

European policy briefing:

Why companies need to improve their water-related disclosures

To date, reporting of water-related risks and opportunities by corporates remains insufficient to meet the needs of investors and financial stakeholders in making informed financial decisions. As a response to the current move towards mandatory disclosures and harmonised reporting standards in Europe and globally, CDSB has developed a specific Water Application Guidance to the CDSB Framework to assist companies in the disclosure of water-related financial information in the mainstream report.¹

The business case for water and water-related disclosures

Water is a key, yet finite, resource for any human and economic activities, meaning that different users compete to access water. As the effects of climate change keep increasing, there has been growing evidence over the recent years of water-related risks resulting from water scarcity, floods and water pollution.² At the same time, global water demand is projected to see a 55% increase by 2050.³ As a consequence, water-related risks have been ranked for many years among the top environmental and societal financial business risks.

This is why water-related issues need to be further embedded into business decision-making. Water-related disclosures to investors, on how businesses are incorporating water-related risks and opportunities into core business strategy and risk modelling, must improve.

Water-related disclosures: the current state of play

In its latest report on the implementation of the European Non-Financial Reporting Directive (NFRD),⁴ CDSB analysed the water-related information provided by European companies as part of their mainstream disclosures.

Despite the business case for water and the threat to financial stability arising from environmental physical and transition risks, only 32% of companies explicitly cited water as a material topic for their business. The report also found that while more than 9 companies out of 10 referred to water, further aspects of disclosure still need to improve, such as:

- The description of how water is integrated into the overall business model and strategy; and
- The comprehensive illustration of water-related risks specific to the organisation.⁵

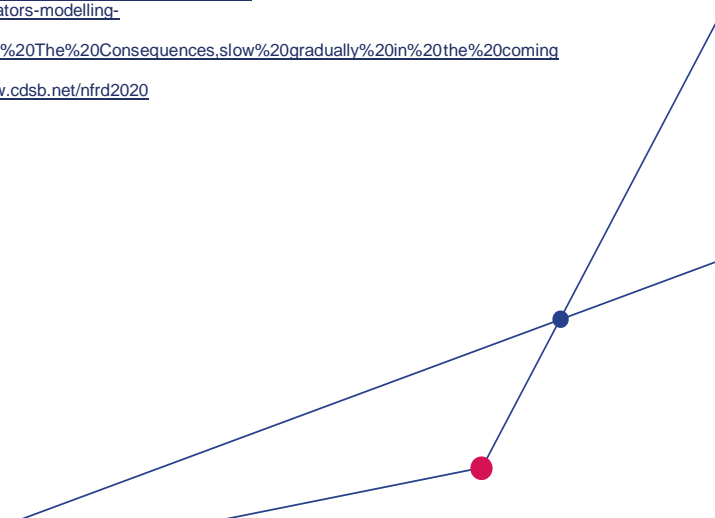
¹ CDSB (2021), CDSB Framework Application Guidance for water-related disclosures. Available from: <https://www.cdsb.net/water>

² IPCC (2021), Sixth Assessment Report (Chapter 8 - Water cycle changes). Available from: <https://www.ipcc.ch/report/ar6/wg1/>

³ OECD (2012), Environmental Outlook to 2050. Available from: <https://www.oecd.org/env/indicators-modelling-outlooks/oecdenvironmentaloutlookto2050theconsequencesofinaction-keyfactsandfigures.htm#:~:text=%20OECD%20Environmental%20Outlook%20to%202050%3A%20The%20Consequences,slow%20gradually%20in%20the%20coming%20decades...%20More%20>

⁴ CDSB (2020), The State of EU Environmental Disclosure in 2020. Available from: <https://www.cdsb.net/nfrd2020>

⁵ For more information, refer to CDSB's specific water-related specific briefing, available from: https://www.cdsb.net/sites/default/files/nfrd2020_briefing_water_v2.pdf



The CDSB Framework Application guidance for water-related disclosures

Launched in August 2021, the CDSB Water Guidance aims to assist companies in disclosing material water-related information in their mainstream report, in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).⁶

The Guidance will therefore help companies to:

- Understand the significance of water to their business, as well as the specificities of water resources and associated financial-related risks and opportunities;
- Report their water-related risks and opportunities with the same rigor as financial information into their mainstream report, while minimising the reporting burden by leveraging on information required by existing standards, frameworks and practices;
- Meet the information needs of investors and help an effective capital allocation to drive the transition to a sustainable and water secure economy; and
- Prepare and comply with existing and upcoming mandatory corporate disclosure requirements, such as the Corporate Sustainability Reporting Directive (CSRD) in Europe (the CDSB Framework and related application guidance being of voluntary use).

Understand the significance of water for businesses

Despite the interconnectedness between water, climate change and other environmental issues, water-related issues have specific characteristics that businesses must properly consider to understand water-related risks and opportunities, and select the material water-related information to include in their mainstream report.

The Guidance highlights the following key aspects:

- Site-specificity of water issues;
- Value chain in water-related assessments, i.e., from supply chain to customers;
- Engagement and cooperation with stakeholders in water management; and
- Multifaceted and interconnected nature of water risks and issues.

Report water-related information into the mainstream report

Building on the requirements of the CDSB Framework, as well as existing standards and frameworks to report on water, the CDSB Water Guidance provides a step-by-step approach to businesses on how to start or improve their water-related disclosures with detailed practical reporting suggestions on:

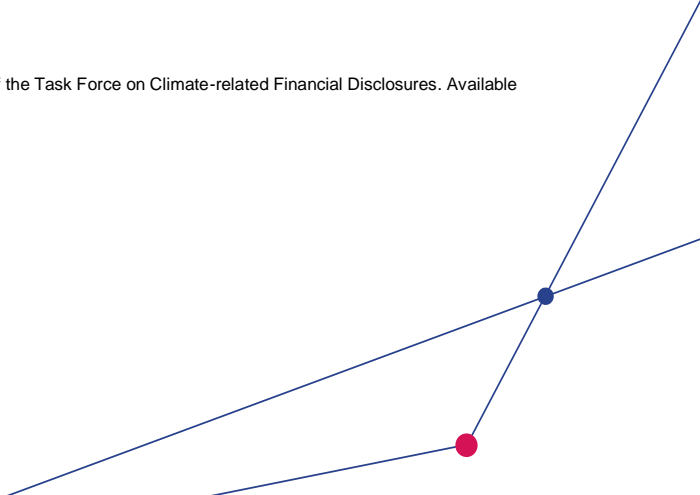
- Governance;
- Management's environmental policies, strategies and targets;
- Risks and opportunities;
- Sources of environmental impact;
- Performance and comparative analysis; and
- Outlook.

For each of the above reporting areas, it includes a disclosure checklist, reporting suggestions, useful external resources and examples of good practices in mainstream water reporting.

⁶ Task Force on Climate-related Financial Disclosures (2017). Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures. Available from: <https://www.fsb-tcfd.org/recommendations/>

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T: +44 (0) 203 818 3939
www.cdsb.net

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Climate Disclosure Standards Board
c/o CDP, WeWork Sony Center
Kemperplatz 1, 10785 Berlin
Germany



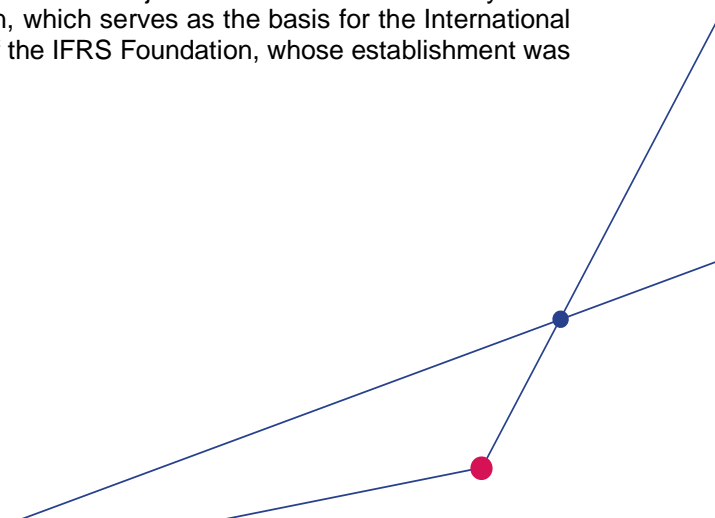
Governance	Disclose governance mechanisms for water policies, strategies and disclosure, including the persons or committee responsible on water issues (at the Board and management level) as well as existing accountability and incentivisation systems.
Management's environmental policies, strategies and targets	Disclose water policies and strategies in relation to identified water-related risks and opportunities, stakeholder engagement activities performed to influence such policies and strategies, as well as science-based and time bound targets.
Risks and opportunities	Disclose material water-related risks and opportunities, describing the related (financial) implications for the business and value chain, as well as risk management systems and processes to assess, identify and monitor such risks.
Sources of environmental impact	Disclose metrics and indicators for sources of material water impacts, including (1) disaggregated metrics according to levels of water risks in different geographic areas, water sources and destinations, and (2) description of methodologies.
Performance and comparative analysis	Disclose historical data, contextual information and major trends on material water impacts to allow the reader to assess progress and drivers of change over time.
Outlook	Disclose information regarding the likely effects of future water-related risks and opportunities, including strategy on company performance and resilience, time horizons used for reporting on corporate outlook and specific techniques such as scenario analysis used to inform such outlook.

Prepare and comply with mandatory corporate disclosure requirements

The CDSB Water Application Guidance was written with consideration of existing global reporting standards, including the TCFD, as well as the evolving reporting landscape. It comes at a turning point for sustainability reporting, as many jurisdictions, including Europe, are moving towards mandatory sustainability disclosures. As such, it provides a useful tool for both businesses but also for standard setters and policy makers, including the European Financial Reporting Advisory Group (EFRAG) in its current work on developing a set of European sustainability reporting standards.

It builds on the concept of dynamic materiality, introduced in 2020 in a shared vision for sustainability reporting by the five leading framework and standard-setting organisations. This joint vision addressed the dynamic nature of materiality and its focus on enterprise value creation, which serves as the basis for the International Sustainability Standards Board (ISSB) under the leadership of the IFRS Foundation, whose establishment was announced in November 2021 at COP26.

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T: +44 (0) 203 818 3939
www.cdsb.net
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c/o CDP, WeWork Sony Center
Kemperplatz 1, 10785 Berlin
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The CDSB Water Application Guidance was developed as part of four-year EU-funded LIFE project whose aim is to enhance nature-related financial disclosures in mainstream reports across Europe. It forms part of a package of guidance to the CDSB Framework, alongside a Climate Application Guidance⁷ and a Biodiversity Application Guidance⁸, reflecting the interconnected nature of environmental matters.



With the contribution of the LIFE programme of the European Union.

⁷ CDSB (2020), Application Guidance for climate-related disclosures. Available from: <https://www.cdsb.net/climateguidance>

⁸ CDSB (2020), Application Guidance for water-related disclosures. Available from: <https://www.cdsb.net/biodiversity>

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