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Standards  
Board

# The state of EU environmental disclosure in 2020

December 2020 [cdsb.net/nfrd2020](https://cdsb.net/nfrd2020)

# About the Climate Disclosure Standards Board (CDSB)

**CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.**

**We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn, this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.**

**Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems. For more information, visit [cdsb.net](https://cdsb.net) or follow the Climate Disclosure Standards Board on LinkedIn and Twitter @CDSBGlobal**

**We welcome your input and discussions. If you would like to comment on this document, please contact us at [info@cdsb.net](mailto:info@cdsb.net).**

## Executive summary

In this report CDSB has taken a deep dive into the environmental disclosures of the largest listed companies in the EU. The third in the series, we pick up where our previous report ‘Falling Short?’<sup>1</sup> left off. We will compare where we were then, and what progress has been made, and will find from this comparison a clear sense of progress, which nevertheless fails to demonstrate a fast enough acceleration to achieve the change that is needed.

Supported by the LIFE Programme of the European Union, CDSB reviewed the 2020 environmental disclosures of 50 of Europe’s largest listed companies, with a combined market capitalisation of US\$3.5 trillion, under the EU Non-Financial Reporting Directive (NFRD). Our analysis assesses the effectiveness of environment and climate disclosures in meeting the NFRD’s purpose of increasing the relevance, consistency and comparability of company reporting to support informed stakeholder decision-making on sustainable development. It also supports the corporate reporting process by identifying good practice case studies and tips. The review assessed the strengths and weaknesses of companies’ disclosures, based on the required disclosures under the NFRD, and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)<sup>2</sup>.

### The state of EU environmental disclosure in 2020

Our review indicates some reasons for optimism, with improvements in aspects of disclosure relative to our 2019 analysis, for example in the completeness of greenhouse gas (GHG) emissions disclosures and quality of business model disclosures. However, despite the release of the European Commission’s non-binding guidelines on reporting climate-related information in June 2019<sup>3</sup>, much progress is still needed to improve the clarity and completeness of disclosures, notably on TCFD, risk and materiality. Given that these observations are true of 50 of Europe’s largest listed companies, it is clear that the current requirements of the NFRD are not yielding the outcomes desired. Our findings therefore strongly support the upcoming review of the NFRD in 2021. This report puts forward recommendations for policymakers to address the most critical issues identified, through integration of crucial features of the Directive’s non-binding guidelines into the Directive, to clarify and strengthen its mandatory requirements.

### Climate remains king, but selective approaches to disclosure are limiting TCFD adoption

Climate change was a strong focus in reviewed disclosures, with all companies now providing specific disclosure on the topic. However, our 2020 analysis still shows TCFD adoption to be inconsistent and incomplete. Whilst 68% of company disclosures now make some reference to TCFD, the vast majority have still only partially adopted the recommended disclosures. For example, 96% of companies still do not define short, medium and long-term time horizons, and just 18% are providing clear disclosure on their resilience to different climate scenarios. The existing regime of voluntary TCFD adoption means that companies continue to take a selective approach to disclosure. Explicit inclusion of the TCFD recommendations into the Directive is therefore necessary to achieve full disclosure of this critical information for investment decision-making.



### The strongest and weakest aspects of disclosures remain unchanged

The top three strengths and weaknesses of each company’s disclosure were categorised during our analysis. The most common strengths and weaknesses across all companies remain unchanged. This emphasises the need for regulatory change to address weaknesses, but companies must also tackle these challenges directly.

Strengths ★★ ★	Weaknesses ★ ★ ★
<b>1. Policies and due diligence</b>	<b>1. TCFD</b>
<b>2. Business model</b>	<b>2. Principal risks</b>
<b>3. KPIs</b>	<b>3. Materiality</b>

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**Key findings**

Our latest review shows signs of improvement in the completeness and quality of aspects of environmental disclosure. However, the core challenges identified in our previous research, relating to TCFD adoption, risk disclosures and the application of materiality, must still be addressed to provide investors with the consistent, coherent and comparable disclosure needed.

<p><b>Business model</b></p> <p>52% of companies fully disclosed the relevant environmental aspects of their business model</p> 	<p><b>Policies and due diligence</b></p> <p>All companies disclosed environmental policies, but 30% did not clarify board and management level due diligence</p> 
<p><b>Outcomes</b></p> <p>26% did not use targets to monitor environmental performance and 16% failed to link progress updates clearly to policies</p> 	<p><b>Principal risks</b></p> <p>74% considered both physical and transition risks, but just 4% companies clearly disclosed their risks over different time horizons</p> 
<p><b>Key performance indicators</b></p> <p>All companies provided GHG emissions disclosure, but only 10% disclosed metrics on biodiversity</p> 	<p><b>TCFD</b></p> <p>68% referenced TCFD in their disclosure, but only 18% adequately disclosed their resilience to different climate scenarios</p> 
<p><b>Materiality</b></p> <p>38% applied the double materiality perspective to their environmental disclosures</p> 	<p><b>Disclosure location</b></p> <p>82% included their non-financial statement in the mainstream report, but disclosures grew by 36% compared to 2019</p> 

**Environmental topics**

46% referenced biodiversity, but only 22% provided disclosure on deforestation



**The state of EU environmental disclosure in 2020**

Topic	Disclosure requirement	2019	2020
<b>Business model</b>	Clear and specific disclosure provided on business model environmental aspects	34%	52%
	<b>Policies and due diligence</b>		
	Environmental policies and due diligence both disclosed	94%	94%
	Board and management level responsibilities disclosed	64%	70%
<b>Outcomes</b>	Quantitative targets used to disclose environmental policy outcomes*	N/A	74%
<b>Principal risks</b>	Environmental risks disclosed	90%	86%
	Transition and physical climate risk types considered	54%	74%
<b>KPIs</b>	Scope 1, 2 and 3 Greenhouse gas emissions disclosed	54%	74%
<b>TCFD</b>	Impacts of risks over short, medium and long-term time horizons disclosed	6%	4%
	Scenario analysis used to disclose strategic resilience to climate change	14%	18%
<b>Materiality</b>	Double materiality approach applied to environmental disclosure	8%	38%
<b>Location and format</b>	Respond to NFRD in the mainstream report	84%	82%
<b>Environmental topics</b>	Provided disclosure on deforestation or forest degradation*	N/A	22%
	Provided disclosure on biodiversity*	N/A	46%

\*Aspect first assessed in 2020, therefore 2019 data unavailable

## Recommendations

Building upon the findings of our review, we put forward recommendations for companies, and for policymakers and regulators, to ensure that the NFRD, and corporate disclosures made under it, deliver the information needed to drive achievement of EU climate and environmental ambitions.

### Recommendations for corporate report preparers

While further improvements were evident in 2020 disclosures, issues relating to risks, materiality and TCFD disclosure continued to present challenges for companies. To further enhance the provision of information to report users, companies should in particular:

**1. Accompany policies with specific and measurable commitments** which can then be used to structure non-financial disclosures and provide transparent progress updates;

**2. Disclose information on environment and climate risks in a business-specific manner**, clarifying impacts and time horizons;

**3. Focus disclosure of performance indicators** in the mainstream report on those which are used to measure progress on environment and climate policies and that are linked to material risks;

**4. Adopt the TCFD recommended disclosures in full**, in particular integrating information into the mainstream report where it is deemed material;

**5. Clarify the materiality of environmental and climate-related issues** to the business, explaining how mainstream, and wider sustainability reporting if appropriate, is informed by this; and

**6. Disclose environmental and climate-related information deemed to be financially material in the mainstream report**, to ensure it is available to an investor audience and can be considered holistically alongside overall strategic and financial performance.

### Recommendations for policymakers and regulators

With the European Commission's finalised proposals for revision of the NFRD forthcoming, this important opportunity to improve the effectiveness of the Directive must achieve enhanced access for investors and other stakeholders to the environmental information they need by:

**1. Remove the exemption** allowing the non-financial statement to be reported **outside the mainstream report**, to support accessibility, consistency and comparability of disclosures;

**2. Define key terms used in the Directive**, including 'policies', 'due diligence' and 'policy outcomes' to ensure consistent and comparable application of the content categories;

**3. Explicitly embed the TCFD recommendations** into the Directive, as non-binding guidelines are not driving uptake at the necessary pace and scale to support investor decision-making;

**4. Emphasise in the revision of the Directive the importance of ensuring that the different content elements provide a connected overall view on how companies ensure sustainable long-term value creation;**

**5. Incentivise companies to do more to tackle environmental and climate issues, through ambitious policies and rigorous due diligence processes, by ensuring policy coherence between the NFRD review and the upcoming EU initiative on corporate governance;** and

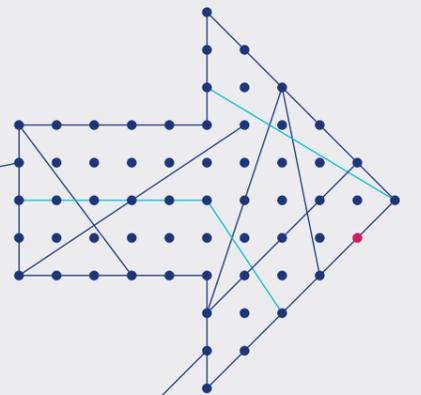
**6. Ensure that environmental issues beyond climate, including biodiversity, water and forests, are clearly integrated and addressed in the revision of the NFRD, to support wider EU policies.**

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# Introduction

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## Introduction

In 2020, European companies published their third annual disclosures under the EU Non-Financial Reporting Directive (NFRD, also referred to as ‘the Directive’). Since entering into force in 2017, the Directive has required certain<sup>i</sup> large EU companies to prepare a ‘non-financial statement’ disclosing their business model, policies, outcomes, principal risks and key performance indicator (KPIs) on various non-financial topics, including ‘environmental matters’<sup>ii</sup>. The Directive provided for inclusion of the non-financial statement within the ‘management report’<sup>iii</sup>, however it also included an exemption at Member State level allowing for disclosure in a separate report, providing it was published within six months of the balance sheet date and referred to in the management report.

2020 disclosures represented the first since the release of the European Commission’s guidelines on reporting climate-related information in June 2019<sup>3</sup> (‘climate-related guidelines’), which provided a direct link between companies’ disclosures on ‘environmental matters’ and the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)<sup>2</sup>. The guidelines set out the relationship between the NFRD and TCFD and outlined how companies could integrate the two disclosure requirements.

To assess the ongoing effectiveness of these requirements, and consider in particular the impact of the climate-related guidelines on the first disclosures published since their release, CDSB reviewed 50 large listed European companies’ 2019 reports (published in 2020 for the 2019 financial year), assessing in detail the environmental content. Our 2020 analysis aimed to provide further insights on the levels of disclosure of other environmental aspects, such as water, deforestation and forest degradation and biodiversity<sup>iv</sup>. The review was conducted manually by expert reviewers using questions based on the requirements of the Directive, its non-binding guidelines<sup>3,4</sup>, and the TCFD. Mainstream reports were reviewed, alongside information disclosed elsewhere, where clearly referenced from the mainstream report.

Where possible, the same companies were reviewed as for our 2019 analysis, to maintain comparability within the review sample. However, due to the withdrawal of the UK from the European Union in early 2020, 13 UK-headquartered companies were removed from the sample. Large EU companies that maintained a balanced distribution across sectors and members states were selected to replace these companies.



In this report, year-on-year comparisons are drawn between the performance of the 50 companies reviewed in 2019, to the 50 reviewed in 2020, as a representative sample of disclosures by large EU companies. Further detail on the methodology and review sample can be found in the Appendices.

This report builds on our analyses of 2018<sup>5</sup> and 2019<sup>1</sup> environmental disclosures, which both identified the need for concerted action by policymakers, regulators and companies to enhance the quality of information disclosed to investors and markets. Overall, our research to date has shown that, whilst adoption of non-financial reporting continues to increase, information still requires further improvement to be of use to investors and wider stakeholders. Our latest review therefore allows us to assess whether these improvements are yet evident, and what further action may be needed to ensure high quality environmental disclosure by European companies.

This report sets out the key findings of our 2020 review, structured according to the core content categories of the Directive (business model, policies and due diligence, outcomes, principal risks and KPIs), with further sections on TCFD, materiality, disclosure format, and wider environmental disclosure. Throughout the report, good practice examples, tips for report preparers, and proposals for policymakers and regulators are provided. The key recommendations from our research, for companies and for policymakers and regulators, are provided on [page 32](#).

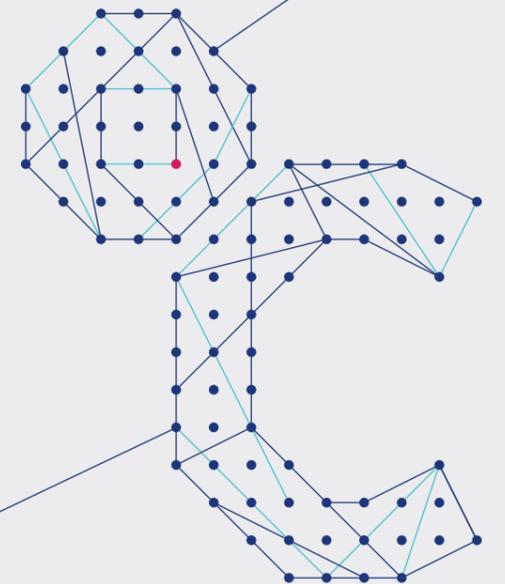
<sup>i</sup> Companies in scope of the Directive include large undertakings, which are public-interest entities and have an average number of employees exceeding 500 during the financial year. Due to differing definitions for these terms at the Member State level, the precise scope of implementation may differ between jurisdictions.

<sup>ii</sup> For further detail on the requirements of the NFRD, see [https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting\\_en](https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en), also CDSB’s EU Environmental Reporting Handbook (2020) [PDF]. Available from: <https://www.cdsb.net/eu-environmental-reporting-handbook>.

<sup>iii</sup> ‘Management report’ is hereafter referred to by CDSB as the ‘mainstream report’ and is also commonly referred to as the annual report and accounts.

<sup>iv</sup> In defining these issues, CDSB align its approach to accepted international definitions, for example the Convention on Biodiversity. Further detail of the specific aspects assessed for each environmental topic can be found on [page 28](#).

# Findings part 1: Environmental disclosure under the NFRD content categories



## a) Business model

**What the Directive asks for**  
 “(a) a brief description of the undertaking’s business model”



**2017 Non-Binding Guidelines**

- Highlighted the importance of the business model in providing overall context for the mainstream report; and
- Emphasised that disclosures should describe how the business generates and preserves value over the longer term, how it operates and how it transforms inputs into outputs through its activities.

**2019 Climate-related Guidelines**

- Advocated that companies should disclose the impacts of climate-related risks and opportunities on the business model, as well as the ways in which the business model can both positively and negatively impact the climate.

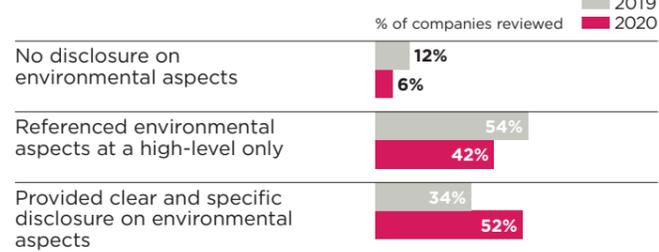
**Business model disclosures play an important role in informing investors’ understanding of the environmental impacts and dependencies of relevance to businesses. Disclosures were reviewed to assess how effectively companies were articulating these aspects, and where they were choosing to do so within their reporting.**

### Growing numbers are integrating climate and environment into their business models

94% of the companies disclosed some environmental aspects of their business model, showing further improvement compared to 88% in 2019. A greater proportion of companies also did so in a manner that addressed the key aspects outlined in the guidelines to the Directive, with 52% able to provide a clear and specific account of both the positive and negative environmental and climate impacts relevant to their business model, compared to 34% in 2019. This offers a positive sign that companies are becoming increasingly cognisant to the strategic significance of climate and environmental aspects for their long-term resilience and value creation.

Stronger disclosures demonstrated both an environmental macrotrends which may impact strategy, such as climate change and natural resource scarcity, and clearly articulated how these aspects have been addressed in the company’s value creation model. For example, companies illustrated the specific products, services or business lines for which a given environmental risk or opportunity was relevant, and then clarified how this aspect was being managed to both minimise negative impacts and maximise value creation.

### Business model disclosure



### Moving from generic to business-specific disclosure

However, 42% of business model disclosures were still considered too high-level or generic to articulate the strategic integration of these matters. Such disclosures made only very brief references to the significance of climate change, or broader need to manage the company’s environmental impact. They provided little or no business-specific detail on the exact environmental issues of significance, or nature of their relationship to the business’ value creation model. As was observed in our previous review, such disclosures of a promotional or aspirational nature can limit decision-usefulness for investors, by obscuring material information.

78% (2019: 64%) included environmental business model information at the outset of their mainstream report, incorporating it into the description of their core business strategy and value creation model. However, 16% (2019: 24%) opted to make a secondary business model disclosure within the non-financial statement or sustainability section. Without cross-reference or linkage to the main business model, it was therefore difficult for the user to determine the degree of meaningful integration of environment or climate into the business’ overall value creation model.

**Good practice example: In its 2019 Annual Report, Ørsted discloses its business model in an integrated manner, considering inputs, activities and value creation, in line with the different ‘capitals’, with environment and climate clearly considered.**

## Our business model



**Our review demonstrates further progress by companies in understanding and articulating the strategic significance of environmental matters to their organisations, with a greater proportion now providing clear and business-specific disclosure. However, almost half continue to provide limited or generic reporting; a missed opportunity to set out clear context for environmental information in the mainstream report.**

### Good practice tips for companies

- ✓ Include a diagrammatic representation of the business model, which demonstrates inputs, outputs and impacts of the organisation;
- ✓ Where secondary disclosure on environmental aspects of the business model is made, ensure clear reference and linkage is made to this in the main business model description;
- ✓ Avoid generic or high-level statements, ensuring information addresses how the company generates economic, social and environmental value for society through its business; and
- ✓ Ensure the articulation is company-specific, for example by referencing specific products, services and the associated environmental matters that are relevant to these.

### Proposals for policymakers and regulators

- Expand on the Directive’s current requirement for a ‘brief’ business model description, to clarify that disclosures must balance succinctness with providing adequate, business-specific disclosure on economic, social and environmental value creation; and
- Specify in the Directive’s requirements that the business model disclosure should clearly link the organisation’s core business strategy and value creation model to the specific non-financial topics relevant to the company, i.e. including climate and environment where applicable.

## b) Policies and due diligence

### What the Directive asks for

“(b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented”



### 2017 Non-Binding Guidelines

- Companies’ disclosures should provide a fair view of their policies, focused on material issues;
- Company-specific objectives, plans to deliver the objectives and how plans were implemented should be included; and
- Due diligence disclosures should explain management and board’s responsibilities.

### 2019 Climate-related Guidelines

- Policies should describe any climate-related targets and how these contribute to the Paris Agreement; and
- The board and management’s oversight of climate risks and opportunities should be disclosed.

**Well-articulated policies provide the basis to inform and structure a company’s environmental disclosure. Our review focused on the connectivity of policy and due diligence disclosures, considering how well companies outlined their approach and commitments.**

Mirroring our findings for 2019, policies and due diligence were among the most consistent areas of environmental disclosure, with 100% of companies disclosing policies and 94% disclosing due diligence arrangements. However, ‘policies’ and ‘due diligence’ are not defined within the Directive, therefore a proportion of companies continue to provide disclosures which are not decision-useful for investors.

### Policies

Policies were assessed as specific environmental focus areas, with accompanying actions and targets to achieve high-level goals. They may include commitments to reduce specific environment or climate impacts, mitigate risks, or realise opportunities, and may cover direct operations, supply chain, customers, or participation in wider stakeholder initiatives. Strong policies provided a clear framework, establishing which environmental aspects were considered material for the business, with linkage to identified risks and opportunities. In good practice examples, company-specific commitments on specific topics, such as climate change mitigation or natural resource usage, were outlined, with timebound targets and actions. Such disclosures offered a basis against which due diligence, outcomes and KPIs could be structured, leading to focused, coherent and connected reporting.

### Policy and due diligence disclosure



### Board and management-level due diligence disclosure



Whilst our analysis found that many instances of strong policy disclosure, where weaknesses existed several key issues were identified. For example, some disclosures made ambition statements, such as a high-level commitment to reducing environmental impact, but failed to specify the environmental aspects considered material or the precise actions the company was taking. Additionally, in some instances the companies’ stated policies did not obviously inform their subsequent disclosure, for example reporting KPIs on topics not referenced in the organisation’s policies. This reduced the overall coherence of disclosures, leading to a lack of clarity over policies and progress against them. In the absence of clear policies, disclosures did not offer a consistent and coherent narrative to enable a full understanding of how the organisation creates and sustains value for the long-term.

A further challenge that was observed was a lack of structure to policy commitments. For example, various policy statements on climate or environment may be made in different report sections, which were seemingly unconnected. Additionally, in some disclosures, policies were disclosed after outcomes and KPIs had already been reported, requiring disclosure to initially be interpreted without this crucial context.

### Due diligence

94% of companies provided some environmental due diligence disclosure, for example how they ensured they achieved their environmental or climate-related policies, monitored ongoing progress or identified and managed risks. 70% disclosed both board and management-level accountabilities, showing modest improvement on 2019 (64%). A declining number of companies (4%, relative to 10% 2019) continued to interpret ‘due diligence’ to relate to asset-level procedures, thus omitting the board and management responsibilities of concern to investors.

Often, board level accountabilities were discussed in the corporate governance report, with more overarching references to ‘sustainability’ taken to include environmental matters. However, where companies had adopted the TCFD recommended disclosures on

governance, more explicit statements on responsibilities for climate-related aspects were commonly included within a dedicated TCFD statement. While integration of environment and climate into wider governance arrangements should be encouraged, it is important to ensure sufficient clarity as to how environmental issues are specifically monitored. Few companies directly connected their due diligence arrangements to the specific details of their environmental policy commitments. Consequently, in integrating information across the mainstream report, care must be taken to ensure that the user can determine how climate change (as an issue of particular interest to investors) is explicitly addressed through wider governance arrangements.

**Good practice example: Telefónica’s Consolidated Annual Report 2019 includes a clear yet succinct articulation of its governance model, clarifying the issues it pertains to and responsibilities at different levels of the organisation**

## 2.2. Sustainability Governance Model GRI 102-20, 102-26, 102-27, 102-29, 102-30, 102-31, 102-32, 102-33

Our Responsible Business Principles and our Responsible Business Plan, respectively, make up the ethical framework and our roadmap as regards sustainability. Both are approved by the Board of Directors, as are the group’s most important policies on this issue (see policies in 2.7. Ethics & Compliance chapter). The **Sustainability and Quality Committee of the Board** supervises the implementation of the Responsible Business Plan at its monthly meetings. In addition, the Audit and Control Committee takes on an important supervisory role as regards ethics and sustainability, as it supervises the compliance area, the risk analysis and management process, and the Company’s reporting processes. (See chapter 4.4. The organisational structure of the Administrative Bodies)

responsible management, respect for human rights, our Customer Pledge, our commitments with regard to privacy, freedom of expression and information, security, ethical management of Artificial Intelligence and responsible management of technology, sustainable management of the Supply Chain, our Climate Change and Environment strategy, promoting Diversity, the safety and well-being of our employees, and a business strategy focusing on generating products and services that contribute to addressing the major social and environmental challenges of society (sustainable innovation).

**The Company’s Responsible Business Plan** includes targets and projects concerning the Company’s ethical and

Some of the major goals of the Responsible Business Plan are also incorporated into the variable remuneration of all those employees of the company with variable remuneration.

	Board of Directors	
Approval	Board of Directors	
Supervision	Sustainability and Quality Committee	Audit Committee
Monitoring	Responsible Business Office	
Implementation	Corporate Support and Business Areas	Country Operators

**The Responsible Business Office**, which four times a year brings together the **top managers of the areas** of Compliance, Audit, Legal Services, Human Resources, Corporate Ethics and Sustainability, Communication, Security, Procurement, Technology & Operations, Digital Consumer, Telefonica Tech and Telefonica Infra, undertakes **monitoring** of the Responsible Business Plan. This Office reports through the

head of Corporate Ethics and Sustainability to the Sustainability and Quality Committee. **The corporate support and business areas, on the one hand, and the Executive Committees of the Operators, on the other, are responsible for implementing the objectives of the Responsible Business Plan.**

Information on policies and due diligence continued to be among the stronger aspects of disclosures in 2020. However, greater clarity over the definition of these terms in the Directive would further reduce ambiguity; emphasising decision-useful aspects.

#### Good practice tips for companies

- ✓ Include company and context-specific ambition statements within the policies, accompanied by timebound targets to enable progress to be tracked over time;
- ✓ Ensure policies are clearly outlined at outset of the non-financial statement and that they inform the structure of due diligence, outcomes, risks and KPI disclosures, to provide a connected overall narrative on long-term value creation; and
- ✓ Clearly specify board and management-level accountabilities regarding environmental matters and explain the linkages between the two levels.

#### Proposals for policymakers and regulators

- Define 'policies' and 'due diligence' explicitly within the Directive to ensure a common understanding and application of the requirements;
- Specify that policies disclosures should inform other content categories, and be connected to material risks and opportunities, timebound targets and actions, due diligence, outcomes and KPIs;
- Ensure the Directive's due diligence requirements place explicit emphasis on information relevant for an investor audience, including board and management-level responsibilities and risk management processes, clarifying that detailed asset or site-level information is unlikely to be material for inclusion within the non-financial statement; and
- Incentivise companies to do more to tackle environmental and climate issues, through ambitious policies and rigorous due diligence processes, by ensuring policy coherence between the NFRD review and the upcoming EU initiative on corporate governance.

## c) Outcomes

**What the Directive asks for**  
“(c) the outcomes of those policies”



#### 2017 Non-Binding Guidelines

- Companies should provide useful, fair and balanced information on the outcomes of their policies; and
- Disclosures should help investors and other stakeholders understand performance and progress.

#### 2019 Climate-related Guidelines

- The outcomes of companies' climate policies should be described, including performance against indicators and targets, aligned to risks and opportunities, including GHG emissions targets.

**Reporting on outcomes enables investors to understand progress against policy commitments and, ultimately, whether companies are aligning their business activities with their ambition statements.**

Our 2020 review found that, as in 2019, all companies disclosed some outcomes of their environmental policies. 86% provided qualitative commentary on the progress against their policies, 76% provided quantitative disclosure of performance indicators clearly linked to their policies and 74% disclosed performance against quantitative timebound targets or commitments from their policies. This demonstrates that most large companies provide a reasonable view on their performance, with a mixture of qualitative and quantitative information to contextualise policy progress.

#### Good practices were evident in many disclosures

Strong disclosures achieved a good balance of qualitative and quantitative disclosure, ensuring narrative was concisely focused on policy commitments and material issues. Consistency in reporting format across different environment and climate policy areas, such as the use of KPI tables with performance against targets, ensured transparent and balanced disclosure. Disclosures that provided very clear linkages between their policies, what was achieved in the specific reporting year, and how this compared to longer term goals, were typically the most effective.

#### Disclosure of policy outcomes

	2019	2020
	% of companies reviewed	
Disclosed outcomes of environmental policies	100%	100%
<b>Outcome types disclosed</b>		
	% of companies reviewed	
Qualitative commentary with clear link to policies*	N/A	14%
Qualitative commentary linked to clear policies*	N/A	86%
Quantitative performance indicators*	N/A	76%
Quantitative progress against targets*	N/A	74%

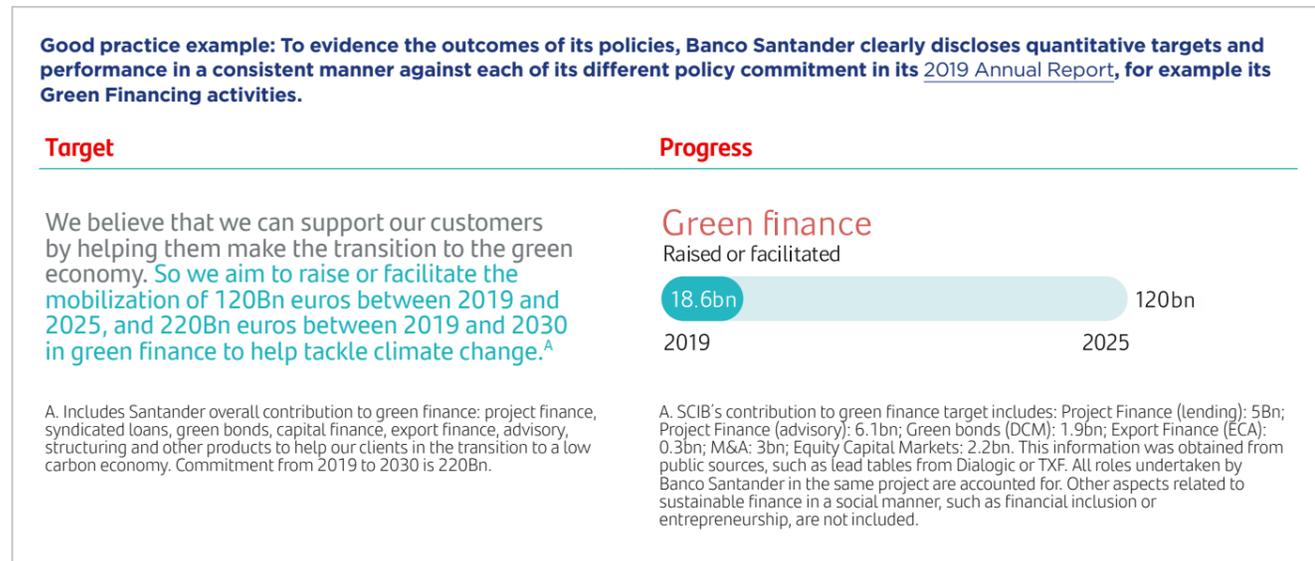
\*Aspect first assessed in 2020, therefore 2019 data unavailable

#### Further work is needed to ensure balanced, yet concise reporting

Even in stronger disclosures, ensuring a balance of information was a common challenge, particularly where progress was not in line with policy commitments. Good practice disclosures acknowledged such challenges directly, explaining the reasons for them and approach being taken to rectify them. However, more commonly, areas of poor performance were disclosed only in quantitative terms, without any accompanying commentary to justify or explain them.

In a minority of cases (14%) outcomes disclosure still lacked clear linkage to stated environmental policies. This was commonly an issue where policies themselves were limited to high-level ambition statements, meaning the outcomes disclosure that followed were also unfocused. Furthermore, as noted in our 2019 review, many companies again provided very lengthy outcomes disclosure. Often this was due to inclusion of topics the company had not identified as material, or the inclusion of site-level detail, without clarity as to how this was relevant or representative at a company level.

Inconsistent disclosure formats were also observed across environmental policy issues; for example quantitative targets and performance indicators were provided on climate change, but updates on biodiversity policies were often far less tangible. As highlighted in our 2019 review, narrative disclosure on outcomes without accompanying indicators or targets linked to policy commitments, can lead to “immaterial clutter”, and limits the ability to determine if information is fair and balanced. Nonetheless, the high number of companies noted in our 2020 analysis to be utilising a mix of both qualitative and quantitative information demonstrates that there is a growing body of good practice.



Overall uptake of outcomes disclosure is high, with many companies demonstrating good practice in the use of balanced qualitative and quantitative disclosure. However, further improvements are required in the consistency of outcomes disclosure across environmental policy topics, and in ensuring concise reporting, limited to material issues.

**Good practice tips for companies**

- ✓ Ensure outcomes are clearly linked to the stated policy objectives, providing balanced updates which address both achievements and challenges directly;
- ✓ Employ a consistent format to outcomes disclosure across environmental policy topics, to ensure relative progress in different areas can be appreciated;
- ✓ Accompany narrative updates with summary tables for indicators and targets, to ensure key outcomes can be readily identified; and
- ✓ Provide supplementary disclosure on non-material outcomes outside of the mainstream report, with clear linkage from the mainstream, to ensure connectedness yet concise reporting.

**Proposals for policymakers and regulators**

- Provide a clear definition for 'outcomes' within the Directive to clarify both reporting expectations for companies, and to enable more effective supervision by Member State regulators; and
- Clarify that outcomes should present both qualitative and quantitative information, i.e. metrics and targets with brief explanatory commentary, which offers a balanced view on both positive and negative outcomes against policies.

d) Principal risks

**What the Directive asks for**

"(d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;"



**2017 Non-Binding Guidelines**

- Companies should disclose information on principal risks, how they are managed and mitigated; and
- Perspective should be provided on short, medium and long-term principal risks and how they impact business model, operations, financial performance and the impact of the business' activities.

**2019 Climate-related Guidelines**

- Companies should describe principal climate-related risks, and assumptions made in identifying them;
- Companies should also describe risks from dependencies on natural capital impacted by climate, e.g. water; and
- Companies should disclose how risks are managed and how climate risk is integrated into overall risk management.

**Environmental risks should play an important role in informing business model, policy and KPI disclosures. As a key emphasis of the TCFD, our review considered in-depth the nature and clarity of current risk disclosures.**

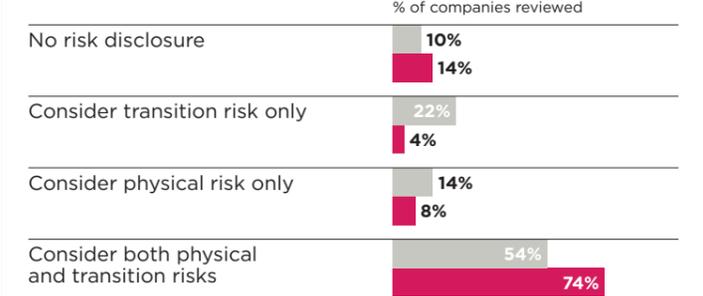
Whilst there have been improvements in some aspects of 2020 risk disclosures, principal risks were still identified as a top three weakness in 64% of disclosures (2019: 74%).

86% of companies disclosed at least one environmental or climate-related principal risk (2019: 90%), with improvement observed in the consideration of both

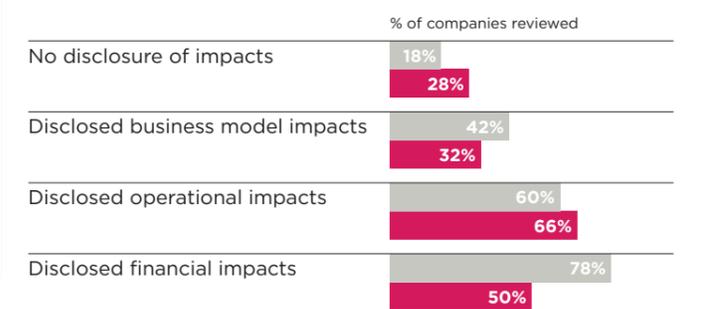
**Disclosure of principal risks**



**Climate risk types disclosed**



**Impact types disclosed for identified risks**



physical and transition risk climate types, with 74% now considering both aspects (2019: 54%). Clearer adoption of this risk categorisation suggests organisations are more fully considering the risks to business arising from climate change, as well as their own impacts, showing improvement on this issue since our 2019 review.

However, challenges remain in adopting more specific aspects of the TCFD, for example 96% of companies still do not define short, medium and long-term time horizons, or identify how the risks they have disclosed will impact over these time periods.

**Good practice example: In VINCI's 2019 Annual Report, climate change is disclosed as a risk factor, with helpful specificity on expected impacts and risk management procedures.**

### Climate change and increasing scarcity of resources

Climate change has made extreme climate events more frequent and more severe, making environmental risks more significant for the Group's activities. These risks include:

- "storms", a general term that includes weather events causing high winds and precipitation (rain, snow and hail);
- wide variations in temperature (heat or cold waves);
- flooding, from rivers overflowing their banks, run-off from heavy precipitation, or rising sea levels, which can cause landslides and exacerbate erosion;
- rockslides or other ground movements, such as the expansion and contraction of clay, which can affect buildings and infrastructure.

At the same time that the natural climate balance is changing, certain raw materials (minerals, rare metals, fossil fuels) are becoming more scarce, and regions subject to water stress are expanding. The Group's activities depend on the availability of these resources. Their increasing scarcity has a direct impact on the Group's ability to obtain the materials it needs for its projects and concessions.

### Identifying risks

- Damage to installations and equipment
- Deterioration in health and safety conditions for employees
- Financial impact resulting from increased expenses necessary to maintain or repair damaged infrastructure and equipment, operating losses and construction delays
- Increasing scarcity of resources, expansion of regions subject to water stress
- Financial impact resulting from possible increases in the cost of certain materials
- Impacts on the Group's image and reputation in the event of deficient quality of service, such as substandard work or missed delivery deadlines

### Risk management procedures

- Prior identification of the risks affecting the specific area and implementation of technical facilities to mitigate extreme weather events (cofferdams, pumps, retention basins, cooling equipment, etc.)
- Establishing a business continuity plan (BCP) for certain assets (e.g. Kansai International Airport in Japan)
- Emergency procedures, in cooperation with local actors, to respond to extreme climate events (inclement weather work stoppages for employees, equipment removal, etc.) and cooperation with local officials to implement appropriate emergency and work resumption measures
- Managing unplanned events with the appropriate insurance company departments
- Implementing ecologically designed solutions to reduce the use of certain raw materials and to reuse or recycle construction materials after demolition in a circular economy approach
- Identifying project sites facing water stress so as to adapt construction and operation methods
- Reducing water consumption and development of solutions to reuse water at certain sites

### Business-specific impact disclosure is still falling short

Information on the business-specific nature and expected impacts of disclosed risks continued to be inconsistent, with fewer companies providing disclosure in 2020 (72%, compared to 82% in 2019). Operational impacts were most commonly disclosed (66%). Impacts on financial performance were disclosed by 50% of companies, but the potential scale of impact was rarely quantified. Impacts on overall business model and strategy were disclosed by only 32%. Where impacts were disclosed, they were often generic or high-level; for example referring to the potential for climate-related extreme weather or sea level rise to cause general disruption to business operations or supply chains, without clarifying which specific locations, products or business areas were considered to be exposed to these risks, or over what timeframes they would be impacted. Whilst the majority of large organisations now recognise climate change as a potentially material risk for their business, many continue to fall short of providing specific disclosure on how risks will manifest for their organisations, to the extent that is required by investors.

### Linkage and integration across risk disclosures

Some businesses provided standalone disclosure of 'non-financial' risks relating to the topics covered under the Directive, in addition to their existing business risk disclosure, a potential source of confusion for information users. Furthermore, in certain jurisdictions, where risk disclosures were required as part of other disclosure requirements, duplication was seen in reporting. Whilst complexity was still observed in 2020 disclosures, levels

of coherence were generally improved, with more evidence of cross-referencing and linkage in risk reporting. This suggests increasing maturity in the integration of different disclosure requirements, to provide a coherent overall view on principal risks, enabling the relative significance of climate and environmental risk to be more clearly understood by report users.

### Taking action to manage risks

64% of companies provided information on the management actions undertaken to mitigate environmental risks, a slight decrease on 70% in 2019. Strong disclosures ensured linkage back to policies, due diligence and outcomes, demonstrating how the identified environmental risks informed their business practices and plans. However, a lack of improvement in this area suggests some organisations are still just getting started in adoption of climate risk disclosure, and must take further action to clarify their strategic response to the risks they have disclosed.

**64%**  
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environmental risks, a slight  
decrease on  
**70%** in 2019

**Whilst some improvements have been identified, risk disclosure remains a key area for improvement under the NFRD. Although more companies are adopting TCFD risk recommendations, inconsistencies are evident and wider adoption by all large businesses is required.**

### Good practice tips for companies

- ✓ Provide business-specific examples of how identified risks may impact the organisation's operations, business model and financial performance, identifying any specific locations or business areas considered to be exposed to material risks;
- ✓ Clearly state the time horizons over which risks have been considered and the expected impacts over the short, medium and long-term for each identified risk;
- ✓ Clarify how risks inform environmental policies, due diligence and outcomes to evidence the management approach for principal risks; and
- ✓ Specify how climate risks are integrated into overall risk management processes, to ensure investors have clarity on this area of special societal and economic concern.

### Proposals for policymakers and regulators

- Directly integrate the TCFD risk requirements into the Directive, to ensure consistent disclosure of transition and physical risks, and their strategic and financial impact for business;
- Clarify in the Directive the need to disclose how climate risks are integrated into existing risk management processes; and
- Member State policymakers should continue to evaluate the interface between the NFRD's requirements and other risk disclosure requirements implemented nationally, to ensure companies are provided with guidance in making cohesive disclosures.

## e) Key performance indicators (KPIs)

**What the Directive asks for**

“(e) non-financial key performance indicators relevant to the particular business.”

**2017 Non-Binding Guidelines**

- Companies should report KPIs that are consistent with the metrics used internally and for risk assessment processes; and
- KPIs should be high quality and broadly recognised to improve comparability.

**2019 Climate-related Guidelines**

- Indicators are set out covering GHG emissions, energy, physical risks, products and services and green finance, with companies advised to report upon those it considers to be material; and
- Indicators should be aligned to climate-related risks and opportunities addressed in the business' strategy and risk management processes.

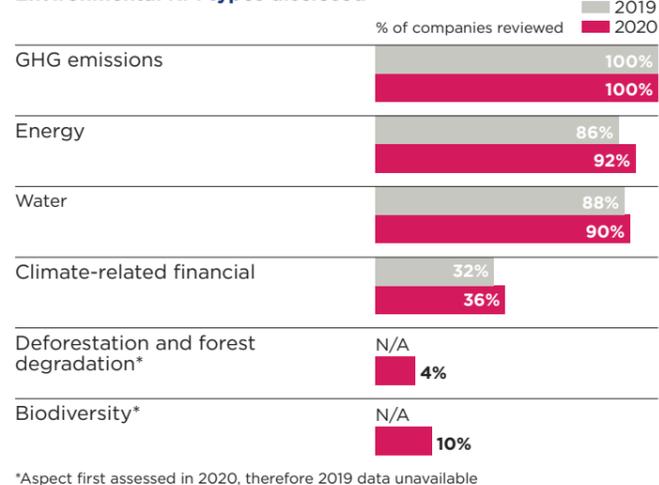
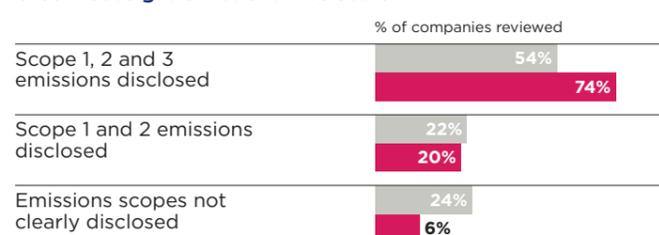
**KPIs continued to be a strong area of disclosure for many companies in 2020. However, whilst the completeness of Greenhouse gas (GHG) emissions disclosure improved, other environmental issues, such as biodiversity, were not commonly reflected in KPIs.**

Our analysis of 2020 disclosures showed continued improvement in the high levels of disclosure already seen for indicators on climate, energy and water. However, more emergent areas of practice, such as climate-related financial metrics<sup>v</sup>, or indicators on biodiversity and deforestation and forest degradation, are still not being adopted by most companies.

**What gets measured gets managed**

The 2020 review considered, for the first time, the specific disclosure of metrics on deforestation and forest degradation, and biodiversity, with KPIs reported by 4% and 10% of companies respectively, demonstrating the current low levels of maturity in mainstream disclosure of these aspects.

Climate-related financial KPIs, as recommended under the TCFD Metrics and Targets core element, showed only a modest increase in prevalence relative to 2019. Some companies continued to lead their disclosure with bespoke KPIs developed to track their policy commitment; for example, aggregate indices combining environmental goals into a single progress indicator. As highlighted in our previous review, indicators of this nature do not support comparability between disclosures and often lack full transparency regarding methods of data aggregation.

**Environmental KPI types disclosed****Greenhouse gas emissions disclosure****Ensuring comparability and coherence in KPI disclosures**

98% of companies provided at least one year of prior performance for KPIs, and 70% provided two years or more, enabling more meaningful performance analysis, particularly where environmental targets may span longer time periods, in line with wider public policy goals. KPIs are commonly interspersed in tables by policy area within the report, to enable them to be understood in the context of narrative updates on a particular environmental issue. However summary tables for KPIs can support coherence and comparability in disclosures, provided that those included in the mainstream report are limited to material matters. Improvements in the quality and completeness of GHG disclosure were also observed relative to 2019. 74% of companies provided disclosure on Scope 1, 2 and 3 emissions and far fewer companies provided vague disclosure which did not sufficiently clarify emissions reporting scopes (6%, relative to 24% in 2019).

**Good practice example: Volkswagen includes a range of clearly presented environmental KPIs in its 2019 Sustainability Report. Metrics linking to financial performance are utilised, as well as both relative and absolute GHG emissions metrics, supporting comparability.**

**ENVIRONMENTAL PROTECTION COSTS\***

in €/vehicle	2019	2018	2010
Investments	8	12	11
Operating costs	218	206	179

\* Volkswagen AG production locations in Germany.

**ENERGY CONSUMPTION\***

in million MWh/year	2019	2018	2010
<b>Total</b>	<b>23.42</b>	<b>24.12</b>	<b>19.37</b>
Electricity	12.39	12.74	9.45
of which cars and light commercial vehicles	11.14	11.47	8.72
of which other divisions	1.25	1.27	0.72
Heat	6.61	6.81	6.46
of which cars and light commercial vehicles	5.83	6.04	6.24
of which other divisions	0.77	0.78	0.22
Fuel gases for manufacturing processes	4.42	4.56	3.47
of which cars and light commercial vehicles	4.34	4.48	3.40
of which other divisions	0.09	0.09	0.06

\* Cars and light commercial vehicles and other divisions.

**SCOPE 1\* DIRECT CO<sub>2</sub> EMISSIONS**

in kg/vehicle	2019	2018	2010
Direct CO <sub>2</sub> emissions (Scope 1)	338	346	588

\* Cars and light commercial vehicles.

**SCOPE 1 + 2\* CO<sub>2</sub> EMISSIONS**

in kg/vehicle	2019	2018	2010
CO <sub>2</sub> emissions (Scope 1 + 2)	675	720	1,096

\* Cars and light commercial vehicles.

**ENVIRONMENTAL PROTECTION COSTS\***

in € million/year	2019	2018	2010
Investments	9	13	12
Operating costs	233	230	197

\* Volkswagen AG production locations in Germany.

**ENERGY CONSUMPTION\***

in KWh/vehicle	2019	2018	2010
<b>Total</b>	<b>2,010</b>	<b>2,038</b>	<b>2,519</b>
Electricity	1,051	1,063	1,197
Heat	550	560	855
Fuel gases for manufacturing processes	409	415	467

\* Cars and light commercial vehicles.

**SCOPE 1 DIRECT CO<sub>2</sub> EMISSIONS**

in million tonnes/year	2019	2018	2010
Direct CO <sub>2</sub> emissions (Scope 1)	3.77	3.91	4.32
of which cars and light commercial vehicles	3.58	3.74	4.29
of which other divisions	0.19	0.17	0.03

**SCOPE 1 + 2\* CO<sub>2</sub> EMISSIONS**

in million tonnes/year	2019	2018	2010
CO <sub>2</sub> emissions (Scope 1 + 2)	7.57	8.20	8.04
of which cars and light commercial vehicles	7.16	7.77	7.99
of which other divisions	0.41	0.44	0.05

\* Cars and light commercial vehicles and other divisions.

<sup>v</sup> Climate-related financial KPIs are indicators which link to the company's products and services or financial performance, e.g. turnover from climate-related products and services, low carbon capital expenditure or climate-related green bond ratios. Further detail can be found in the Directive's climate-related guidelines.

### Incentivising leadership

Inclusion of metrics in board and management-level remuneration arrangements provides clarity over the indicators used to measure the success of policies and supports integration of non-financial information into business decision-making. In total, 50% of companies disclosed the inclusion of some qualitative or quantitative environmental criteria within their board or management-level remuneration, a slight decrease on 56% in 2019. 24% disclosed quantitative targets at board-level, suggesting this practice is still only adopted by a minority of companies, despite the growing number that have integrated climate into their business model.

### Identifying 'key' performance indicators

The range of metrics reported by companies continued to be significant. Although efforts are ongoing to harmonise reporting frameworks, requirements and

standards, a wide variety of metrics are currently in use across topics, industries and geographies, limiting the comparability of reporting. Consequently, companies seeking to provide comprehensive disclosure are including many different metrics within their reports.

Whilst such disclosure efforts are well intended, inclusion of this information in the mainstream report, without sufficient clarity over materiality, or which indicators are truly key to the organisation, makes it highly challenging for report users to easily discern progress against policies. Whilst further convergence in reporting requirements is expected, companies should start to streamline indicators in the mainstream report, by focusing on material issues for investors, and metrics directly used to monitor policy progress.

**Our review demonstrates further improvement in KPI disclosures, particularly relating to GHG emissions. However, challenges remain over the consistency and comparability of metrics, and reporting on wider environmental issues, including biodiversity loss, deforestation and forest degradation.**

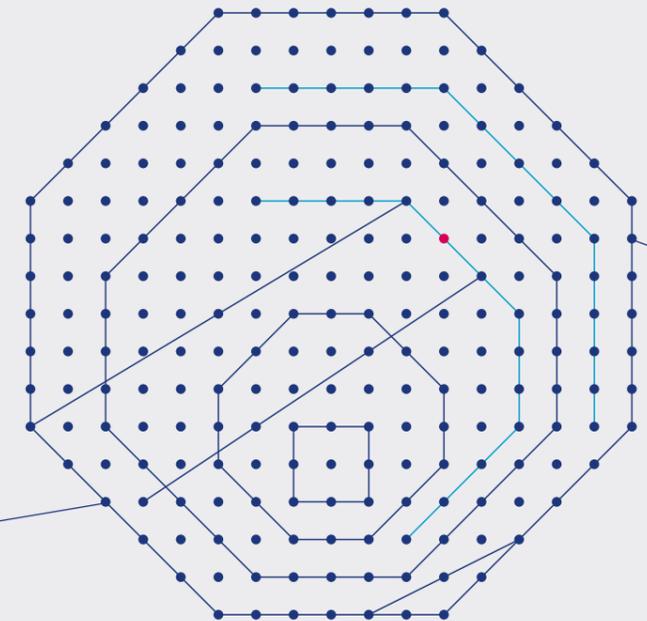
#### Good practice tips for companies

- ✓ Provide a minimum of two years' prior data to enable performance trends to be assessed;
- ✓ Distinguish between KPIs and wider indicators, to ensure the priority metrics used to measure progress against policy objectives and material issues are easily identified;
- ✓ Summarise KPIs in a table or graphic to enable them to be easily identified by the report users; and
- ✓ Clearly link policies, outcomes and KPIs, so that the metrics used inform understanding of the company's overall progress, performance and position.

#### Proposals for policymakers and regulators

- Amend relevant requirements in the Directive to ensure companies link policies, outcomes and KPIs, so that the metrics inform the understanding of the company's overall progress, performance and position; and
- Ensure any future standards for KPI disclosure which may be developed build directly on existing standards and frameworks to support consistency and comparability.

# Findings part 2: TCFD and additional considerations



# TCFD disclosures of Europe's largest companies

In June 2019, the European Commission released its Guidelines on reporting climate-related information<sup>3</sup> (Climate-related Guidelines), which integrated the TCFD recommended disclosures. Non-financial statements released in 2020 were the first to be published since these additional guidelines were released for most companies. It is therefore interesting to consider whether these non-binding guidelines have discernibly influenced the uptake of TCFD disclosure by EU companies.



**Our 2020 review demonstrated improvement in aspects of TCFD disclosure, with 68% of companies now referencing TCFD in their disclosure or providing some aligned reporting. However, key aspects such as the disclosure of strategic resilience to different climate scenarios, and of material risks over short, medium and long-term time horizons, continue to be adopted by only a limited number of companies.**

### Governance

Whilst the majority of companies address board and management-level accountabilities, inconsistencies in whether both aspects are provided continued, with 30% providing only one of the required elements, or neither. Where climate-related accountabilities were explicitly outlined (as opposed to being discussed generically as part of broader board and management sustainability oversight), it was not always clear how climate-specific processes disclosed were related to, or integrated with, wider arrangements, for example risk management processes.

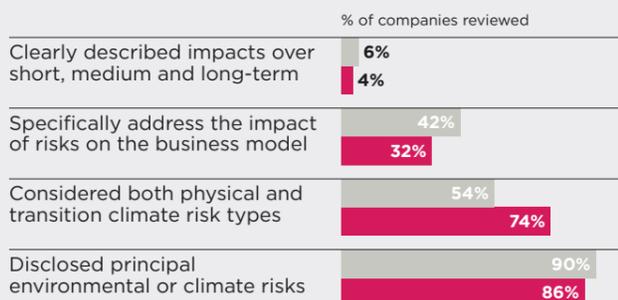
### Board and management-level due diligence disclosure



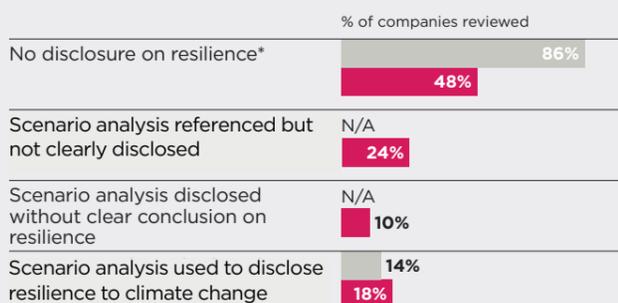
### Strategy

Whilst a majority continue to disclose their principal risks, there has been limited improvement in the disclosure of business-specific impacts on strategy, or the time horizons over which the company expects to be impacted by climate risk, with a slight decline in both areas of disclosure relative to 2019. However, the proportion of companies evidencing consideration of both physical and transition risks increased from 54% to 74%. Only 18% clearly disclosed their strategic resilience to different climate scenarios, however 34% did provide some reference or information on ongoing scenario analysis efforts.

### Disclosure of climate-related risks



### Use of scenario analysis to assess strategic resilience



\*Two new categories were introduced to the scenario analysis assessment for 2020, to reflect more nuanced progress in this area. These categories were included in 'no disclosure' for 2019.

### Risk Management

The proportion of companies integrating climate change into their wider risk management processes increased relative to 2019 (88% compared to 72%). However, in many instances, integration was implied as opposed to being explicitly clarified as requested in the recommendations. Interestingly, there was a slight decline in the disclosure of management actions for identified climate risks, with many companies failing to clearly connect their risk disclosures to other aspects of their reporting, or providing limited specificity on the steps they were taking to mitigate the risks they disclosed.

### Integration into wider risk management



### Management actions disclosure



**While progress in aspects of the TCFD disclosure is evident, such as consideration of transition and physical risks, little or no progress was observed in some areas. The quality and completeness of disclosure varied substantively, indicating that voluntary adoption of the TCFD by Europe's largest companies is not achieving the levels of disclosure required to fully inform investor decision-making.**

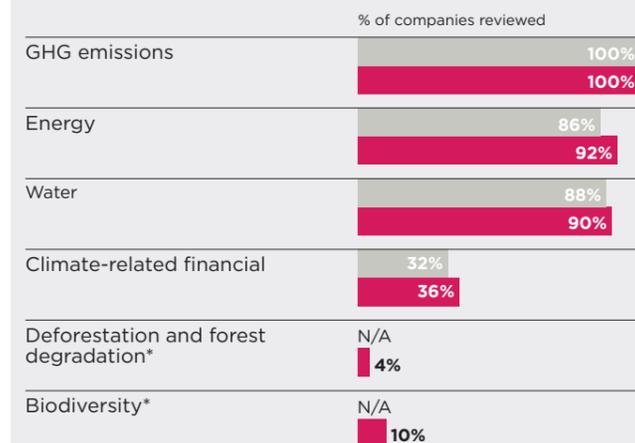
### Resources for companies

- ✓ CDSB continues to produce resources to support companies in implementing the TCFD recommendations, including, The TCFD Good Practice Handbook<sup>6</sup> and Implementation Guide<sup>7</sup> (produced in collaboration with SASB), and e-learning courses available at [tcfddhub.org](https://www.tcfddhub.org);
- ✓ CDSB and CDP's 'The Building Blocks' paper<sup>8</sup> illustrates how CDP data and the CDSB Framework can be used together successfully to fulfil the TCFD recommendations; and
- ✓ In July 2020 CDSB published application guidance for climate-related disclosures to accompany the CDSB Framework<sup>9</sup>, which provides guidance on the integration of material climate-related information into the mainstream report in alignment to the TCFD.

### Metrics and Targets

As disclosed in the KPIs section, the vast majority disclosed core indicators on climate and energy, however only a small proportion disclosed climate-related financial metrics (36%, compared to 32% 2019). All companies disclosed GHG emissions, with a growing share (74% compared to 54% in 2019) providing disclosure on Scope 3, in addition to Scopes 1 and 2.

### Environmental KPI types disclosed



\*Aspect first assessed in 2020, therefore 2019 data unavailable

### Proposals for policymakers and regulators

- Incorporate 'climate' into the wording of the Directive to ensure companies consider this issue explicitly in their environmental disclosures;
- Embed the TCFD recommendations into the revision of the Directive, to drive stronger linkage of non-financial and financial reporting, and a more unified, harmonised and convergent approach to ESG disclosures;
- Clarify the expectation that scenario analysis should be used to explore resilience to climate change under different scenarios over the short, medium and long-term, where businesses have identified climate risk to be potentially material; and
- Strengthen governance disclosure requirements within the NFRD, including and beyond board and management level responsibilities, to ensure that business leaders are considering environmental issues in all strategic, business, operational and financial decisions.

## Materiality

### What the Directive asks for

Disclosure on environmental matters “to the extent necessary for an understanding of the undertaking’s development, performance, position and impact of its activity”

### 2017 Non-Binding Guidelines

- Explained that “the impact of (the company’s) activity” required consideration of positive and negative impacts on people, society and the environment; and
- Companies should assess which information is material considering internal and external factors and the needs of relevant stakeholders.

### 2019 Climate-related Guidelines

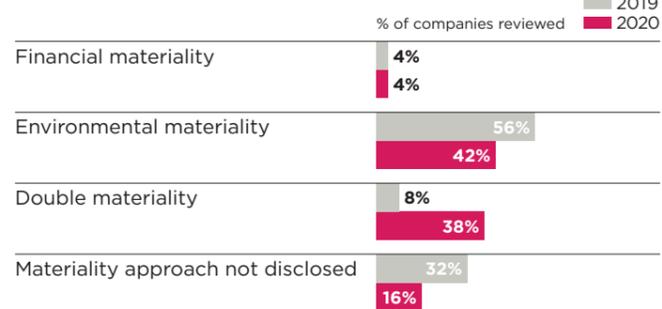
- Introduced the explicit concept of ‘double materiality’, covering both financial and ‘environmental and social’ materiality to meet the needs of both investors and wider stakeholders; and
- Disclosures on climate should be provided if information is material from either of these two perspectives.

**Disclosures released in 2020 were the first published following the introduction of the double materiality concept, therefore provide an opportunity to consider the adoption of this perspective in practice.**

2020 reports showed that disclosure on materiality is increasingly commonplace, with 84% (2019: 68%) of companies describing the process they used to determine materiality of environmental information for inclusion in the mainstream report.

38% (2019: 8%) applied a double materiality perspective, showing a clear growth in application of this approach since the release of the 2019 climate-related guidelines. 42% (2019: 56%) continued to apply solely social and environmental materiality, focusing their materiality determination on the impact of the business on environment or society, not directly considering the strategic and financial implications of these matters to the business. Consistent with 2019, 4% applied only financial criteria, such as stating that investor priorities were used to determine reporting topics for the mainstream report.

### Materiality approaches



Additionally, 16% did not disclose their criteria or approach for determining material environmental or climate-related information for inclusion in the mainstream report. Whilst such disclosures are not explicitly required under the NFRD, given that various definitions of materiality are currently in use, this information may be prudent to disclose, to ensure investors can compare company disclosures in this context.

Wider adoption of double materiality could be linked to several trends which are highlighted in our analysis of 2020 disclosures. For example, the average length of environment and climate disclosure in the mainstream report rose from 14 to 19 pages, with companies potentially providing further disclosure to satisfy both materiality perspectives. Furthermore, lengthy disclosures on policy outcomes were a common issue, often lacking a clear link to stated focus areas for the company, which may be driven by the need to respond to the needs of different stakeholders considered under double materiality.

**Overall, it is therefore evident that materiality remains an area of challenge in achieving high quality disclosures, which concisely focus on material aspects, and thus provide investors with decision-useful information to inform their capital allocations. 2020 disclosures do not indicate that the double materiality perspective can fully address these issues.**

## Location and format of disclosures

### What the Directive asks for

Information is to be included in the management report, however where an undertaking prepares a separate report covering the required information, this was permissible provided the report was “published together with the management report” not exceeding six months after the balance sheet date.

**While the NFRD is not wholly prescriptive on the location and format of environmental disclosures, these aspects play an important role in ensuring readers can access and use information to inform their decision-making and capital allocations.**

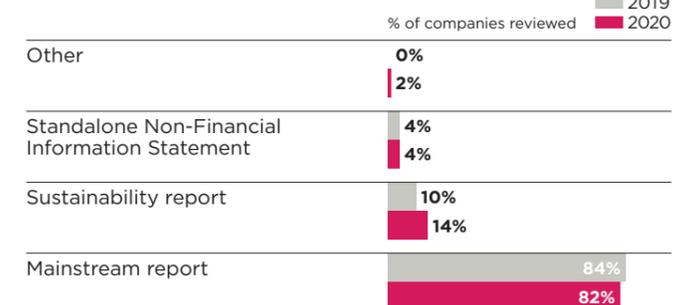
### Most continue to disclose in the mainstream report

82% primarily provided their environmental matters disclosure in the mainstream report, showing this continues to be the norm for most companies. 14% (2019: 10%) used a separate sustainability report, with 4% continuing to prepare a standalone non-financial information statement. Of those that provided disclosure within the mainstream report, 61% (2019: 55%) integrated the content within relevant report sections (such as strategy, risk and corporate governance), with the remainder including a standalone report section. Commonly, those choosing to integrate the information adopted a ‘hybrid’ approach, where business model, due diligence and principal risk disclosures were integrated, but policies, outcomes and KPIs were published in a dedicated environmental section of the report. While various approaches to disclosure were observed, integration of environmental information throughout the mainstream report has been shown to be increasingly common practice.

### Disclosures continue to grow longer

On average, companies included 19 pages of environmental content in their mainstream report, a growth of 36% since 2019, and an average of 6% of the mainstream report dedicated to these topics. The longest disclosure was 80 pages, compared to 70 in 2019. In keeping with our observations for 2019 reports, stronger disclosures, which balanced comprehensive disclosure of relevant environmental information with concise reporting, were often no longer than 5-10 pages. Ensuring clear and consistent application of materiality to disclosure is therefore a key means of ensuring concise, focused reporting. However, our analysis indicates this is not yet commonplace, with disclosure often provided on topics not stated to be material to the company.

### Primary location of the non-financial statement under the Directive



### Signposting and cross-references to support coherence

Many companies continued to include cross-reference tables within their mainstream report, signposting readers to the location of the specific content on ‘environmental matters’ within the mainstream report, and to separate disclosures where appropriate. Similarly, many disclosures helpfully included page references and links within and between report sections, for example linking risks to outcomes disclosures, which helped to support the reader in gaining a coherent understanding of the company’s overall position, performance and approach.

### Integration into financial statements

Investors are increasingly demanding that companies reflect climate-related risks in financial reporting, as reflected in a recent letter by investor groups representing over \$103 trillion assets under management<sup>10</sup>. Whilst our analysis shows continued growth in disclosure on environment and climate within the narrative sections of the mainstream report, it also considered the degree to which these issues are currently referenced within companies’ financial statements. This consisted of a keyword search to understand if the notes to accounts, or equivalent disclosures, made any reference to terms such as “climate change”, “emissions” or “environment”, with identified instances then scrutinised manually to confirm their relevance to the subject matter.

Overall, 42% of companies made reference to such aspects in their financial statements, an identical number to 2019. However, the majority of companies provided very limited financial reporting on environmental matters, mainly disclosing provisions and contingent liabilities in relation to environmental protection, remediation and litigation; provisions where emissions quotas are insufficient to settle obligations (such as under the EU ETS); and where environmental and climate criteria were considered as part of shared-based payment performance conditions. Whilst this analysis provides only a rudimentary measure of integration between non-financial and financial aspects, it demonstrates that some disclosure on environmental aspects is being provided under existing accounting standards, however, remains limited in nature.

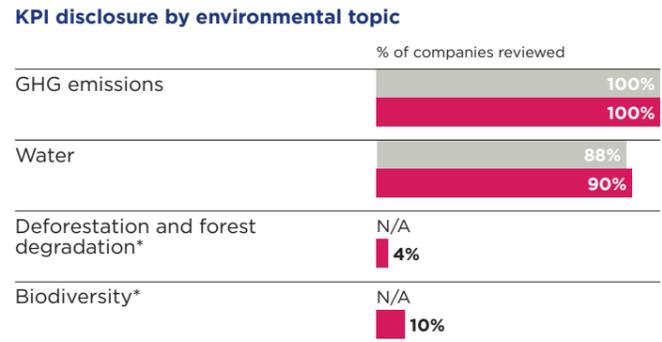
## Wider environmental disclosure

Our 2020 review shows evidence that companies are continuing to enhance their disclosures on climate change, echoing increasing concern from governments and civil society. Our analysis also considered the degree to which other environmental aspects, including information on risks and impacts relating to water, biodiversity, and deforestation and forest degradation are integrated into disclosures under the Directive.



Our review indicated a disparity in the disclosure of different environmental topics, including climate, water stewardship, deforestation and forest degradation, and biodiversity loss. Reporting on climate change and water is now well established, with almost all companies providing some information on these matters. However, disclosures on other environmental topics were far less prevalent, with just 22% providing information on deforestation and forest degradation, and 46% providing disclosure on biodiversity loss<sup>vi</sup>. Additionally, where disclosures were provided on wider environmental topics, they often lacked the relative specificity and maturity of climate-related information; for example policies very rarely included quantitative or timebound targets, and risks were only articulated in a generic manner, without disclosing business-specific considerations.

When considering the inclusion of quantitative KPIs specifically, practices become increasingly divergent across environmental topics. Only 10% provided quantitative metrics on biodiversity<sup>vii</sup>, and 4% deforestation and forest degradation<sup>viii</sup>, compared to over 90% for water and climate. Additionally, where KPIs were presented on biodiversity or deforestation, the degree of standardisation and consistency in metrics was far lower. Lower levels of disclosure on these aspects could, to some extent, be expected, given that direct risks exposure and impacts are typically limited to certain sectors (for example food, beverages and tobacco companies, with large agricultural supply chains). However, the limited nature of current reporting suggests many businesses do not yet consider the specific risks and impacts of these issues for their organisations.



\*Aspect first assessed in 2020, therefore 2019 data unavailable

vi To identify disclosure topics CDSB looked for keywords (e.g. “forests”, “deforestation”, “biodiversity”, or “ecosystems”), or reference to specific aspects of pertinence to a given topic (e.g. participation in sustainability certification schemes for forest products, or reference to consideration of protected species for biodiversity).

vii E.g. the presence of protected species within operating areas, the number of conservation projects being undertaken, operations within or close to protected or conservation areas.

viii E.g. the percentage of raw materials sourced through certification schemes, percentage of land managed by the company, and information on the proportion of it that has been degraded.

Nevertheless, there is growing recognition of the interdependency and connectedness of different aspects of the natural environment. Business and society rely on the services that natural ecosystems provide, with biodiversity recognised to be critically in decline and the impacts of climate change further exacerbating this degradation<sup>11</sup>. The low levels of reporting on these aspects is indicative of the significantly lower maturity in disclosure on these aspects by large companies, which must be addressed.

### Good practice tips for companies

- ✓ Be clear on the specific environmental topics that are material for the business, providing a clear description on the nature-related dependencies of the business model, in line with the Natural Capital Protocol<sup>12</sup>;
- ✓ Consider the location of specific environmental dependencies and impacts, within the business’ direct operations and value chain, to identify material topics. For example, water-related disclosures should consider in particular areas of high or very-high water stress;
- ✓ Clarify the accounting methodologies and definitions of key terms (e.g. water consumption), referring to existing methodologies, or frameworks; and
- ✓ Utilise the SASB industry-specific standards<sup>13</sup> and CDP questionnaires<sup>14</sup> to inform the selection of comparable and consistent metrics to report upon different environmental topics. Where impacts or risks are identified for particular ‘hotspot’ areas, for example regions of high water stress or biological sensitivity, disaggregated data should be provided, alongside narrative to explain the dependencies, risks and opportunities connected to these specific aspects.

### Proposals for policymakers and regulators

- Ensure that environmental issues beyond climate, including biodiversity, water and deforestation and forest degradation, are clearly integrated and addressed in the revision of the NFRD, to ensure company disclosure supports wider EU policies, such as the Biodiversity<sup>15</sup>, Forestry<sup>16</sup> and Sustainable Finance<sup>17</sup> Strategies.

# Conclusions and recommendations

## Conclusions

Our 2020 analysis demonstrates that most large EU companies now provide disclosures against the core categories of the NFRD, showing continued progress over our three annual reviews to date. However, TCFD-aligned climate reporting and disclosure on wider environmental topics remain insufficient. Our analysis has illustrated that some aspects of disclosure, particularly those previously identified as weakest, have not improved compared to 2019. Indeed, the key strengths and weaknesses identified across reports remain unchanged compare to 2019.

Our analysis shows that the integration of TCFD, clarity and specificity of principal risk disclosures, and the application of a clear materiality definition continue to prove particularly problematic. Investors' ability to integrate information disclosed under the Directive into their decision-making is inherently limited without further improvements on TCFD, risk and materiality. It is therefore imperative that companies continue to improve disclosure on these aspects, to provide the information needed to align investments within the EU to sustainable, low carbon, activities for the long-term. The upcoming review of the NFRD by the European Commission<sup>18</sup>, and the explicit inclusion of TCFD climate-related disclosure into the Directive, also have a key role to play in improving the quality, comparability and consistency of disclosures. Beyond the NFRD, companies must also consider forthcoming reporting requirements from other pieces of EU legislation, such as the EU Taxonomy Regulation<sup>19</sup>, to provide complete and cohesive disclosure.

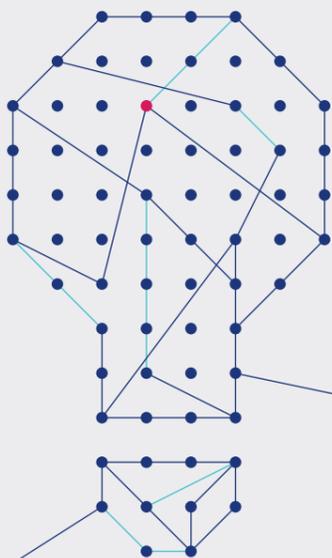
Whilst our review focused on a relatively small subset of companies, it represents a substantive share of Europe's overall economy (US\$3.5 trillion in market capitalisation). Furthermore, Europe's largest companies are likely to have the most resources for disclosure, and therefore should be expected to have relatively mature reporting processes. The findings of this review demonstrate that the quality of their disclosure is insufficient for effective decision-making, indicative of a widespread need for

improvement across all companies in scope of the Directive. Our findings are consistent with the Alliance for Corporate Transparency's research series from across Europe, which also finds that disclosures are not sufficient to fully understand companies' impacts, risks or strategies on environmental matters<sup>20</sup>.

2020 ushered in the 'decade of action'<sup>21</sup> on sustainability, with limited time remaining to tackle global challenges relating to climate change and environmental degradation. Whilst policy and business ambitions in achieving the Paris Agreement continue to be galvanised, the significant gaps in disclosure against the TCFD recommendations provide investors with insufficient information to effectively allocate capital towards the low carbon transition at scale. The inclusion of the TCFD recommendations into the NFRD should ensure that this information deficit is addressed, but companies must also step up to deliver the necessary transparency. Disclosure on other environmental topics has also been found to be very much nascent, evidencing the need for more integrated disclosure which fully encapsulates the interrelatedness of the natural environment, across climate, water security, deforestation and forest degradation, and the overarching significance of biodiversity. The importance of a global approach to disclosure on material environmental information must also be emphasised; ensuring that reporting requirements for European companies contribute towards the goal of achieving a harmonised international approach.

The challenges for companies in achieving complete, yet concise, reporting are real. However, there are a growing number of resources available, including the good practice case studies and tips set out in this report, to support them to enhance disclosure. Much work remains on the policy front. European policymakers should endeavour to deliver a meaningful review of the NFRD to strengthen the effectiveness of disclosure, considering closely the policy recommendations set out in this report.

“Investors' ability to integrate information disclosed under the Directive into their decision-making is inherently limited without further improvements on TCFD, risk and materiality.”



## Recommendations

Building upon the findings of our review, we put forward recommendations for companies, and for policymakers and regulators, to ensure that the NFRD, and corporate disclosures made under it, deliver the information needed to drive achievement of EU climate and environmental ambitions.

### Recommendations for corporate report preparers

While further improvements were evident in 2020 disclosures, issues relating to risks, materiality and TCFD disclosure continued to present challenges for companies. To further enhance the provision of information to report users, companies should in particular:

1. Accompany policies with **specific and measurable commitments** which can then be used to structure non-financial disclosures and provide transparent progress updates;
2. **Disclose information on environment and climate risks in a business-specific manner**, clarifying impacts and time horizons;
3. **Focus disclosure of performance indicators** in the mainstream report on those which are used to measure progress on environment and climate policies and that are linked to material risks;
4. **Adopt the TCFD recommended disclosures in full**, in particular integrating information into the mainstream report where it is deemed material;
5. **Clarify the materiality of environmental and climate-related issues** to the business, explaining how mainstream, and wider sustainability reporting if appropriate, is informed by this; and
6. Disclose environmental and climate-related **information deemed to be financially material in the mainstream report**, to ensure it is available to an investor audience and can be considered holistically alongside overall strategic and financial performance.

### Recommendations for policymakers and regulators

With the European Commission's finalised proposals for revision of the NFRD forthcoming, this important opportunity to improve the effectiveness of the Directive must achieve enhanced access for investors and other stakeholders to the environmental information they need by:

1. **Remove the exemption** allowing the non-financial statement to be reported **outside the mainstream report**, to support accessibility, consistency and comparability of disclosures;
2. **Define key terms used in the Directive**, including 'policies', 'due diligence' and 'policy outcomes' to ensure consistent and comparable application of the content categories;
3. **Explicitly embed the TCFD recommendations** into the Directive, as non-binding guidelines are not driving uptake at the necessary pace and scale to support investor decision-making;
4. Emphasise in the revision of the Directive the importance of ensuring that the different content elements provide a connected overall view on how companies ensure **sustainable long-term value creation**;
5. Incentivise companies to do more to tackle environmental and climate issues, through ambitious policies and rigorous due diligence processes, by **ensuring policy coherence between the NFRD review and the upcoming EU initiative on corporate governance**; and
6. Ensure that **environmental issues beyond climate, including biodiversity, water and forests**, are clearly integrated and addressed in the revision of the NFRD, to support wider EU policies.

# Appendices

## Appendix 1: Methodology

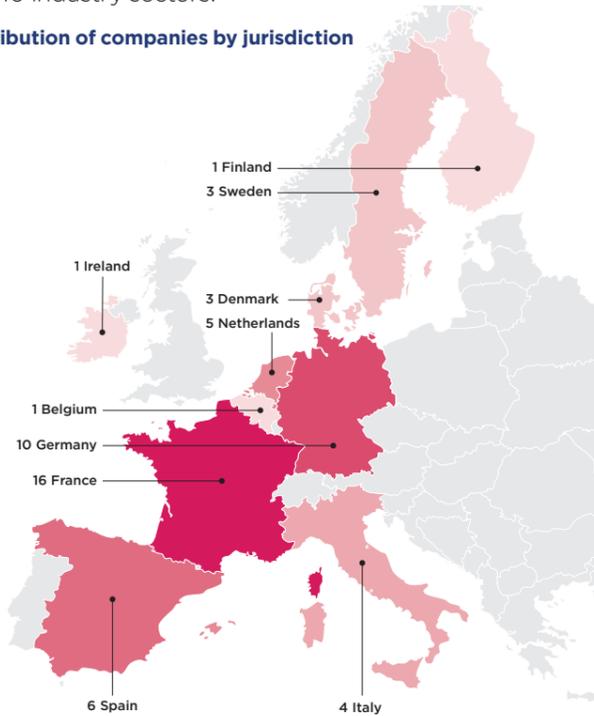
### Sampling approach

This review considered the disclosures of 50 listed European companies for the 2019 financial year (reports released in 2020). The companies were selected using the following criteria:

- Publicly listed and headquartered in an EU Member State;
- Over 500 employees;
- Consideration of market capitalisation<sup>ix</sup>, sector and geography; and
- Company reporting in English<sup>x</sup>.

This sampling approach is largely consistent with the approach adopted for CDSB’s review of 2019 reports. However, due to the withdrawal of the UK from the European Union in January 2020, 13 UK companies were removed for the 2020 review. Additionally, one further European company (Siemens AG) was removed from the sample, as its financial year end date meant the 2020 annual report had not been published at the time of our analysis. In replacing these companies, sector and geography were considered in addition to market capitalisation, to avoid skewing the sample unduly towards companies from the largest economies (i.e. France and Germany). Accordingly, a hybrid approach was taken, whereby large companies were added to the sample, that supported a continued geographical and sectoral balance. Overall the 2020 sample represented US\$3.5 trillion in market capitalisation<sup>ix</sup>, 10 jurisdictions and 10 industry sectors.

### Distribution of companies by jurisdiction



ix Based on 2019 average market capitalisation data

x The working language of the CDSB review team

### Analysis method

In keeping with the 2019 review, the analysis method consisted of a manual assessment grid, comprising of approximately 30 core questions and further subsidiary questions which covered the topics of the NFRD and TCFD. There were a mix of open and closed-ended questions, designed to elicit both quantitative and qualitative data. Responses were categorised using appropriate criteria depending on the nature of the question, for example “Yes”, “No” or “Not applicable”. For certain questions, additional categorisation was introduced for 2020 to enable clearer reflection of nuances in the maturity of reporting. Where possible however, consistency in approach to 2019 was retained, to ensure consistency and comparability in the reviews.

Accompanying details from the company reports were recorded by the review team to support the development of the qualitative observations from across the review sample. This was intended to supplement the quantitative data points. Qualitative observations, however, are by their nature subjective and remain the expert opinion of

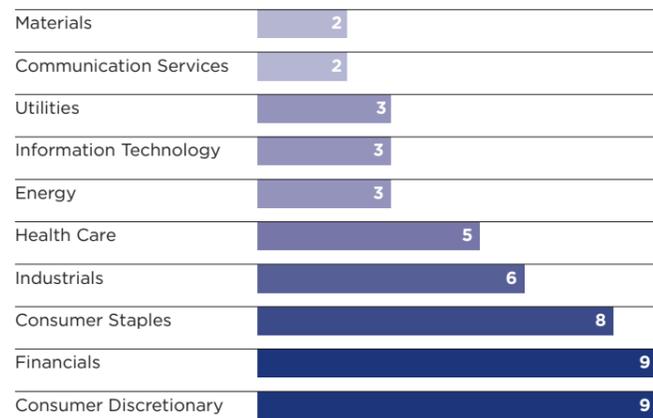
the CDSB review team. To ensure reliable application of the assessment methodology, definitions and guidance were developed to accompany the question set, and the review team met regularly to resolve any ambiguities in its application. A detailed calibration check was also undertaken following completion of the reviews, to ensure close alignment of responses, consistency in approach compared to the prior year’s review and fair application of the criteria to all companies in the sample.

The mainstream report of each company was reviewed in the first instance. Where information pertinent to the non-financial statement or wider question set was located outside of the mainstream report, this was reviewed where clearly signposted from the mainstream report (for example through inclusion of a hyperlink, or clear reference to a named report), or where it was determined by the review team that the company has provided its non-financial statement in a separate disclosure. This emulates the ease with which other users would find this information.

### Year-on-year comparisons

Throughout this report, comparisons are made between 2019 and 2020 disclosure practices, referring to the full sample of 50 companies reviewed in each year. Inevitably, the 28% change in the sample versus 2019 places some limits on direct year-on-year-comparability, however observations provided in this report are intended to provide an overview of high-level trends in corporate environmental disclosure practices, as can be inferred from this sample representing a cross section of Europe’s largest companies. To ensure that the change in company sample did not substantively impact the results of our analysis, performance of the like-for-like sample of 36 companies included in both reviews was compared between 2019 and 2020. The disclosure trends observed in the like-for-like sample over 2019 to 2020 were found to be consistent with the picture from the full 50 companies, confirming that the change in sample did not significantly affect the conclusions drawn from our analysis. Data from our review of 2018 disclosures<sup>5</sup> is not presented in this report, as changes in the review methodology since this assessment mean that, whilst high-level trends can be inferred, it is not directly comparable to our 2019 and 2020 analyses.

### Sample distribution by industry sector



## Appendix 2: List of companies reviewed

### Communication Services

Deutsche Telekom AG  
Telefónica S.A.

### Consumer Discretionary

adidas AG  
BMW AG  
Christian Dior SE  
Daimler AG  
EssilorLuxottica  
Hermès International  
Industria de Diseño Textil, S.A.  
Kering  
Volkswagen AG

### Consumer Staples

Anheuser-Busch InBev SA/NV  
Carlsberg Breweries A/S  
Danone S.A.  
Davide Campari-Milano N.V.  
Heineken N.V.  
Kerry Group plc  
L'Oréal Group  
Pernod Ricard SA

### Energy

Eni S.p.A.  
Shell International B.V.  
TOTAL SA

### Financials

Allianz SE  
AXA SA  
Banco Bilbao Vizcaya Argentaria, S.A.  
Banco Santander S.A.  
BNP Paribas  
ING Bank N.V.  
Intesa Sanpaolo S.P.A.  
Investor AB  
Nordea Bank Abp

### Health Care

Bayer AG  
Koninklijke Philips N.V.  
Merck KGaA  
Novo Nordisk A/S  
Sanofi

### Industrials

Airbus SAS  
Atlas Copco AB  
Safran  
Schneider Electric SE  
VINCI  
Volvo AB

### Information Technology

Amadeus IT Group SA  
ASML Holding N.V.  
SAP SE

### Materials

Air Liquide S.A.  
BASF SE

### Utilities

Enel SpA  
Iberdrola S.A.  
Ørsted A/S

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