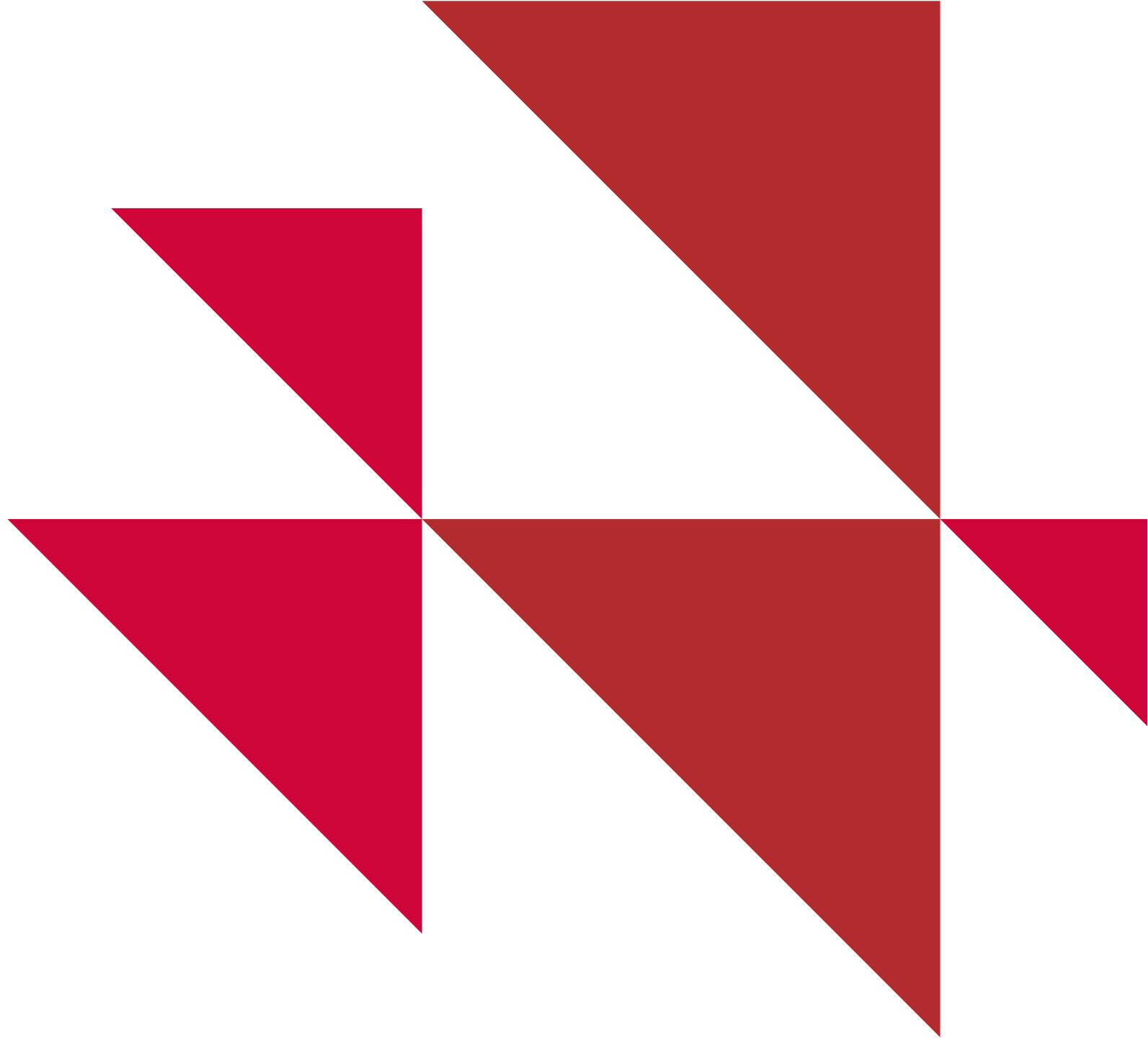


EU Sustainability Reporting Beyond Borders | EU Sustainable Finance Webinar Series

13 July 2023

Hélène Procoudine Gorsky
Senior Capital Markets and Policy Officer



Welcome!

- ▼ Submit your questions anytime in the chat section
- ▼ The event is being recorded
- ▼ Slides and recording can be shared after the event



Agenda



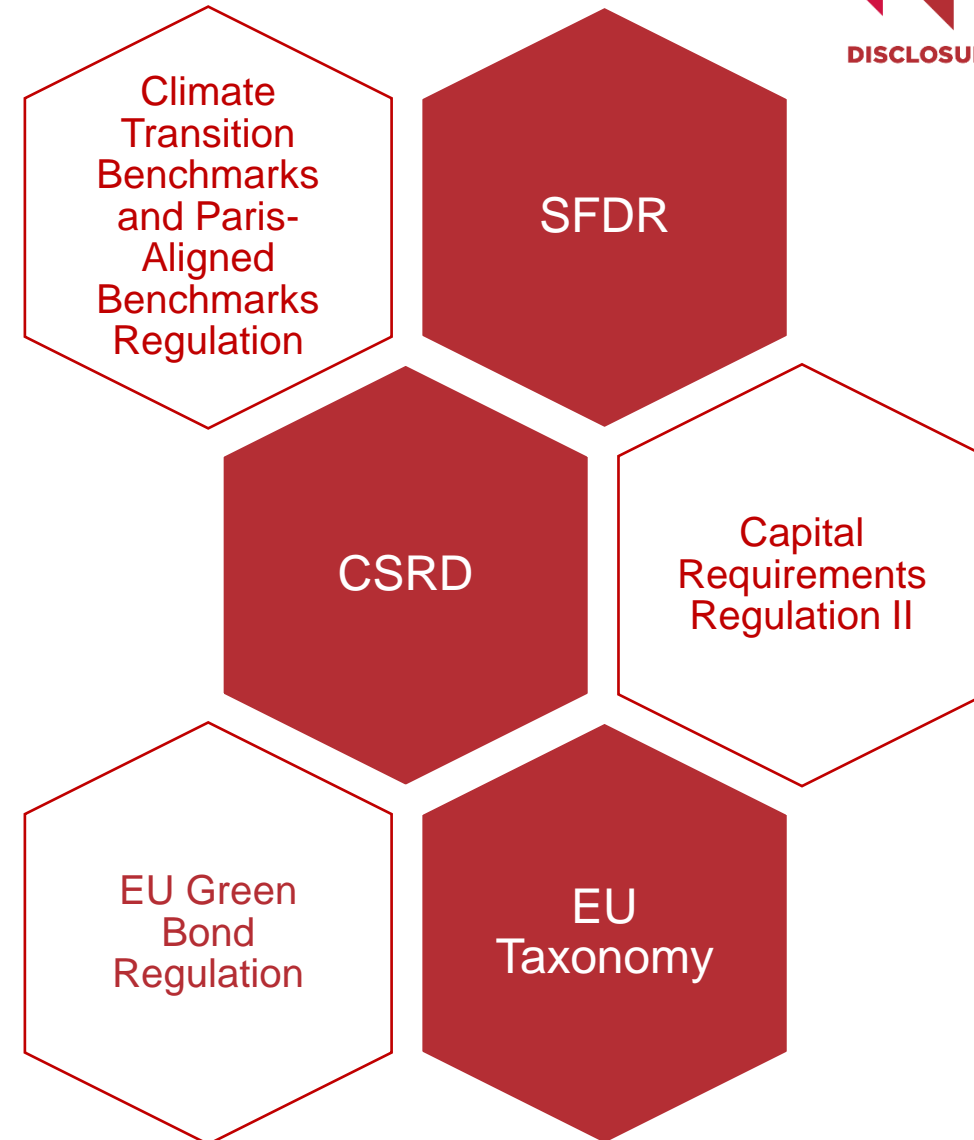
Overview

Context of the EU sustainability disclosure regime

In its communication “**Action Plan: Financing Sustainable Growth**” from 2018, the European Commission set out measures to achieve the following **objectives**:

- ▼ **Reorient capital** flows towards **sustainable** investment;
- ▼ **Manage** financial **risk** stemming from **climate change**, resource depletion, environmental degradation and social issues, and
- ▼ **Foster transparency** and **long termism** in financial and economic activity.

The **disclosure** by certain categories of financial and non-financial companies of relevant, comparable and reliable sustainability information **is a prerequisite** for meeting those objectives.



The EU Disclosure Regime



Environmental Objectives

Climate Change mitigation and adaptation	Sustainable water use	Biodiversity	Pollution prevention	Circular economy
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Adverse Impacts

GHG emissions & Energy	Water consumption, water stress	Activities near biodiversity sensitive areas	Emission of air pollutants	Non-recycled waste
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EU Taxonomy

Contribution to one or more of the environmental objectives: eligibility and alignment by economic activity

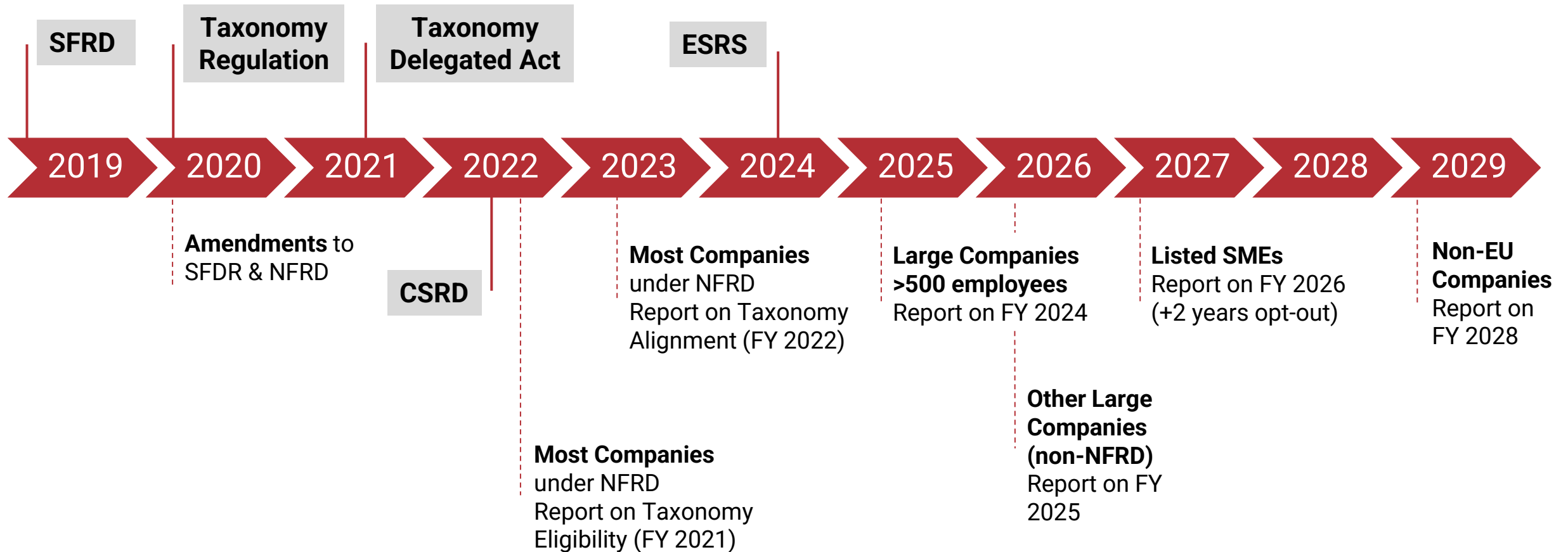


Disclosure Mechanisms

Corporate Reporting Standards - CSRD	Sustainable Finance Disclosure - SFDR
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Timeline of Implementation



Applications for Non-EU stakeholders

EU Taxonomy



The EU Taxonomy in a nutshell



Environmental Objectives

Climate Change mitigation and adaptation	Pollution prevention	Sustainable water use	Protection of biodiversity	Circular economy
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What?

- Classification system to identify environmentally sustainable economic activity
- Taxonomy Regulation published in 2020, Delegated Acts for the Technical Screening Criteria and reporting standards in 2021
- **Objective: provide a tool to shift investment towards where it is most needed and avoid greenwashing**

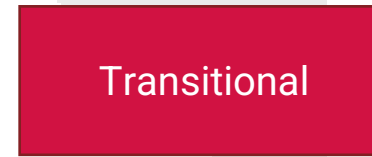
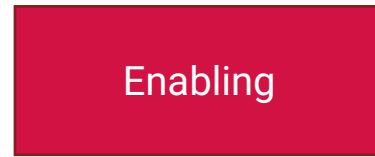
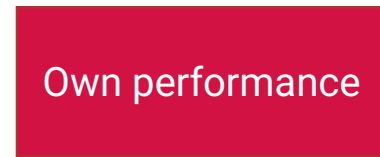


How?

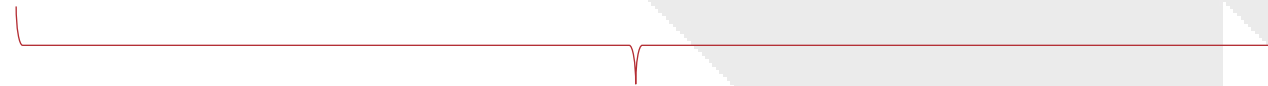
Provides a list of eligible activities by objectives	Defines the criteria for substantial contribution	Do no significant harm criteria	Minimum safeguards	Reporting
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EU Taxonomy step by step assessment

Activity level



Pass criteria for substantial contribution? **Y** **No: eligible but not aligned**



Activity level



Pass criteria? **Y** **No: eligible but not aligned**



Company level



Important

- Non-eligible doesn't mean harmful or unsustainable
- Low Environmental impact activities out of scope
- Certain activities still need to be assessed – evolving framework

Snapshot of EU Taxonomy corporate disclosures



Disclosures cover the previous calendar year

	Common	Specific	KPIs
Non-financial corporates	<ul style="list-style-type: none"> ➤ Taxonomy alignment ➤ Taxonomy eligibility ➤ DNSH / min safeguards 	Per economic activity	% revenue, capex, opex
Banks	<ul style="list-style-type: none"> ➤ Exclusion of government bonds ➤ Exclusion from nominator of corporates not obliged to publish NFRD/CSRD report (non-listed SMEs, non-EU) ➤ Exclusion of derivatives ➤ No estimates, or disclosed separately 	Per type of funding (includes specialized lending/project finance)	Green Asset Ratio
Asset managers			% revenue, capex of investee companies
Insurances		Non-life versus life underwritings	% premiums, and revenue/capex for investments

SFDR



SFDR disclosure applications



6 climate and environmental objectives

Climate (2), Water, Biodiversity, Pollution, Circularity



Products covered

Product level (art. 8 and 9)

- ▼ UCITs
- ▼ AIFs
- ▼ Pension schemes
- ▼ Pension/insurance products
- ▼ PEPP
- ▼ Other managed portfolios

Entity covered

Financial market participants/financial advisors

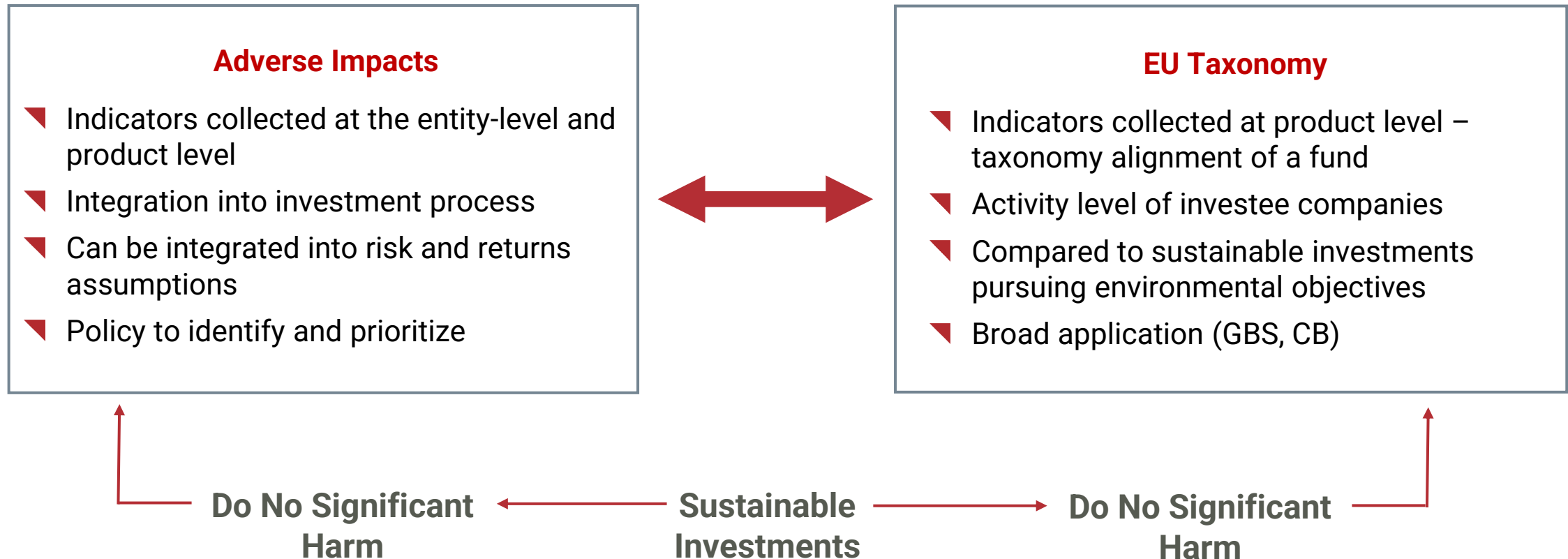
- ▼ Selling/managing products, providing advice in the EU
- ▼ Sustainability risk disclosures
- ▼ Consideration of adverse impacts
- ▼ Principal adverse impact statement mandatory for FMPs over 500 employees

SFDR disclosure requirements



6 climate and environmental objectives

Climate (2), Water, Biodiversity, Pollution prevention, Circularity



CSRD and ESRS



The CSRD: What is it?

The EU Corporate Sustainability Reporting Directive (CSRD) has been **adopted in December 2022** and EU member states are expected to **transpose** it into national legal frameworks by **July 2024**.

It replaces the EU Non-Financial Reporting Directive and is estimated to **apply to about 50.000 EU firms**

Rules requiring all large companies and all listed companies (except listed micro-enterprises) to **disclose** information on what they see as the **risks** and **opportunities** arising from **social** and **environmental issues**, and on the **impact** of their activities **on** people and the **environment**.

This **helps** investors, civil society organisations, consumers and other **stakeholders** to **evaluate** the **sustainability performance** of companies.

CSRD (Directive (EU) 2022/2464)

Where & how to report

- ▶ Companies should report sustainability information in a clearly identifiable dedicated section of the management report



- ▶ Electronic reporting format (EU Reg. 2019/815), in XHTML format
- ▶ Including disclosures required under EU Taxonomy Art. 8
- ▶ EU subsidiaries of third country undertakings shall publish sustainability report

The CSRD: who does it apply to? (1/2)

All “large undertakings” (whether listed or not)

Large companies (listed and not listed) are defined as exceeding two of the following three criteria (either as a single entity or on a consolidated group basis):

- ✓ balance sheet total > €20mn
- ✓ net turnover > €40mn
- ✓ employees > 250

Listed SMEs, (except listed micro-enterprises) small and non-complex credit institutions, and captive insurance undertakings

Listed SMEs are defined as having securities listed on a regulated EU market, and meeting at least two of the following criteria:

- ✓ balance sheet total > €4mn
- ✓ net turnover > €8mn
- ✓ employees > 50

Non-EU undertakings

A non-EU parent company with i) an EU-established large/listed subsidiary or a listed SME subsidiary, or ii) a large EU branch, meeting the following criteria:

- ✓ generate a net turnover of more than €150,000,000 in the EU (for two consecutive years) and have either:
 - ✓ for a subsidiary: meets the criteria of a large company or listed company.
 - ✓ for a branch: has a turnover of more than €40 million.

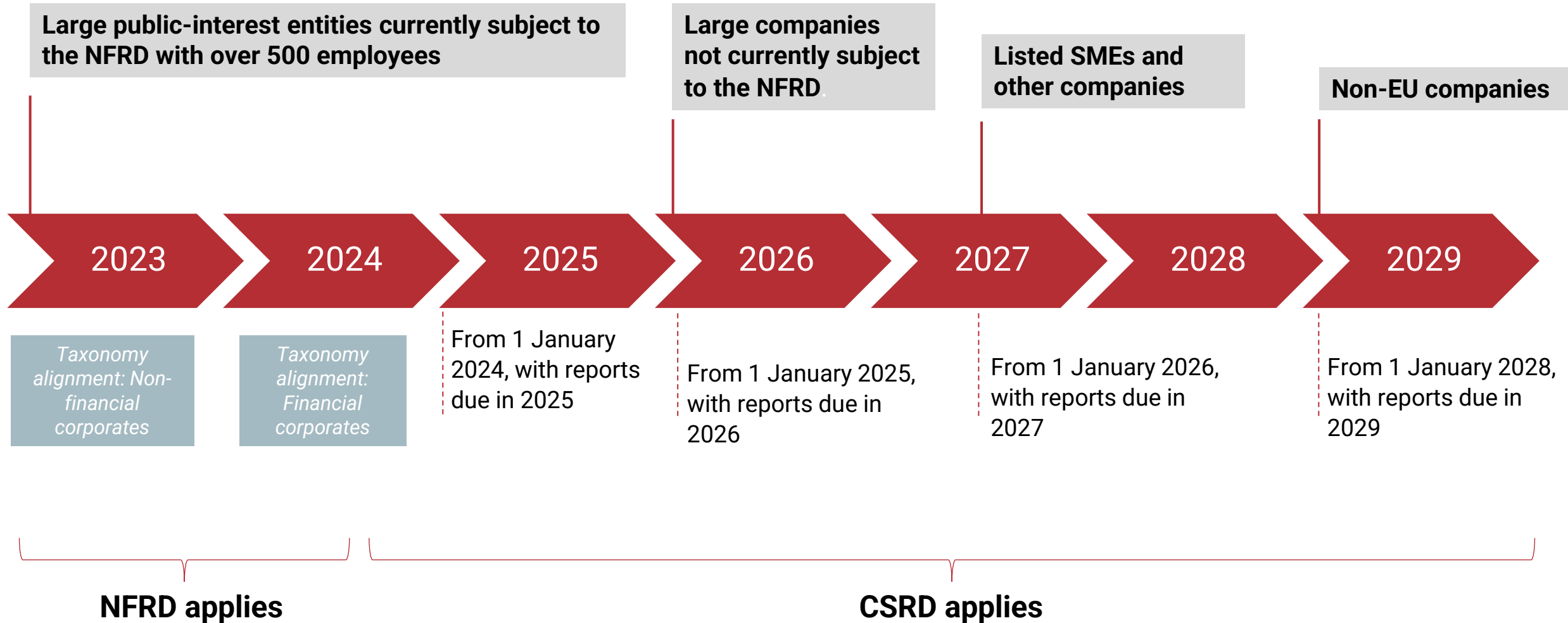
The subsidiary or branch will be responsible for preparing a sustainability report for the third country undertaking at a consolidated level. These sustainability reports will need to be prepared according to one of the following:

- ▶ Separate standards to be adopted by the European Commission by June 30, 2024
- ▶ The standards applicable to EU undertakings;
- ▶ Standards which are deemed equivalent by the Commission.

Corporate Sustainability Reporting Directive (CSRD)

NFRD remains in force until companies have to apply CSRD.

The CSRD: who does it apply to? (2/2)



Scope of the ESRS (latest drafts)

- ▼ The ESRS specify the information that undertakings should disclose on all major environmental topics, including their impacts and dependencies on climate, pollution, water, biodiversity and circular economy as per the environmental objectives of the European Union enacted in the 'EU Taxonomy Regulation'.
- ▼ Strong focus on undertakings' value chain

- ▼ **12 standards:** 2 general, 5 topical, 4 social, 1 governance
- ▼ All reporting requirements apart from the general standards are subject to **materiality assessment**
- ▼ Governance, Strategy (incl. disclosure of material impacts, risk and opportunities), Impact/risk and opportunity management (incl. process for materiality assessment, policies and actions), Metrics and targets

Data

The data gaps and challenges



Environmental Objectives

	Climate Change mitigation and adaptation	Sustainable water use	Biodiversity	Pollution prevention	Circular economy
ESRS	E1	E3	E4	E2	E5
Adverse Impacts	GHG emissions & Energy	Water consumption, water stress	Activities near biodiversity sensitive areas	Emission of air pollutants	Non-recycled waste

EU Taxonomy

Contribution to one or more of the environmental objectives: eligibility and alignment by economic activity

Time gap

First adverse impact statements under SFDR

First adverse impact indicators reported under CSRD

Coverage gap

Financial products taxonomy alignment

First taxonomy alignment reported under NFRD



Standardization



- ▼ **CDP's unique position** in the environmental disclosure ecosystem **can rapidly scale the adoption** of all high-quality frameworks and standards across the global economy.
- ▼ CDP's platform allows to **translate standards and frameworks into a standardized annual format** and brings them into real-world practice through the collection, analysis and sharing of data.
- ▼ Companies already disclosing through CDP will be reporting in line with upcoming frameworks and standards and **providing data to stakeholders in a way that is standardized, comparable and accessible regardless of region or regulatory requirements.**



Interoperability high level assessment



- ▼ The EU’s Corporate Sustainability Reporting Directive (CSRD) is aligned with TCFD guidelines.
- ▼ CDP is aligned with TCFD and set to integrate ISSB S2 from 2024.

ESRS Reporting Structure	Governance (GOV)	Strategy (SBM)	Impact, risk and opportunity management (IRO)	Metrics and targets (MT)
TCFD Recommendations	Governance	Strategy	Risk Management	Metrics & Targets
CDP Climate Questionnaire Modules	Governance (C1)	Business Strategy (C3)	Risks & Opportunities (C2) Performance (C4)	Targets (C4) Emissions Data (C6)

CDP mapping to draft ESRS*



Draft ESRS Standard	Draft ESRS E1 Climate Related Disclosure Requirement	Relevant 2023 CDP questions (TCFD aligned questions in green)
Draft ESRS E1 - Climate change	1 – Transition plan for climate change mitigation	C1.1b, C2.2, C2.3a, C3.1, C3.2a, C3.2b, C3.5a, C3.5b, C4.1a, C4.1b, C4.3, C4.3a, C4.3b, C4.5a, C-FS4.5a
	2 – Policies related to climate change mitigation and adaptation	C2.2
	3 – Actions and resources in relation to climate change policies	C3.5a, C3.5b, C4.1a, C4.1b, C4.2a, C4.2b, C4.3, C4.3a, C4.3b
	4 – Targets related to climate change mitigation and adaptation	C4.1a, C4.1b, C4.2a, C4.2b, C4.2c
	5 – Energy consumption and mix	C8.1, C8.2, C8.2a, C8.2c, C8.2d, C-EU8.2d
	6 – Gross Scopes 1, 2, 3 and Total GHG emissions	C5.1a, C5.1b, C5.1c, C6.1, C6.3, C6.5, C6.10, C11.1b
	7 – GHG removals and GHG mitigation projects financed through carbon credits	C4.2c, C-FS4.5a, C-AC6.8a/C-FB6.8a/C-PF6.8a, C11.2a
	8 – Internal carbon pricing	C11.1b, C11.3, C11.3a
	9 – Potential financial effects from material physical and transition risks and potential climate-related opportunities	C2.3a, C2.4a

*Mapping as of May 2023, subject to change pending adoption of ESRS.

EU disclosures – CDP data illustration



- ▶ In 2023 CDP introduces new questions that will help investors understand how and which companies align with the EU Taxonomy.
- ▶ The questions gather data on the two environmental objectives that have been so far approved: Climate Change Mitigation and Climate Change Adaptation.
- ▶ The questions are “jurisdictionally agnostic” so that other future high-quality sustainable finance taxonomies can be integrated into the CDP system.
- ▶ Extensive technical guidance has been shared with companies, supported by ongoing capacity building of corporates and investors.
- ▶ The project will lead to data and insights to be shared with policy makers to further strengthen the EU Taxonomy (i.e. through Platform for Sustainable Finance).

New question

(C3.5b) Quantify the percentage share of your spending/revenue that was associated with eligible and aligned activities under the sustainable finance taxonomy in the reporting year.

- ▶ Asks about the share of spending and revenue aligned with sustainable finance taxonomies at the activity level.
- ▶ This allows companies to provide evidence of the extent to which their spending and revenue is directed at/derived from activities defined as sustainable by a sustainable finance taxonomy.

C3.5b snippet

1	2	3	4	5
Economic activity	Taxonomy under which information is being reported	Taxonomy alignment	Financial metric(s)	Taxonomy-aligned turnover from this activity in the reporting year (unit currency as selected in C0.4)*
Select from drop-down options below	Select from: <ul style="list-style-type: none"> • EU Taxonomy for Sustainable Activities • Other, please specify 	Select from: <ul style="list-style-type: none"> • Taxonomy-aligned • Taxonomy-eligible but not aligned 	Select all that apply: <ul style="list-style-type: none"> • Turnover • CAPEX • OPEX 	Numerical field [enter a number from 0-999,999,999,999,999 using a maximum of 2 decimal places]

EU disclosures – CDP data illustration



Adverse Impacts Indicators		
Climate Change	GHG emissions	C6.1 - C6.2 - C6.5
	Renewable and non-renewable energy consumption/production	C8.2a until C8.2d
	Carbon emissions reduction initiatives	C4.3
New Biodiversity	Activities near biodiversity sensitive areas negatively impacting those areas	C15.4 - C15.4a
Water	Forest policy	F4.5
	Water consumption	W1.2b
	Water sourced from areas of stress	W1.2d
	New Emissions to water	W1.2k
	Water policy	W6.1

2023 Pilot program: Green finance accelerator

- ▼ Identification and prioritization of PAIs: CDP impact samples and matrices
- ▼ Engagement for disclosure: increase quantity and quality of data available to investors
- ▼ Engagement for impact: self-reported data drives impact engagement (current state versus policies and targets)

Data collection



- ▼ Principal adverse impacts
- ▼ EU Taxonomy eligibility
- ▼ EU Taxonomy alignment
- ▼ Other reporting standards

Engagement



- ▼ Raise awareness of investors' data needs
- ▼ Support companies for their mandatory disclosures (CSRD)
- ▼ Manage the impact

Usability



- ▼ Consolidated dataset shared with investors to streamline information
- ▼ **Ensure that this data can be used in a meaningful way by stakeholders**

Thank you!

For more information send us an email to cdpcapitalmarketseurope@cdp.net
helene.gorsky@cdp.net



With the contribution of
the LIFE Programme of
the European Union

