

COMPANIES SUSTAINABILITY DISCLOSURE

Why it is crucial to review the EU Non-Financial Reporting Directive



Lack of legal specificity hinders progress

The EU Non-financial Reporting (NFR) Directive requires large companies and financial corporations operating in Europe to disclose information on environmental, social, human rights and anti-corruption matters. **The problem is that the legal framework does not specify in sufficient detail what concrete information on which sustainability topics should be disclosed, therefore failing to render these reporting requirements effective.** As a result, early data concerning the implementation of the NFR Directive shows that a vast majority of companies don't report relevant information.

Disclosure as a pre-requisite for sustainable finance

Around €180 billion of additional investments are needed yearly to achieve the EU's 2030 targets agreed in Paris, including a 40% cut in GHG emissions. **These investments will not be properly allocated without comparable and consistent insights from companies on their climate mitigation risks and strategies.**

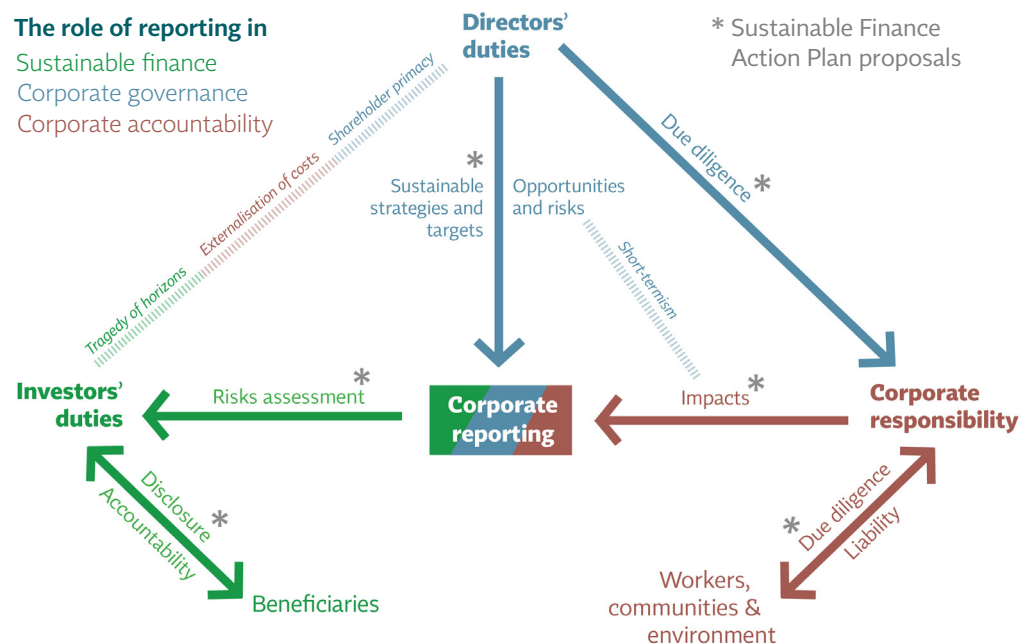
Inadequate implementation and supervision

Governments and enforcement agencies can't adequately monitor compliance with reporting requirements unless the legal framework is specified, as the European Securities and Markets Authorities has already publicly [acknowledged](#).

Call for action:

The EU Commission must commit to reform the EU NFR Directive in order to develop the reporting framework for corporate disclosure on environmental and social sustainability.

A standardised reporting framework is a prerequisite to creating a sustainable and just economy and financial system.



Materials for further information:

- The Alliance for Corporate Transparency analysis of companies' reporting: Research Report 2018. <http://bit.ly/2CPk18l>
- "Ensuring the relevance and reliability of non-financial corporate information: an ambition and a competitive advantage for a sustainable Europe". Report by Patrick De Cambourg, President of the French standard-setting authority for the French Minister of the Economy and Finance published in May 2019. <http://bit.ly/307s347>
- The Task Force on Climate-related Financial Disclosures 2019 status report. <http://bit.ly/2Mut3vl>
- "First Steps: Corporate climate and environmental disclosure under the EU Non-Financial Reporting Directive" 2018 report by CDSB and CDP. <http://bit.ly/2KJT7XB>
- "The European Commission must take action to improve the reporting obligations of companies on sustainability issues" Statement signed by leading European civil society in 2018. <http://bit.ly/2BByrac>
- Response by the European Securities and Markets Authorities to the EU Commission updated reporting guidelines on climate-related disclosures. <http://bit.ly/2Wq7oGC>
- EU Commission's Sustainable Finance Action Plan. <http://bit.ly/2CQGDFA>
- KPMG Sweden survey on sustainability reporting. <http://bit.ly/2zefUPg>

Background:

The European economy is on the path to exceed planetary boundaries in particular with respect to climate change, biosphere integrity and the use of natural resources. Furthermore, European businesses are implicated in a number of other environmental and human rights issues such as air quality or modern slavery, and their global value chains play a key role in driving the depletion of ecosystems outside of the EU, such as deforestation and destruction of habitats.

While individual business conduct is increasingly controlled in order to minimise these impacts, the problem remains as these impacts are of cumulative nature and their gravity is intrinsically linked to the unsustainability of the current model of economic growth. In order to address this problem, it is necessary to achieve a transition of the economic system as a whole.

Such a transformation relies on the simultaneous overhaul of the EU's financial system, and in particular, on the integration of sustainability matters in private capital flows facilitated by banks and capital markets. These capital flows are currently negatively influencing corporate strategies causing company managers to over-focus on short-term financial performance and disregard environmental and societal considerations. The transition to a just, low-carbon, more resource-efficient and circular economy require substantial investments which are currently not available.

The path forward

For the above-mentioned reasons, the European Commission adopted the Action Plan on Sustainable Finance in 2018, which aims to redirect capital flows to sustainable investments, manage financial risks stemming from climate change, environmental degradation and social issues and foster transparency and long-termism in financial and economic activity. **The success of the Action Plan and related legislative measures (investor duties, green benchmarks and development of an EU sustainability taxonomy) highly depend on companies providing publicly comprehensive sustainability information that allow understanding of their impact and sustainability plans.** More specifically, the proposed EU regulation on sustainable investment disclosures will require investors to carry out due diligence concerning adverse environmental and social impacts linked to their investments, including risks of human rights violations, which is not possible in the absence of reliable information from companies.

Since 2018, such disclosure is mandated by the EU NFR Directive, which requires large listed companies and financial actors to provide information on their sustainability policies and outcomes, risks of adverse impacts and KPIs. The problem is that the Directive does not specify in sufficient detail what concrete information on which sustainability topics should be disclosed and encourages companies to rely on a wide range of diverse voluntary reporting frameworks. Early data concerning the implementation of the Directive shows that the vast majority of companies continue to not report key information relevant to their business model. **This situation puts the achievement of the Action Plan on Sustainable Finance in jeopardy as investments will be misallocated without appropriate and comparable insights from companies. In order to overcome these obstacles, it is necessary to:**

- a) review the EU NFR Directive in order to specify its requirements
- a) ensure better implementation and enforceability
- c) integrate the abovementioned changes with the sustainable finance agenda, in particular the development of a sustainability taxonomy and the integration of sustainability considerations in investors' duties

Supporting data from the



Climate change risks reporting

From 38 Energy companies only...

26% included below 2°C scenario in scenario analysis

21% reported Information on short, medium and long time horizons

Human rights reporting

From 105 companies only...

36% described their due diligence process described

26% included a clear statement of salient issues

Anti-corruption disclosures

From 105 companies only...

45% provided information on corruption risks assessments

10% disclosed their lobby expenditures

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