

The state of environmental disclosure in the Nordics in 2020

In our new report 'The state of EU environmental disclosure in 2020'¹ the Climate Disclosure Standards Board (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?'² left off, comparing where we were then, and what progress has been made.

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) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our analysis assesses the effectiveness of environmental 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. This briefing will provide an overview of the findings of the report with respect to the Nordic region, for countries located within the European Union: Denmark, Finland and Sweden.

The current state of play


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.

Key Findings

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

¹ CDSB (2020) The state of EU environmental disclosure in 2020. [PDF]. Available from: <https://www.cdsb.net/nfrd2020>

² CDSB (2020) Falling Short? Why environmental and climate-related disclosures under the EU Non-Financial Reporting Directive must improve. [PDF]. Available from: <https://www.cdsb.net/falling-short>.



The Nordics

Overall Summary

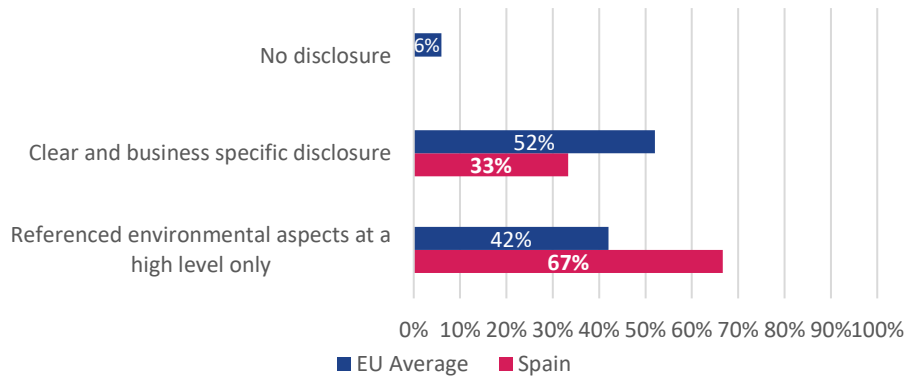
In total, seven companies across a breadth of industries in The Nordics were analysed. The review results revealed below average level of overall reporting quality with NFRD requirements when compared to the rest of the EU, this was particularly pronounced in Risks and TCFD.

Strengths	Weaknesses
Policies and due diligence	TCFD
Materiality	Principal risks
Business model	KPIs

Business model

CDSB's review found that Nordic companies slightly outperformed the EU average when it comes to disclosing their business models; all companies sampled able to include some information within their business model, compared to 6% of EU companies that failed to. As well as this, there was a lower proportion of those who only made limited or passing references to environment within their business models, (43% The Nordics vs 42% EU) compared to those who provided clear and business specific disclosure (57% The Nordics vs 52% EU).

Business Model Performance



Policies and due diligence

Well-articulated corporate policies provide the basis to inform and structure a company's environmental disclosure. CDSB's review found that Nordic companies performed below the EU average, with some key insights being highlighted below:

- Concerning due diligence, 43% disclosed Board and Management level responsibilities, significantly below the EU average of 70%;
- However, all 6 companies also provided some due diligence disclosure, slightly above the EU average of 94%; and
- Of those that did not disclose Board and Management level, 29% disclosed Management or Board level only. This is therefore a negative when compared to the EU sample, with all companies at least covering leadership responsibilities in their disclosure (compared to 94% of the EU sample who didn't report on this aspect and focused on local scale/operational due diligence only).

Outcomes

Beyond relevant policies companies put in place, reported outcomes enable investors to understand how organisations are progressing against their policy commitments and, ultimately, whether they are aligning their activities with these ambition statements. CDSB's review found that the performance of Nordic companies was in line with the EU average for disclosing quantitative and qualitative information to give the reader an indication of performance on climate-related issues.

- In line with the EU sample, all were able to disclose at least one outcome;
- Slightly less (71% vs 74%) were able to provide quantitative progress against targets; and
- All Nordic companies (vs 86%) were able to provide qualitative commentary linked to clear aims and objectives in policies.

Principal risks

Principal risks were highlighted as the key weakness of Nordic NFRD performance, with 43% failing to disclose their principal risks compared to a 14% EU average.

- Of those who did disclose their principal risks, all were able to identify both physical and transition risks, with some EU companies who disclosed only doing one or the other; and
- When it came to managing these risks, Nordic companies were disclosing management actions far less (29%) when compared to the rest of Europe (64%).

Key performance indicators (KPIs)

KPIs are a useful tool to assess progress of a company against previously set policies. CDSB's review found that Nordic companies generally performed either in line or slightly below the EU average:

- All companies disclosed GHG emissions, in line with the EU sample, however this included a lower proportion disclosing scope 3 emissions than average (57% compared to 74%);
- 86% and 57% of Nordic companies disclosed energy and water KPIs respectively (EU average 92% and 90% respectively) and none disclosed climate-related financial KPIs³ (EU average 32%);
- Nordic companies were more likely to provide prior years' data for comparison, with 71% providing three years or more compared to an EU average of 42%; and
- They were less likely to disclose quantitative environment/climate KPIs included in board or management remuneration (29% vs. 62%).

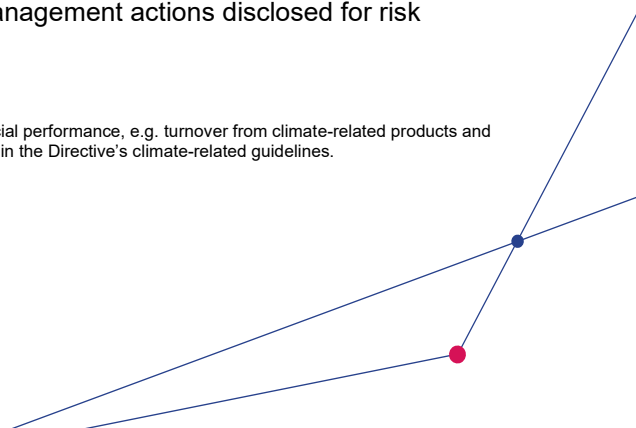
TCFD

The environmental and climate-related risks that businesses face should play an important role in informing their business model, policies and KPIs.

Current state of TCFD implementation in the Nordic sample:

- **Governance:** Below the EU average on disclosure of Board and Management responsibilities (see due diligence);
- **Strategy:** Overall fewer Nordic companies were able to reach a conclusion on resilience using scenario analysis when compared to Europe (14% vs 18%);
- **Risk Management:** Significantly below average in disclosing management actions disclosed for risk management (29% vs 64%); and

³ 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.



- **Metrics and Targets:** Provided a positive area of performance for Nordic companies when compared to the European average. (Also see KPIs for previous analysis).

Materiality process

Materiality is an area of significant interest, with the European Commission having published their non-binding guidelines on disclosing climate related information⁴, which introduced the concept of double materiality. As a result, this was the first year of expected widespread adoption of double materiality in preparing non-financial information.

- All Nordic companies disclosed their materiality approach for climate and/or environmental information, better than the EU average of 84%; and
- 43% applied double materiality (EU 38%), whilst 43% used environmental/non-financial materiality definition (EU 42%) and 14% used financial materiality only (EU 4%).

Conciseness of disclosures

Nordic companies tended to have more concise environmental disclosures, as well as shorter mainstream reports on average. The average length of the mainstream report for Nordic companies was 174 pages, of which 15 were concerned with environmental disclosures. The full dataset had an average mainstream report length of 334, of which 19 pages related to environmental disclosures, this saw longer levels of disclosure when compared to 2019. Nordic companies were also likely to disclose in the same locations as required by the NFRD, with 67% being in the mainstream report (vs EU 78%), with the most common alternative location being a Sustainability Report (43% vs EU 42%).

⁴ European Commission (2019), Guidelines on Reporting Climate-Related Information, [PDF]: https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

Key Recommendations for Nordic policymakers and regulators

- 1. 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 and improving disclosure of principal climate risks.**

Whilst 68% of companies referenced or provided some disclosure aligned to TCFD in 2020 in their reports, adoption of the recommendations was found to be inconsistent and complete. The vast majority have still only partially adopted the recommended disclosures, with just 4% clearly defining risks over short, medium and long-term time horizons and 18% providing clear disclosure on their resilience to different climate scenarios.

Given the TCFD recommendations were integrated into the Directive's 2019 Guidelines on reporting climate-related information, it could have been expected that TCFD disclosures would have seen greater improvement in 2020 reports. The continued challenges in the quality and completeness of disclosures however indicates that voluntary adoption of the TCFD by Europe's largest companies, through its inclusion in non-binding guidelines, is not achieving the levels of disclosure required to fully inform investor decision-making. It is therefore evident that the TCFD recommendations must be embedded into the revision of the Directive itself.

- 2. 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.**

Whilst disclosure of information under individual content categories of the Directive has shown some improvement, such as business models and KPIs, coherent and connectedness across environmental disclosures is critical to ensuring it is decision-useful for investors. Our 2020 review found that information across content categories was not always well linked; for example 14% disclosed policy outcomes that did not clearly relate to their stated policies, and 36% did not indicate any explicit management actions being taken to address their principal risks.

In order to drive disclosure that provides a complete and consistent picture on the organisation's overall approach to sustainable long-term value creation, it is therefore key that the revision of the Directive places greater emphasis on ensuring companies' disclosure across content categories tells a clear overall story regarding its approach to environment, social and governance issues.

- 3. Define key terms used in the Directive, including 'policies', 'due diligence' and 'policy outcomes' to ensure consistent and comparable application of the content categories. In the Nordics, there should be a particular focus on 'policies', in order to address the impact poorly defined policies was observed to have on the quality of KPI disclosure.**

Although our review found that almost all companies disclosed these content categories, significant variation in the extent and quality of disclosures was observed, with companies appearing to interpret these terms differently. For example, policies often lacked business-specific detail, and 30% of due diligence disclosures failed to include board and management-level accountabilities in accordance with the Directive's non-binding guidelines³. Outcomes reporting was not clearly linked to stated policies in 14% of disclosures and few were able to provide balanced disclosure that fully addressed areas of weakness in policy progress. The significant variation in interpretation of these content categories shows that key terms should be defined within the Directive to ensure common understanding and application of these requirements.

For any questions relating to this briefing, please contact our Policy and External Affairs Director, Michael Zimonyi. Michael.Zimonyi@cdsb.net

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