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XRB Stakeholder Engagement 2022

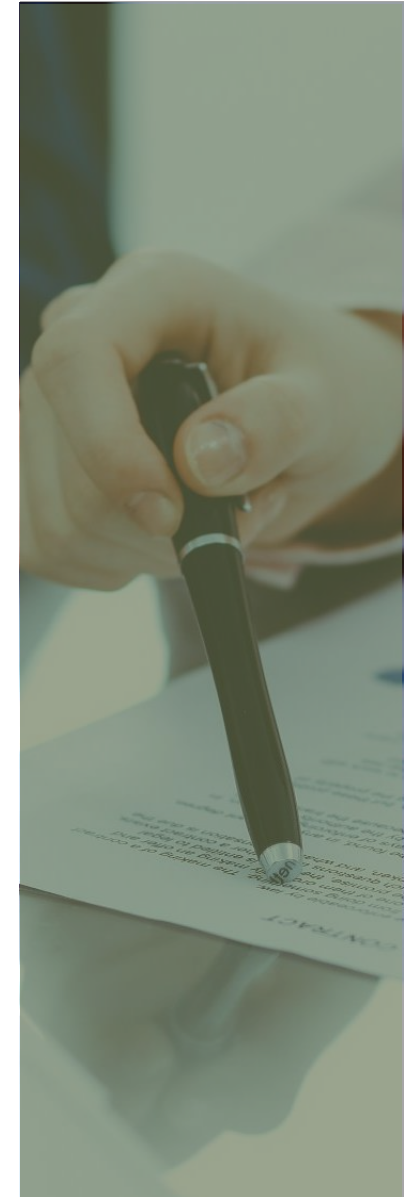
QUALITATIVE REPORT | MAY 2022



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

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01

Research overview



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Background and objectives.

The **need** for research

Provide the XRB with information to maintain strong and effective relationships with its stakeholders, and to provide an understanding of how effective its ongoing engagements and communications are.

The research also explores strategic stakeholders' perspectives on strategic issues to help inform the Board's strategic planning.

The **objectives** of this research were to understand:



Stakeholders' perceptions of the XRB in order to maintain strong and effective relationships with them.



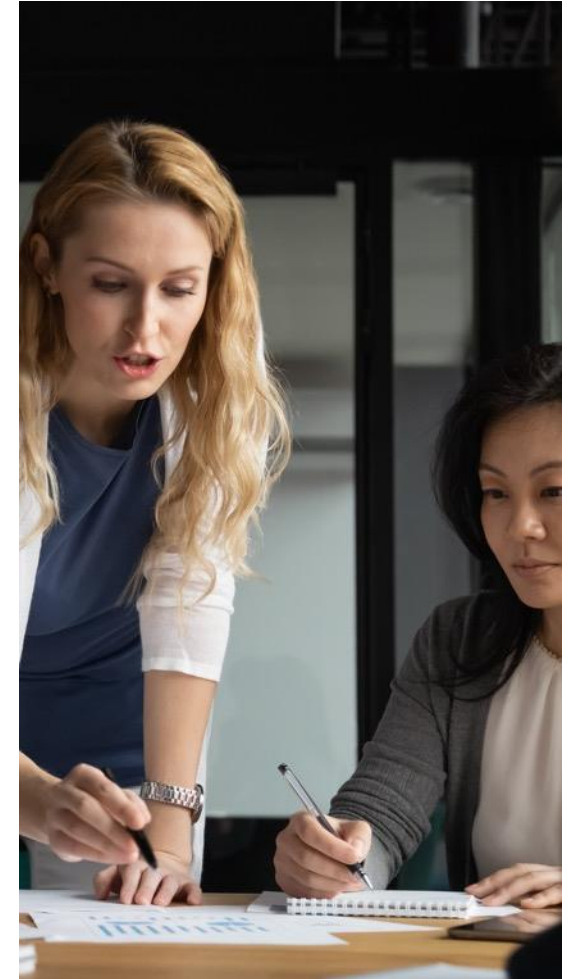
How engaged stakeholders are with the XRB and its processes.



How satisfied stakeholders are with the interactions they have with the XRB.



Stakeholders' perspectives on strategic issues.



Overview of research approach



One hour semi-structured **qualitative interviews** with **19** strategic stakeholders.

Conversations with strategic stakeholders focused on their perspectives about **significant strategic issues**.



We also conducted an **online survey** with a broader range of stakeholders. The findings from the online survey are reported separately.

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Key findings



Five key findings.

1

Strategic stakeholders hold the XRB in high regard across its performance, interactions, and communications. Stakeholders use words and phrases like: 'highly technical, with specialist expertise', 'professional and efficient', and 'collaborative and inclusive' to describe the XRB.

2

Strategic stakeholders speak very positively about the nature of their interactions with the XRB, as well as the organisation's communication approach which is described as open and authentic.

3

Significant future strategic issues are seen by strategic stakeholders to include: Environmental/sustainability issues; audit and assurance quality; trust in institutions, society's changing expectations, and te ao Māori. While considered to have an impact, COVID-19 and economic factors are viewed less as strategic priorities.

4

Strategic stakeholders identify some broader considerations for the work undertaken by the XRB and its future strategic direction including: The complex regulatory landscape; the importance of robust reporting frameworks; and a need for a unified framework for ESG/non-financial reporting.

5

There is also an expectation that the XRB will take the lead on significant issues facing sectors, including an education function.

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Overall views





Strategic stakeholders feel there has been a notable shift in the profile of the organisation, with the XRB now having greater visibility.

The XRB is viewed as having previously kept a low and/or insular profile, although this is seen to be changing as a result of the work to establish a climate-related disclosure framework and driven by key personnel. The increased visibility of the organisation – and the XRB brand – is generally seen as a positive development:

“My impression is that it [work to raise profile] is being led probably by the CEO, who has an outwards looking, engaged, and positive view of their role. I think [the CE] is doing a great job of lifting the profile.”

Professional Services Provider

“The climate change work is the first thing that has probably put their brand even slightly in the public domain, and even that is at a more restricted level. So, I guess they have up until this point, had extremely limited profile outside of the highly technical levels of engagement they’ve had with the appropriate specialists that need to engage with them.”

Financial Sector

“I think XRB do a great job really. When I think about XRB in the past, they were quite technical, quite closed shop. I think [XRB’s CE] has really busted them out. They’re much more open and relevant and visible.”

Regulator/Public Sector

Beyond raising the organisation’s profile, the climate-related work has shown the XRB is forward-looking, a leader in its field and open to partnering with key stakeholders:

“[It is] a new novel piece of work in this part of the world, in fact, globally.”

Financial Sector



Some strategic stakeholders consider the XRB as technical, professional, and efficient.

Strategic stakeholders identify key characteristics they associate with the XRB as an organisation. These can be categorised into four broad themes.

1. The XRB is a highly technical organisation, with specialist expertise:

“They’ve got some good brain power there.” **Financial sector**

“Highly technical. It is very, very, technical. I don’t pretend to understand the details of the accounting standards and requirements ... It’s just what they do, and it’s what we do, and it’s as it should be.”
Regulator/Public Sector

“It is around that detailed, technical understanding of the mechanics of a particular process, be it audit or be it any other topic they are looking at ... I should also add high capability to support that. So expertise, high capability, having the right people in place.” **Investors**

2. The XRB is professional and efficient:

“I think they present themselves well, professionally. They’ve got a good brand. They’ve got good people working for them, bright professional people. They do what they say they’ll do, they follow through. Their written work is good, they are good to deal with. So, yes, I think probably an exemplar from a number of organisations in comparison.” **Professional Body**

“They have good processes, particularly around things like consultation. There is a good process that they will have thought about things in advance. They’re efficient in terms of getting that consultation out, and they deliver on their timelines.” **Professional Body**

“I mean they’re accountants, they come across as accountants, that professional approach. They wear suits... Professional is really the big word that explodes to me, they’re just like this professional outfit.”
Regulator/Public Sector



Some strategic stakeholders also see the XRB as collaborative, while others believe the XRB has a narrow focus.

3. The XRB is **collaborative, inclusive, and open to working alongside others**. This includes being receptive to considering a te ao Māori perspective:

"[XRB are] collegial, prepared to partner. Just the way they go about their business, as I say prepared to partner, they're open to ideas." **Financial Sector**

"They reach out to us, us to them, and [we] have a pretty good relationship." **Regulator/Public Sector**

"Everyone is open to new ideas, there's a good robust debate. There has been times where people have disagreed but are still open to new ideas. So it's a good mix... Ideas are shared about what we are doing in our space. So very collaborative environment." **Māori Stakeholder**

4. The XRB's **narrow and/or rigid focus** (e.g., overly-academic) can lead to a perception that the organisation **lacks understanding of sectors** and the **practical implementation of its work**:

"There would be some that would consider the XRB to be quite academic and not necessarily understanding of business. And it is business in the end that needs to apply these standards." **Māori Stakeholder**

"It [XRB's approach] needs to be [logical and professional] ... I mean for the vast majority I think that is entirely appropriate. When they're dealing with the not-for-profit sector or the public sector, it's a bit of a different beast that sometimes requires a slightly different hat. Sometimes that professional, logical approach doesn't work in the sector, you have to just embrace the chaos." **Regulator/Public Sector**

"I do think they're clever. So, there's some high-quality people in specialist roles, and not many of them have worked in the real world with clients and businesses." **Professional Services Provider**

Strategic stakeholders identify some broader considerations for the work undertaken by the XRB and its future strategic direction.

- The increasingly **complex regulatory landscape**, which poses a range of challenges across different sectors (e.g., burden on small businesses; lack of expertise amongst some entities in meeting reporting requirements).
- The importance of **robust and evidence-based reporting frameworks** that are tailored to the New Zealand context.
- The call for **a unified framework for ESG/non-financial reporting** – to facilitate a more streamlined process, avoid duplication, and enable comparisons across different criteria.
- An expectation amongst strategic stakeholders that the **XRB will take the lead** on some of the issues facing different sectors, including driving change at a governmental level. An **education role** for the organisation is sought by some.
- Given the likelihood of the reporting and regulatory remit broadening to incorporate a wider range of issues (e.g., modern slavery) there is need to ensure that **resources and capability are available to support this**.
- The importance of the **XRB consulting with strategic stakeholders' sectors** on upcoming issues: The current collaborative approach is highly valued, and there is an expectation that this will continue.



In their own words...

“The other issue I see is increasingly complex regulation across the board, and businesses, small and large need to be able to handle and manage heavy regulatory burden and compliance costs. And that, at the moment, is a real challenge for some of our profession.” **Professional Body**

“Traditionally they [the XRB] set standards for financial standards. ... And now they’re moving into this new area of climate and that will evolve and develop into all these other areas of non-financial risks as well... So, it’ll be a constant need to review and balance, and make sure they’ve got the right resources in the right areas to deliver on all of their remit.” **Professional Body**

“Integrated reporting... so where we’re looking for non-financial data, the other indicators on how a company is performing or managing particular risks. All of that information is important to us. The idea that there is a body that is tasked with looking to make that, as far as possible, consistent and comparable and robust is really important.” **Investors**

“It’s not their [XRB’s] job to educate entities about those standards, and preparers... And I’ve struggled with that, because I think if you’re setting the standards, it’s logical that they do provide some guidance. But I think it’d be a good step for them actually to also have a formalised education programme. Now, that’s not really a criticism because it’s not within their remit, but maybe bigger picture their remit could include education, because there’s a potential gap there.” **Professional Body**

“The key strategic challenge for them is actually showing leadership, rather than working on a consensus model in areas that are so critical to the future of the [auditing] profession. I think the question is leadership... This is where actually a regulator needs to lead.” **Regulator/Public Sector**



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04

Performance
perceptions

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XRB's performance statement.

TWO COMPONENTS TO THE PERFORMANCE STATEMENT

- 1 Develop and issue financial, climate reporting and auditing and assurance standards, and associated guidance that engender confidence in New Zealand financial and nonfinancial reporting.
- 2 Assist entities to better communicate their performance, enhance entities' transparency, accountability and stewardship to stakeholders and support high performing and accountable organisations in both the private and public sectors.



Strategic stakeholders' satisfaction with the first element of the performance statement is generally high.

Develop and issue financial, climate reporting and auditing and assurance standards, and associated guidance that engender confidence in New Zealand financial and non-financial reporting.

Generally, strategic stakeholders are satisfied or very satisfied with XRB's performance in developing standards and associated guidance that engender confidence in the New Zealand financial and non-financial reporting.

Those who are very satisfied mostly reference the new climate-related disclosure framework being developed, with the XRB seen to be making good progress in this space.

Slightly lower satisfaction with this aspect of XRB's performance is generally due to:

- Confusion over XRB "jargon" or different consultations
- The XRB not seen to be moving "fast enough" in some areas to engender confidence
- The untested nature of some of the new reporting standards, with an acknowledgement that the XRB has strong credibility in financial reporting, but less so in non-financial reporting due to it being in the early stages of development.

"When we first started our kōrero, I appreciated the drive. I love where XRB are going in regards to climate reporting. And, XRB are basically saying it is an issue, greenhouse effects are an issue. We are going through global warming; we have all these things and there are some countries that still to this day deny that that's an issue. So, [I am] very satisfied." **Māori Stakeholder**

"I think they put a lot of energy into developing and issuing the standards. The area I'm most familiar with is the development of the new climate reporting standard. My sense is the XRB are working really hard on that, which is quite different to things they've had to do before. They've put lots of energy into it. They are engaging really well with the climate reporting entities." **Professional Services Provider**

"At the moment, I would say I'm satisfied with the due process from a climate perspective. But we're not sort of quite there yet." **Professional Body**



Strategic stakeholders express more mixed views about the XRB's performance in relation to the second part of the statement, depending on which aspect they focus on. However, none express dissatisfaction with the organisation's performance.

Assist entities to better communicate their performance, enhance entities' transparency, accountability and stewardship to stakeholders and support high performing and accountable organisations in both the private and public sectors.

While strategic stakeholders are satisfied with the second aspect of the XRB's performance statement, they express a weaker sense of satisfaction compared to the first part of the statement.

Areas where the XRB is seen to perform well include:

- Level and nature of consultation and collaboration
- Its focus on continuous improvement of existing standards
- Provision of technical assistance and flexibility to entities
- Setting of standards and systems that "work for everybody".

Where the XRB receives weaker satisfaction, this is generally due to:

- A lack of visibility of its achievements in this area and/or desire to see the organisation taking more of a leadership role or assisting more entities
- Less clarity around non-financial performance
- Entities not yet meeting their obligations (rather than the XRB).

"I don't have any visibility of them helping entities better communicate their performance." **Financial Sector**

"You have to walk this line where you are setting standards that meet public interest, but sometimes that's at odds with the commercial interests. And I think in general that [XRB] dance along that line quite well."
Regulator/Public Sector

"I think there are entities that would benefit from having that assistance by the XRB, but they're not quite getting to them all." **Māori Stakeholder**



Strategic stakeholders have fairly limited suggestions for how the XRB could improve its performance.

There are some calls for the XRB to take a lead – and state its position – on significant issues (e.g., auditor independence) across different sectors.

“One of the issues is auditor independence, and they [XRB] may have taken a stance on it, but I think it’s an area of concern. So, I think it’s probably more an industry thing but maybe the XRB should take a more higher profile stance. And they may well have, but I haven’t seen it.”

Financial Sector

Other ‘one-off’ suggestions include improved engagement with diverse organisations, ensuring that key stakeholders are not overlooked in climate-related work, and better communication of reporting requirements or general guidance to a broader audience (e.g., lay people or those with less financial expertise).

“I think engaging better with diverse organisations, especially in a not-for-profit space would be really valuable, especially iwi and Māori. In general, it’s not something XRB seems to do particularly effectively. But not just iwi, I think they have their go-to people and use them pretty consistently... But really identifying why things are working particularly well involves going to those that are really struggling... And that’s not something XRB have done traditionally, it seems like they’ve actually avoided their detractors.”

Regulator/Public Sector

Others are of the view that the organisation is currently performing well, and they have no suggested improvements.

“Like I say, they are effective at distilling down what I think are very difficult concepts so that it’s simple to understand. I think it’s a case of keep on, keeping on – the engagement, the collaboration work, the clarity around it.”

Investors

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05

Interactions

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Strategic stakeholders speak very positively about the nature of their interactions with the XRB, as well as the organisation’s communication approach.

The nature and level of interaction with the XRB varies across strategic stakeholders. For the most part, it is via one or more of the following: Membership of XRAP; working in partnership to deliver initiatives (e.g., webinars); submissions to the XRB; the development of the climate related disclosure standards; and meetings with the XRB management team/Board.

The XRB is widely praised for keeping strategic stakeholders up to date with (policy or sector) developments via its proactive communication approach. This means strategic stakeholders are better prepared and/or aligned regarding upcoming changes:

“They keep their stakeholders up to date with their progress. They’re not really surprising the market with what’s coming out... And their plans, their sequencing, their timetables, it’s all there if you need to find out what’s coming out when.” **Regulator/Public Sector**

Overall, XRB’s communication and engagement style is viewed as open and authentic – with senior staff’s willingness to engage with strategic stakeholders highlighted as a valued feature:

“They are interested to get feedback and really listen and adapt. It’s not consultation [where] you just go through the motion... but I feel they’ve got a real interest in working with the private sector to get this bedded.” **Financial Sector**

“I think they’ve done a good job, as a Board and as Chairs, getting out there trying to meet with people, trying to talk through what’s coming up.” **Professional Services Provider**

“I can only speak for their engagement with us, which I think is most excellent really. In the sense that they made the time to connect with me at the CEO level and come and talk to our Board... You can’t ask for much more than that, it’s just right.” **Regulator/Public Sector**



Strategic stakeholders speak very positively about the nature of their interactions with XRB, as well as the organisation’s communication approach, *continued.*

The organisation’s use of relevant and targeted communication formats – e.g., webinars which are described as “highly informative” – is seen to work well in facilitating stakeholder access to important information:

“When they do a consultation, they’ll do a launch, they’ll do a public webinar, everyone can jump on. There’s good comms around it. You get a couple of emails saying, we’re doing this stuff, we’ve got a webinar to explain it, to launch it, etcetera, etcetera. So, I think it’s just keeping in people’s line of sight and keeping visible.”

Regulator/Public Sector

“A lot of it [engagement] is by webinars. In the current environment, that’s the way to go. Rather than bombarding with written pieces of work, we find that it’s a great way to interact. You can cut to the chase, you can thrash things out.”

Financial Sector

A number of individuals are singled out as having contributed to the XRB’s more recent open communication and engagement style:

“Hats off to [CE] – she is fantastic... she has opened the door for our whakairo.”

Māori Stakeholder

“[Director Climate Standards] has obviously been appointed to run that piece of work. She’s created a team around her. They’ve been proactive, really proactive. The communications have been great.”

Financial Sector

“I was really impressed in the last year at seeing them bring in a specialist communications person, and then a team to redo their website and think about how they are communicating a lot more strategically. And I think that’s borne results.”

Regulator/Public Sector



Strategic stakeholders have limited suggestions for improving interactions and engagement with the XRB.

Given the high level of satisfaction with current communications and engagement with the XRB, strategic stakeholders have few suggestions for how interactions could be improved. These include:

- Introduction of scheduled (e.g., quarterly) ‘catch-up’ sessions
- Increased engagement at a Board level
- Increased engagement with Māori at early consultation stage when developing standards or policy
- Extend time for provision of feedback on draft standards.

“With some of our other stakeholders we will have dedicated stakeholder catch-up sessions where we formally catch up... So there’s an element of holding to account... so it does I think actually make progress on some things. Now I don’t think from XRB’s perspective there’s anything that’s missing, but I think we miss out on some of those opportunities to do other things together or to stay a little bit more connected.” Professional Body

“They say more Māori engagement but if you’ve got Māori at inception, then your engagement is not such a shock... I just think that they [XRB] need more Māori especially around policy creation, because then you’re less reliant on your engagement after all the mahi is done if you build it in at source.” Māori Stakeholder

“Perhaps our boards could do with some exposure to other parts of the system.” Regulator/Public Sector

While not viewed as a shortcoming of the XRB, one strategic stakeholder highlights the negative impact on engagement as a result of the pandemic (e.g., loss of face-to-face interaction):

“The pandemic has changed the method of engagement. We don’t have as many incidental interactions in the same way over little canapes and small drinks... So, engagement has changed a bit, it is a little more written, formal, we haven’t had as many catch-ups... We’ve consciously engaged more on the Zoom and the emails and those sorts of things, but there’s a lot of content and a lot of emails flying at people. It’s very easy to lose that.” Professional Body

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06

Strategic impacts

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Strategic stakeholders perspectives on strategic and significant issues that are anticipated to impact their sector in the future.

Strategic stakeholders' views on the future significant and strategic issues they envisage impacting the sector were explored unprompted. Strategic stakeholders were then presented with a range of potential issues (rotated across the discussions):

- COVID-19; climate change; disruptive technologies; tight labour market; society's changing expectations; shareholder activism; economic factors (e.g., inflation); audit and assurance quality; and trust in institutions.

Each issue was explored in terms of:

- Anticipated impact on their sector
- Overall importance
- What it means for the XRB in developing its strategic direction.

Note: While some perspectives shared fall within the XRB's remit, others may not.

Most of the strategic or significant issues that strategic stakeholders raised unprompted mirrored those subsequently presented, or fell broadly within each of the prompted categories.

There is some **overlap** across the **strategic and significant issues** anticipated to impact strategic stakeholders' sectors

- Environmental/ sustainability issues

- Audit and assurance quality

- Society's changing expectations
- Shareholder activism
- Trust in institutions

- Tight labour market
- Covid-19
- Economic factors

- Disruptive technologies



01

Environmental / sustainability issues impacting their sector.

Strategic stakeholders across all categories consider environmental/sustainability matters are a significant strategic issue.

Linked to society's changing expectations, there is a growing call for companies to report on environmental and sustainability performance; for some, it is not a new concept (e.g., viewed as central to te ao Māori).

Strategic stakeholders report a range of work is being undertaken in this space, with evidence that they are at different stages of development.

Some (future and current) challenges are identified in undertaking this work: e.g., resourcing and capability to implement new requirements; ensuring it is in sync with the XRB's work; difficulties in accessing high quality (climate related) data.

"We identify top five list for [stakeholders] each year. And consistently those big strategic themes in the last few years have been climate. That is definitely a core area." **Professional Body**

"It [climate change] is a generational shift... that's the example that is going to shift the way we think about business inputs, what we measure, the length of time over what we measure." **Professional Body**

"You can see the change in the social conversation around the importance of climate change, and the importance of biodiversity or water quality or these other natural capital issues. If you're seeing those expectations change, then that's going to influence what companies need to report or stakeholders understand from them." **Investors**

"Climate related financial disclosures – that's clearly the big-ticket item about which there is a massive amount of development to be done. So that's top of mind." **Regulator/Public Sector**

"I think the things that are existential challenges for us are the use of natural capital. So, that's what covers biodiversity and climate change, because we're using finite sources of natural capital. Investors and lenders and insurers need to understand that impact of the decisions that they're making in that. I think that's why that's important." **Investors**



01

How environmental / sustainability issues impact what the XRB needs to consider.

There is high awareness amongst strategic stakeholders of the work undertaken by the XRB in relation to the establishment of the climate-related disclosure framework, with the XRB seen to be leading the way (globally) in this space.

The introduction of a mandatory reporting framework is seen to have a key role to play in changing the behaviour of entities.

Strategic stakeholders highlight some issues related to the framework – and anticipated introduction of further reporting requirements more broadly in this area: e.g., a need for accessible and ‘joined up’ data/reporting; the importance of longer-term/intergenerational reporting (reflective of te ao Māori); availability of quality data; and support for organisations in its implementation.

Strategic stakeholders also note the XRB’s potential training and education role to support this work, and its responsibility in keeping abreast of developments and taking the lead on environmental/sustainability issues impacting the sector. The availability of in-house capability to deliver on this work is also seen to be a key consideration.

“That liability aspect or legal requirement will be driving some who otherwise might not have acted. Frameworks are useful in that regard... so the XRB plays a huge role in terms of getting some standardisation of reporting. There’s been so many different reporting frameworks, and that’s caused confusion.” **Professional body**

“I’m supportive of the work they’re doing around the climate related disclosure work because I think it’s a nice integrator – saving us having to work with bucketloads of government departments behind the scenes... And I’m really pleased at a technical level that they’re adopting the standards they’re putting in place are reflective of a global standard.” – **Investors**

“It’s all very well to have that framework, right. But if you don’t have good inputs the work they are doing just won’t potentially achieve its objectives.” – **Financial sector**

“They’re setting it [framework] out in a very clear, sequenced way, sort of bite sized chunks. And while it is new and it is complex and many people are just starting from scratch, I think the way XRB have decided to break up the various parts of the work has made it quite accessible for companies.” – **Regulator/Public sector**

“It’s really the same things that they would think about with any new standard. So, is there an international one that they could utilise, or base it on? ... how do they get the right people involved to help on the reporting and how do you assure it?” – **Professional services provider**



02

Audit and assurance quality issues impacting their sector.

Strategic stakeholders consider audit and assurance quality as a significant strategic issue.

It is viewed as a critical underpinning for building confidence in systems and closely aligned with fostering trust in institutions. This includes the reputation of New Zealand as an investment opportunity.

Key current issues impacting audit and assurance quality include:

- Auditor independence
- Size and sustainability of the audit market (this is discussed further under 'Tight labour market')
- Reduced auditor availability impacting timing, quality, and integrity of reporting
- Escalating audit pricing
- The relative infancy of non-financial reporting
- Auditor skill base: e.g., a lack of cultural competence amongst international candidates
- Future automation of the auditing role.

"I suppose we've seen two things. One, a massive, significant gap in auditor availability, so delays to reporting because of that. Also, seeing – I wouldn't say endemic – but quite a lot of poor audit options. I think probably connected to that is people are busy. They don't always consider the [sector] standards. So, people will get audits that are completely wrong, essentially."

Regulator/Public Sector

"Trust in institutions and audit and assurance quality I put next to each other because it's critical that the information that stakeholders get is credible. One of the big challenges at the moment is cynicism around greenwashing. So, if everybody is suddenly this amazing climate change champion, but you can't believe any of it, then all of this disclosure is worthless... and part of the trust in the reporting is how these things get assured."

Investors

"That's one of the challenges at the moment. We've had decades of audit and assurance around financial reporting, but where it's much more nascent is around this other non-financial reporting."

Investors

"Without audits, the whole integrity of the financial markets, of the broader corporate sector, the charitable sector and the public sector are all at risk – compromised – by hundreds of audits not being completed."

Professional Body



02

How audit and assurance quality issues impact what the XRB needs to consider.

Audit and assurance quality is considered fundamental to the XRB's overall function and its role as a standard setter (*"their bread and butter"*). Thus, it is viewed as a key strategic priority for the organisation.

There is a desire amongst some to see the XRB take a leadership or advocacy role to ensure the long-term viability and independence of the audit profession.

Alignment with other regulators is considered important while also maintaining independence from the sector.

Strategic stakeholders highlight some operational matters in relation to audit and assurance quality: e.g., ensuring that the complexity of standards does not overly complicate the auditor role; clear enforcement activity when standards are not met.

"They [XRB] need a strong and viable audit profession. None of the financial system works unless you've got an audit opinion on it. And if they don't have that as one of their core concerns then the rest of it doesn't really matter too much. I think they need to understand what that means, and the first thing it means is independence is really a foundation of a strong and viable audit profession." **Regulator/Public sector**

"I guess the XRB's role is to help ensure that there is a strong and healthy audit profession to be able to implement the work that they do. So, whether that's working with CA ANZ or the big firms... and advocating with government to make sure they understand how important a strong audit community is." **Professional Body**

"Very important that the XRB are seen as separate from the statement preparers, i.e., the four big accounting firms in particular. And I think XRB work really hard to do that, but I think it is really important that they take an even stronger line to ensure that the market has confidence that the standards are not unduly influenced by those whose job it is to prepare them." **Professional Services Provider**



03

Tight labour market issues impacting their sector.

Strategic stakeholders across all categories are being impacted by a tight labour market in terms of a shortage of candidates to fill roles, and the breadth of talent available (e.g., “knowledge workers”, accountants in regional areas, individuals with sustainability expertise).

A range of external factors, many linked to the pandemic, are seen to be driving this: A lack of international workforce; employees being “poached” by Australia; people holding multiple jobs due to economic pressures; and “the great resignation”.

A shortage of auditors in New Zealand is a widely reported and significant issue. This is attributed to a range of causes, including: A lack of accounting graduates; the negative image of the profession (e.g., boring); changing priorities among the younger generation (e.g., less focus on job status/financial rewards); a perception that the auditor role will become obsolete due to technological advances; and an inability to recruit international candidates as a result of the pandemic.

In responding to the tight labour market, strategic stakeholders highlight a need for “smarter” approaches (e.g., adoption of a secondment model, the sharing of resources and expertise across organisations).

“So ‘people’ was one of our other top five issues for this year that we’ve identified. There’s labour shortages playing out – whether a great resignation is real or not, but we’ve inflation, wage pressure in New Zealand... One of the key things that we need to do there is go get more of a knowledge economy... There’s a shortage of labour supply so that is absolutely holding organisations back.”

Professional Body

“In the COVID era it kind of highlighted straight away that as soon as the borders shut down that flow of professional labour stopped.”

Investors

“It’s a perception that it [auditing] is a dead-end industry. Boring and dead end. The students have the view that with XERO and technology they won’t have a need for any accounting people in the future. So why invest when in over 40 years there’ll be nobody left to pick up the pen? And there’s more interesting work like corporate finance and stuff .”

Financial Sector

“The talent shortage in the ESG space is very pronounced as well. It’s coming through for the firms who are going to be doing that work, and while there can be some training and upskilling, there is still an inherent shortage.”

Professional Body



03

How tight labour market issues impacts what the XRB needs to consider.

While a tight labour market is not seen as something that the XRB can influence, strategic stakeholders view it as an important consideration for the organisation.

This includes the XRB's strategy in attracting and retaining candidates internally, particularly with regard to: Staff with environmental/sustainability expertise; a succession plan for the CE role; and development of appropriate remote working strategies for employees.

Some strategic stakeholders see it as important that organisations are not overloaded with the burden of reporting, which could be exacerbated due to staff shortages.

At a broader level, the XRB is seen to have a role to play in branding and promoting the audit profession – e.g., making it more attractive to potential candidates, ensuring that it attracts people with integrity and independence, and developing a clear narrative around what audit is.

“I was thinking about this from the XRB perspective. People are hard to get. People in the sustainability space are especially hard, and it is a big growth market at the moment. All of the accounting firms are all growing their teams because they can see that all of their clients are going to need assistance in this space. As a result, these people are hard to come by. It's important that the XRB has smart people in this space, so that they can lead the conversation around these reporting standards.”

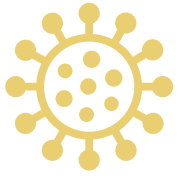
Investors

“If you can't articulate the values of the profession, and if they're not reflected in the standards the profession is expected to work to, you've lost the narrative of what an auditor is... I think we've got to actually brand this profession differently... I think we've allowed for it to be debased in the public's mind and we need to bring that back. And I think the regulator has a really strong play in that.”

Regulator/Public Sector

“When people are under the cosh, can't recruit, they've got to do with what they've got. And so the clearer and more transparent the standards are, the easier they are to apply.”

Professional Body



04

COVID-19 issues impacting their sector.

The pandemic has introduced a range of (significant) impacts for strategic stakeholders.

Key challenges include: Economic pressures; impact of border closures on available workforce; maintaining the health and wellbeing of employees; remote working (for some activities); financial reporting (e.g., making comparisons across different reporting periods) and investment in technology to support new ways of working.

Future anticipated challenges include a labour shortage, a more dynamic auditing role, and ongoing supply chain issues.

While COVID-19 is currently impacting a range of sectors – and is anticipated to do so for some time – strategic stakeholders do not view it as a future significant and strategic issue.

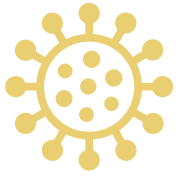
“It’s stopped the flow of talent around the world, so it’s very hard to recruit senior audit staff, and our staff are getting poached”. Regulator/Public Sector

“There’s all the broader issues – employment, getting employees, keeping them safe, the work from home piece, all the stuff that we’re confronted with. The economic impact.” Regulator/Public Sector

“COVID-19 is just a blip – a big blip – but from a disclosure perspective it doesn’t change much at all.” Investors

“I think we’re just living in an age where we’re always going to have a massive emerging crisis risk.” Regulator/Public Sector

“I think it’s [COVID] less important now because you have got through it, and we’re getting through it. And we’ve learned a lot of valuable lessons from it, and I think it’s a part of BAU for every organisation”. Professional Body



04

How COVID-19 impacts what the XRB needs to consider.

Similar to strategic stakeholder experiences, COVID-19 is not viewed as a significant strategic priority for the XRB.

Issues raised tend to be at the operational level: e.g., a request for increased guidance on reporting during the pandemic; ability to submit information digitally; ensuring that accounting standards are reflective of COVID-related economic impacts; the importance of a flexible and well-supported workforce within the XRB itself.

However, more broadly, it highlights the importance of the XRB being adaptable, flexible, and able to quickly mobilise, in the face of unexpected events such as wars and pandemics.

Further, COVID-19 has brought to light a lack of trust in government and reinforces the role of standards and regulations to help build trust and confidence in institutions.

“I think COVID-19 is one of many issues that are going to face the world in the next 20 years. I think it will be a factor in the next five years in most of our society, but it shouldn’t really dominate. Especially financial reporting, I think it will influence for sure, but I don’t think the XRB should be letting it guide how they set standards or anything along those lines.” Regulator/Public Sector

“I put COVID-19 right at the bottom [in terms of importance]. Because I just think it’s something that’s really topical right now. And I’m not saying it’s not had an impact, it has. But it doesn’t fundamentally change what the XRB has to do in the long term. You still have to do your standards, still do policy.” Investors

“It’s galvanized people who are untrusting of authority of governments, of experts, and somehow managed to ignite a group of those people into a semi riot. And I think the big risk is that we, through this process, lose trust in institutions and the people that are there to protect and support us in times of need. And is a really big play here for regulators and others.” Regulator/Public sector

I hope I’m right in saying this - its impact on the XRB is relatively limited and hopefully not enduring... In other words, hopefully it will fall away and hopefully, is in the process of doing so. You would like to think that it’s not something that needs to be on a 10-year plan, rather than as a thing to be keeping an eye on in a tight labour market.” Regulator/Public sector



05

Economic factors impacting their sector.

Strategic stakeholders acknowledge the New Zealand economy is facing a raft of challenges in the current environment.

These are closely aligned with the pandemic, with various impacts reported: e.g., supply disruptions, inflation, increased living costs, interest rates rising, decline in asset prices, margin pressure.

The potential for increased shareholder activism as a result of challenges faced by companies is also seen to be an outcome of economic factors impacting different sectors.

Similar to COVID-19, economic issues are not generally viewed as a strategic issue; but rather (important) contextual factors that underpin the “*normal course of business*”.

They are also seen as cyclical; while the pandemic is strongly influencing the current economic climate, strategic stakeholders highlight that other influences will shape this in the future.

“Economic pressure on all businesses, pandemic pressure, inflationary pressure, global instability, all of that affects businesses. But the economy is cyclical. And we’ll come out of this trough and go up, and then we’ll go into another trough.” Professional Body

“The perfect storm at the moment.” Regulator/Public Sector

“Particularly at the moment the economy is suffering. Globally, there’s geopolitical unrest and inflationary pressure and all that happening at the same time.” Professional Body

“The need for shareholder activism will actually increase. You’re going to see shittier performance by companies. And decisions that were made in good times don’t arguably look quite so good. And interest rates are going up and inflation’s going to hell in a handbasket.” Investors



05

How economic factors impact what the XRB needs to consider.

Similar to COVID-19, strategic stakeholders do not view economic factors as a significant strategic priority for the XRB.

However, it is anticipated that the rigour and transparency of standards will become even more important during times of economic risk and pressure.

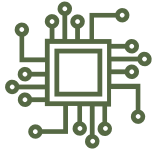
Further, they highlight that the organisation’s strategic approach needs to be robust enough to respond to – and withstand – harsh economic climes.

As a regulator, there may also be calls for increased flexibility and understanding towards entities which are facing significant economic pressures (e.g., exemptions for exceptional circumstances).

“I think they [XRB] need to hold the principles they’ve got... They should not be designed for a fair weather economy, or a shitty economy. They should just be designed to endure. So XRB are designing policies and they will have a long shelf life, and that’s appropriate.” Investors

“I think they [economic factors] are already with us and I don’t know what the XRB could add to a richness of data that’s already available.” Financial Sector

“There’s not much that XRB can actually do about things like inflation. [The XRB] are quite tightly contained in terms of their legislative responsibilities.” Professional Services Provider



06

Technological issues impacting their sector.

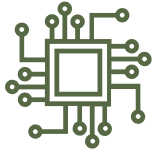
While presented as ‘disruptive technologies’ to strategic stakeholders, issues raised incorporate broader technological developments affecting their sector.

Within this, they report a range of important current or future considerations:

- A need for increased data protection due to the growing risk of cyber attacks and cyber fraud
- The growth of new digital currencies (e.g., bitcoin) and other digital developments (e.g., AI; NFTs; Buy Now, Pay Later model)
- The emergence of a new investor cohort via the introduction of different investor platforms (e.g., Sharesies)
- Automation of some roles (including auditing)
- The slow uptake to date of digitised reporting.

“This [cyber attacks] is the issue that’s going to bring boards down and bring organisations down. You’ve only got to look at the Russia Ukraine crisis and see the level of concern... This is a hugely increasing area and the number of attacks on organisations is increasing.” **Professional Body**

“What we call a democratisation of share investment ... things like Sharesies and Hatch which completely changed the dynamic of share investment. You don't need to go through a broker, you can just dabble in small sums. Financial advice, to some extent becoming mechanised. So, you don't need to talk to a person, you can have algorithms, and crypto. All that stuff is huge in the financial sector.” **Regulator/Public Sector**



06

How technological issues impact what the XRB needs to consider.

Strategic stakeholders highlight a number of issues for the XRB related to current or future technological developments:

- The importance of keeping abreast of emerging developments and its impact on reporting processes (e.g., ensuring a “*digital first perspective*” to reporting)
- The challenge of setting reporting standards relating to new technology (e.g., how do you audit machines?)
- The potential need for new reporting frameworks (e.g., for cyberfraud)
- The provision of (accessible) information (e.g., financial statements) to ‘newbie’ investors
- The need for in-house capability to enable new technologies.

“God knows what the metaverse is going to do to us. How the hell are they [XRB] going to audit assets in the metaverse?” **Professional Body**

“The question that will arise over the next five to 10 years is what are the value of those financial statements to the wave of new retail investors? And the answer must be or will be that those platforms and others will seek to, in a digital and automated way, produce analysis derived from annual statements. My question for the XRB is what are they doing to enable that prescribed information to be readily accessible to this new wave of retail investors?” **Professional Service Provider**

“I think XRB staying on top of new technologies and really thinking about the users of these technologies. Because in the case of not-for-profits it will be very small vulnerable organisations making use of risky new technologies. So, when they [XRB] are thinking about how to frame the reporting regime, making sure that mitigates some of those risks .” **Regulator/Public Sector**



07

Society's changing expectations impacting their sector.

Society's changing expectations is considered an important current and future strategic issue.

Climate related disclosures are strongly linked with this and often a first point of reference amongst strategic stakeholders.

This encompasses a shift in expectations relating to the ethical, equitable, non-monetary/financial, and moral performance of companies: Sometimes referred to as *"the social licence to operate"* or kaitiaki role.

It is closely aligned with calls for increased transparency and trust in institutions.

Key areas highlighted for assessing performance related to this include:
Environmental/sustainability performance; level of responsible and ethical conduct (e.g., modern slavery); prioritisation of customer interests; organisational transparency; long term performance; and employee care and remuneration.

"I think there's been a quite a transformation in societal expectations of not only of insurers, but that of [the] business community generally - the expectations for greater transparency, for businesses to be doing the right thing. And so doing the right thing, meaning putting their customers interests, right up front, for our sector, that's really important." **Financial Sector**

"We've moved away from just measuring short term share price to actually understanding that value in a business is created in the long term ... And for it to be worth more in the future, which will lead to share price, you do have to be able to have a social licence to operate. You've got to be able to ensure that the inputs of the business are going to be there long term. So, you do care about water, you do care about rubbish, you do care about your employees and the communities in which you live." **Professional Body**

"There's a much, much greater awareness of the potential for this [modern slavery] inside developed countries... Now this is a much broader question of how are people being treated throughout these supply chains, including in the developed countries." **Investors**

"You can see the change in the social conversation around the importance of climate change, and the importance of biodiversity or water quality or these other natural capital issues. If you're seeing expectations change, then that's going to influence what companies need to report or stakeholders understand from them." **Investors**



07

How society's changing expectations impact what the XRB needs to consider.

Strategic stakeholders acknowledge that the XRB is already responding to these changing expectations; the establishment of the climate-related disclosure framework is the most high profile example of this.

Given the leadership role the XRB has taken in relation to this framework, there is an expectation that the organisation will be a frontrunner in other areas.

Strategic stakeholders highlight the importance of the XRB being flexible to subsequent changing expectations: This includes potential adaptations to reporting frameworks (e.g., what is measured, timeframes) and introduction of mandates, where relevant.

“The most obvious expression of that [society's changing expectations] is in the climate related disclosures activity that XRB are doing now. That's appropriate to respond to that. And as society keeps changing then they'll have to follow.” Investors

“I think keeping their eyes on the ball in that space... I think slave labour reporting would be great to see at some point, but that's probably 10 years in the future.” Regulator/Public Sector

“I think XRB have a really key role to play there. The mandatory disclosures will drive those sorts of behaviours. I mean, mandatory is you have to do it, but over time that will just drive more open behaviour, honest discussions around your social licence to operate, your carbon footprint, etc.” Regulator/Public Sector



08

Shareholder activism impacting their sector.

Shareholder activism is closely aligned to society's changing expectations, with investors seen to have increased interest in the (non-financial) performance and conduct of companies (e.g., environmental track record).

It is also linked to shareholders being given scope to exercise their expectations and exert pressure on organisations, including via legal action; this includes a response to legislative changes that do not align with shareholders' needs.

Some strategic stakeholders extend the concept to 'stakeholder activism' (or capitalism) to reflect the views and interests of a broader range of entities (employees, customers, and communities); there is also evidence of some resistance to the 'activism' terminology.

This is considered less of a strategic priority for some strategic stakeholders; others, however, predict a rise in shareholder activism as economic pressures increase and other world events unfold (e.g., Russia-Ukraine war).

"[Stakeholder activism] is the point that your customers and staff and the wider community have got a greater role, have got more voice and have more influence on the company than might have been in the past."

Financial Sector

"It [shareholder activism] always has [been an issue impacting the sector], and always will be. And like I said, a lot of it is low level, but will always be there."

"To the extent that shareholders are exerting pressure on organisations, whether that be for social, environmental or governance components. Or taking class actions against directors. The rise in shareholder activism is absolutely relevant."

Regulator/Public Sector



08

How shareholder activism impacts what the XRB needs to consider.

Shareholder activism is aligned with work already being undertaken by the XRB in the climate related disclosure space (e.g., via non-financial reporting).

Overall, however, some strategic stakeholders believe that shareholder activism is less of a consideration for the XRB.

Others highlight the following issues for the XRB to consider:

- It reinforces the importance of standards as a way of companies demonstrating performance to key stakeholders
- Reporting needs to incorporate a wide audience (e.g., beyond investors/shareholders)
- There is a need to ensure increased reporting requirements, as a result of stakeholder activism, do not become unwieldy or unmanageable.

“Certainly, specifically in the context of climate-related financial disclosure, because that’s something that’s top of mind for shareholder activism. I suppose that issue of sort of transparency towards shareholders, which is at the core of what the XRB does remains very relevant, increasingly so.” Regulator/Public Sector

“I think that what they’re doing on the reporting side is a major shift for companies, so they are looking to shepherd that in. So, in their guidance to companies, I think they’ll need to be talking about obligations to a broader base than just investors and shareholders. I think they already are, to be honest.” Regulator/Public Sector

“The driver of the increased transparency and volume of reporting is coming from stakeholder activism, and said reporting is the solution to all of these issues around transparency and trust – let’s just get everyone to report it. But then you have all these disconnected reports that sometimes can be meaningless, can be hard to find, and are they really solving the problem that they were set out to achieve?.” Professional Body



09

Trust in institutions impacting their sector.

Trust in institutions is central to the role and remit of some stakeholder organisations, and a topical issue in both the public/not-for-profit and private sectors.

Closely aligned with society's changing expectations, there is growing focus on the conduct and reputation of institutions, including the way in which they treat their customers and other stakeholders; this incorporates systemic racism.

Strategic stakeholders acknowledge that trust in institutions has been declining, and highlighted through previous key events such as the Hayne Royal Commission¹.

Trust in institutions incorporates being transparent, *“doing the right thing”*, having faith in financial reporting, and entities taking a customer-centric approach.

“When we come to trust, it is about being Māori and our voices being heard. Because generations of my tupuna have been devalued as second-class citizens.” **Māori Stakeholder**

“I think that trust is critical, and it’s something that we track very carefully and regularly. Because ultimately, when you think about the relationship you have with your [organisation] it’s based on trust.” **Financial Sector**

“We are less concerned whether a [stakeholder organisation] is solvent but concerned about whether they conduct themselves properly in terms of treating their customers right, putting their customers’ interests first.” **Regulator/Public Sector**

“We have a problem with trust right across society right now. It’s probably been around for a long time in one form or another, but it’s been amplified and exaggerated by social media.” **Professional Body**



09

How trust in institutions impacts what the XRB needs to consider.

Trust in institutions is considered fundamental to the XRB's role:

- Reporting standards need to be robust to engender trust and confidence (particularly non-financial reporting which is in its infancy)
- Reporting needs to be accessible to “everyday people”
- Disclosures need to be broad enough to provide the “full picture” of entities.

“Trust in institutions is the overarching objective [of the XRB]. That’s what they’re about. So everything they do and think should probably be put through the lens of whether it’s advancing that objective.” Regulator/Public Sector

“I do think XRB have a role in thinking about how they can ensure their reporting is actually being effective, effectively communicating to everyday people... They should be building standards that can be really easily understood so that people can have more trust in these institutions moving forward.” Regulator/Public Sector

“We’re talking about trust is the foundation. Then they [XRB] should look at their standards and say ‘are these standards building trust or are they derailing it?’ And what’s their role in communicating and promoting [trust]?” Regulator/Public Sector



Strategic stakeholders also identify *te ao Māori* as another key strategic priority in their sector.

A Māori worldview is either fundamental to the work of some strategic stakeholders, or has been identified as a key strategic priority. It incorporates:

- Consideration of the non-financial performance and responsibilities of entities – e.g., the importance of the kaitiaki role
- The cultural competence of staff (e.g., auditors)
- Initiatives to support and recruit Māori staff
- Initiatives to support Māori stakeholders (e.g., improving financial literacy).

“[The group is working with] everything from funding of loans on Māori leasehold land, through to attracting Māori into the sector.” **Financial Sector**

*“You're more concerned with the auditor's iwi. And Māori businesses need more time with them to educate them, and to give them pastoral care while they are entering *te ao Māori*. And so our concern is, you bring over 180 foreign auditors into Aotearoa, even though we have the standards, we will feel it more than most, because our investment into getting them trained and to understand the different *whakaaro* when they're not from here is difficult. So, our costs immediately go up because the orientation is so foreign to them, we need to invest with them more.”* **Māori Stakeholder**



How te ao Māori impacts what the XRB needs to consider.

Key considerations for the XRB include: Inclusion of Māori in the standard setting process; standards that reflect te ao Māori (e.g., an intergenerational focus in reporting); and a collaborative approach to engaging with stakeholders.

“They (XRB) might be doing a standard on say heritage assets. And what does that mean for taonga? These things which are absolutely precious and fundamental to Māori?” Professional Body

“It's a long burn, the development of our people is a long burn, especially in education and reskilling our people. We won't see the true benefit of that investment until our people have secured their career path. For us we then try to understand it, what influences it, what part of that investment can we recognise that influences that benefit - and then what part of that return can we acknowledge in order to measure against our performance matrix which will span multiple financial years? We have an intergenerational focus, for XRB they are talking about disclosures and accounting standards that are still tying us to one year.” Māori Stakeholder

Some strategic stakeholders believe the XRB's engagement with Māori has improved, although it is acknowledged that *“there's a lot more to do”*.

“They [the XRB] haven't traditionally engaged very effectively with Māori iwi organisations and Māori business... And they are now much more formal, they've formalised their approach. They've got new members on the XRAP who represent, one person from Tainui and one person from Ngāi Tahu... and they are doing their consultations, I think, on all these standards with taking into account Māori views more effectively.” Professional Body



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