

## CDSB response to European Climate Law roadmap

The Climate Disclosure Standards Board (CDSB) welcomes the opportunity to provide feedback on the EU Climate Law roadmap.

CDSB works to provide decision-useful environmental information to markets via mainstream corporate reports. Our mission is to create the enabling conditions for material climate change and natural capital information to be integrated into mainstream reporting.

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn this helps them to provide investors with decision-useful climate change and environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

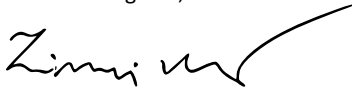
Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems. The CDSB Framework<sup>1</sup> is used by large listed companies globally and is referenced in government guidance to reporting regulation in the EU Commission Guidelines on Non-Financial Reporting, the UK Companies Act 2006, and stock exchange guidance in London, Australia, Singapore, Egypt, Santiago de Chile and elsewhere. CDSB has also contributed to the work of the UN Sustainable Stock Exchanges Initiative through its working groups on disclosure, green finance and financial regulators. CDSB also hosts the TCFD Knowledge Hub<sup>2</sup> on behalf of the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which helps report preparers to find the resources they need to understand and implement the TCFD recommendations.

As laid out in the Problem definition for this consultation and other communications by the Commission, climate change is a major concern for Europeans and will continue to worsen if unconstrained, and that all sectors shall play their part in achieving climate neutrality.

Our comments relate to corporate reporting, which forms the foundation for private sector action, both by providing information to support a transition to more sustainable business practices, as well as by supporting capital allocation to support the transition to a sustainable and resilient economy in Europe and globally.

We commend the Commission's efforts to implement the Paris Agreement and keeping global temperatures below a 2°C increase on pre-industrial levels through ambitious efforts cutting across all policies. Our comments in full are provided the Appendix below. Please do not hesitate to contact us for further information.

With kind regards,



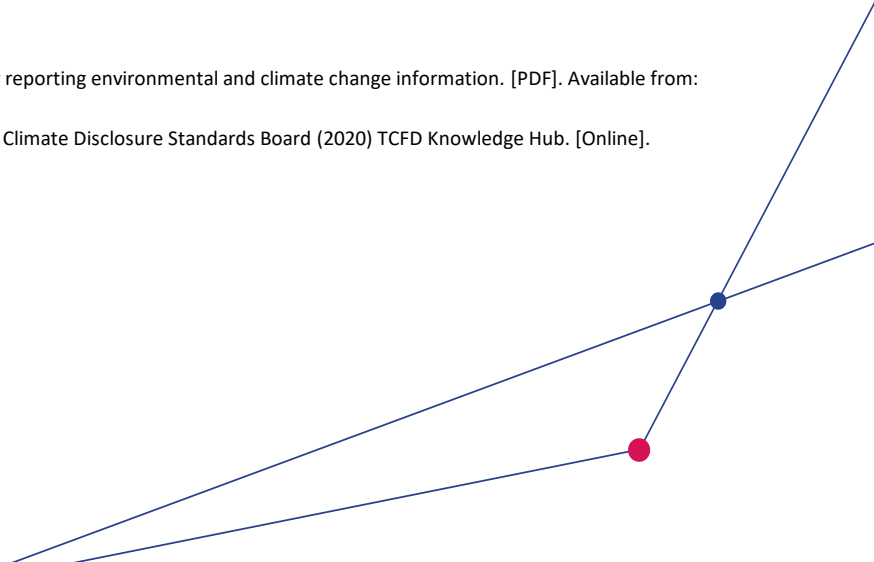
**Michael Zimonyi**  
*Policy & External Affairs Director  
Climate Disclosure Standards Board*

<sup>1</sup> Climate Disclosure Standards Board (2018) CDSB Framework for reporting environmental and climate change information. [PDF]. Available from: <http://cdsb.net/Framework>

<sup>2</sup> Task Force on Climate-related Financial Disclosures, powered by Climate Disclosure Standards Board (2020) TCFD Knowledge Hub. [Online]. Available at: <https://tcfhub.org/>

.....  
@CDSBGlobal  
[www.cdsb.net](http://www.cdsb.net)

.....  
CDSB, c/o CDP, WeWork Sony Center  
Kemperplatz 1, 10785 Berlin  
Germany



## Appendix: Detailed response to European Climate Law roadmap

*Our comments below relate to the objectives highlighted in the roadmap, as regards achieving climate neutrality by 2050 and the implementation of the Paris Agreement across all EU policies and enabling the implementation of these objectives by securing adequate financial resources.*

### The private sector and capital markets must play their part in achieving climate neutrality

As highlighted in the European Green Deal, Europe can only achieve its sustainability objectives by upgrading our unique social market economy to fit today's new ambitions<sup>3</sup>. "The EU has the collective ability to transform its economy and society to put it on a more sustainable path. ... It will require massive public investment and increased efforts to direct private capital towards climate and environmental action, while avoiding lock-in into unsustainable practices." It is widely accepted that *what gets measured, gets managed*. An improved enabling framework is crucial to green investment and information on corporate performance, strategies and resilience is the bedrock to enabling such investments, by providing investors with evidence to make more sustainable investment decisions. Such information also provides useful insights for the company itself and promotes better measurement and reduction of emissions, as well as the management of climate-related risks and reaping the opportunities associated with the transition to a low-carbon economy.

Europe has laid a foundation for corporate non-financial reporting by implementing Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups<sup>4</sup> (NFR Directive), which requires certain large listed companies and other Public Interest Entities to disclose in their management report information on policies, risks and outcomes as regards environmental and other sustainability matters. While this directive has helped to increase the quality and quantity of disclosures available to investors, assessments by CDSBs and others, such as the Alliance for Corporate Transparency<sup>6</sup>, show that current requirements are not yet sufficient to provide adequate information to markets, especially regarding disclosures on climate change, given the significant progress made in this space. As such, it is clear that strengthening of the Directive is needed to achieve Europe's sustainability objectives.

The need for better corporate non-financial reporting was also recognised by the European Commission and the European Green Deal has announced that the Non-Financial Reporting Directive will be revised in 2020. It is crucial that this revision strengthens the Directive's requirements in a way that ensures the suitability of this information for investor decision-making. We have outlined key changes that need to be made to the Non-Financial Reporting Directive to achieve Europe's climate objectives below.

### Next steps for the EU climate finance policy

Strengthening of corporate reporting requirements is needed in Europe to incentivise the significant private investment needed to achieve its ambitious, but necessary climate targets. The NFR Directive provides a solid foundation in Europe for the improvements needed to provide better corporate climate-related information to investors, thus supporting them in allocating capital to greening

3 European Commission (2019) The European Green Deal. [PDF] Available from: [https://ec.europa.eu/info/sites/info/files/european-green-deal-communication\\_en.pdf](https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf)

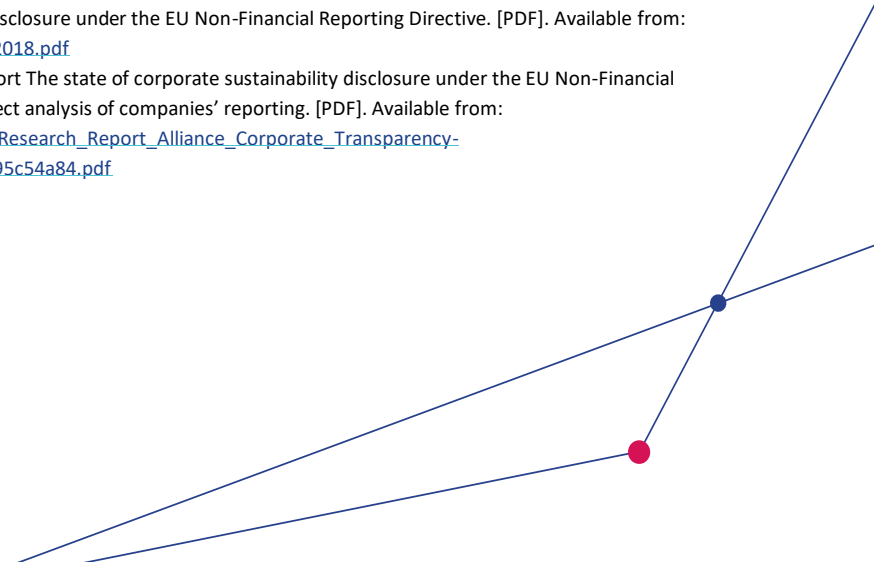
4 European Parliament and Council (2014) DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. [Online]. Available at: <https://eur-lex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:32014L0095>

5 CDSB (2018) First Steps Corporate climate and environmental disclosure under the EU Non-Financial Reporting Directive. [PDF]. Available from: [https://www.cdsb.net/sites/default/files/cdsb\\_nfrd\\_first\\_steps\\_2018.pdf](https://www.cdsb.net/sites/default/files/cdsb_nfrd_first_steps_2018.pdf)

6 Alliance for Corporate Transparency (2018) 2018 Research Report The state of corporate sustainability disclosure under the EU Non-Financial Reporting Directive The Alliance for Corporate Transparency project analysis of companies' reporting. [PDF]. Available from: [https://www.allianceforcorporatetransparency.org/assets/2018\\_Research\\_Report\\_Alliance\\_Corporate\\_Transparency-66d0af6a05f153119e7cffe6df2f11b094affe9aaf4b13ae14db04e395c54a84.pdf](https://www.allianceforcorporatetransparency.org/assets/2018_Research_Report_Alliance_Corporate_Transparency-66d0af6a05f153119e7cffe6df2f11b094affe9aaf4b13ae14db04e395c54a84.pdf)

.....  
@CDSBGlobal  
www.cdsb.net

.....  
CDSB, c/o CDP, WeWork Sony Center  
Kemperplatz 1, 10785 Berlin  
Germany



the European economy. The revision of the NFR Directive, as stated in the European Green Deal, presents the perfect opportunity to achieve this. The TCFD Recommendations, combined with other supporting initiatives such as the CDSB Framework and CDP climate change questionnaire provides a suitable mechanism that is compatible with the NFR Directive to provide this information, at the quality needed for investor decision-making and it is also aligned with global developments, such as the TCFD recommendations. As such, its principles and requirements can help inform the revision of the NFR Directive.

The revision of the NFR Directive in 2020 must therefore focus on ensuring that:

- Information is provided in company management reports and is reported in a way that is suitable for investor decision-making;
- Climate risks are a mandatory feature for those in scope in order to eliminate uncertainties in reporting practices;
- The revised Directive covers a broader range of companies, given that climate-related risks affect all businesses; and
- Updates rely on existing reporting provisions, such as the CDSB Framework.

More detailed red lines on the revision of the Non-Financial Reporting Directive, as well as a tracked changes version of the Directive are available at [cdsb.net/NFRredlines](https://cdsb.net/NFRredlines).

### A suitable mechanism exists

A suitable existing market-tested mechanism for reporting climate risks and opportunities, linked to financial information in the mainstream report already exists and therefore should form the basis for advancing progress on climate-related financial disclosures by organisations globally. Over the last four years, CDSB has seen the collective power of the G20 Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>7</sup> in elevating climate-related financial disclosure to the mainstream. The TCFD provides 11 recommended disclosures and seven principles for making effective climate-related financial disclosures. It is now widely recognised as the universal global voluntary framework for making climate-related financial disclosures in the mainstream report (i.e. annual financial filings) and the *de facto* standard for good corporate climate governance in the 21<sup>st</sup> Century. Among public and private support of the TCFD recommendations globally, the European Technical Expert Group on Sustainable Finance has also produced supplemental guidance on reporting climate-related information based on these recommendations, which were adopted by the European Commission.

Adopting the TCFD recommendations in the Non-Financial Reporting Directive is crucial to aligning Europe's capital flows to support a transition to a low carbon economy, as well as a tool to orient capital towards financing this transition. Also, the CDSB Framework is also aligned with the TCFD recommendations and can act as additional guidance in its implementation.

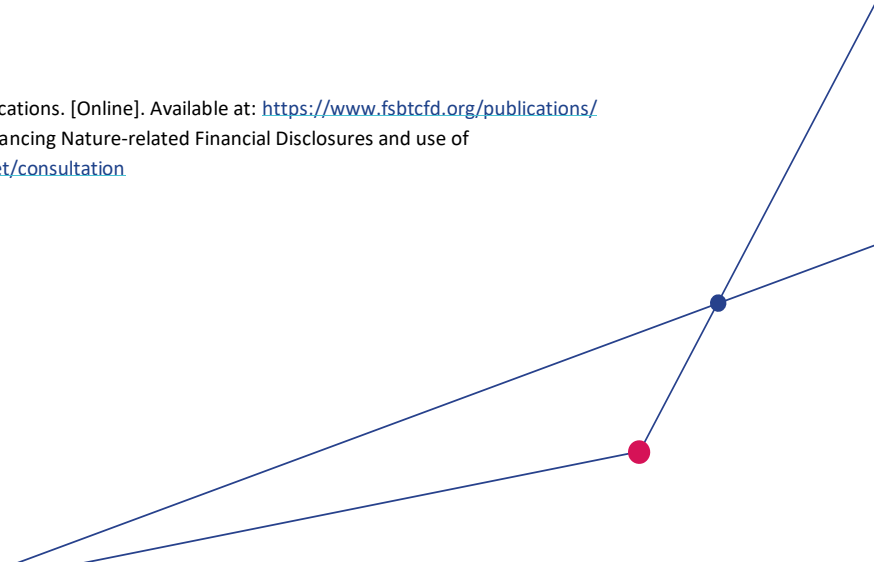
Building on the momentum of the TCFD and increasing requirements for more corporate disclosure on environmental information, CDSB is currently undertaking a consultation to understand how the CDSB Framework can advance climate-related financial disclosures that enable companies to act now on climate mitigation and facilitate the urgent allocation of capital towards projects aligned with a sustainable future.<sup>8</sup> More information about the consultation is available at [cdsb.net/consultation](https://cdsb.net/consultation).

<sup>7</sup> Task Force on Climate-related Financial Disclosures (2017) Publications. [Online]. Available at: <https://www.fsbtcfid.org/publications/>

<sup>8</sup> CDSB (2019) Open public consultation and call for evidence: Advancing Nature-related Financial Disclosures and use of the CDSB Framework. [Online]. Available at: <https://www.cdsb.net/consultation>

.....  
@CDSBGlobal  
www.cdsb.net

.....  
CDSB, c/o CDP, WeWork Sony Center  
Kemperplatz 1, 10785 Berlin  
Germany



## CDSB support of better climate-related reporting

To support better reporting of climate change and natural capital in corporate management reports, CDSB is currently undertaking a 4-year project across all EU Member States with the kind support of the EU Life Climate Action programme to:

- Build capacity within businesses to report high-quality climate change and natural capital information;
- Develop technical guidance where more support is needed; and
- Support evidence-based policymaking and supervision across Europe regarding climate change-related and natural capital reporting.

Through this project, CDSB is working to support European Businesses and their investors in the transition to more environmentally sustainable business practices and preparing them to be ready for the evolving policy landscape to support a more sustainable future. More information about this work is available at [cdsb.net/FinAction](https://cdsb.net/FinAction).

## Pathway to climate neutrality

Defining climate neutrality is the bedrock of setting the right targets to achieve this aim. The Science Based Targets Initiative (SBTi) has defined a net zero/climate neutrality concept for corporates, which relates emission reductions to emission removals as:

*“Reaching net-zero emissions for a company means achieving a state in which the activities within the value-chain of a company result in no net impact on the climate from greenhouse gas emissions. This is achieved by reducing value-chain greenhouse gas emissions, in line with 1.5°C pathways, and by balancing the impact of any remaining greenhouse gas emissions with an appropriate amount of carbon removals.”<sup>9</sup> [Bolding added for emphasis]*

Key in this definition is the need to reduce emissions in line with 1.5°C pathways and only unabatable emissions should be sequestered with verified emission removal mechanisms.

More guidance underway, including a draft corporate net-zero guidance & consultation in Q1 2020 and a final corporate net-zero guidance & criteria by Q2 2020. The SBTi is focusing on corporate pathways to neutrality by 2050 and the associated emissions accounting frameworks and tracking procedures.

It is not possible for Europe to achieve its net neutrality goal without corporate emissions reductions. Corporates must therefore have targets that complement and align with the EU's overarching ambition. Companies should set net zero/1.5°C -aligned targets in order to ensure that they align to EU's overall targets. Progress has already been made by nearly 180 companies that have signed up to this ambition through a commitment coordinated by the SBTi and UN Global Compact<sup>10</sup>, of which 80 are European companies.<sup>11</sup>

<sup>9</sup> Science Based Targets Initiative (2019) Towards a science-based approach to net-zero in the corporate sector. [PDF]. Available at:

[https://sciencebasedtargets.org/wp-content/uploads/2019/11/Slides\\_Towards\\_Science\\_Based\\_Approach\\_Net\\_Zero\\_Webinar\\_Nov62019.pdf](https://sciencebasedtargets.org/wp-content/uploads/2019/11/Slides_Towards_Science_Based_Approach_Net_Zero_Webinar_Nov62019.pdf)

<sup>10</sup> Science Based Targets Initiative (2020) Business ambition for 1.5°C. [Online]. Available at: <https://sciencebasedtargets.org/business-ambition-for-1-5c/>, United Nations Global Compact (2019) At COP 25, corporate climate movement grows exponentially as new companies announce plans to align

with a 1.5°C future. [Online]. Available at: <https://www.unglobalcompact.org/news/4507-12-11-2019/>

<sup>11</sup> United Nations Global Compact (2020) Business Leaders Taking Action. [Online]. Available at: <https://www.unglobalcompact.org/take-action/events/climate-action-summit-2019/business-ambition/business-leaders-taking-action>

.....  
@CDSBGlobal

www.cdsb.net

.....  
CDSB, c/o CDP, WeWork Sony Center  
Kemperplatz 1, 10785 Berlin  
Germany