

## The state of environmental disclosure in Germany 2020

In our new report 'The state of EU environmental disclosure in 2020'<sup>1</sup> 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?'<sup>2</sup> 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 Germany.**

### 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.

### Key Findings

- **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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<sup>1</sup> CDSB (2020) The state of EU environmental disclosure in 2020. [PDF]. Available from: <https://www.cdsb.net/nfrd2020>

<sup>2</sup> 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>.

## Germany: Outcomes of Analysis

### Overall Summary

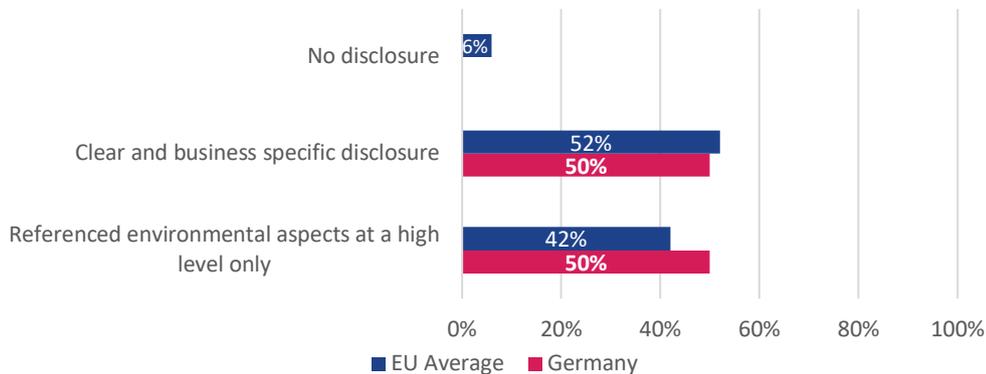
Of the 50 EU companies examined for this review, 10 companies in Germany were analysed, representing a breadth of industries. The review revealed that German NFRD disclosures performed slightly above overall average, when compared to the rest of the EU companies examined. Key strengths and weaknesses are highlighted below.

<b>Strengths</b>	<b>Weaknesses</b>
Policies and due diligence	Principal risks
KPIs	TCFD
Business model	Materiality

### Business model

CDSB's review found that German companies were roughly in line with the EU average when it comes to disclosing environmental matters within their business models. All German companies sampled included some environmental information within their business model, compared to 6% of EU companies that failed to. Additionally, a higher proportion of German companies made limited or passing references to environmental matters (50% Germany vs 42% EU), compared to those who provided clear and business-specific disclosure (50% Germany vs 52% EU).

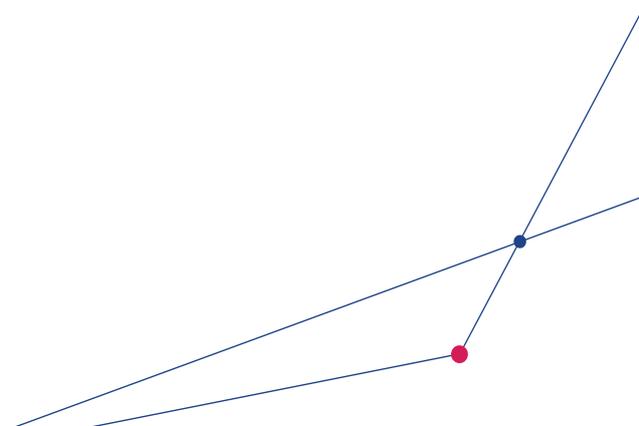
### Business Model Performance



### 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 German companies performed above the EU average, with some key insights highlighted below:

- All 10 companies also provided due diligence disclosure, slightly above the EU average of 94%;
- Concerning due diligence, 90% disclosed Board and Management level responsibilities, significantly above the EU average of 70%; and
- Consistent with the full sample, all German companies disclosed and described their environmental and climate-related policies.



## 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 were slightly below the EU average for disclosing quantitative and qualitative information to give the reader an indication of performance on climate-related issues.

- In line with the EU sample, all were able to disclose at least one outcome.
- Slightly less (70% vs 74%) were able to provide quantitative progress against targets.
- Slightly less (80% vs 86%) were able to provide qualitative commentary linked to clear aims and objectives in policies.

## Principal risks

Principal risks were highlighted as the key weakness of Germany NFRD performance in line with the rest of Europe, however German companies were able to perform above this average in disclosing principal risks (90% vs 86%).

- Of those who did disclose their principal risks, less were able to identify both physical and transition risks compared to European companies (60% vs 74%)
- When it came to managing these risks, Germany companies disclosed management actions slightly more (70%) when compared to the rest of Europe (64%)
- Less were able to offer an explicit description on climate's integration into the risk management process (30% vs 48%).

## Key performance indicators (KPIs)

KPIs are a useful tool to assess a company's progress against its policies. CDSB's review found that German companies generally performed either in line with, or slightly above, the EU average:

- All German companies disclosed GHG emissions, in line with the EU sample, however this included a lower proportion disclosing scope 3 emissions than average (60% compared to 74%);
- 100% and 90% of Germany companies disclosed energy and water KPIs respectively (EU average 92% and 90% respectively) and 60% disclosed climate-related financial KPIs<sup>3</sup> (EU average 32%);
- German companies were more likely to provide prior years' data for comparison, with 50% providing three years or more compared to an EU average of 42%; and
- German companies were less likely to disclose quantitative environmental KPIs included in board or management remuneration (10% vs. 14%).

## TCFD

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

The current state of TCFD implementation in the German company sample:

- **Governance:** Above the EU average on disclosure of board and management responsibilities (see due diligence);
- **Strategy:** Overall less Germany companies were able to reach a conclusion on their resilience using scenario analysis when compared to Europe (10% vs 18%) and 80% failed to provide disclosure on scenario analysis;
- **Risk Management:** Above average in disclosing management actions disclosed for risk management (70% vs 64%); and

<sup>3</sup> Climate-related financial KPIs are indicators which link to the company's products and services or financial performance, e.g., turnover from climate-related products and services, low carbon capital expenditure or climate-related green bond ratios. Further detail can be found in the Directive's climate-related guidelines.

- **Metrics and Targets:** Provided a slight positive area of performance for German companies when compared to the European average (see KPIs for previous analysis).

### Materiality

Materiality is an area of significant interest, with the European Commission having published their non-binding guidelines on disclosing climate related information,<sup>4</sup> 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.

- 90% of German companies disclosed their materiality approach for environmental information, exceeding the EU average of 84%; and
- 50% applied double materiality (EU 38%), whilst 40% used an environmental/non-financial materiality definition (EU 42%), and none used financial materiality only (EU 4%).

### Conciseness of disclosures

German companies tended to have more concise environmental disclosures, as well as shorter mainstream reports when compared to the European average. The average length of the mainstream report for Germany companies was 271 pages, of which 8 were concerned with environmental disclosure. The full dataset had an average mainstream report length of 334, of which 19 pages related to environmental disclosure, an increase in disclosure length when compared to 2019. One potential explanation for this is the wider uptake of double materiality. German companies were less likely to disclose in the mainstream report (70% vs EU 82%), with others disclosing in a Sustainability Report (30%).

## CDSB's key recommendations for German 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.

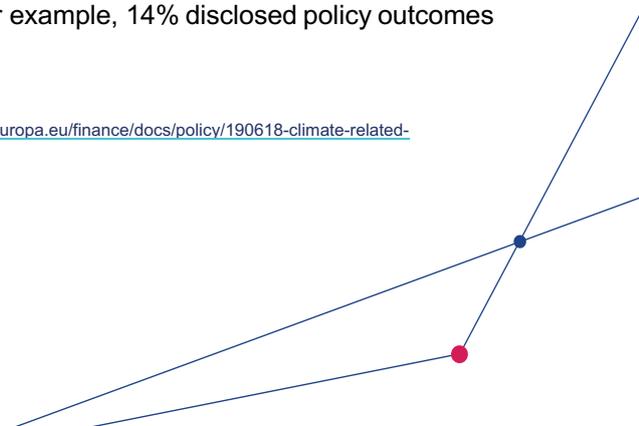
Whilst 68% of companies referenced or provided some disclosure aligned to TCFD in 2020 in their reports, adoption of the recommendations was found to be inconsistent and incomplete. The vast majority have still only partially adopted the recommended disclosures, with just 4% clearly defining risks over 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, coherent 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

<sup>4</sup> 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](https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf)



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.

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 tell 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 briefing, please contact our Policy and External Affairs Director, Michael Zimonyi. [Michael.Zimonyi@cdsb.net](mailto:Michael.Zimonyi@cdsb.net)**

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