medium and long term is "inextricably linked" to how it interacts with its stakeholders, society, the economy and the environment throughout its value chain. Our publication this year discusses the ongoing importance of IR for South African entities.

Year on year we continue to see the competition tighten in the JSE Top 40 category of the IR awards. The South African market continues to yield excellent examples of IR; although there remains ongoing challenges in articulating integrated thinking.

We also note emerging trends towards assurance over the non-financial numbers reported; which align with the desires expressed by investors in the PwC Global Investor Survey.

Our publication this year includes the usual themes and trends per category of the IR Awards. We also discuss the ongoing demand for sustainability information from the perspective of investors, as well as provide an overview of the three main sustainability reporting frameworks. A burning question we often hear is "What do King IV™, the IR Framework and the ISSB Sustainability Disclosure Standards have in common?" – and we begin to respond to this question, in a nutshell, in a very ambitious piece. We also briefly reflect on the future of IR before discussing the interaction between GDP (gross domestic product) and its interactions with non-financial reporting data.

We hope you enjoy the combined insights contained in this publication.

Renitha Dwarika

PwC Africa Reporting Leader

IR Awards: 2023 category highlights

Below we present highlights from each category of the *2023 CGISA IR Awards*.

Top 40

Areas of strength

- The reports are becoming less of a marketing pitch document, and more of a document that is useful to stakeholders.
- Improved level of assurance in the non-financial numbers reported.
- Excellent use of interactive links to enhance connectivity and navigation.
- There was a notable focus on design and layout to improve the understandability of reports.
- There was a marked improvement in the communication of the materiality determination process.

Areas for development

- Where pictures are displayed, we suggest the inclusion of an indication of what they represent.
- There is not a lot of reference to or application of integrated thinking in the reports.
- There is a lack of explanation on how artificial intelligence is being used to aid the production of the integrated reports.
- Many reports lacked balance as there was little focus on value erosion or other negative elements.
- Whilst stakeholder engagement was generally very well documented, few reports commented on the quality of the relationships with the identified stakeholders.
- Many reports did not adequately define the reporting boundary.

Spotlight: Impressions of the JSE Top 40 category

This year’s integrated reports were of a very high quality. With the exception of a few outliers, the majority of preparers appeared to make earnest attempts to use the IR Framework’s guidance in order to prepare their reports. The judges’ overall impression is that there was an increase in the quality of reports from the prior year.

Mid Cap

Areas of strength

- As a whole, the reporting is good and there is consistent quality, with no glaring problems or omissions.
- Reports that handled the six capitals separately generally did better than those which did not.
- The business models are detailed with reference to the various inputs, challenges faced (and actions in place to address them), outputs and outcomes.
- Links to the SDGs and the capitals are captured well.
- The reporting on performance is done excellently, with specific links to the strategic objectives, as well as with clear indicators as to targets and resources available in reviewing and reporting on performance.
- External operating environments are reported on in detail as opposed to focusing only on internal processes.
- The reports balance information on short–, medium– and long-term objectives.
- The reports capture relevant information, and make use of infographics in a reasonable manner that is easy to read.
- The sections on stakeholder engagement are thorough, with an indication of the quality of relationships that exist with stakeholder groups.

Areas for development

- A slightly better focus on climate and sustainability related matters is recommended.
- Additional discussions on how governance impacts ESG could be included in the governance sections.
- The reports should focus on getting the natural flow and narrative right.
- Reports should not lean to one side when reporting on data from all reporting suits.
- Some reports could identify the principle of double materiality in more detail.

Spotlight: Impressions of the Mid Cap category

Reports in this category are of an excellent quality and reflect high standards of integrated thinking. The value creation story and the manner in which the companies seek to create and preserve value are clearly narrated. The principle of double materiality has been embraced by some of the reports, and sustainability reporting is carried throughout the report.

Overall, reports in this category indicate clear strategic objectives in the short, medium and long term and provide sufficient connectivity between the various sections. The interdependencies between the various capitals are captured in detail, and the reports provide a holistic view as opposed to siloed reporting. It is refreshing to see companies steer away from generic statements in the governance section, and focus more on specific actions taken and the impacts associated therewith.

Small Cap

Areas of strength

- Risk reporting has improved and most companies have balanced the disclosure of risks and opportunities.
- The reports all apply King IV™ thoroughly and include key governance disclosures.
- A number of reports include a detailed and understandable assessment of their external environment.
- Many reports have started to apply the TCFD principles with standalone ESG reports and show strong consciousness of the environmental impact of their operations.

Areas for development

- Reporters should consider revising their approach to materiality and specifically incorporating considerations of ‘double materiality’.
- Many reports only cover scope 1 and 2 emissions. Preparers should endeavour to increase environmental disclosures.
- Some reports have started to include disclosure on the pathways to carbon neutrality, which is promising.
- It would be good to see more ESG related KPIs related to climate change in the remuneration reports for executive committees.
- The presentation of the business models in this category could be improved.

State-owned entities (SOEs)

Areas of strength

- All the entrants explained double materiality in their reports.

Areas for development

- Effort should be made to write more concisely or reduce the amount of information being disclosed.
- Organisations need to take note of ‘hot topic’ terms such as ESG or climate change, as readers may search for those specific terms.

Spotlight: Impressions of the Small Cap category

The companies in the category all have a clear strategic focus and value creation. There is relevant information available to the reader on how the value that is created is measured. The organisational overviews have been enhanced and a number of reports also feature clear investment cases. It is clear that companies in this category have assumed a stronger stance on their environmental focus in the ESG spectrum.

The reports produced were of good quality. Reporters have begun to embrace ESG reporting, with many beginning the first steps of gathering data and making inroads into what their reporting in the future in this space will look like. Companies have also improved in their reporting of governance, with a better articulation of the work that the board and its committees do.

Fledgling/Altx

Spotlight: Impressions of the Fledgling/AltX category

The best reporters in this category have embraced IR and produced reports comparable to their larger peers. However, many companies still struggle with integrating financial and non-financial information in a holistic way. Once these entities embrace integrated thinking, the road to reporting will become easier.

Areas of strength

- Reports show a high level of engagement between the organisations and their broader context.
- They present detailed analyses of company performance against targets and a holistic view of the organisation's current and future position.
- Organisations have committed considerable time and resources in developing a thorough understanding of where they are and where they want to go, as well as their interconnectedness to their wider environment and stakeholders.

Areas for development

- Consideration of double materiality needs to be strengthened.
- There is a need for more authenticity on the real challenges they face in their day-to-day operations and medium– to long-term strategies.

Regional

Spotlight: Impressions of the Regional category

This category yielded a mixed bag of excellent reports, and those requiring improvement. In general, all the reports managed to convey their unique value creation story, based on their operating context. There is a very strong emphasis on social responsibility towards the communities in which they operate.

Areas of strength

- Many reports used the SDGs to describe how they create value and to frame their strategic objectives.
- There is increased awareness of the importance of stakeholder engagement as part of the risk management process.
- The thought and resources invested in many of the reports are evidenced by their quality, design and layout.

Areas for development

- The stakeholders identified are still very generic.
- The process of how the key stakeholders were identified should be disclosed.
- The reports can be greatly enhanced with the disclosure of KPIs and targets.
- Claims of value creation and performance should be supported by verifiable data.
- Although managing to improve the connectivity of the different content elements, most reports still lack connectivity with the financial statements.
- Emerging risks (such as climate change, potential increased ESG reporting criteria, global supply chain challenges, food security) should be clearly addressed. In cases where these emerging risks do not directly impact the entity, it is important to show an awareness of these risks and their potential impact on the entity, its stakeholders and operating environment.

Unlisted and NPC

Areas of strength

- The sections on stakeholder engagement are excellent.
- Risks are clearly identified with reference to mitigation measures in place.
- Materiality is addressed well, with references made as to why the matters identified are material and how they impact both the various stakeholder groups and value-creation initiatives.
- The various capitals are captured in detail, and the business models are generally of an excellent standard, clearly showing the various inputs, outputs and outcomes.
- The reports include information pertaining to the past, present and future, and overall show a holistic view as opposed to siloed reporting.
- Reports generally did a good job of explaining the operating context and the impact it has on operations.

Areas for development

- The governance sections could be improved by including disclosures on governance over ESG measures.
- Some of the reports contain generic statements as opposed to specific actions that have been taken. The reports should include the quality of relationships that exist with the various stakeholder groups.
- Some of the text heavy sections could be shortened with the use of infographics/graphs.
- The potential severity of risks identified should be included to show their magnitude should they materialise.
- Trade-offs between the various capitals have not been included in all reports and could be more clearly articulated.
- The reports should more clearly demonstrate how changes in the availability or quality of capitals over time impact the journey of creating value for companies.
- KPIs should include reasons as to why they are considered important.
- Time frames pertaining to the short, medium and long term could be included to provide greater insight into the strategic objectives identified and the timeframes in place to achieve them.

Spotlight: Impressions of the Unlisted and NPC category

Overall, this is a strong category of reports, demonstrating strong connectivity and balance between financial and non-financial information.

Engagement with stakeholders is addressed in detail, showing a commitment by the companies to actively engage and address matters that have been identified by stakeholders. This contributes to operating transparently and enhances and promotes increased levels of accountability on the part of the board. Material matters are clearly identified, although some reports could detail the concept of double materiality more fully. There is an increased level of reporting on ESG and sustainability, showing a commitment to complying with the ever-changing reporting landscape.

There is room to improve on reporting on actual versus potential impacts relating to climate change. Some reports could detail, more specifically, availability of resources in meeting strategic objectives, and also provide more detailed analyses of the past few years in respect of performance, with reference to all capitals.

Public Sector

Areas of strength

- Most of the reports identify the organisation's mission and vision and provide information relating to culture, ethics etc.
- The reports also discuss operating structure, market position and position within the value chain.
- Many entities in the categories provided a balanced assessment (positive and negative) of the underlying performance of the entities.
- All the integrated reports provided good insights into the nature and quality of the organisation's relationships with its key stakeholders.

Areas for development

- Conciseness is a serious hurdle as most of the reports are too long.
- Some of the reporting elements are boilerplate, and are included without due consideration or further integration.
- The integrated reports do not explain how the organisations determine what to report on and how such matters are quantified or evaluated.

Spotlight: Impressions of the Public Sector category

There is progress in the reports from the public sector entities. A major problem with all the reports is that they deviate from the IR Framework in a significant way. This could be as a result of the types of entities being evaluated. Materiality also remains a problem as the reports do not provide a clear indication that the reporters understand the concept.

NGO/NPO

Areas of strength

- The reports were impressive as they mostly contained all the necessary information in a relatively easy to read manner.
- The reports were concise (all below 100 pages), which makes it a pleasure to read.
- For the most part, the reports are easy to read with a clear golden thread tying the operating context with the risks and strategies to mitigate or manage the risks.
- The consistently excellent reports have progressed far along the journey to the level where the quantitative indicators disclosed have been externally assured.
- Some outstanding integrated reports clearly evidenced the commitment of the boards to good governance practices, by aligning their governance disclosures with King IV™.

Areas for development

- There still seems to be a reluctance to disclose short-, medium- and long-term KPIs/targets, and to compare them with the actual performance.
- Disclosures surrounding the resources, including funding, required for projects and initiatives are still very weak, making it difficult to determine their feasibility.
- Disclosures of challenges and concerns still tend to be from the vantage point of the NGO and the actual concerns and challenges highlighted by the stakeholders are not disclosed.

Spotlight: Impressions of the NGO/NPO category

Some entities understand what an integrated report is and how it can be an effective vehicle to explain to donors and funders why they should be trusted to deliver tangible value. As a result, they were able to create well-thought-through integrated reports. One area of weakness is a seeming reluctance to quantify the costs and resources required for the different projects and initiatives. It is essential to connect the value created through the initiatives with how the limited resources are applied, giving the reader a greater appreciation of what is needed to make a project successful. This will also assist in giving more context for the material risks and strategic focus areas.

Methodology

Process

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

- JSE Top 40
- Mid Cap
- Small Cap
- Fledgling/AltX
- State-owned entities (SOEs)
- Regional organisations
- Public sector entities
- Unlisted organisations and NPCs
- NGO/NPO

The JSE Top 40, Mid Cap, Small Cap and Fledgling/AltX categories are determined by the FTSE/JSE indices: Top 40 index, Mid cap index, Small cap index, and Fledgling index. These indices comprise eligible companies, listed on the JSE main board, and are categorised according to company size (market capitalisation). The FTSE/JSE AltX index is combined with the FTSE/JSE Fledgling index in one category. Allocation to a category is determined by the respective company's categorisation on the JSE main board in September of the specific year. The allocation of entrants into categories remains the responsibility of CGISA and 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 our independent judges as part of the non-monetary sponsorship by PwC to CGISA.

Judging criteria

The survey is underpinned by the IR 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 the 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
- whether the reporting entity has articulated sustainability-related risks and opportunities within its report in line with the relevant capitals.

The demand for sustainability information: An investor perspective

Economic uncertainty, political upheaval, and environmental and social concerns have left a deep mark on today's business landscape, affecting consumers and companies alike. In PwC's Global Investor Survey 2022, we sought to get a picture of how those tensions weigh upon today's decisions and to gain insights into how this might play out. Our survey probed investors closely on the critical issue of sustainability, with an eye to how the current landscape affects their own priorities, decisions and strategies, as well as their views on how companies are responding.

Unsurprisingly, we found that investors want companies to keep a sharp focus on innovation and financial performance. They ranked those as their two highest priorities for business, with reduction in greenhouse gas emissions coming lower. Investors also see room for companies to become more effective both at managing climate change and innovation and at reporting on these efforts.

Investors signalled potential remedies as well. Financial discipline is part of this mix, with seven in ten investors saying companies should report on sustainability's relevance to strategy, the cost of meeting sustainability commitments (including climate goals), and the effects that sustainability risks and opportunities have on assumptions behind the financial statements. Crucial, too, is increased reliability of reported information. Investors clearly want to place more trust in what's reported: a large majority (87%) suspect that corporate disclosures contain some greenwashing. External assurance, many say, would boost their confidence in sustainability reports.

Our survey responses show that investors see a stark effectiveness gap in corporate reporting. Investors largely think that companies should take steps to address risks and opportunities associated with climate change—but they also want to know the business rationale and financial implications of such actions. Seven in ten agree that businesses should have initiatives to reduce emissions and should develop products and processes that are climate friendly. Similar numbers of investors say it's important for companies to report the relevance of sustainability to their business model (69%) and the costs of meeting sustainability commitments (73%).

As part of the push for financial discipline, investors seek greater transparency on the economic impact of companies' sustainability agendas. Two-thirds of investors say they would want companies to disclose the monetary value of the effects their actions have on the environment and society, although no agreed-upon methodology exists for doing so. Although valuable to investors, such disclosures could also give those charged with governance a better basis for the direction, funding and execution of sustainability strategies over the long term.

There is a demand for quality sustainability information, and a need to contextualise such information within an entity's business model. The requirements of the IR Framework are possibly the best-positioned to meet this demand. Within the value-creation journey depicted in an integrated report, natural capital comes to mind.

Recall that, as per the IR Framework, natural capital refers to all renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation. It includes air, water, land, minerals and forests, as well as biodiversity and eco-system health.

The value-creation discussions of the IR Framework may prove a useful tool in meeting these investor demands by prompting reporters to bear their business model in mind when discussing sustainability. The kind of information investors are seeking could be well-positioned within an integrated report.

87% Of investors surveyed say they think corporate reporting contains unsupported sustainability claims (i.e., greenwashing)

Source: PwC's Global Investor Survey 2022, https://www.pwc.com/gx/en/issues/esg/global-investor-survey-2022.html

Navigating sustainability reporting: The three main sustainability reporting frameworks

Globally, there have been large shifts in the sustainability reporting landscape. This comes in response to investor calls for transparent, consistent and comparable disclosures on ESG matters in sustainability reporting.

As a result, there have been standards or proposals issued from three major standard setters/regulators:

- the International Sustainability Standards Board (ISSB)
- the US Securities and Exchange Commission (SEC)
- the European Commission (EC).

All three frameworks primarily focus on disclosure requirements (rather than measurement).

In June 2023, the ISSB released its first two standards, referred to as IFRS® Sustainability Disclosure Standards: IFRS S1, 'General Requirements for Disclosure of Sustainability-related Financial Information', and IFRS S2, 'Climate-related Disclosures'. IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024, with early adoption permitted (subject to the endorsement of the standards by local jurisdiction).

In December 2022, against the background of the European Green Deal, the EC published the final CSRD. The objective of the CSRD is to fundamentally revise and strengthen the non-financial reporting rules introduced by the 2014 Non-Financial Reporting Directive (NFRD). The CSRD came into force in early January 2023, and member states have 18 months to transpose its provisions into their national law.

To enact the directive, 12 European Sustainability Reporting Standards (ESRS) were developed by the European Financial Reporting Advisory Group (EFRAG) and issued by the EC.

Whether entities will be within the scope of the CSRD depends on specific criteria, including size and listing status. South African entities will need to take into account whether they might be in the scope of the CSRD or be required to report similar information to a parent entity that falls within the scope of the CSRD.

The SEC issued a proposed rule, 'The Enhancement and Standardisation of Climate-Related Disclosures for Investors', in March 2022, designed to significantly enhance climate-related disclosures in nearly all SEC registrants' annual filings and registration statements.

The ISSB standards and the 12 ESRS were finalised in June and July 2023, respectively. The SEC framework remains a proposal, with timing of the final rule unclear. Some preparers are expected to be within the scope of multiple frameworks, which will result in practical challenges. Please read our PwC In depth document for additional insights into issues which could arise as preparers implement the three main frameworks.

Extracted from Source:
https://viewpoint.pwc.com/dt/gx/en/pwc/in_depths/in_depths_INT/in_depths_INT/navigating sustainability-reporting.html

What do King IV™, the IR Framework and the Sustainability Disclosure Standards have in common?

The sustainability reporting landscape is rapidly evolving, with regular new developments. Undoubtedly, one of the big developments this year has been the release of the ISSB's Sustainability Disclosure Standards, IFRS S1 and IFRS S2. The Sustainability Disclosure Standards will contribute towards increased trust and confidence from stakeholders in the disclosures made by companies about sustainability.

Although it is promising to witness some South African companies actively embracing the new sustainability standards and voluntarily adopting them, the country has not yet formally adopted the IFRS Sustainability Standards. However, sustainability reporting is not completely alien to South African companies and there are many disclosures which they have already been making that align with the requirements of the Sustainability Disclosure Standards, such as the disclosures made based on the recommendations of the TCFD[1]. These disclosures are often captured in detailed sustainability reports with the most material matters being discussed in an annual integrated report.

Corporate governance in South Africa is synonymous with King IV™, which is the first outcomes-based governance code in the world that encourages the use of the IR Framework. The relevance of the IR Framework in the context of King IV™ and in the realm of sustainability reporting was affirmed in a panel discussion coordinated by the South African Institute of Chartered Accountants (SAICA) through Jonathan Labrey, Chief Strategy Officer of the International IR Council:

> **"We've been working to introduce IR to both the International Accounting Standards Board (IASB) and the ISSB and ensure that the framework and its concepts and principles are reflected in S1 and S2. We also recognise that businesses do not operate in a vacuum. The needs of investors have to be considered, but so do the needs of the environment and other stakeholders. In South Africa, privatisation of the role of the board and governance are embedded in King IV™ and corporate governance, and the same cannot be said about many countries around the world. That makes it clear that integrated thinking is a particular strength in this country.[2]**

The purpose of this section is firstly to consider whether the perspective of King IV™ on societal impact aligns or differs with the primary users focus of the Sustainability Disclosure Standards and secondly to explore how the IR Framework interacts with the Sustainability Disclosure Standards.

1 IFRS Foundation publishes comparison of IFRS S2 with the TCFD Recommendations, https://www.ifrs.org/news-and-events/news/2023/07/ifrs-foundation-publishes-comparison-of-ifrs-s2-with-the-tcfd-recommendations/

2 https://www.saica.org.za/news/saicas-launch-of-the-issb-standards-pave-the-way-for-sustainability-reporting-in-south-africa

The ISSB Sustainability Disclosure Standards in the context of King IV™

If one were asked to summarise King IV™ in one word, 'transparency' would come to mind. King IV™ positions sound corporate governance as an essential element of good corporate citizenship. Good corporate governance requires an acknowledgement that an organisation doesn't operate in a vacuum, but is an integral part of society and therefore has accountability towards current and future stakeholders. King IV™ asks organisations to be transparent in the application of their corporate governance practices.

The governing body of an organisation has the discretion to determine where the King IV™ disclosures will be made; for example, in the integrated report, sustainability report, social and ethics committee report, or other online information or reports. The detail of information to be provided in the narrative should be guided by materiality, and should enable stakeholders to make an informed assessment of the quality of the organisation's governance.

IFRS S1 requires an entity to disclose information about its sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reporting (referred to as the 'primary users') in making decisions relating to providing resources to the entity[3]. The primary users are existing and potential investors, lenders and other creditors of the entity[4]. The close relationship between an entity's ability to create value for itself and the value it creates, preserves or erodes for other parties should not be misinterpreted as a reference to impact materiality. The close relationship is only identified to the extent that it impacts the entity's own ability to succeed and achieve its goals.
It therefore appears that the materiality lens applied by the Sustainability Reporting Standards is not aligned with the stakeholder perspective required by King IV™. The approach to materiality is one of the key differences among the three latest disclosure frameworks. The Sustainability Disclosure Standards consider the impact of sustainability on the company through an investor lens, requiring information about how it could impact financial performance.

3,4 IFRS S1 App A

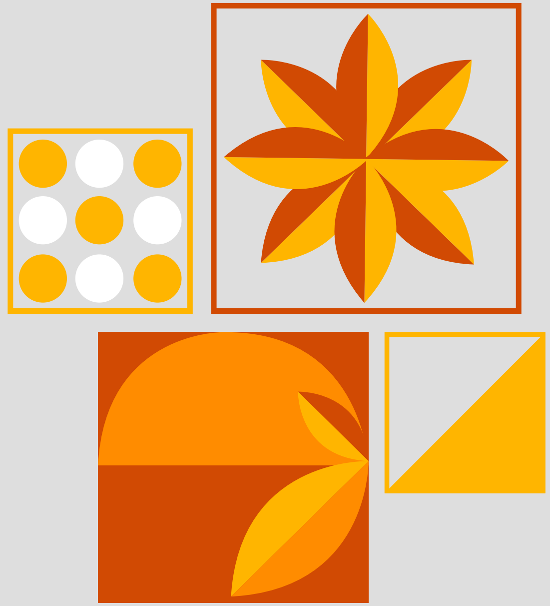
The SEC proposal also applies an investor lens; in contrast, CSRD widens the definition of materiality to also require a company to consider how it has impacted, or will impact, people or the environment (including impacts in relation to environmental, social and governance matters).

Interaction between the IFRS Sustainability Standards and the IR Framework

One of the key drivers motivating the work of the ISSB was the need to consolidate the requirements of the various sustainability initiatives by building on and incorporating leading investor-focused sustainability disclosures.
As such, responsibility for the IR Framework is jointly held by the ISSB and its sister board the IASB, and the ISSB has utilised principles and concepts from the IR Framework in its standard-setting work. Thus, companies can use the IR Framework, which provides a structure, to tell the story about how the company manages its responses to the external environment and how it creates value for shareholders[5, 6].

The ISSB has also encouraged continued use of the IR Framework and provided that its use, in conjunction with the use of the Sustainability Disclosure Standards, can support a holistic view of the value creation process through governance and business model disclosure to drive connections between financial statements and sustainability-related financial disclosures. Emmanuel Faber, the chairperson of the ISSB, has stated that IFRS S1 already builds on concepts from the IR Framework, which helps a company articulate how it uses and affects resources and relationships for creating, preserving and eroding value over time.

5 https://www.ifrs.org/news-and-events/news/2023/07/ifrs-foundation-publishes-comparison-of-ifrs-s2-with-the-tcfd-recommendations/
6 https://www.ifrs.org/news-and-events/news/2022/05/integrated-reporting-articulating-a-future-path/



By referring to this articulation of the value creation process, a company will be better placed to explain how it is working within its business model and value chain to manage the sustainability-related risks and opportunities that can affect its performance and ability to deliver financial value for investors over the short, medium and long term[7].

The message is clear – IR concepts are embedded in the ISSB's inaugural Sustainability Disclosure Standards and companies already applying the IR Framework are well positioned to adopt the Sustainability Disclosure Standards, but will have to consider whether adoption of these standards aligns with the good corporate governance principles set out in King IV™.

7 https://www.integratedreporting.org/news/integrated-reporting-concepts-are-embedded-in-the-issbs-inaugural-global-standards/

The future of IR: Considering a comprehensive corporate reporting suite

With the introduction of new sustainability reporting standards, such as the ISSB and ESRS, reporters might be contemplating their existing reporting suite. Ultimately, from a governance perspective, reporting is the responsibility of the board. As such, the requirements for reporting from an entity's internal corporate governance code as well as legal, regulatory and industrial requirements should be considered when determining what to report.

In its paper, the IR Committee (IRC) of South Africa[8] suggested the following factors to be considered when structuring a corporate reporting suite:

- The principles and practices of governance and the organisation's corporate governance code
- The organisation's values, culture, ethical business practices, sense of responsibility and leadership, and its reporting objectives
- Legal and regulatory requirements of the countries in which the organisation operates or plans to operate
- Listing requirements of capital markets, including stock exchanges
- Industry and sector requirements
- The organisation's size, structure, resources and current reporting approach
- Stakeholders' information needs and expectations
- The requirements of mandatory sustainability reporting standards
- The data requirements of sustainability rating agencies and index providers
- The requirements of voluntary sustainability reporting standards, guidance and directives adopted by the organisation
- The subject-specific nature of the various reports and information disclosures and the most likely audience
- The timing of the various reports and information disclosures and how this may be affected by regulatory requirements and standards, such as the ISSB Sustainability Disclosure Standards.

This begs the question of how the ISSB standards might fit into the bigger picture. Recall that the ISSB positions its standards as a 'global baseline'. A baseline is inherently foundational in nature: it is intended to be conducive to interoperability with a country's own prescribed reporting requirements and codes. Thus, an organisation can use the ISSB standards and then overlay this with other disclosures, such as voluntary sustainability reporting standards that meet the needs of multi-stakeholders on impacts (such as the GRI standards).

At a macro level, the integrated report can remain at the heart of corporate reporting approaches. There are two approaches that might be followed as set out in the paper:

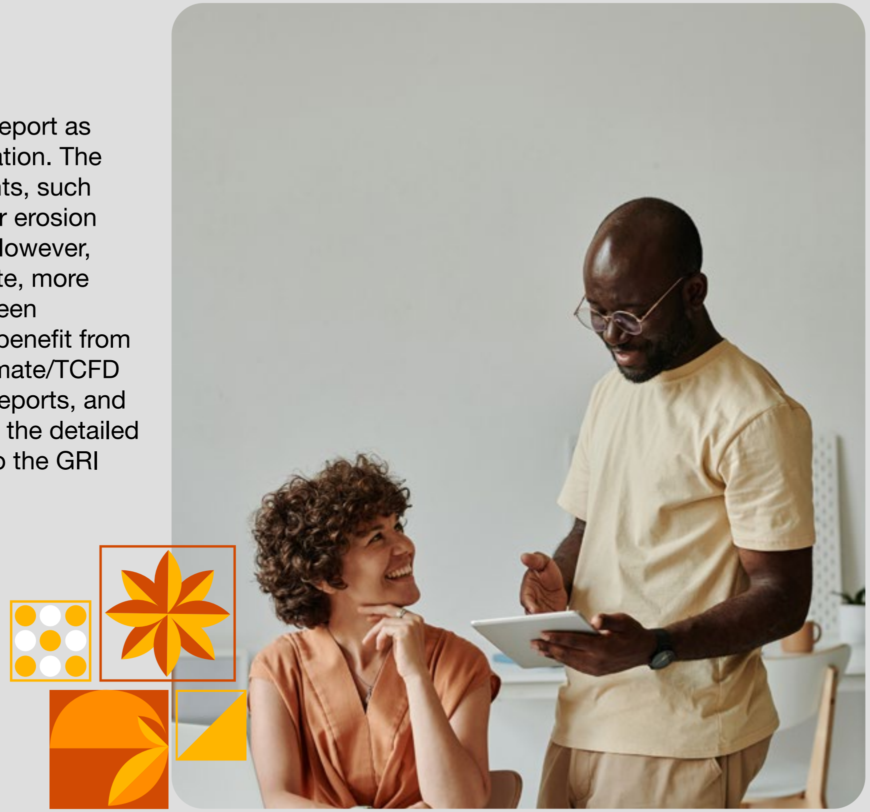
- The umbrella approach
- The single report approach

The umbrella approach

The umbrella approach positions the integrated report as a cross referencing initial overview of an organisation. The report will contain the traditional core requirements, such as a discussion on value creation, preservation or erosion process over the short, medium and long term. However, the report will then refer a reader to other separate, more subject-specific and detailed reports that have been separately produced. Large organisations might benefit from this approach as they might publish separate climate/TCFD reports, tax transparency reports, remuneration reports, and so on. The sustainability report might then house the detailed requirements of the ISSB standards in addition to the GRI disclosure .

The single report approach

The single report approach positions the integrated report as comprehensive. Instead of cross-referencing readers to other reports, the single report approach will contain the entirety of the sustainability report within its ambit. In other words, under this approach, the integrated report becomes combined with the sustainability report, financial statements and other corporate reports. The determination of the flow of content will require careful planning by the organisation; with the use of an index feature being quite practical in helping readers to navigate the report. It is important to note that in order to meet the requirements of the IR Framework, the integrated report should be a clearly designated section.



8 "A Global Comprehensive Corporate Reporting System: An Information Paper", IR Committee of South Africa, Accessed via: http://www.integratedreportingsa.org/

Beyond GDP: Measuring socio-economic progress with companies' non-financial data

What is GDP

The concept of gross domestic product (GDP) was first developed in the early 20th century to measure the total economic output of a country. The idea was to create a single, comprehensive measure of a country's economic activity that could be used to compare economic performance across countries and over time. The earliest versions of GDP were developed in the US in the 1930s following the Great Depression. At the time, policymakers and economists were struggling to understand the causes and extent of the economic downturn, and GDP was seen as a way to measure the overall health of the economy. The first official estimates of GDP were published by the US government in 1942, as part of its efforts to determine whether the 1943 war plan was feasible. By the 1950s, GDP had become the standard measure of economic activity around the world.

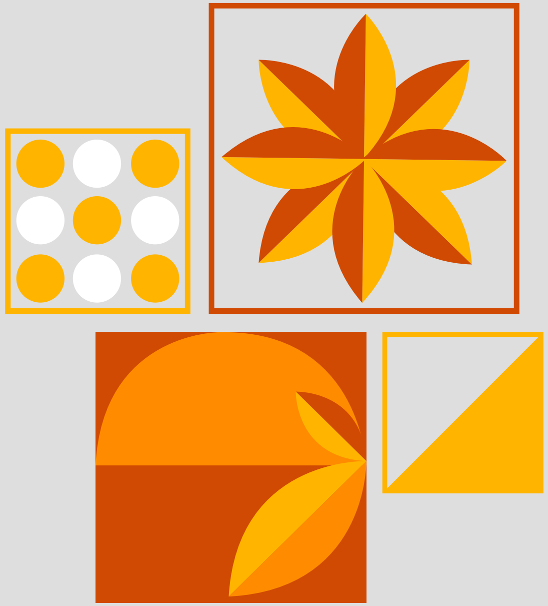
Over the years, GDP has been refined and expanded to consider changes in the economy and advances in economic theory. Today, GDP is still the most popular measure of economic growth, and it is used by policymakers, businesses and individuals to make decisions about everything from investment to government policy. GDP has many real-world applications. For example, the National Treasury uses nominal GDP growth forecasts to project tax revenues. There is a strong historical relationship between nominal GDP growth and tax income growth and the annual budget documents report on this so-called tax buoyancy. As part of our regular macroeconomic updates, PwC uses real GDP growth forecasts to project the country's future employment growth and unemployment rate.

… and what GDP is not

However, GDP faces many shortcomings, with detractors saying it is outdated for modern societal needs in measuring prosperity, progress and sustainability. The criticism against GDP includes that the measurement:

- Does not account for income distribution and inequality
- Ignores environmental and social costs
- Does not reflect quality of life
- Excludes the impact of externalities like the costs of pollution
- Cannot measure the value of unpaid work
- Omits the depletion of natural resources
- Is unable to measure the impact of social and cultural factors

Alternatives to GDP need frequent non-financial source data



One of the key reasons why GDP is such an enduring feature of economic analysis is the frequency at which it is measured. While mostly released on a quarterly basis, the component parts of GDP calculations are frequently available on at least a monthly basis. For example, in South Africa, the data used to compile GDP data for the factory sector is sourced from a survey of manufacturing enterprises. In the case of tourism, Stats SA's business sampling frame (BSF) surveys local enterprises involved in the short-stay accommodation industry. Similar surveys are conducted in sectors like transport, retail and others. This places company reporting at the centre of GDP calculations and, inter alia, the calculation of some alternatives to GDP.

These surveys enable frequent updates to data that directly reflects the situation in the economy. This is also a big challenge to alternative measurements of economic prosperity: many good alternatives exist but are often only published on an annual basis — and frequently with time lags.

Alternatives to GDP include:

- Human Development Index (HDI) — a composite index constructed by the United Nations Development Programme (UNDP) that combines three dimensions of human development, namely health, education and income.
- SDGs — a set of 17 goals adopted by the United Nations General Assembly in 2015 as part of the 2030 Agenda for Sustainable Development. The SDGs provide a framework for governments, civil society organisations, businesses and individuals to work together to achieve a sustainable and equitable future.
- Genuine Progress Indicator (GPI) — a measure of economic progress that considers economic, social and environmental factors. It starts with GDP and makes adjustments for income inequality, the value of unpaid work (such as caring for children or elderly relatives), environmental degradation and the costs of crime and social breakdown
- Social Progress Index (SPI) — a measurement of a country's performance in terms of social and environmental outcomes. It includes three dimensions: basic human needs (such as health and safety), foundations of well-being (such as education and access to information), and opportunity (such as personal rights and access to advanced education).
- Happy Planet Index (HPI) — a measurement of the extent to which countries are able to provide good lives for their citizens in an environmentally sustainable way. The index is calculated through three components, namely well-being, ecological footprint and ecological efficiency.

Embedding ESG into organisations will drive delivery of non-financial data.

This places company reporting at the centre of GDP calculations and, inter alia, the calculation of some alternatives to GDP. Businesses reporting in support of GDP alternatives need to speak the same language. We've learned from companies across all industries that identifying the sources of this data is often one of the primary challenges. In many cases, the data comes from multiple sources and/or is manually derived, susceptible to human error, and the origin of the data may be unknown, which makes it challenging to identify and trace the data from initial source to final report.

ESG data refers to a set of non-financial performance indicators that can be used to better understand business sustainability and, by implication, societal sustainability and socio-economic progress. These indicators typically include information on a company's environmental impact (such as greenhouse gas emissions, water usage and waste management), social impact (such as labour practices, human rights and community involvement), and governance practices (including board composition, executive compensation and anti-corruption measures). The exact set of variables will depend on the nature of the organisation.

Expectations around the reporting of non-financial data are evolving rapidly and becoming increasingly important to investors, shareholders, regulators and other stakeholders. Not surprisingly, for most organisations, sustainability is rising to the top of the agenda. Embedding ESG factors into an organisation's culture — in thinking and ways of operating — is key to ensuring organisations can be successful and sustainable, now and in the future. It is also essential in getting the right systems in place to make reporting of non-financial data — as a basis for more frequently released GDP alternatives — a priority.

Compiled by Dr Christie Viljoen, PwC Senior Manager and Economist and Lullu Krugel, Partner and Chief Economist, PwC South Africa

strategy&

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