Climate Disclosure Standards Board

The state of environmental disclosure in France in 2020

In our new report 'The State of EU disclosure in 2020'[1] the Climate Disclosure Standards Board (CDSB) has taken a deep dive into the environmental disclosures of the largest listed companies in the EU. Third in the series, we pick up where our previous report 'Falling Short?'[2] left off, comparing where we were then and what progress has been made.

Supported by the LIFE programme of the European Union, CDSB reviewed the 2020 environmental disclosures of 50 of Europe's largest listed companies, with a combined market capitalisation of US$3.5 trillion, under the EU Non-Financial Reporting Directive (NFRD) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our analysis assesses the effectiveness of environmental disclosures in meeting the NFRD's purpose of increasing the relevance, consistency and comparability of company reporting to support informed stakeholder decision-making on sustainable development. It also supports the corporate reporting process by identifying good practice case studies and tips.

This briefing will provide an overview of the findings of the report with respect to the 16 French companies included in the sample[3] to identify their specific disclosure features and provide a set of recommendations for policymakers. The briefing puts these findings into perspective with the previous ones from the Falling Short report, included in a specific briefing[4], as the sample of companies remained consistent between the two analyses.

The current state of play

Our latest review of 50 of Europe's largest listed companies shows signs of improvement in the completeness and quality of aspects of environmental disclosure. However, the core challenges identified in our previous research, relating to TCFD adoption, risk disclosures and the application of materiality, must still be addressed to provide investors with the consistent, coherent and comparable disclosure needed.

- **Business model:** 52% of companies fully disclosed the relevant environmental aspects of their business;
- **Policies and due diligence:** All companies disclosed environmental policies, but 30% did not clarify board and management level due diligence;
- **Outcomes:** 26% did not use targets to monitor environmental performance and 16% failed to link progress updates clearly to policies;
- **Principal risks:** 74% considered both physical and transition risks, but just 4% companies clearly disclosed their risks over different time horizons;
- **Key performance indicators:** All companies provided GHG emissions disclosure, but only 10% disclosed metrics on biodiversity;
- **TCFD:** 68% referenced TCFD in their disclosure, but only 18% adequately disclosed their resilience to different climate scenarios;
- **Materiality:** 38% applied the double materiality perspective to their environmental disclosures.; and
- **Disclosure location and format:** 82% included their non-financial statement in the mainstream report, but disclosures grew by 36% compared to 2019.

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[1] CDSB (2020) The state of EU environmental disclosure in 2020. [PDF]. Available from: https://www.cdsb.net/nfrd2020.
[2] CDSB (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.
[3] Air Liquide, Airbus, AXA, BNP Paribas, Christian Dior, Danone, EssilorLuxotica, Hermes International, Kering, L'Oréal, Pernod Ricard, Safran, Sanofi, Schneider Electric, Total, Vinci.
[4] CDSB (2020) Country briefing: French companies' performance under the EU Non-Financial Reporting Directive. [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_nfrd_country_briefing_france_eng.pdf

France: Outcomes of Analysis

Overall summary

Of the 50 EU companies examined for this review, 16 companies in France were analysed. The review revealed that French companies were able to provide at least some information for each of the content categories included in the NFRD.

It also showed that French NFRD disclosures' key strengths and weaknesses remain consistent with the overall EU average results of the study, meaning that the EU and French-specific strengths and weaknesses are similar. They are also consistent with the French findings from our last review, showing that the performance of French companies remained relatively consistent between the 2019 and 2020 reporting cycles.

Strengths	Weaknesses
Business model	Principal Risks
KPI	TCFD
Policies and due diligence	Materiality and decision-usefulness

Business model

In 2020, 63% of French companies were able to provide a clear and specific account of both the positive and negative environmental impacts relevant to their business model (compared to 52% on EU average). This builds upon the prior year (2019), where the business model was an area of overall good performance for French companies.

CDSB's review found that for those French companies examined, they were roughly in line with the EU average that saw a general improvement in the quality of business model disclosures between 2019 and 2020 disclosures. This offers a positive sign that companies are becoming increasingly cognisant to the strategic significance of environmental aspects for their long-term resilience and value creation.

Policies and due diligence

Well-articulated corporate policies provide the basis to inform and structure a company's environmental disclosure. CDSB's review found that, consistent with the full sample, all French companies examined disclosed information on the policies they have put in place.

Beyond the description of policies, CDSB's review focused on the connectivity of policy and due diligence disclosures, which considered how well companies outlined their approach and commitments. French companies' due diligence disclosures did not always address leadership responsibilities over due diligence processes, as requested by the NFRD. A higher proportion of French companies disclosed both board and management responsibilities (81% French vs. 70% EU average), however 19% of French companies did not provide both.

Outcomes

Beyond relevant polices 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 the ambition statements. CDSB's review found that for the French companies sampled, policy outcomes remained an area of good disclosure, with all French companies able to disclose at least one policy outcome. More than 75% of French companies tracked progress against specific targets, or provided qualitative commentaries, giving additional insights on the results of the implementation of policies.

These results are consistent with the EU average, with a slightly better performance of French companies on disclosing performance indicators to support outcomes disclosures[5]

Principal risks

For the French companies sampled, both physical and transition risks were disclosed (94% French vs 74% EU average). The companies performed above the EU average when it came to disclosing risk impacts, be it business model, financial or operational impact. As a result, 88% of French companies disclosed at least one impact type compared to 72% of the EU sample.

However, a drop can be observed for both French and EU companies in the disclosure of business model impacts relating to identified risks, compared to the previous reporting cycle. This demonstrates that the business risk angle enshrined in the TCFD recommendations is not yet commonly applied by all companies in France, as well as in the EU.

Nonetheless, risk disclosure was flagged as an overall key area of weakness in French companies' disclosures, largely due to the lack of business-specific qualitative information to fully contextualise risk disclosures.

Key performance indicators

CDSB's latest review found that French companies performed above EU average for this content category, especially when it came to disclosing GHG emissions inclusive of scope 3. 94% of French companies were able to do so compared with a 74% EU average (up from 54% in 2019 disclosures, which show that all EU companies are improving their GHG disclosures). This is consistent with the prior year French 2019 disclosures.

French companies were also able to provide comparative information to track progress over the years, with 38% of them providing information over a two-year period, above the EU average of 28%. Their performance turned out below the EU average when providing information over a three-year period or more.

French companies also disclosed metrics beyond climate change, to cover other natural capital matters such as water, biodiversity or deforestation and forest degradation; 94% did on water, 13% on deforestation and forest degradation and 6% on biodiversity-related topics. French companies slightly outperformed their EU peers on forests, while underperforming on biodiversity.

TCFD

The environmental risks that businesses face should play an important role in informing their business model, policies and KPIs.

TCFD implementation remains challenging for French companies, with 5 of the 16 companies reviewed not making any reference to TCFD and one only making a generic reference to it, without providing information on the eleven specific TCFD recommended disclosures. The remaining companies show varying progress, however lacked the implementation of the recommendations in full, with no companies having achieved integration of climate into their financial statements.

As suggested by the latest TCFD status report[6], scenario analysis remains a top challenge for companies and none of the French companies were able to specifically identify risks over the short, medium and long term (4% of EU companies did so)[7]. Nevertheless, a high proportion of French companies mentioned scenario analysis as being in the process of implementation, despite a lack of meaningful disclosure at this stage (38% French vs 24% EU average). In addition, 19% of French companies disclosed conclusions on their resilience assessment as the result of the scenario analysis exercise.

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[5] It should be noted that this review has taken a deeper look at the quality of policy outcomes disclosures compared to the previous review.
[6] TCFD (2020) 2020 Status Report: Task Force on Climate-related Financial Disclosures [PDF]. Available from :https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf
[7] Similar findings can be found in AMF (2020) TCFD climate reporting in the financial sector [PDF]. Available from : https://www.amf-france.org/fr/sites/default/files/private/2020-12/tcfd-climate-reporting-in-the-financial-sector_1.pdf

Materiality and decision-usefulness of the information

Materiality is an area of significant interest, with the European Commission having published in 2019 their non-binding guidelines on disclosing climate related information[8], which introduced the concept of double materiality. As a result, this was the first year of expected widespread adoption of double materiality in preparing non-financial information.

CDSB's review found that French companies' disclosures often lacked focus on investor materiality, with only 6% of French companies using financial criteria in their materiality assessment, and 31% of French companies only applying non-financial criteria in their materiality assessment.

Nevertheless, for the French companies sampled, results show progress in the implementation of the double materiality (2020: 38% vs 2019: 13%). Similar progress can be observed among all EU companies (2020: 38% vs 2019: 8%).

Wider adoption of double materiality could be linked to another trend CDSB has seen in our analysis of 2020 disclosures on the size and length of disclosure. French disclosures remained the longest in Europe, as was the case in the prior year review, with 29 pages for environmental information, against 19 pages on EU average, within mainstream reports that tend to be longer (389 pages against 334 on EU average).

CDSB's key recommendations for French policymakers and regulators

1. Explicitly embed the TCFD recommendations into the Directive, as non-binding guidelines are not driving uptake at the necessary pace and scale to support investor decision-making and improving disclosure of principal climate risks.

Whilst 68% of companies referenced or provided some disclosure aligned to TCFD in 2020 in their reports, adoption of the recommendations was found to be inconsistent and incomplete. The vast majority have still only partially adopted the recommended disclosures, with just 4% clearly defining risks over short, medium and long-term time horizons, and 18% providing clear disclosure on their resilience to different climate scenarios.

Given the TCFD recommendations were integrated into the Directive's 2019 Guidelines on reporting climate-related information, it could have been expected that TCFD disclosures would have seen greater improvement in 2020 reports. The continued challenges in the quality and completeness of disclosures however indicates that voluntary adoption of the TCFD by Europe's largest companies, through its inclusion in non-binding guidelines, is not achieving the levels of disclosure required to fully inform investor decision-making. It is therefore evident that the TCFD recommendations must be embedded into the revision of the Directive itself.

2. Emphasise in the revision of the Directive the importance of ensuring that the different content elements provide a connected overall view on how companies ensure sustainable long-term value creation.

Whilst disclosure of information under individual content categories of the Directive has shown some improvement, such as business models and KPIs, coherence and connectedness across environmental disclosures is critical to ensuring it is decision-useful for investors. Our 2020 review found that information across content categories was not always well linked; for example, 14% disclosed policy outcomes that did not clearly relate to their stated policies, and 36% did not indicate any explicit management actions being taken to address their principal risks.

[8] European Commission (2019), Guidelines on Reporting Climate-Related Information, [PDF]: https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

In order to drive disclosure that provides a complete and consistent picture on the organisation's overall approach to sustainable long-term value creation, it is therefore key that the revision of the Directive places greater emphasis on ensuring companies' disclosure across content categories tells a clear overall story regarding its approach to environment, social and governance issues.

3. Incentivise companies to do more to tackle environmental and climate issues, through ambitious policies and rigorous due diligence processes, by ensuring policy coherence between the NFRD review and the upcoming EU initiative on corporate governance.

Whilst due diligence disclosures under the NFRD are expected to provide information on board and management level responsibilities of relevance from a corporate governance perspective, 30% of companies did not provide this information relating to environmental matters in their 2020 reports. Additionally, where governance information was provided, the level of detail and specificity it included on how environmental risks were managed, and in particular climate risk as requested under the TCFD recommendations, was often limited. The revision of the NFRD therefore presents a timely opportunity to ensure that companies disclose information on their internal processes and responsibilities over environmental issues, while the EU also takes legislative action to boost responsible business conduct through the upcoming initiative on sustainable corporate governance.

For questions relating to this, please contact our Policy and External Affairs Director, Michael Zimonyi. **Michael.Zimonyi@cdsb.net**

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