What Data Shall Companies and Investors Report on Sustainability

Sustainable Finance Disclosure Regulation
Corporate Sustainability Reporting Directive
Regulation on Taxonomy of Sustainable Activities

Frank Bold

Frank Bold is a purpose-driven law firm using the power of business and non-profit approaches to solve social and environmental problems. The organisation initiated the Alliance for Corporate Transparency project, which has analysed the sustainability disclosures of the 1000 European large companies. We are changing the current practice of non-financial reporting and European legislation in cooperation with leading civil society organisations, progressive companies and other experts in the field.

frankbold.org
allianceforcorporatetransparency.org

Contact
Filip Gregor,
Head of Responsible Companies Section, Frank Bold
filip.gregor@frankbold.org
Large publicly traded companies, banks and insurers (>500 employees) by virtue of the Non-Financial Reporting Directive "NFRD". The draft Corporate Sustainability Reporting Directive (CSRD) presented by the European Commission in April 2021 to replace NFRD extends the scope to all large companies, and to all publicly traded companies, except of micro-companies.

Investors, including banks and insurers as regards their investment activities, and other financial market participants by virtue of the Sustainable Finance Disclosure Regulation "SFDR".

These instruments are supplemented by the Taxonomy Regulation, which specifies what should be disclosed if sustainable activities are declared. It provides a standard for sustainable lending and investment, irrespective of the recipient entity’s size.

The overview below summarises the requirements of the draft CSRD, the proposal for Sustainability Reporting Standard-Setting of the European Lab Project Task Force requested by the European Commission, and the already adopted standards for sustainability disclosure by investors (Regulatory Technical Standards for SFDR).

These requirements provide the basis for the corresponding sector-agnostic and sector-specific corporate sustainability reporting standards (CSRD standards), which are currently being developed and are intended to become applicable from 1st January 2023.

Data on principal adverse impacts:
- **Mandatory:** Climate change indicators and some workforce indicators have to be disclosed
- **If the company has material impacts:** Other environmental indicators
- **According to the company’s judgement:** Additional entity-specific indicators

Strategy, policies, targets and due diligence disclosures for material topics must be disclosed, but it is up to the reporting entity to define their level of ambition.

Data on sustainable activities are mandatory only if the company decides to declare sustainable activities

Companies should disclose:
- **a)** Overall strategy and targets explained by the assessment of risks and impacts
- **b)** Impact indicators in historical comparison and details on policies to manage impacts and risks and to implement the strategy

Standards for disclosures by financial market participants (SFDR) and of sustainable activities (Taxonomy) provide a specific structure in which the information should be presented
## STRATEGY & GOVERNANCE

<table>
<thead>
<tr>
<th>Overall business strategy</th>
<th>Double materiality assessment</th>
<th>Sustainability governance and organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ High-level sustainability targets</td>
<td>➔ Material sustainability risks and opportunities</td>
<td>➔ Board oversight</td>
</tr>
<tr>
<td>➔ Resilience of the business model</td>
<td>➔ Principal adverse sustainability impacts</td>
<td>➔ Access to expertise</td>
</tr>
<tr>
<td>➔ Adaptation of the business model and strategy to address material risks and impacts</td>
<td></td>
<td>➔ Management responsibilities and incentives</td>
</tr>
</tbody>
</table>

Prescribed structure for the Financial Markets Participants* (FMP > 500 – mandatory, FMP < 500 – comply or explain):

- principal adverse sustainability impacts of investments (as per indicators below) and actions taken
- due diligence policies to identify and prioritise adverse impacts and their governance
- engagement policies
- international standards adhered to
- sustainable financial products: the extent to which they met their declared characteristics and their overall impacts (do no significant harm)

## IMPLEMENTATION AND INDICATORS

### Climate

<table>
<thead>
<tr>
<th>Policy</th>
<th>Impact indicators</th>
<th>Impact indicators or declaration of no significant impacts</th>
<th>Alignment with EU Taxonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ carbon emission reduction target and transition plan</td>
<td>➔ GHG Scope 1 &amp; 2</td>
<td>➔ sites located in areas of high water stress</td>
<td>➔ classification of activities</td>
</tr>
<tr>
<td>➔ risks (and opportunities) relevant for the short, medium and long-term</td>
<td>➔ GHG Scope 3 (from 2023)</td>
<td>➔ sites/operations in or near high-biodiversity value areas</td>
<td>➔ compliance with technical screening criteria</td>
</tr>
<tr>
<td>➔ alignment with climate scenarios and public objectives to limit global warming to 1.5°C</td>
<td>➔ GHG intensity</td>
<td>➔ water emissions (tonnes)</td>
<td>a) threshold</td>
</tr>
<tr>
<td></td>
<td>➔ share of nonrenewable energy consumption and production</td>
<td>➔ hazardous waste (tonnes)</td>
<td>b) no significant harm</td>
</tr>
<tr>
<td></td>
<td>➔ energy consumption (high impact sectors only)</td>
<td></td>
<td>➔ demonstration of due diligence</td>
</tr>
</tbody>
</table>

**Good practice examples**

- Policy, risks, outcomes
  - Energy 1, Energy 2, Finance
- Science-based targets
  - Energy, Resource Transformation, Apparel & Textile
- Scope 3 GHG emissions
  - Energy, Finance, Food & Beverages

### Environment

<table>
<thead>
<tr>
<th>Financial Market Participants</th>
<th>Financial Market Participants</th>
<th>Financial Market Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ above information related to investment, lending or insurance activities</td>
<td>➔ share of investments in companies with the above impacts/tonnes per investment</td>
<td>➔ share of investments in companies with the above impacts/tonnes per investment</td>
</tr>
<tr>
<td>➔ investee companies’ KPIs above/value of investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➔ total carbon footprint</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➔ owned real estate assets GHG, energy, waste, raw materials consumption:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➔ share of investments in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) companies active in the fossil fuel sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>b) real estate assets related to fossil fuels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c) energy inefficient real estate assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>additional:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➔ companies without carbon emission reduction initiatives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>➔ share of securities in investment not certified as green</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Good practice examples**

- General example, Water, High Conservation Value Areas, Hazardous waste

<table>
<thead>
<tr>
<th>Sustainable activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>➔ water consumed, reclaimed, recycled and reused</td>
</tr>
<tr>
<td>➔ high-biodiversity risk activities, supply chains and commodities</td>
</tr>
<tr>
<td>➔ non-recycled waste (tonnes)</td>
</tr>
<tr>
<td>➔ emissions of pollutants (air, ozone, inorganic)</td>
</tr>
<tr>
<td>➔ production of chemicals</td>
</tr>
</tbody>
</table>

**Financial Market Participants**

- Asset managers: ➔ share of investment in sustainable activities
- Credit institutions: ➔ green asset ratio stock
- Investment firms: ➔ green asset ratio for investments on own account ➔ revenue from services and activities other than dealing on own account
- Insurers: ➔ proportion of financing sustainable activities ➔ the proportion of the non-life gross premiums written corresponding to sustainable activities
**Regulatory Technical Standards** provide several additional indicators, which are not presented here because they do not meet criteria of relevance, reliability and measurability.

- a credit institution which provides portfolio management;
- a management company of an undertaking for collective investment in transferable securities (UCITS management company);
- a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013;
- a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013;
- a pan-European personal pension product (PEPP) provider;
- an alternative investment fund manager (AIFM);
- a manufacturer of a pension product;
- an institution for occupational retirement provision (IORP);
- an investment firm which provides portfolio management;
- an insurance undertaking which makes available an insurance-based investment product (IBIP);

*Financial Markets Participants means:

- above information related to investment, lending or insurance activities
- details of adherence with international due diligence standards
- details of due diligence application to sustainable financial products to ensure no severe adverse impacts
- share of investment in investee companies that a) are lacking a due diligence process
  b) have been involved in violations of the UNGC or OECD Guidelines
  c) manufacture or sell controversial weapons

**Additional requirements for Financial Market Participants**

- financial products disclosures (pre-contractual and on the website)
- the manner in which sustainability risks are integrated into their investment decisions
- the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available

Explanation whether the financial product (from 2022)

- intends to make any sustainable investments
- a description of the environmental or social characteristics or the sustainable investment objective and if they are being met
- whether an index has been designated as a reference benchmark, and details
- for carbon reduction, adherence to the goals of the Paris Agreement
- investment strategy to attain the sustainability characteristics
- asset allocation
- whether principal adverse impacts are taken into account
- reference to details available online (methodologies and data)

* Financial Markets Participants means:
  a) an insurance undertaking which makes available an insurance-based investment product (IBIP);
  b) an investment firm which provides portfolio management;
  c) an institution for occupational retirement provision (IORP);
  d) a manufacturer of a pension product;
  e) an alternative investment fund manager (AIFM);
  f) a pan-European personal pension product (PEPP) provider;
  g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013;
  h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013;
  i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or
  j) a credit institution which provides portfolio management;

** Regulatory Technical Standards provide several additional indicators, which are not presented here because they do not meet criteria of relevance, reliability and measurability.
Information flows for sustainable finance

Annex: An overview of insufficient reporting practices identified in EUKI 2020 research and subsequent enforcement activities can be found in the Enforcement activities, Summary report – EUKI Research 2020

This project is part of the European Climate Initiative (EUKI). EUKI is a project financing instrument by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU). The EUKI competition for project ideas is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. It is the overarching goal of EUKI to foster climate cooperation within the European Union (EU) in order to mitigate greenhouse gas emissions.

More information on EUKI can be found here: http://www.euki.de/

The opinions put forward in this document are the sole responsibility of the author(s) and do not necessarily reflect the views of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU).