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.

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Which companies need to disclose sustainability information?

- → 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.

Where do the requirements come from?

In 2021, the European Commission will adopt standards for the disclosure of impacts by investors (Regulatory Technical Standards for SFDR) and of sustainable activities concerning climate mitigation and adaptation (Technical Screening Criteria for Taxonomy), both applicable from 1. 1. 2022.

The overview below summarises final proposals for these standards by the designated authorities. Corresponding sector-agnostic and sector-specific corporate sustainability reporting standards (CSRD standards) will be developed and become applicable by the end of 2022.

Which data is mandatory?

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 and due diligence disclosures are mandatory, 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

How should the information be presented?

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

Summary of reporting specifications of the SFDR, NFRD/CSRD and Taxonomy

STRATEGY & GOVERNANCE

Overall business strategy

→ High-level sustainability targets

→ Integration in company's business model and strategy

→ Financial planning

Double materiality assessment

→ Material sustainability risks and opportunities

→ Principal adverse sustainability impacts

Sustainability governance and organisation

→ Board oversight

→ Access to expertise

→ Management responsibilities and incentives

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

Policy

→ carbon emission reduction target and transition plan

→ risks (and opportunities) relevant for the short, medium and long-term

→ alignment with climate scenarios and public objectives (Paris Agreement)

Financial Market Participants

→ above information related to investment, lending or insurance activities

Impact indicators

→ GHG Scope 1 & 2

→ GHG Scope 3 (from 2023)

→ GHG intensity

→ share of nonrenewable energy consumption and production

→ energy consumption (high impact sectors only)

Financial Market Participants

→ investee companies' KPIs above/value of investment

→ total carbon footprint

→ owned real estate assets GHG, energy, waste, raw materials consumption:

→ share of investments in

a) companies active in the fossil fuel sector

b) real estate assets related to fossil fuels

c) energy inefficient real estate assets

additional:

→ companies without carbon emission reduction initiatives

→ share of securities in investment not certified as green

Environment

Mandatory impact indicators
or declaration of no impacts

→ sites located in areas of high water stress

→ sites/operations in or near high-biodiversity value areas

→ water emissions (tonnes)

→ hazardous waste (tonnes)

Financial Market Participants

→ share of investments in companies with the above impacts/tonnes per investment

Material impacts indicators
or declaration of no significant impacts

→ water consumed and reclaimed, and recycled and reused

→ high-biodiversity risk activities, supply chains and commodities

→ non-recycled waste (tonnes)

→ emissions of pollutants (air, ozone, inorganic)

→ production of chemicals

Financial Market Participants

→ share of investments in companies with the above impacts/tonnes per investment

Sustainable activities

Alignment with EU Taxonomy

→ classification of activities

→ compliance with technical screening criteria

a) threshold

b) no significant harm

→ demonstration of due diligence

→ economic indicators (commentary on changes and accounting policy)

i) Proportion of turnover

ii) CAPEX

iii) OPEX

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

Human rights and environmental due diligence		Workforce (S)		Anti-Corruption
Policy	**Due diligence**	**Workforce indicators**	**Workers protection**	**Policy & due diligence**
→ company's salient issues and affected people or declaration of no risks of severe impacts → commitment to follow OECD Guidelines to address salient issues → high-level targets relevant to addressing identified human rights risks	→ process to identify human rights risks: a) which operations and supply chains were assessed b) sources c) coverage of sustainable activities → activities to prevent or mitigate human rights risks → indicators to monitor progress towards targets → involvement of affected stakeholders	→ workforce composition by contract, vulnerable group and location → gender pay gap and diversity by job roles → turnover (stability) → collective bargaining coverage → living wage gap → CEO: median pay ratio → description of high-risk supply chains (and indicators in high-risk sectors)	→ OHS policy & workers participation in it → workplace accidents and number of days lost → grievance mechanisms and results → purchasing practices and indicators (high-risk sectors)	→ general risks analysis → anti-corruption programme → whistleblowing system and results → convictions and fines → information on beneficial ownership and controlled entities → policy on political activities
Financial Market Participants → above information related to investment, lending or insurance activities	**Financial Market Participants (in addition to the above)** → 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	**Financial Market Participants** → gender pay gap and board gender balance average across investee companies	**Financial Market Participants (one of the following criteria)**** → weighted average in investee companies of a) rate of accidents b) days lost → share of investment in investee companies without a) any grievance/complaints mechanism for employees b) policy on whistleblowers' protection → average ratio in investee companies of CEO: median compensation	**Financial Market Participants (one of the following criteria)** → share of investments in investee companies: a) without anti-corruption policies consistent with the United Nations Convention against Corruption b) with identified insufficiencies in actions taken to address breaches in procedures and standards → numbers of convictions and amount of fines for violations of anti-corruption and anti-bribery laws by investee companies

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