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Country briefing:

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

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

The Climate Disclosure Standard Board (CDSB) has analysed the 2019 environmental and climate-related disclosures of Europe's top 50 largest listed companies. The review was based on company environmental and climate-related reporting in line with the EU's Non-Financial Reporting Directive (NFRD) and progress in implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). EU requirements have been further clarified through the publication of non-bidding guidelines by the European Commission in June 2019 on reporting climate-related information.

In this briefing, we will analyse more in depth the results when it comes to the 11 German companies within the scope of the report to determine what specificities their disclosures reveal compared to the EU average, explain the differences and what policy recommendations can be made to address them in the context of the upcoming NFRD review.

Outcomes of the German companies' non-financial reporting analysis

The review of German companies' non-financial reporting results revealed an overall average level of compliance with NFRD requirements when compared to the rest of the EU. All companies disclosed their materiality approach, as well as providing more concise disclosure than than average. However, a third provided their non-financial reporting disclosure outside the mainstream report, which makes the information harder to find and less connected to financial and governance information in the *Lagebericht*. This briefing identifies top strengths and top weaknesses of the German companies' non-financial reporting.

Strengths	Weaknesses
Policies and due diligence Business Models Outcomes	KPIs TCFD implementation Principal Risks

Policies and due diligence

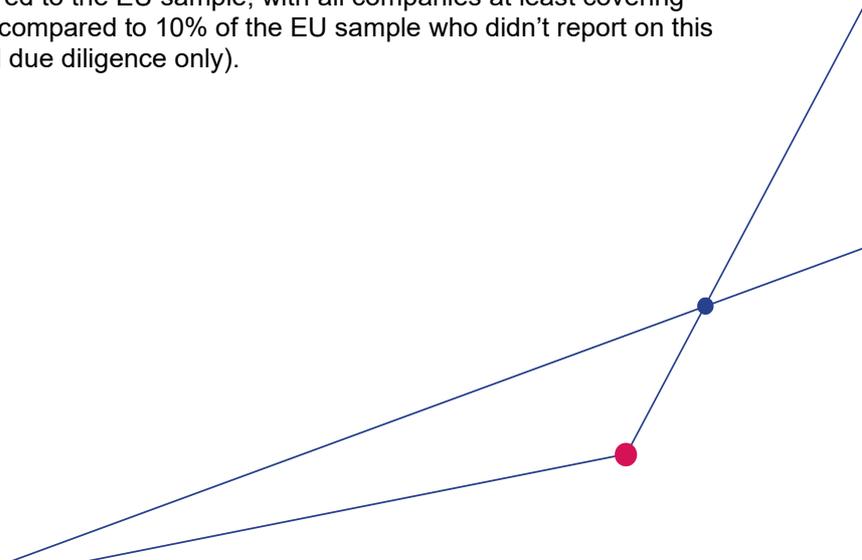
Well-articulated corporate policies provide the basis to inform and structure a company's environmental and climate-related disclosure. CDSB's review found that German companies performed generally above the EU average, with some key insights being highlighted below:

- In keeping with the picture for the full sample, all German companies adequately disclosed and described their environmental and climate-related policies;
- All 11 companies also provided due diligence disclosure, slightly above the EU average of 94%;
- Concerning due diligence, 64% disclosed Board and Management level responsibilities, directly in line with the EU average; and
- Of those that did not disclose Board and Management level, the remainder disclosed Management level only. This is therefore a positive when compared to the EU sample, with all companies at least covering leadership responsibilities in their disclosure (compared to 10% of the EU sample who didn't report on this aspect and focused on local scale/operational due diligence only).

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Business Model

CDSB's review found that Germany slightly outperformed the EU average when it comes to disclosing their business models.

- German companies were more likely to make reference environmental or climate-related matters within their business models as the EU average (91% German companies, 88% EU);
- They were less likely to include this within the main articulation of their business model however and more likely to provide a separate statement on environment within a separate section of their report (60% of those that disclosed did so in their main business model, compared to 73% for full EU sample); and
- More German companies were however able to provide a higher quality and fuller articulation of their business model than the EU average, i.e. which provided clear articulation of the integration of environment/climate into their business rather than just a high-level statement (55% provided full clarity, EU average 34%).

Policy outcomes

Beyond relevant policies the company put in place, reported outcomes enable 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 German companies perform consistently with EU average and are able to:

- Disclose in a clear, detailed and logical manner the outcomes of their environmental policies;
- Clearly state progress against policy commitments; and
- Provide quantitative and qualitative information to give the reader an indication of performance on climate-related issues.

Nonetheless, German company disclosures on policy outcomes are often too long and could benefit from being more concise and focused on material information, to ensure it is of most use for investors.

KPIs

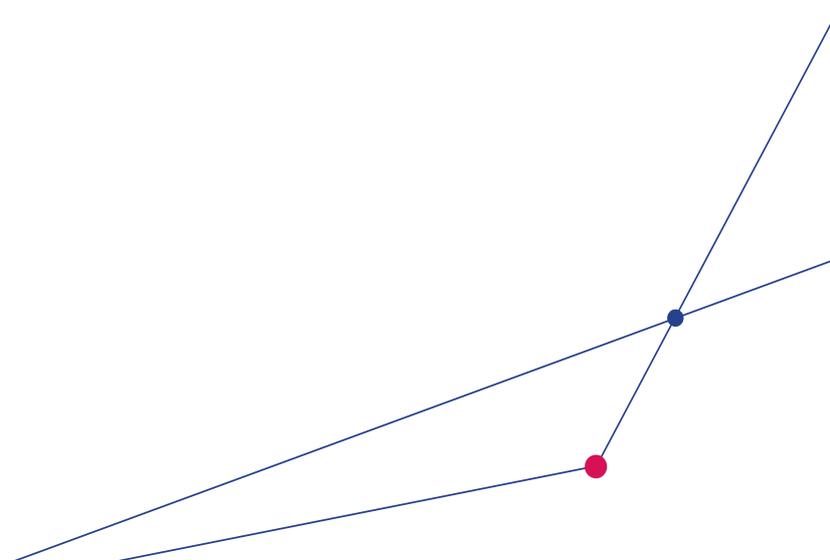
KPIs are a useful tool to assess progress of a company against previously set policies. CDSB's review found that German companies perform below the EU average:

- All companies disclosed GHG emissions, in line with the EU sample;
- However, a lower proportion disclosed scope 3 emissions than average (45% compared to 54%) and a higher proportion failed to provide sufficient clarity to determine Scope 1, 2 & 3 emissions values (36% compared to 24%);
- 91% of German companies disclosed energy KPIs (EU average 86%), 73% disclosed water-related (EU average 88%) and 45% disclosed financial-related KPIs (EU average 32%); and
- German companies were less likely to provide prior years' data for comparison (82% vs. 96%) average and also less likely to include quantitative environment/climate KPIs in board or management remuneration (9% vs. 30%).

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However, challenges remain in ensuring the consistent and comparable reporting of metrics that reflect risks and enable relative performance to be understood and related to policy commitments. The KPIs overview needs also to be presented in a more structured way (with a summary at the outset of section or at the beginning of the report).

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. Risk disclosures were a key area of weaknesses in German companies' disclosures.

Current state of TCFD implementation in the German sample:

- **Governance:** On par with EU average on disclosure of Board and Management responsibilities (see due diligence);
- **Strategy:** No German companies provide adequate disclosure on strategic resilience using scenario analysis (EU average 14%);
- **Risk Management:** Below average in assessing physical risk. No adequate disclosure time horizons of risks. Better than average at disclosing management actions (see principal risks); and
- **Metrics and Targets:** Around on par in terms of prevalence and quality of KPI types, slightly weaker on GHG disclosure clarity. Less likely than average to have incorporated KPIs/targets into executive remuneration (see KPIs).

Materiality process

- All German companies disclosed their materiality approach for climate and/or environmental information, better than the EU average of 68%;
- 18% applied double materiality (EU 8%), whilst 82% used environmental/non-financial materiality definition (EU 56%) and none used financial materiality only (EU 4%);
- German companies were more likely to omit potentially material information (64%, EU 42%), and about as likely to include immaterial disclosure (27%, EU 30%).

Conciseness of disclosures

German companies tended to be more concise with both their environmental and social disclosures as well as the full mainstream report. The average length of the mainstream report for German companies was 258 pages, of which 8 were concerned with environmental and social disclosures. The full dataset had an average mainstream report length of 312, of which 14 pages related to environmental and social disclosures, meaning that German companies were:

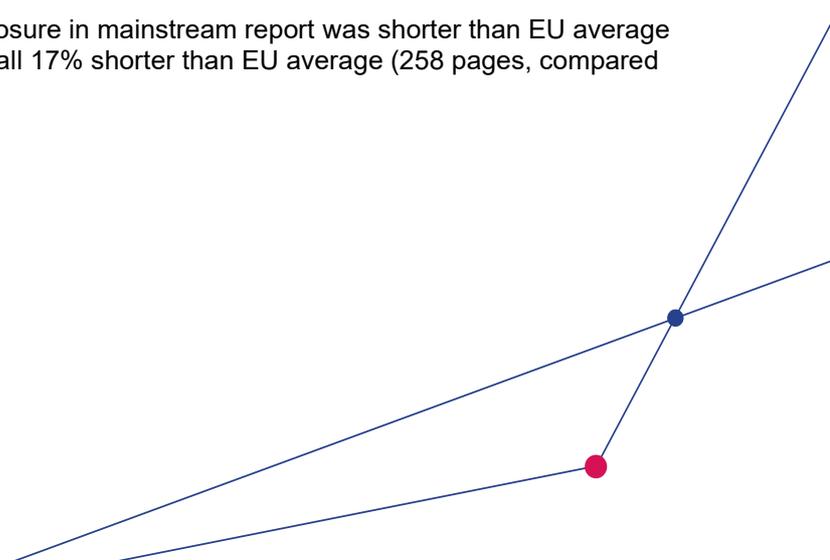
- Less likely to disclose in the mainstream report (64%, EU 84%), with the most common alternative location being a Sustainability Report (27%);
- Where environmental information was included in the mainstream report, it was slightly less likely than EU average to integrate the content throughout the report (43% integrated, EU 55%), therefore more likely to include as a standalone section.

Conciseness: Environment and climate-related disclosure in mainstream report was shorter than EU average – 8 pages compared to 14. Mainstream reports overall 17% shorter than EU average (258 pages, compared to 313 pages).

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