INTEGRATED REPORTING FRAMEWORKS OF THE TOP 10 PUBLICLY LISTED AUSTRALIAN COMPANIES

A new way of communicating value to State Super and other fiduciary investors

A State Superannuation SAS Trustee Corporation scholarship report. This research is undertaken by Stan Fitzroy-Mendis through the Sydney Business School MBA program under the supervision of Associate Professor Martin O'Brien, Course Director of the MBA program - Faculty of Business and Law at the University of Wollongong.

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Executive Summary

Australia has the 4th largest pension fund system in the world (Tang 2020). This system is highly regulated by the Federal Government. In addition, Australians increasingly expect ethical investing of their superannuation savings. Australian superannuation funds invest heavily in the Australian companies listed in the Australian Stock Market (ASX). As of 31 March, 2021, Australian Superfunds own 37% of the ASX (Myer 2021). ASX listed companies are governed by rules requiring disclosure of financial and company information to Investors. However, Australian Company financial reporting is retrospective and often difficult to understand and analyse by stakeholders. Australian ASX listed companies are under increasing regulatory and stakeholder pressure to adopt more transparent reporting. Integrated Reporting (IR) is a relatively new reporting format that expresses company value, describing business operations, stakeholder management and financial operations in a holistic way. The benefits and disadvantages of IR are identified in this report. Understanding this is key to fiduciary organisations like superfunds.

Integrated Reporting (IR) overcomes problems all companies face in balancing the need to communicate value to stakeholders in annual reports without divulging sensitive operational or corporate information. Standardising IR improves company transparency in valuation, resulting in greater market efficiency. This is particularly important to fiduciary investors like superfunds seeking to optimise returns on their significant ASX listed company holdings on behalf of their members. ASX listed company reporting also provides value in attracting and keeping institutional investors by aligning company values strategically to the changing values of fiduciary funds. These changing values are driven by super fund members.

Part A of this report firstly summarises the origins, objectives, and key features of the IR framework, before explaining recent efforts by ASIC and the ASX in driving Australian IR reporting.

Part B of this report describes where Integrated Reporting frameworks sit within a typical superfund ecosystem. This shows why IR value capture can be diluted in these funds due to their structures, causing difficulties for super funds in translating IR from the investor and fund manager level, through to the executive and board level and ultimately communicating this to members through its member engagement functions. **Part B** of this report also identifies the challenges superfund trustees face under the amended Commonwealth *Superannuation Industry (Supervision) Act, 1993* which came into force on 1 July 2021. This report will describe why these amendments make understanding company value even more important for superfunds.

Part C of this report then evaluates the uptake of IR methods by Australia's top 10 ASX listed companies by market capitalisation utilizing two different methods identified in recent peer reviewed financial academic literature. The first evaluates these companies adherence to the IR reporting conventions. The second method focuses on the corporate governance structures of these companies. Whilst all ASX top 10 companies adopt IR conventions, only two, namely NAB and BHP explicitly cite the International Integrated Reporting Framework methodology in communicating value to investors like superfunds. This aligns with research against the second IR evaluation method on board governance. This shows that the two companies that performed best in method 1 also performed best in their board governance evaluation in method 2.

Concluding commentary and recommendations are provided on the way these top Australian companies approach reporting and how fiduciary investor stakeholders, like Superfunds, can glean most value from this reporting style when making fiduciary investments to effectively benefit members.

Contents

Table of report abbreviations

ACSI	Australian Council of Superannuation Investors
AIST	Australian Institute of Superannuation Trustees
APRA	Australian Prudential Regulatory Authority
ASFA	Australian Superannuation Funds Association
ASIC	Australian Securities and Investments Commission
ASX	Australian Stock Exchange
AIST	Australian Institute of Superannuation Trustees
ATO	Australian Tax Office
CGS	Australian Stock Exchange Corporate Governance Council
ESG	Environment Social Governance
GNGB	Gateway Network Governance Body
IR	Integrated Reporting
IIRC	International Integrated Reporting Council
SIS Act	Superannuation Industry Supervision Act, 1993 (Cth)

1.0 Acknowledgements

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This research is undertaken through the Sydney Business School MBA program under the supervision of Associate Professor Martin O'Brien, Course Director of the MBA program within the Faculty of Business and Law at University of Wollongong.

2.0 Introduction

2.1 Superannuation in Australia

Historically, Australians relied on a federal tax funded government pension. However, this pension was relatively meagre in value and largely inadequate to fund even a modest retirement lifestyle (Brownlow 2020). Furthermore, with the Australian population rapidly ageing, in the long-term a taxpayer funded pension system was becoming increasingly unviable. Whilst industry and sector superannuation already existed in Australia, the introduction of a compulsory retirement savings system in 1992 marked a significant turning point for the superannuation sector (Millane 2020).

Australia has now amassed a $3 trillion pool of superannuation savings, meaning that pension assets exceed GDP. This pool of funds is expected to grow further with the Federal Government committed to raising the compulsory super contribution to 12% between now and 2025 (Industry Super Australia 2021). In this context, fiduciary investing responsibilities of superfund trustees are increasingly important.

2.2 The push for sustainable investing by superfunds from members

There is a growing ground swell for more sustainable investment by superfunds from both members and the associations that represent superfunds (Australian Council of Superannuation Investors 2021; Martí-Ballester 2020). Challenges for superfunds stem from also balancing their obligation to act in the best financial interests of their members. Integrated Reporting (IR) is an important and useful tool superfunds can utilize when assessing the suitability of Australian Stock Exchange (ASX) listed companies for fiduciary investing.

2.3 Why the Australian share market is significant to fiduciary investors like super funds

The top 10 listed companies by market capitalisation on the ASX dominate the ASX when ranked by market capitalisation. Australian Super funds currently own $700 billion in ASX-listed Australian equities. This equates to 37% of the ASX (Myer 2021). This is predicted to increase to more than 50% of the ASX within 15 years (Clarkestone 2021).

2.4 Problem statement addressed with this report

IR is becoming more prevalent in Australian corporations, due to regulatory and policy reform. Fiduciary organisations like Superfunds can benefit from this reporting which better communicates investment value of companies. This problem statement is answered in three parts as follows:

- **Part A** of this report firstly summarises the origins, objectives, and key features of the IR framework, before explaining recent efforts by ASIC and the ASX in driving Australian IR reporting.

- **Part B** of this report describes where IR frameworks sit within a typical superfund ecosystem, explaining why IR value capture can be diluted in these funds due to their structures.
- **Part C** of this report then evaluates the uptake of IR methods by Australia's top 10 ASX listed companies by market capitalisation utilizing two different methods identified in recent peer reviewed financial academic literature.

3.0 Part A: Company reporting theory, Integrated Reporting origins, and benefits for fiduciary investors

This part of the report describes the evolution of company theory, reporting and practices. It also describes why retrospective accounting reporting is of limited value to long term fiduciary investors. The benefits of IR, particularly to fiduciary investors, is also examined and explained.

3.1 Company reporting fundamentals and why they are important to publicly listed companies and fiduciary investors

In its most basic form, the relationships between manager and investor decisions are driven by information provided by companies and the market as described in **Figure 1** below.

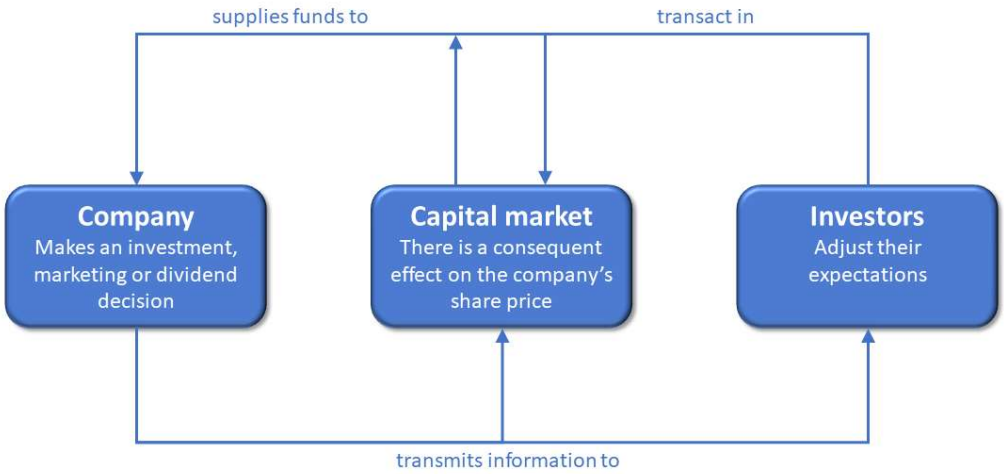

Figure 1: The interaction of company decision making in the capital market described by Pierson et al. (2015, p. 24).

When company managers make investment, financing and/or dividend decisions they communicate these to investors. Investors then adjust their valuation of the company and their investment expectations comparing their revised valuation and trading decisions such as buying or selling their securities.

The principle above only shows the external company value narrative. A more holistic view of how a company generates value is shown in **Figure 2**. The holistic view illustrates how a company generates value though its business operations, stakeholder management and financial architecture, which all interact to create value for stakeholders, including investors (Gold 2020). From **Figure 1** and **Figure 2**, company interactions with the capital market and investors in combination with their internal value centres such as their financial architecture, business operations and stakeholder management mean that companies are motivated to articulate their value to capital providers and investors as efficiently and holistically as possible. This leads us to IR which is defined below.

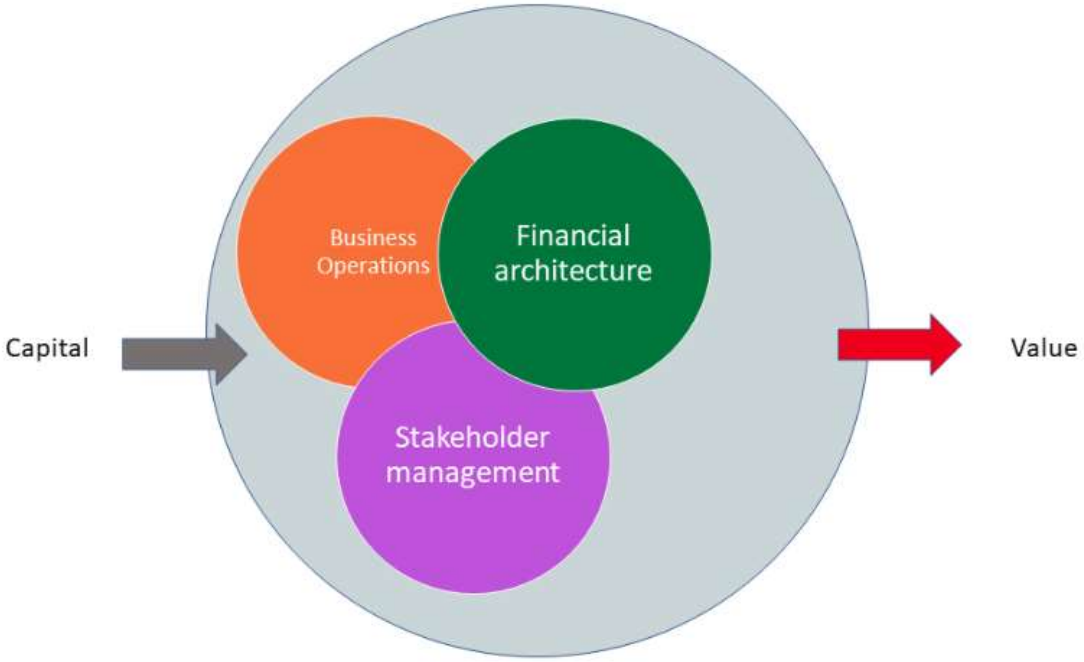

Figure 2: Holistic value centres of business (Gold 2020).

3.2 Definition of Integrated Reporting

IR is a corporate reporting tool consisting of financial and non-financial, quantitative and qualitative information in a single document (Vitolla & Raimo 2018). Done well, this expresses value creation for stakeholders like investors over the short, medium and long term. This reporting in turn stimulates investment by super funds in these companies, raising significant capital (Ambachtsheer 2020). Astute companies realise that Integrated Reporting is mutually beneficial to both themselves in articulating their business strategies and for stakeholders ascertaining value when making investing decisions (Cortesi & Vena 2019; International Integrated Reporting Council 2020; KPMG 2019).

3.3 How Integrated Reporting differs from traditional company reporting

Good IR addresses a broad range of financial, company value, social and strategic disclosures whilst accessing, analysing, and communicating strategic information (Phillips et al. 2011). Current best practice IR is described by the London based International Integrated Reporting Council, an organisation that espouses the value of Integrated Reporting to both companies and their stakeholders (International Integrated Reporting Council 2021). **Figure 3** below conceptually illustrates what best practice IR must include. Components such as value creation elements, within a mission and vision that outlines risks, inputs, business activities, outputs and outcomes must be included to meet Integrated Reporting conventions.

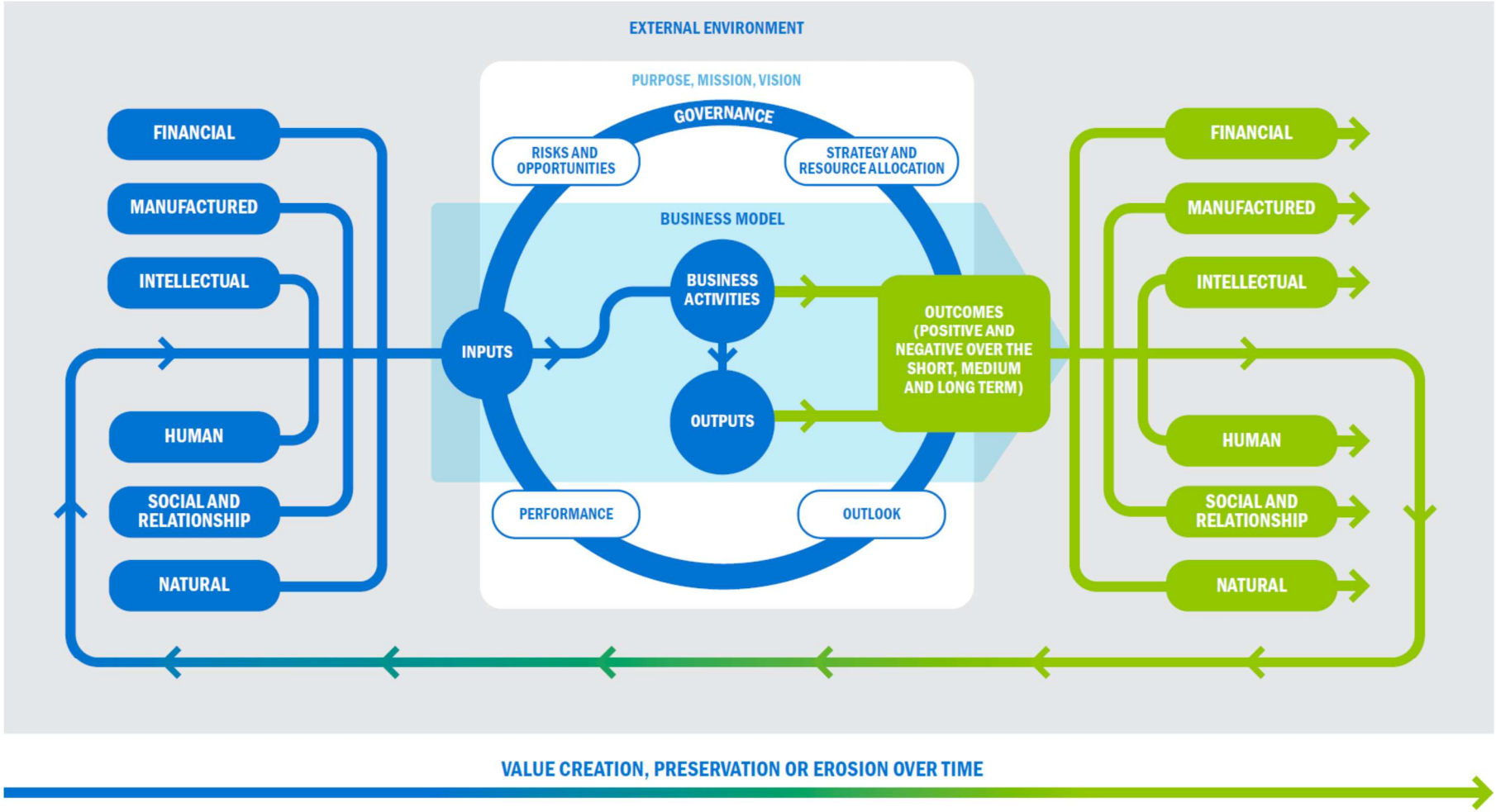

Figure 3: Process of company value creation, erosion or maintenance (adopted from the International Integrated Reporting Council 2021, p.23).

Good IR reporting melds company descriptions of value creation with United Nations sustainable development goals by articulating inputs, business objectives, outputs, and most importantly outcomes for companies and their stakeholders, as shown in **Figure 3**. (International Integrated Reporting Council 2021, p. 23). Value creation is mapped in accordance with the United Nations sustainable development goals within the cycle of risks, opportunities, strategy, resource allocation, performance and outlook are articulated within any given business model.

4.1 Theoretical underpinnings and background of Integrated Reporting

With the evolution of business there is tension between:

- shareholder theory, which decrees companies must serve the financial interests of shareholders above all else (Friedman 1970);
- stakeholder theory, which requires consideration of all company stakeholders including investors (Smith 2003); and
- agency theory, which factors the self-interest of company management, often at odds with shareholder interests (Peirson et al. 2015).

IR firstly attempts to resolve tension between these three theories above by inclusively reporting company activities to address all three needs. The genesis of IR also derives historically from three main frameworks, namely, balanced scorecard, triple bottom line and sustainability reporting (Nixon & Burns, 2012; Giovannoni & Maraghini, 2013). Internationally, sustainability reporting is rising in popularity, as companies and other stakeholders like fiduciary organisations seek to minimise their risks, including litigation risks from stakeholders by not exercising a duty of care when investing (Meech & Bayliss 2020). Building on this this earlier work, the International Integrated Reporting Council (IIRC) drafted an internationally accepted Framework. This framework integrates financial and non-financial information in a way that expresses company value effectively, by measuring its business operations, financial architecture, and stakeholder management (International Integrated Reporting Council 2021).

4.2 Corporate governance, intellectual capital disclosure and market capitalisation. How fiduciary investors can glean value from ASX listed companies

Moving from the background of IR, to its practical application, the disclosure of intellectual capital is an important way of creating value and competitive advantage for ASX listed companies. Several prior studies show that stock markets reward companies with good corporate governance but there are limited studies on why this occurs (Pae & Choi, 2011). Recent studies on corporate governance, intellectual capital disclosure and market capitalization show governance practices have a positive influence on intellectual capital disclosure (Widiatmoko et al. 2020). This has a consequent effect on market capitalization, as expressed in **Figure 4** below (Widiatmoko et al. 2020).

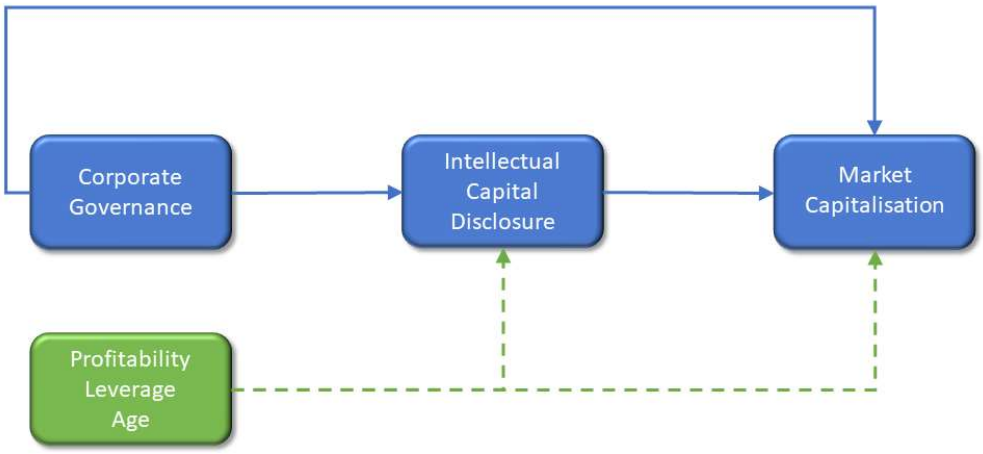

Figure 4: The corporate governance value chain adapted from Widiatmoko et al. (2020, p. 4)

Market capitalization is the number of shares outstanding multiplied by the market price per share (Widiatmoko et al. 2020). Financial analysts use this figure to determine a company's size, as opposed to using sales or total asset figures. In an acquisition, the market capitalisation is used to determine company value. The market capitalization of a company listed on a stock market is one of the factors considered by investors in making investment decisions (Peirson et al. 2015). The basic framework to predict a company stock market capitalisation is explained using signalling theory (Woudstra et al., 2017). Signalling theory assumes that company information is not equally available to all parties at the same time. Company decisions are signals from managers to investors on corporate value and intention. This is then expressed in a share price. **Figure 4** shows the value chain between corporate governance, intellectual capital disclosure, and market capitalisation. Exercised judiciously, these elements can leverage profit for companies, particularly when they attract investment capital. Fiduciary investors like superfunds face challenges in catering for members at different stages of their investment cycle. This is where understanding the long-term future company value is both efficient for the market and beneficial for fiduciary investors.

4.2.1 Internal company motivations in driving Integrated Reporting

There are significant costs to companies in formulating Integrated Reporting strategies and investigations (Omran et al. 2021). Evidence shows that Integrated Reporting is driven by:

- company directors and board members motivated by reducing risk (Vitolla & Raimo 2018);
- a desire to increase corporate transparency and accountability (Vitolla et al. 2016);
- expectations of employees and stakeholders (Australian Super Fund Association 2021); and
- a drive towards demonstrating best Environmental Social and Governance (ESG) practice (Australian Council of Superannuation Investors 2021).

This is reflected in the decisions of the ASX top 10 by market capitalisation described in **Part C** of this report. One of the companies in question upgraded their reporting practices in the wake of the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (National Australia Bank 2020). This was to improve governance, transparency and accountability. The other company is a mining company seeking to change to meet expectations of stakeholders and improve its ESG credentials in the wake of a global realisation that climate change is not only a scientific reality, but is an issue impacting markets (BHP Group 2020). These are discussed further in **Part C** of this report.

5.0 Evolution of enhanced stakeholder reporting leading to Integrated Reporting in the Australian context

In Australia, conventional retrospective business reporting describing financial and accounting information is through a balance sheet, income statement and a statement of changes in equity. These are collectively defined as a financial report (Australian Accounting Standards Board 2006). These reports are produced to meet statutory and taxation obligations, are technical and are often inaccessible to all but the most skilled stakeholder. This reporting opacity and associated poor prudential (financial safety) company conduct in Australia, particularly in the banking and finance sector were exposed recently in the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Hanrahan 2019). Whilst the Hayne Royal Commission identified egregious behaviour in banks and large financial institutions, Millhouse (2019) argues that much greater economic damage occurred in the Non-Bank Financial Entities (NBFEs) sector, particularly with the investing public. Top 10 ASX companies rely on capital from these NBFEs to fund business activity (Meech & Bayliss 2020).

Findings in the aforementioned Royal Commission highlight, amongst other things, the importance of good corporate governance, timely disclosure, balance, and integrity of information to stakeholders on company risk, opportunities and value to all stakeholders, not just investors (Australian Institute of Company Directors 2019). Governance authorities such as the ASX also strive to improve reporting to address both shareholder and stakeholder concern over the relationship between poor company disclosure and security pricing (Li 2018).

In response to the governance threats above, in 2019 the Australian Securities and Investments Commission (ASIC) published Regulatory Guide 247, encouraging companies to standardise and fully disclose their operating and financial review to increase transparency to investors (Australian Securities & Investments Commission 2019). Momentum for IR both globally and in Australia then forced the ASX to act through its Corporate Governance Council (CGC). The CGC standardised and improved corporate governance practices for ASX listed entities in 2020 (Australian Stock Exchange 2020). For example, listing Rule 4.10.3 requires ASX companies to evaluate their corporate governance against the Council's recommendations. Where this is not achieved, companies are required to disclose this providing reasons. Whilst not compulsory, it gives a listed entity the flexibility to adopt alternative corporate governance practices, if more suitable to its particular circumstances, provided the board gives explanations (Australian Stock Exchange 2020).

5.1 Integrated Reporting in the Australian Stock Exchange within a global context

The Australian approach to IR is part of a worldwide trend towards broader business reporting to investors and other stakeholders (International Integrated Reporting Council 2019). A KPMG study identified over 70% of ASX listed companies now report using some form of IR. Of the top 10 ASX companies, two are currently fully adhering to the IIRC Integrated Reporting Framework (Refer to **Figure 3** above). The sections below in **Part B** and **Part C** describe why using the international IR standard is good for communicating value creation of IR for both the Top 10 ASX companies and stakeholders such as super funds.

5.2 The benefits and disadvantages of IR for companies and stakeholders

There are a number of benefits and disadvantages for companies and stakeholders adopting integrated reporting conventions. These are summarised in **Table 1** below. This table illustrates that there are many more benefits than disadvantages when companies adopt integrating reporting

conventions. Relevantly, these conventions make it easier for fiduciary investors like superfunds to evaluate company value when choosing to invest in them over the short, medium and longer term.

Table 1: The general advantages and disadvantages of IR for ASX companies like Top 10 ASX companies are summarised above as described by Dunn (2018).

Benefits of IR include:	**Disadvantages of IR include:**
• Manages reputational risk • Breakdown of internal silos • Better management and board cooperation • Enables the description of operational features including incremental change • If written properly afford flexibility in changing times (e.g., bushfires and COVID-19 impacts) • More transparency for regulators • Market differentiator • Articulating company strategy, KPIs, corporate disclosures • Safeguards company reputation • maximize competitive advantage • mitigate operations risk • improved transparency • improves strategic short- and long-term company vision for executives • in the case of Top 10 ASX companies, it highlights the transformation of its supply chain to renewable energy • focuses an understanding to act on external market drivers to manage business risks and opportunities) • value appreciation for investors • stakeholder engagement • company reporting and direction setting efficiencies	• Resourcing and costs for IR formulation • must be adopted in whole of organisation to succeed • costs to establish IR and risks of getting it wrong • revealing company direction to competitors and suppliers e.g., non-renewable energy suppliers • risk of not delivering information to all stakeholder audiences.

5.2.2 Summary

The recent impetus in Australia driving IR stemmed from the Hayne Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Findings from this explosive Royal Commission drove regulatory reform by ASIC and the ASX Corporate Governance Council, which brought Australian listed company reporting into line with International best practice. Research shows that whilst there are compliance reporting costs to companies adopting IR, it results in several significant benefits to companies, stakeholders, and capital markets, within which Superfunds operate.

6.0 Part B: The superannuation ecosystem – a contextual analysis of fiduciary investing and the role Integrated Reporting plays within it

Fiduciary investing for Australian superannuation funds is highly regulated by the Commonwealth Government. The Australian superannuation ecosystem, regulatory and governance structure is complex as shown in **Figure 5** below. This figure shows the interactions between regulators, employers, super fund members, super trustees and funds. What it also shows is are the various functions that superfunds either operate in house or outsource to providers.

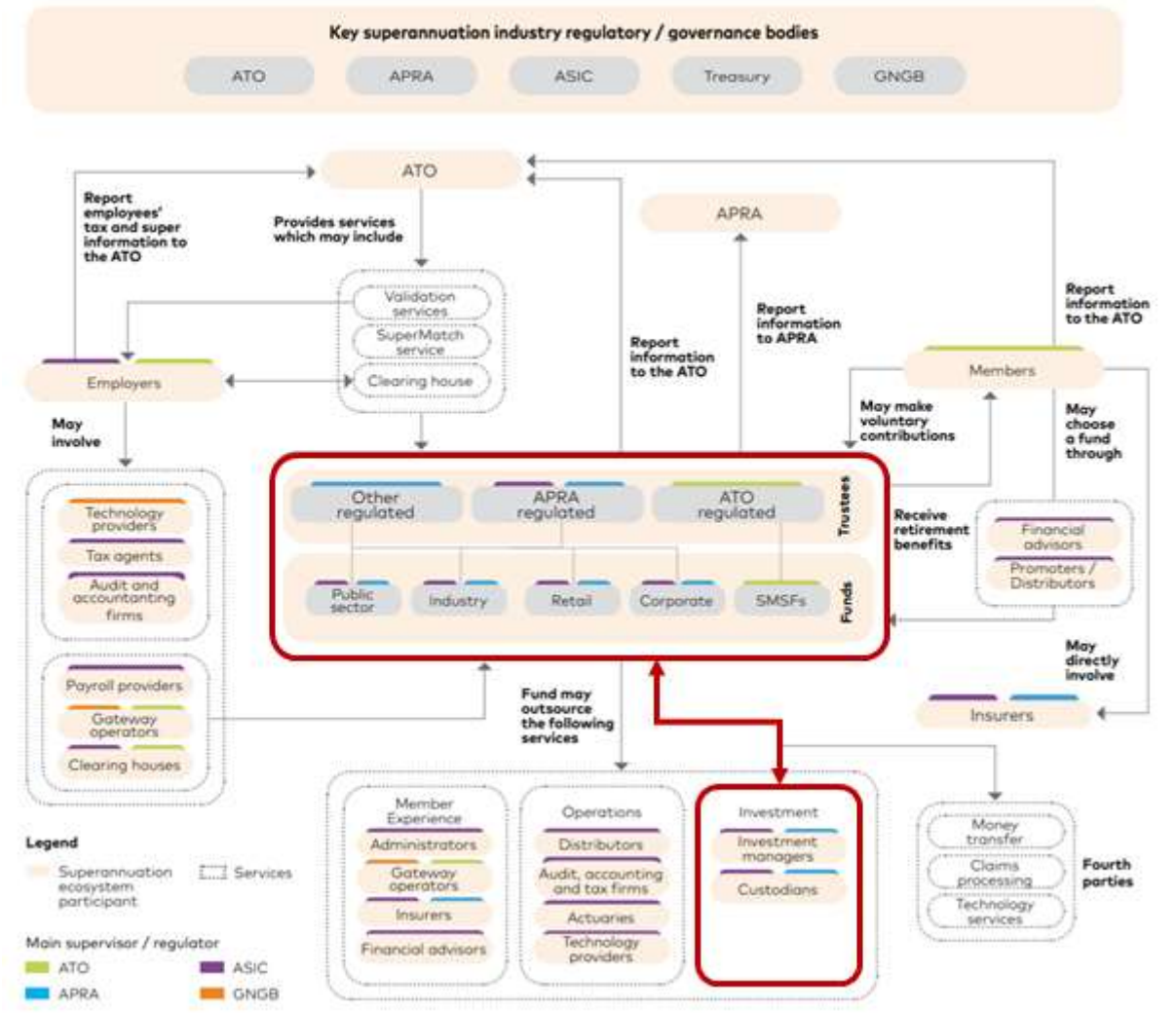

Figure 5: This figure describes the structure of an Australian Superannuation Entity (Gateway Network Governance Body & PwC Australia 2021, p. 18).

The red outline in **Figure 5** depicts the nexus between the trustee governance and investment committees of the superfunds. The double arrow highlights the relationship between trustee governance and the investment committee and how an awareness of IR can communicate value to the superfund trustees. These trustees can then communicate this to the member experience component of the superfund to retain existing members and attract new members.

The complex eco systems of superfunds are made further complex by the regulatory and governance layers illustrated in the colour coded key in **Figure 5**. These are colour coded showing the ATO, APRA, ASIC, and GNGB governance layers in each superannuation organisation function. The components of

the superannuation entity such as their trustee and fund structures are expressed as an orange layer. Most small to mid-size super funds outsource functions such as member experience, operations and investment decision making to third parties (Barkley 2021).

This report focuses on the investment decisions of superfunds and how these are influenced by IR processes of ASX listed companies. This area, which includes investment, investment managers, and asset custodians which then report to the super trustees via the investment committees are shown in a red double arrow and bold red line in **Figure 5**. Industry super funds manage their investing by either outsourcing to asset managers through investment mandates, operating unitised products, managing investments in-house or taking a mixture of these approaches (Scheerlinck 2021). IR influences the investment decisions of super funds. These are expressed through their reporting chains from custodian through the investment process, to their investment committee and ultimately, the super fund trustees.

6.1 Investing challenges with Integrated Reporting for fiduciary investors

Research by Esch et al. (2019) finds that when IR is used, decisions with higher sustainable value creation occurs in companies. Similarly for stakeholders like superfunds, managing environmental, social and governance (ESG) risks is a priority for fund managers (Hamlyn 2021). Even with analytical tools, it is clear that the market's current pricing of ESG risks, will change over the life of most investment horizons (Hamlyn 2021).

The limited practice of a third-party verification means that fiduciary investors need to do their own research and/or be aligned with organisations that undertake this research on their behalf. Many of the larger Australian superannuation organisations are members of the Australian Council of Superannuation Investors (ACSI). This organisation that represents largely Australian Industry funds and some overseas funds. These organisations in combination have over $1 trillion dollars under management on behalf of superannuation investors (Australian Council of Superannuation Investors 2021). ASCI undertakes research on behalf of these fiduciary investors to verify the claims made by ASX listed companies on such issues as their compliance with ESG best practice (Australian Council of Superannuation Investors 2021). These compliance assessments are done on a rotating roster with member organisations able to access these reports to inform their investing decisions. Similar research is undertaken by the Australian Super Fund Association (ASFA), the other main industry association. Whilst this caters for many industry funds, it also caters for retail funds as well (Australian Super Fund Association 2021).

6.2 Amendments to the superannuation industry supervision Act 1993 and its implications for superannuation trustee investment decision making

Superannuation is a $3 trillion dollar industry in Australia (Read 2021). It is the fourth largest pension fund system in the world (Tang 2020). Consequently, the industry is heavily regulated by a multitude of federal bodies as show in **Figure 5** above. Recent amendments to the Federal *Superannuation Industry (Supervision) Act, 1993* (SIS Act) which came into force on 1 July, 2021 are particularly important for the governance of Australian superannuation (Read 2021). These changes include:

1. An annual performance ranking by the ATO designed to highlight good and badly performing funds. If the fund underperforms for two years, the updated legislation includes a mechanism to prevent the fund from enrolling new members;
2. Stapling of an employee's first working super fund to prevent the creation of multiple superannuation accounts during a working person's life. This impacts industry super funds

which no longer receive a default super membership from an employee in their sector when they start working for that industry, usually after finishing tertiary studies;

3. The legislation's most impactful changes are updated the requirements that trustees act in the best interests of members, to the best financial interests of members. Whilst this legislative update is designed to stop waste in superfunds in advertising and corporate sponsorship, and in some cases, political donations (Patrick 2019), it may have the unintended effect of increasing member costs due to higher compliance costs such as auditing of superfund expenditure to meet the new provision.

The changes reflect a political drive further focus the fiduciary responsibilities super funds have in serving their members interests. This added pressure, particularly as it relates to industry performance relative to other superfunds, and the 'best financial interests' test makes the focus on understanding company value even more important for superfund trustees as described in **Part C** of this report.

6.3 Summary

At $3 trillion dollars, the Australian Superannuation Industry is the 4th largest in the world (Tang 2020). It faces significant, complex, and integrated federal regulation and compliance challenges from several different Federal governance entities as shown in **Figure 5**. These challenges are only increasing for the super industry with the passing on 1 July, 2021 of the amendments to the SIS Act. These changes, result in ATO monitored performance measures, more competition, particularly between industry and retail funds with the introduction of stapling, and a higher fiduciary test for super fund trustees. In this challenging context, superfunds must strive harder to engage existing members and attract new members. Super funds can harness the societal and market forces demanding more accountability and ESG measures from business by investor stakeholders. Those funds that are aware of Integrated Reporting trends can take advantage of these trends to make better fiduciary investment decisions, driving enhanced performance. However, this is not enough. Engagement with members must also occur, trumpeting ESG successes in an ever-competitive super environment to retain and grow superfund membership.

7.0 Part C: A Study of the Integrated Reporting of the top 10 Australian Companies by Market Capitalisation

The annual reports of the ASX top ten companies by market capitalisation are analysed against two academically peer reviewed methods of evaluating their adherence to Integrated Reporting conventions and practices. The results are discussed below for each method. From these two methods, conclusions are drawn on how super fund ecosystems and in particular super fund trustees can improve their understandings of the value of ASX listed companies and from this, more effectively discharge their fiduciary duties for members.

7.1 Method 1: Analysis of Integrated Reporting conventions

7.1.1 Methods 1

The annual reports of each of the top 10 ASX listed companies for 2021 are examined for Integrated Reporting. By searching for terms applied by the IIRC or less explicit Integrated Reporting references outlined by Hossain (2021) when analysing the annual reports of the ASX top 10 companies, as shown in **Figure 6** below we can evaluate the effectiveness of the annual reports in communicating value.

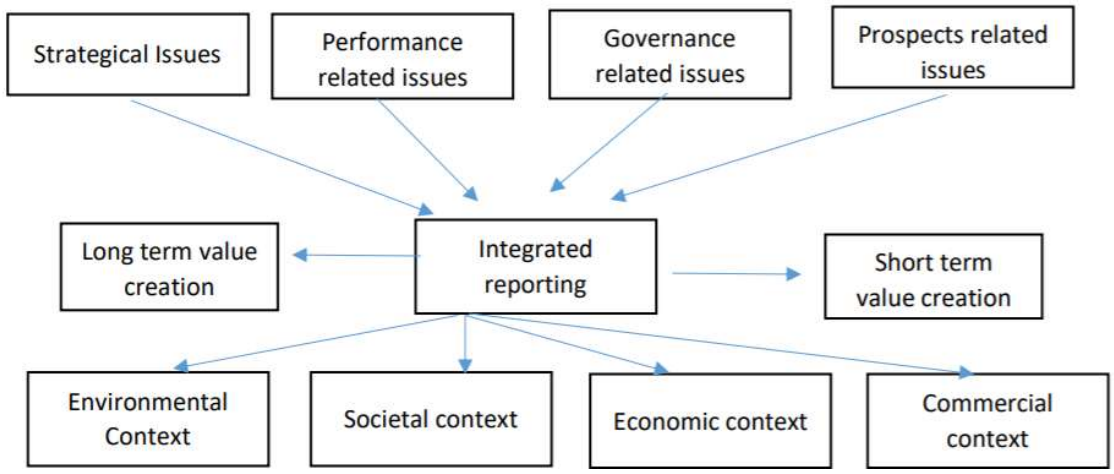

Figure 6: Recent research identifies the key areas that best practice IR covers (Hossain 2021, p. 1).

7.1.2 Results of Method 1

National Australia Bank and BHP Group were found to be the only top 10 ASX listed companies to fully adopt and use the IIRC reporting guidelines as shown in **Table 3**. Other top ASX companies also used some IR guidelines but not for all aspects of their annual reporting.

Table 2: ASX top 10 company adherence to Integrated Reporting Conventions. Those companies that explicitly state adherence to IIRC standards in their annual reports are identified in Column 1. Those that adhere to Integrated Reporting in their annual reports but without acknowledging the IIRC are identified in column 2. The remaining columns identify key IR factors that good IR feature.

	IIRC reference	Integrated Reporting	ESG risk management	Environmental context	Strategic Issues identification	Short term value creation	Long term value creation	Governance Accountability	Performance	Economic context
Commonwealth Bank	X	X	✓	✓	✓	✓	✓	✓	✓	✓
BHP Group	✓*	✓	✓	✓	✓	✓	✓	✓	✓	✓
CSL (20)	X	X	✓	✓	✓	X	✓	✓	✓	✓
Westpac	X	X	✓	✓	✓	X	✓	✓	✓	✓
NAB	✓	✓	✓**	✓	✓	✓	✓	✓	✓	✓
ANZ (20)	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
FMG (20)	X	X	✓	✓	✓	X	✓	✓	✓	✓
Wesfarmers (20)	X	X	X	✓	✓	✓	✓	✓	✓	✓
Macquarie (21)	X	X	✓	✓	✓	✓	✓	✓	✓	✓
Woolworths (20)	X	X	X	✓	✓	✓	✓	✓	✓	✓

* BHP utilises Integrated Reporting methods on its sustainability commitments for the first time in its history. This includes employee safety, risk assessment, transparency, financial reporting, and environmental measures in BHP areas of operations.
** ESG risk principles taken directly from the IIRC format

7.1.3 Discussion of Method 1

Analyses of the top 10 ASX companies in **Table 2** reveals that the National Australia Bank explicitly commit to and utilise the IIRC methodology in their annual reporting (National Australia Bank 2020). They follow the IIRC reporting methodology and acknowledge its importance in its company reporting approach. The remaining three of the big four banks applied most of the IIRC key approaches to company reporting. Surprisingly, Westpac, recently engulfed in a money laundering scandal (Fargher 2019) remains the weakest of the big four banks in its reporting approach. Macquarie Bank, Australia's largest investment bank, also despite recent controversies surrounding endorsing the governance scandal plaguing Australian tech start up NUIX (Chenoweth et al. 2021), were also deficient in explicitly adhering to the IIRC reporting guidelines (Macquarie Bank 2021). That said, Macquarie did adhere to the IIRC standards for most of its annual report, which is published much earlier in the year than other ASX top 10 companies.

Of the top two mining companies by market capitalisation, BHP for the first time in its history adopted the IIRC guidelines in full in this year's annual reporting (BHP Group 2020). This is in line with its broader strategy of investing its significant recent iron ore profits to pivoting its group of businesses from its aging and polluting petroleum and gas assets, to mining commodities critical to agricultural production (Henderson 2020; Mak 2020). The remaining ASX top 10 meet many of the IIRC requirements, although in less organised way. Information in these annual reports on company value remains non-standardised and opaque in places. However there are some notable highlights to IR methodology to the other top ASX listed companies in **Appendix A** of this report.

7.2 Method 2: Governance practices and Integrated Reporting

7.2.1 Method 2

The method 2 analysis of the value of Integrated Reporting focuses on how ASX top 10 companies by market capitalisation report and adhere to corporate governance and sustainability best practice reporting as shown in **Figure 7** below.

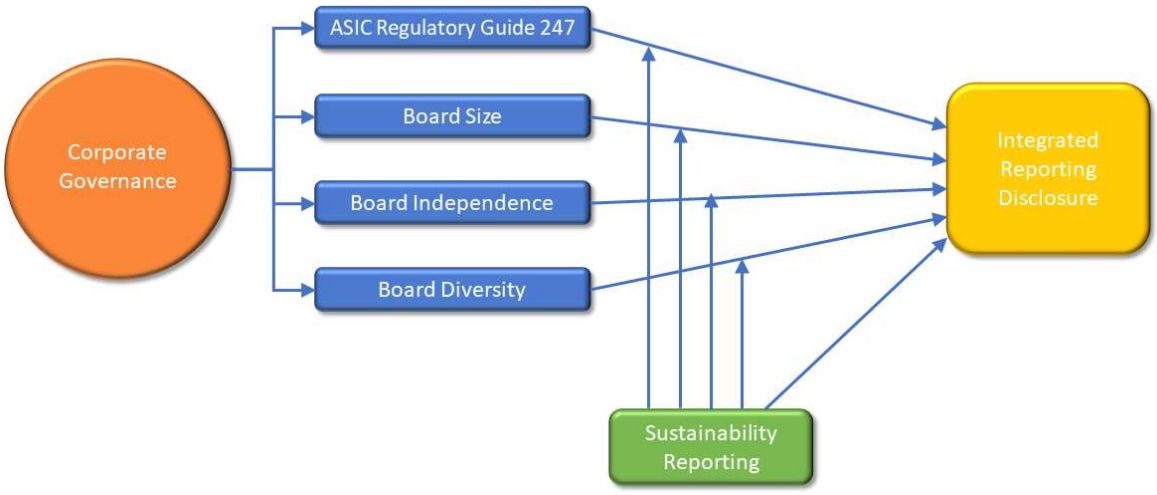

Figure 7: Conceptual framework linking corporate governance, sustainability reporting, and Integrated Reporting disclosure adapted from (Hamad et al. 2020, p. 10).

7.2.2 Results of Method 2

Analysing the results of the ASX top 10 companies by market capitalisation against Method 2 for corporate governance and sustainability best practice reporting yielded interesting results that carried over and were broadly consistent with findings for Method 1, with companies that scored well under method 1, also scoring well under Method 2, as shown in **Table 3** below. BHP Group and National Australia Bank both fully meet the board independence, diversity and separate sustainability reporting requirements needed to meet IIRC standards, while the other companies met some of the requirements.

***Table 3**: ASX top 10 company adherence to Integrated Reporting Conventions on board size, independence, diversity and sustainability reporting*

	Board size	Board Independence	Board diversity *	Separate Sustainability reporting
CommBank	10	✓	4/10	✓
BHP	23	✓	8/23	✓
CSL	10	✓	5/10	x
Westpac	18	✓	3/18	✓
NAB	10	✓	4/10	✓
ANZ	8	✓	3/10	x
FMG	9	x	4/9	x
Wesfarmers	9	✓	4/9	x
Macquarie	11	✓	5/11	x
Woolworths	9	✓	5/9	x

*Women in board positions

7.3 Discussion of Method 2

Recent research finds that there is an interplay between board characteristics, financial performance, and risk management disclosure (Noja et al. 2021; Omran et al. 2021). Applying the model above from Hamad et al (2020), when analysing the ASX top 10 companies finds significant variability in board characteristics such as board size and diversity. Most boards for the top 10 ASX companies are around the 10-person mark. BHP and Westpac deviate substantially from this number. The 23 board BHP board members can be partially explained by their dual listing in the London and Sydney stock exchanges. This is a by-product of their merger with UK company Billiton Plc and their international reach, with business units located globally (Argus & Samson 2021). To their credit, BHP also feature the most number of female executives on their board for the ASX top 10 companies. Westpac have the greatest number of directors of any of the banks on their board. This could be explained by Westpac's desire to minimise risk and increase director accountability in the wake of its recent money laundering scandal (Fargher 2019). NAB, now have the equal highest ratio of women on their board, also score best in the adherence to IIRC conventions in **Method 1**. Recent research on sustainability reporting by the top ASX listed companies by market capitalisation identify certain drivers of sustainability in reporting quality. The drivers are stakeholder engagement, stakeholder power and sustainability strategic posture (Salib 2021). Both NAB and BHP undertake separate sustainability reporting. Reported ESG commitments by ASX listed companies include:

- Net zero emissions commitments;
- Climate related financial disclosures;
- Transition risk scenario analysis including company resilience to low-carbon futures; and
- Physical risk analysis including asset testing and operational resilience.

This reinforces their primacy out of the top 10 ASX listed companies in adhering to the IIRC framework for structuring and reporting their company operations.

8.0 Conclusions

Part A of this report explained the evolution and theoretical underpinnings of IR. This shows how company reporting, stakeholder and value centres interact in companies. When harnessed and expressed well, company reporting can enhance value to stakeholders. Benefits of IR include demonstrating transparency for regulators, safeguarding company reputation, managing risk, communicating intent on renewable energy uptake and maximising competitive advantage.

Part B of this report identifies the typical structure and regulatory ecosystem of Australian Superfunds. It also describes current challenges to superfunds, including regulatory reforms. These are driven by the Hayne Royal Commission into the finance industry. Australian Federal legislative reforms also are forcing more competition between funds and encouraging more competition between superfunds, to improve financial returns for members. Company reporting to stakeholders and investors is a crucial way of ascertaining company value. Traditional methods using strict retrospective accounting rules are often indigestible to investors trying to understand value. In Australia, recent scandals examined by the Hayne Royal Commission exposed poor company fiduciary practices. Australian IR evolved from this and a desire by regulators like ASIC and the ASX Corporate Governance Council to create greater transparency and digestibility in company publications for investors seeking to understand company value and to hold companies accountable to stakeholders. IR developed internationally to address tensions between normative shareholder, stakeholder, and agency theories by providing broader and more transparent company reporting and communication to all company stakeholders.

Part B of this report also illustrates the complexity of the superannuation ecosystem. The sheer size and scale of even moderately sized super funds requires a chain of investment decision makers by either outsourcing to asset managers through investment mandates, operating unitised products, managing investments in-house or taking a mixture of these approaches. These result in investment managers and asset custodians evaluating ASX listed company IR credentials and long-term value propositions. These are reported up the chain to the Investment Committees and ultimately to the superannuation trustees. Without an excellent communication chain, this can result in a dilution of a superfund message to members about investing in alignment with members investment interests such as ESG investing.

Part C of this report shows that Despite ASX Governance Council and ASIC requirements for more transparent and holistic company reporting, the ASX top 10 are slow to react. Only NAB, one of the big four banks and one of the two biggest Australian mining companies (BHP) expressly adopted the IIRC format for annual reporting in 2020 (BHP Group 2020; National Australia Bank 2020). This can be explained by NAB's motivation to increase corporate transparency and accountability in the wake of the Hayne Royal Commission. BHP's drive towards IR however could be explained by needing to demonstrate ESG best practice and to pivot a traditionally extractive mining commodities business in a more sustainability orientated direction, thus differentiating itself from many extractive primary industry sector companies (Australian Council of Superannuation Investors 2021).

9.0 Recommendations

1. The State Super superfund ecosystem would benefit from a comprehensive understanding of the value of IR in aligning with member expectations on where their superannuation savings are invested.
2. Integrated Reporting offers a means of improving communication of investment value between the investment committee and the State Super member experience channels. This

may provide better current member engagement and attract new members who are increasingly interested in sustainability investing.

3. IR provides a more forward-facing holistic picture of a company, its business operations, financial architecture, and stakeholder management, compared to the standard balance sheet, income statement and a statement of changes in equity. As such, it is recommended that State Super comprehensively engage in understanding Integrated Reporting from ASX companies as this has potential to lead to better investment outcomes.
4. Wider collaboration between companies on standardising their IR will enable stakeholders like State Super to meaningfully compare companies between industries sectors when making fiduciary investment decisions. This will make for better fiduciary decision making in the long term.

Appendix A - The Integrated Reporting features of the ASX top 10 annual reporting documents

Commonwealth Bank of Australia (CBA) – 2020 annual report

The Commonwealth Bank of Australia (CBA) is currently the largest company on the ASX by market capitalisation with a value of $150 Billion. CBA is also Australia's largest residential lender and premier retail bank. During the COVID, CBA proved resilient, retaining a strong capital position. It passed down an interim FY21 dividend of $1.50 per share and seeing volume growth across its core lending portfolios. At the time of writing the ordinary CBA share price is at a record high.

The Commonwealth Bank was one of the Australian financial institutions subject to sustained and harsh criticism in the Hayne Banking Royal Commission about poor company fiduciary practices (Millhouse 2019). Since that time Commonwealth Bank joined with other banks to develop a Banking Code of Practice which came into force on 1 July, 2019 (Commonwealth Bank 2020). Its 2020 reporting creates greater transparency and digestibility in company publications when communicating company value to stakeholders. It does this by making commitments to valuing its staff, improving transparency, and recently committing to a supporting banking that achieves net zero carbon emissions by 2050 (Commonwealth Bank 2020). Interestingly, the bank reported $5.4 Billion investments in low carbon projects, of which $4.2 Billion are in renewables (Commonwealth Bank 2020, p. 37).

BHP Group (BHP) – 2020 Annual Report

With a market capitalisation of $196 Billion, BHP is the second largest company listed on the ASX. BHP is known for its exploration, mining, and production of metals such as gold, copper nickel, and iron ore. It also mines uranium and produces coal and petroleum. Although founded in Australia and headquartered in Melbourne, BHP Group is now a global company with additional headquarters in London. Known as a dual listed company comprising BHP Group Limited (Australia based) and BHP Group Plc (United Kingdom based) the two companies operate separately under the BHP Group Limited structure (BHP Group 2020). Both companies have identical boards of directors and are run by the same management team. Shareholders in both companies have equal voting rights in the Group. There are plans afoot to dismantle the dual listing arrangement at significant cost to the company (Argus & Samson 2021).

In FY20 BHP Group made US $8 billion in profit, with an underlying EBITDA of US $22.1 billion and an underlying EBITDA margin of 53% (BHP Group 2020). BHP Group also generated a free cash flow of US $8 billion. Its net debt is US$12 billion which is at the bottom of its target range. It also paid total dividends of US $1.20 dollars per ordinary share and resulted in earnings per ordinary share of US $1.57 cents (BHP Group 2020).

The BHP 2020 annual report identifies long term growth drivers. These include Its employment and training strategy is known as the BHP operating System (BOP). This involves amongst other things, gender balance (targeted for FY2050), accountability, development and training and a commercial mindset for each BHP employee. BHP also focuses on indigenous employment and leadership programs, to encourage diversity in its workforce. This Is identified as its Indigenous Development Program (BHP Group 2020). Running since FY2015 and aligned with Minerals Australia goal of creating 3% of managers to be indigenous by CY 2028 (BHP Group 2020). All of these management and business innovations are designed to encourage further investment by fiduciary investors like super funds, who's members seek out these messages when investing in what is otherwise known in the community as an extractive mining company.

CSL (CSL)

CSL, formally known as Commonwealth Serum Laboratories is an Australian biotechnology company with international institutional investment backing right from its ASX floating in 1994 by the Australian Federal Government (Reis 1994). Valued by market capitalisation at $116 billion, CSL develops, manufactures and markets pharmaceutical and diagnostic products made from human plasma. Despite experiencing some share price weakness recently, CSL continues to trade at an above-market PE ratio of 34x, suggesting that growth expectations remain elevated. As part of its FY21 interim results, CSL reported net profit after tax of US$1,810 million (+44%), EPS of US$3.98 and an interim dividend of US$1.04 per share (+9%). A strength in CSL's company reporting is in its value chain shown in **Figure A1**.

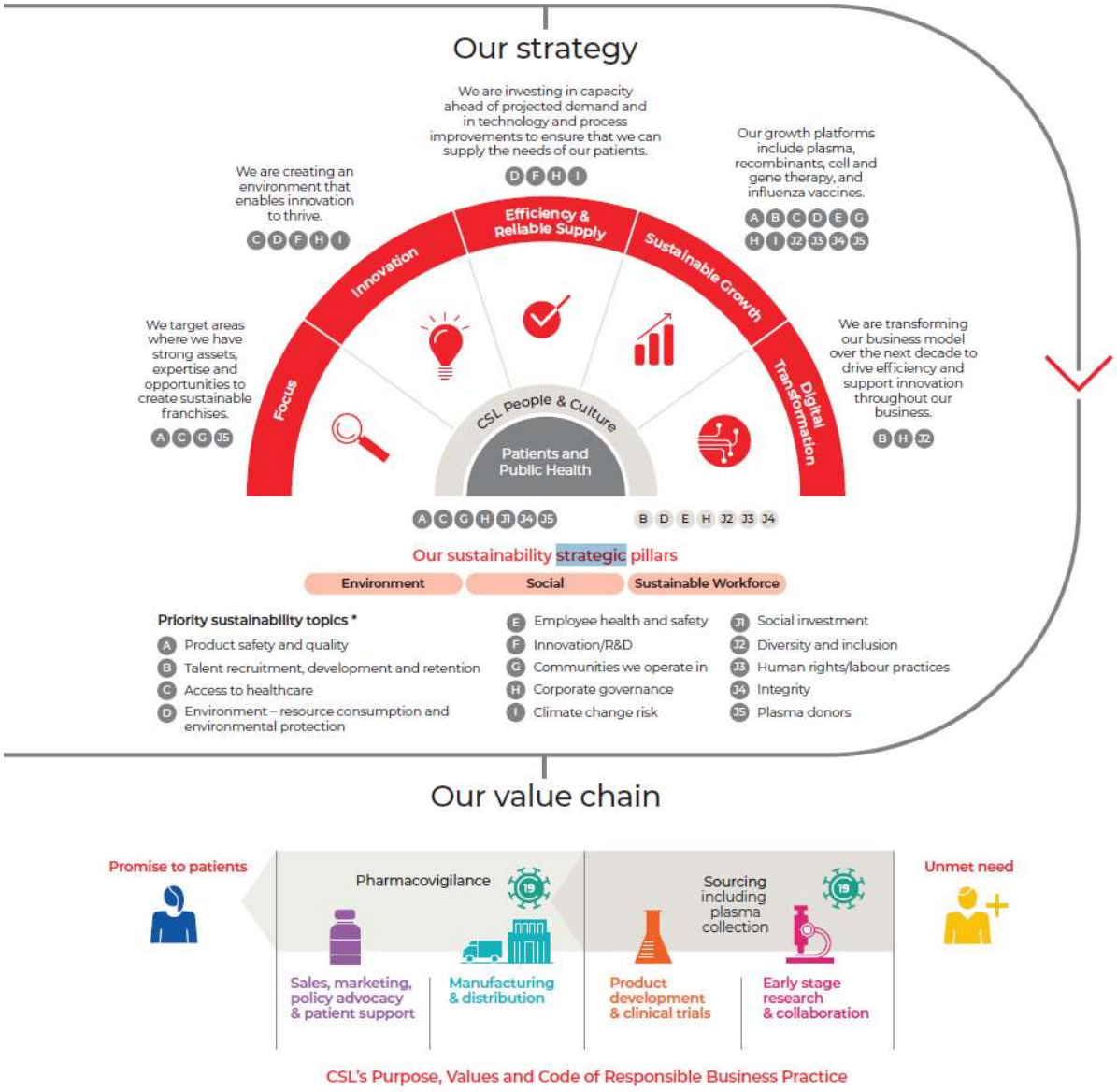

Figure A1: Whilst not fully complying with the International Integrated Reporting Council framework, CSL articulates it strategy around risk, ESG, and value throughout its annual report through this concise value chain flow diagram (CSL 2021, p. 17).

Westpac Banking Corporation (WBC)

Westpac is Australia's second largest bank by market capitalisation, known for its commercial banking services to individuals, businesses, corporations and institutions both domestically and abroad. Headquartered in Sydney, Westpac was established in 1817 and is Australia's oldest bank. Its most recent first quarter update reported statutory net profits of $1.70 billion against unaudited cash earnings of $1.9 billion. As part of those results, Westpac reported a net interest margin of 2.06% and a CET1 ratio of 11.9%.

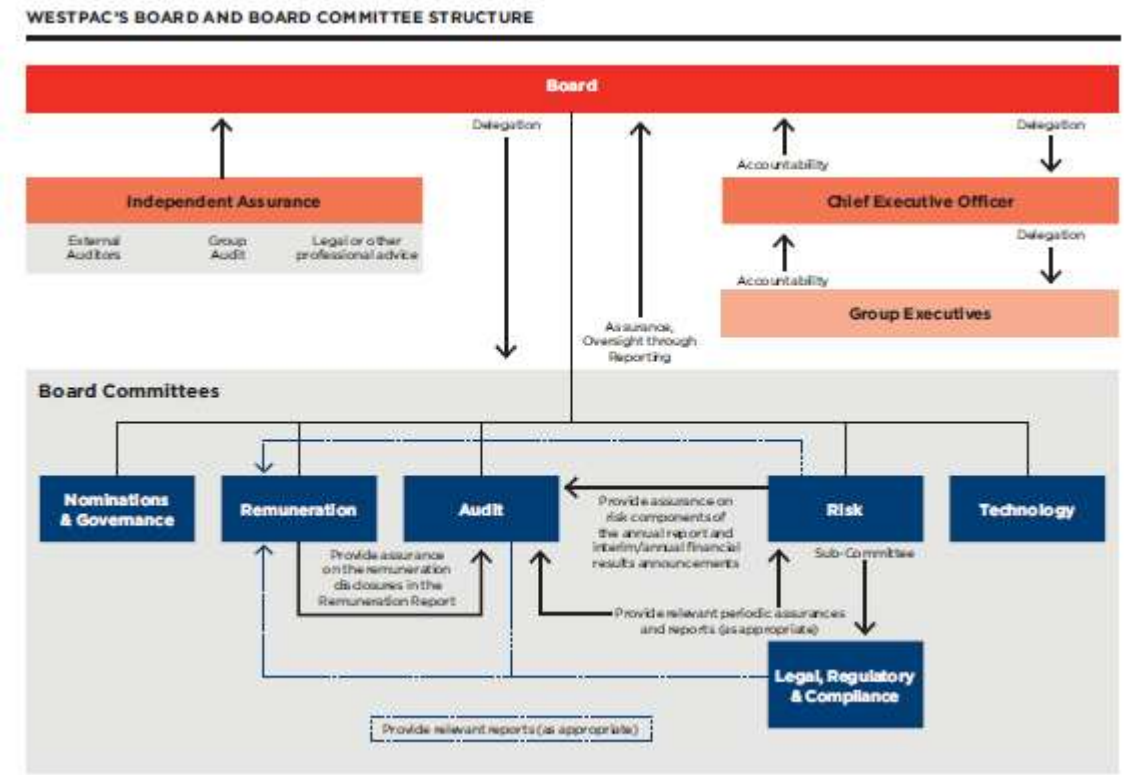

Figure A2: Given the recent criticism of the big four banks including Westpac at the Hayne Royal Commission as well as recent money laundering scandals, it is surprising Westpac have not adopted the IIRC guidelines. However, Westpac have strengthened their board and committee and board structure after recent high profile board departures, and now have greater oversight of their board and committee structure (Westpac 2020, p. 52)

National Australia Bank (NAB)

NAB is ranked 3rd of the big four Australian banks. It is valued at $86 Billion by market capitalisation and is regarded as a bank for businesses. NAB derives most of its revenue from domestic Australian business. The NAB headquarters are in Melbourne. NAB's dividend yield currently stands at 2.28%. It is only one of two ASX listed companies that fully adopt the IIRC reporting structure in its annual report (National Australia Bank 2020).

Australia and New Zealand Banking Group (ANZ)

Despite being the smallest of the big four Australian banks ANZ features a regional mindset. In 2020 ANZ is the 5th largest bank in Asia by market penetration and has interests in the USA and the United Kingdom (ANZ Group 2020). As with many other Australian banks, 2020 proved challenging for ANZ.

Low interest rates are placing pressure on margins. In addition, regulators placing heavier scrutiny on dividends. ANZ's dividend yield stands at 2.11% at the time of analysis.

Fortescue Metals Group (FMG)

Surging iron ore export prices benefited Fortescue Metals Group revenues and earnings in the last several years. At the time of writing, iron ore peaked with a multi-year high, trading at US$168 per tonne. Fortescue now boasts a market capitalisation of around $62.5 billion. Consequently, increased dividend payments lured investors and boosted share prices. The miner most recently paid an interim dividend of A$1.47 per share, some 93% higher than the dividend from the prior corresponding period. Recent softening of demand from China for iron ore resulted in a downward trend for FMG.

Wesfarmers (WES)

At eighth position on the ASX, with a market capitalisation of $57 billion. Headquartered in Perth, this Australian conglomerate operates in several different areas. These include retail, mining, insurance under writing, industrial products and the distribution of liquefied petroleum. The company currently boasts an annual yield of 3.60%.

Macquarie Group (MGQ)

Macquarie Group differentiates itself from the other top 10 ASX listed companies by market capitalisation by being Australia's largest investment bank. Macquarie has seen its market capitalisation balloon by approximately $15 billion resulting at the time of writing of a value of $54.7 billion. Despite its market value rising, the financial firm, like many others in the space has seen its profitability decline in recent times. In the 2021 reporting year, Macquarie Group reported net profits of AUD$3,015 million, which is an increase of 10% on the previous reporting year (Macquarie Group 2021). However this is balanced by a recent strong share price rally on the announcement by Macquarie Group on is long term sustainable investment program.

Woolworths Group (WOW)

Woolworths Group is within the food and staples sector and is known as Australia's largest grocery retailer, with 3,351 retail stores and a workforce of 215,000 (Woolworths Group 2020). Whilst specialising in supermarket and retail liquor outlets, Woolworths Group also operate accommodation, pubs, and associated gaming machines (Woolworths Group 2020). With a market capitalisation of $38.26 Billion, Woolworths rounds out the table of top ASX companies by Market Capitalisation (Woolworths Group 2020). Investors view equities ownership in this company as a defensive consumer staples stock. Endeavour Group is a subsidiary of Woolworths Group. This company operates the Woolworth's liquor and gaming business. The gaming segment of the business own's 1/3 of Australia's coin operated poker machines, attracting the ire of ethical Woolworths Group investors who sought and secured Woolworths Group devesting this part of the business (Mitchell 2021). Recent share buyback offers by Woolworths on the strength of recent strong profits are an attempt by the supermarket giant to consolidate its ownership position.

Woolworths Group reported a 19% reduction in workplace related injuries from the FY19 to FY20 (Woolworths Group 2020). This is well expressed in its annual reporting as shown in **Figure A3** below:

Figure A3: Governance and risk structure of the Woolworths board (Woolworths Group 2020, p. 38)

Disclaimers and exclusions

Not all current company annual reports were available at the time of writing and analysis. Consequently, the previous year's reports were taken to analyse the Integrated Reporting characteristics of the companies analysed.

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