

Country briefing:

French companies' performance
under the EU Non-Financial
Reporting Directive

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Top strengths

1. Policies and due diligence
2. KPIs
3. Policy outcomes

Top weaknesses

1. Size and length of disclosures
2. Materiality process
3. Risks and TCFD implementation

Policy Briefing: French companies' environmental and climate-related disclosure under the EU Non-Financial Reporting Directive

The Climate Disclosure Standards Board (CDSB) has reviewed¹ **the 2019 environmental and climate-related disclosures of Europe's 50 largest listed companies**, with a combined market capitalisation of US\$4.3 trillion, under the EU Non-Financial Reporting Directive (NFRD).² This review also assessed progress in implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) following the publication by the European Commission of NFRD's non-binding guidelines on reporting climate-related information³. The findings of the review were published in the "[Falling Short?](#)" report.

The purpose of the report is to **inform policymakers of the changes needed to improve environmental disclosures under the Directive**, to ensure it meets its purpose of increasing the relevance, consistency and comparability of company reporting. It also aims to **support corporate report preparers** by identifying good practice case studies and tips, drawn from the findings of CDSB's review.

This briefing provides **analysis of the results for the 16 French companies included in the scope of the report in greater depth**⁴. It assesses what specific strengths and weaknesses their disclosures reveal compared to the EU average and suggests policy recommendations to address them in the context of the upcoming NFRD review. In addition to supporting an ambitious NFRD review at the European level, this briefing makes the case for further harmonisation of reporting requirements in the French regulatory framework to avoid duplication of content in registration documents.

Strengths and weaknesses of French companies' environmental and climate-related disclosure

The review of French companies' environmental and climate-related reporting revealed **a good level of implementation of NFRD requirements overall**, with all companies disclosing each of the 5 main content categories (business model, policies and due diligence, outcomes, principal risks and KPIs). This information was always located in the Registration Document, either in an integrated manner throughout the report, or in a dedicated section as a result of the French transposition of the Directive.⁵

¹CDSB (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>

² Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 as regards disclosure of non-financial and diversity information by certain large undertakings and groups, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

³ EC Guidelines on reporting climate-related information, https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

⁴ Air Liquide, Airbus, Axa, BNP Paribas, Christian Dior, Danone, EssilorLuxottica, Hermes International, Kering, L'Oréal, Pernod Ricard, Safran, Sanofi, Schneider Electric, Total, Vinci

⁵ The French NFRD transposition requires non-financial information to be included in a Statement on Non-Financial Performance within the annual report.

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French companies' disclosures can still be improved by:

- **Streamlining the various legislative requirements** to avoid duplicative and lengthy disclosures; and
- **Removing vague disclosures which lack contextual elements** to make the reader understand the implications of identified risks and impacts to the business.

Size and length of non-financial disclosures

One of the specific features of French companies' non-financial disclosures concerned their format, size and length. **French companies' disclosures have proven to be the longest in Europe.** They show duplication and inconsistencies across aspects of their management report in most cases, creating issues with conciseness and coherence. This results in a reduction of the overall usefulness of such disclosures.

Environmental and climate-related information included by French companies in the mainstream report averaged 25 pages (48 pages for all non-financial topics, up to 70 pages for one report), compared to 14 pages on average for all EU companies reviewed. In the case of one of the reports, 8 pages were directly duplicated to comply with various overlapping requirements.

Such length can be explained by both **duplicative requirements in the various pieces of national legislation**, as well as **a compliance-based approach to disclosure taken by some companies**, using the exact same information to fulfil various requirements in different sections of their report. This leads to **significant and unnecessary reporting burden**, as well as **a reduction in the clarity and therefore decision-usefulness of the reported information**.

Materiality

A distinguishing aspect of the European Commission's 2019 non-binding guidelines was the double materiality concept to cover both financial and environmental and social materiality and meet the needs of both investors and wider stakeholders.

CDSB's review found that **French companies' disclosures often lacked focus on investor materiality**. As a result, companies failed to consider the impacts of principal risks on the business as well as by the business and 50% of companies only apply an environmental and social materiality definition. This reveals **a lack of understanding around the concept of double materiality** and does not serve the information needs of mainstream investors. In fact, the review found that **only 13% of the companies applied a double materiality perspective** in their assessment of climate and environmental risks.

The French transposition of the NFRD has also resulted in companies disclosing **a list at the end of the non-financial statement detailing "information considered to be most important" in lieu of a materiality assessment disclosure**.⁶ This list is always disclosed without an explanation as to how it has been determined (i.e. what criteria has been used to decide what is most material). **Such requirement should therefore be amended for such list to emphasise material topics for an investor audience.**

⁶ As explained in the French application decree, <https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000035401863&categorieLien=id>

Risks and TCFD implementation

The environmental and climate-related risks that businesses face should play an important role in informing their business model, policies and KPIs. This is also a key emphasis of the TCFD recommendations.

CDSB's review found that **risk disclosure proved to be a key area of weakness in French companies' disclosures**. Disclosures often lacked **information regarding specific actions taken by the company** to integrate such risks into business risk management processes. More importantly, companies were not able to **disclose all the material risks (i.e. more than a few) impacting their business**.

French companies were also less likely to provide disclosure on the impacts of risks they identified for their business, with 75% of companies doing so compared to the EU average of 82%. This was particularly evident in the disclosures of business model impacts relating to identified risks, with only 31% of French companies disclosing information, compared to 42% for EU companies on average. This demonstrates that the business risk angle enshrined in the TCFD recommendations is not yet commonly applied by all companies in France.

Additionally, **only 6 of the French companies reviewed showed evidence of alignment to the TCFD requirements** in their disclosure, with 10 failing to show any progress in implementation. Even energy and finance sector companies, that showed significant progress in disclosing TCFD recommendations, had not adopted the recommendations in full, particularly regarding scenario analysis. In fact, **French companies performed well below the EU average on the use of various scenario analysis** with none of the French companies fully disclosing their strategic resilience based on this exercise over short, medium and long-term. This remains an area of underperformance among EU companies in general as well, with only 14% of them using scenario analysis. These results show that despite a good performance of French companies on the implementation of TCFD recommendations, there is still room for improvement even among the largest ones.⁷

The low quality of risk disclosures may be explained by the existence of duplicative requirements at national level, between the ones coming from the NFRD as transposed into national legislation, national disclosure requirements (e.g. the article 173 of the Energy Transition Law on climate reporting) and the French Corporate Duty of Vigilance Law.

As a result,

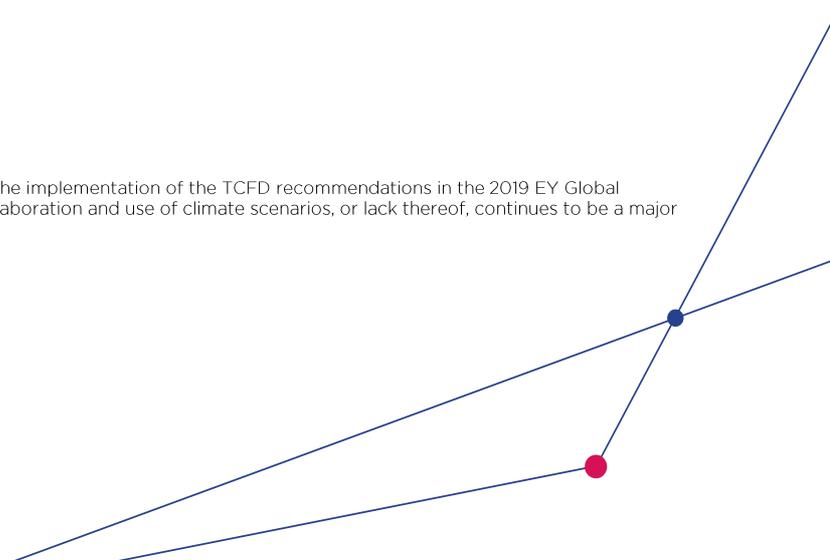
- **Risk disclosures are made in both the non-financial statement and Vigilance plan, and sometimes additionally in a TCFD report.** Several companies also stated they had developed separate risk identification and assessment processes to inform these different disclosures; and
- **The requirements under the Vigilance Law to disclose information on adaptation to climate change led companies to make a separate disclosure to the content included within the non-financial statement or provided under the TCFD recommendations.**

⁷ France has been recognised as one of the best performing markets in the implementation of the TCFD recommendations in the 2019 EY Global Climate Risk Disclosure Barometer. The study has also found that "the elaboration and use of climate scenarios, or lack thereof, continues to be a major gap in a companies' reporting."

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Policies and due diligence

Well-articulated corporate policies provide the basis to inform and structure a company's environmental and climate-related disclosure. CDSB's review found that **all French companies under review provided disclosure for this content category**. However, some⁸ French companies only provided general disclosures, which did not address leadership responsibilities over due diligence processes within their policies, as requested by the NFRD.

Clarification of the legal definitions of both “policies” and “due diligence” would be helpful to clarify the legal requirements and ensure better implementation. This could be completed through **additional guidance from relevant authorities** such as the Financial Markets Authority (AMF).

Key Performance Indicators (KPIs)

KPIs are a useful tool to assess progress of a company against previously set policies. CDSB's review found that **French companies performed well above EU average for this content category** and were able to provide a wide range of KPIs, including on greenhouse gas (GHG) emissions, energy and water resources, with prior year of performance for comparison provided in each report. **Disclosures on GHG emissions were of good quality with 81% of French companies disclosing up to scope 3 emissions**, compared to 54% on average for other EU companies.

However, **disclosures in this area need to be connected to other information in the Registration Document** to become more useful for the identification of material issues to the business' ability to create value. As an example, only 25% of French companies reported metrics which link financial and environmental performance (i.e. below an already low EU average of 32%).

Policy outcomes

Reporting on policy outcomes enables investors to understand how companies are progressing against their policy commitments and, ultimately, whether they are aligning their activities with these ambition statements. CDSB's review found that **French companies were able to showcase progress over policy commitments** and include quantitative and qualitative information on the outcomes of their environmental and climate-related policies.

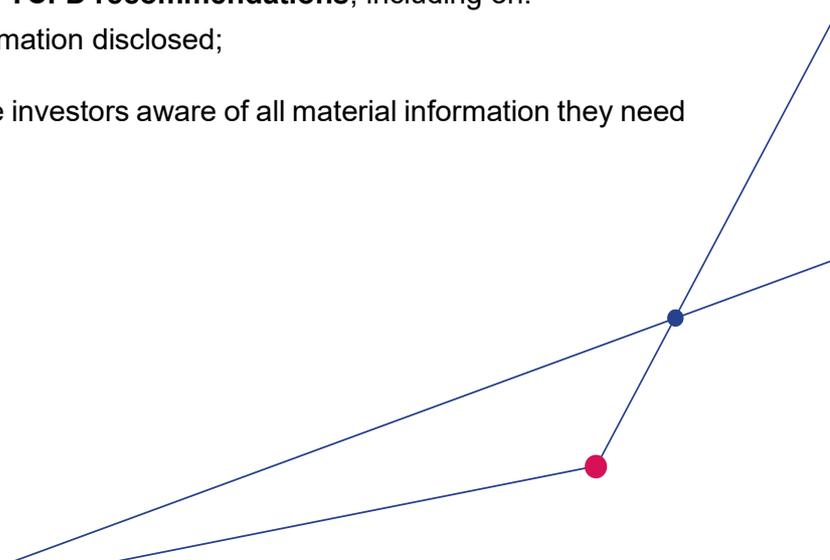
Nonetheless, French companies' disclosures in this area could benefit from **being more concise and focused on material information**, to ensure it is of most use for investors.

French companies are still falling short in their implementation of the NFRD requirements

CDSB's analysis found that **major improvements are still required for French companies to fully comply with the NFRD requirements and the TCFD recommendations**, including on:

- Conciseness and coherence of the information disclosed;
- Use of scenario analysis; and
- Determination of material issues to make investors aware of all material information they need to assess the company's position.

⁸ 3 of the 16 companies reviewed.



The findings outlined in this briefing underline **the need to go for further harmonisation of requirements both at national and European level**. Regulation plays a key role as a driver for reliable corporate reporting, but it can also create confusion and duplicative reporting when several pieces of legislations require similar information to be disclosed. It is therefore of the utmost importance to **allow more policy coherence between the legislative requirements, including the upcoming ones coming from the taxonomy or the sustainable finance disclosure regulation**.

Policy recommendations

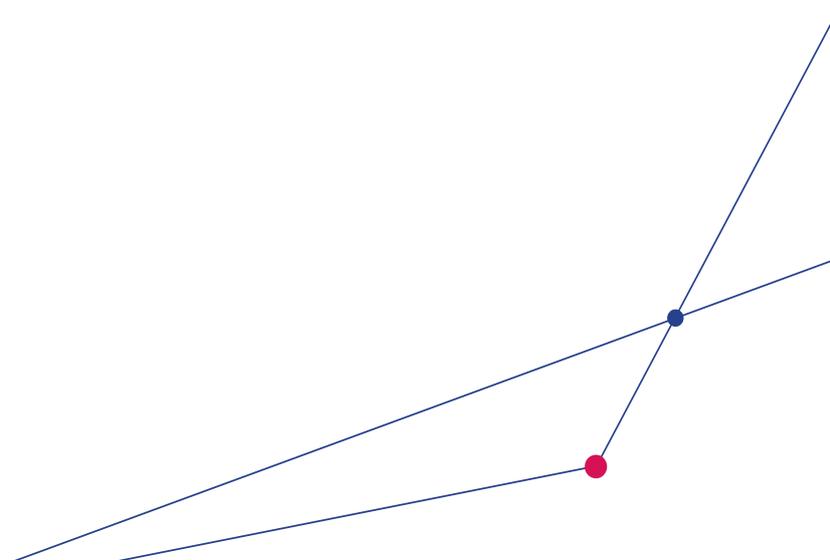
Based on the above, our recommendations for French policy makers are as follows:

- 1. Support the removal of the exemption in the Directive allowing the non-financial statement to be reported outside the mainstream report**, as it is already the case in some Member States including France and as our review demonstrates that, for most companies, this is already the norm;
- 2. Harmonise and specify disclosure requirements both in content and format, including at national level**, to avoid lengthy and duplicative requirements creating confusions both for report preparers and users of non-financial information;
- 3. Support the introduction of Definitions of key terms used in the Directive**, such as ‘policies’ and ‘due diligence’ to ensure a common understanding and application of the Directive’s content categories;
- 4. Provide relevant guidance for businesses** to reduce corporate reporting burden and improve the quality of disclosures;
- 5. Support the review of the principal risk requirements of the Directive** to ensure emphasis is placed on risks and impacts ‘to’ the business (not simply ‘by’ the business). Member State policymakers should consider the interface between the NFRD and other risk disclosure requirements implemented nationally to support companies in making cohesive disclosures; and
- 6. Support the inclusion of the TCFD recommendations into the Directive** to drive stronger linkage of non-financial and financial reporting, and a more unified, harmonised, and convergent approach.

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