

## Evaluation and further development of CSR reporting

### Summary<sup>1</sup>

The project "Evaluation and further development of CSR reporting" (research code 3719 14 102 0) on behalf of the German Environment Agency (Umweltbundesamt – UBA) has been carried out in the period July 2020 to January 2022 by the Institute for Ecological Economy Research in cooperation with Arqum GmbH and the Fair Finance Institute. This document summarizes the results of the research project. It is aimed at the professional public interested in the further development of CSR reporting requirements and the future regulation of sustainability reporting.

### Key findings of the literature study

- ▶ Only a few studies with a focus on German companies have examined reporting on specific environmental issues in detail. Therefore, other studies with a focus on Europe were also included to provide additional results on the reporting of environmental concerns.
- ▶ The studies show that the materiality understanding of Directive (EU) 2014/95/EU on the extension of financial reporting to include non-financial and diversity aspects (Non-financial Reporting Directive – NFRD) is a challenge for reporting companies. There is ambiguity in materiality definitions, thresholds, and analyses, overlap with other reporting requirements, and much room for interpretation and selection on the part of reporting companies.
- ▶ The majority of the studies conclude that meaningful comparability is not yet provided by current reporting practice. This makes it difficult for financial market participants and other stakeholders to use them. However, a selection of mandatory indicators should be well justified and derived from the needs of the financial market as well as the foreseeable impact on internal business processes.
- ▶ There is a lack of specific and contextualized reporting, according to several studies. The recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) on climate risk reporting are not yet implemented. Only a few studies explicitly address the quality of environmental reporting: Here, it becomes apparent that more complete information on target-setting, a more comprehensible selection of key performance indicators, as well as year-on-year comparisons would be necessary, but that there is also a lack of contextual information to meaningfully interpret and comprehend reported indicators.

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<sup>1</sup> This summary is a slightly expanded compilation of the summaries from the project publications [Lautermann et al. 2021a](#) and [Lautermann et al. 2021b](#).

## Key findings of the in-depth study carried out in the project

- ▶ Climate is the dominant environmental topic in reporting - climate-related measures are reported on the most, indicators and targets less, and a climate strategy the least.
- ▶ There is significantly less information on other environmental topics such as resources and materials, water and waste, and particularly little on biodiversity and air.
- ▶ Transparency about supply chains is created only selectively and inconsistently; among supply chain management measures, supplier codes of conduct are most frequently mentioned.
- ▶ Factors of good reporting – such as transparency on the materiality assessment process or the indication of time horizons – are not widely implemented.
- ▶ Standardization and comparability of reporting is not sufficient with regard to the requirements of the financial community for assessing corporate sustainability performance.
- ▶ Environmental and energy management systems, the use of sustainability reporting frameworks and standards and external auditing positively affect the quality and extent of reporting.

## Key recommendations for the advancement of corporate sustainability reporting obligations

1. Demand comprehensive reporting on all significant environmental matters
2. Unconditionally include adverse environmental impacts in the understanding of risk in Corporate Social Responsibility (CSR) reporting
3. Strengthen the inside-out understanding of materiality and set minimum methodological standards for the materiality assessment
4. Require the presentation of the undertaking's strategy in relation to environmental matters and clearly define the term strategy
5. Require quantification, time horizons, and level of ambition in reporting on environmental targets
6. Ensure reporting on relevant environmental measures
7. Set binding standards for performance measurement and presentation of outcomes for all environmental matters
8. Specify key elements of environmental management as a binding system for reporting on environmental matters
9. Specify reporting requirements for value chains based on the due diligence approach
10. Set comprehensive reporting standards and require external verification/assurance

# Key recommendations for the design of reporting standards

## 1. Recommendations on reporting requirements for environmental targets, measures, and indicators

### Reporting on targets:

- ▶ Standards should require reporting on quantified targets and introduce requirements for target setting.
- ▶ The standards should provide guidance on how to report on short- and medium-term interim targets, as well as long-term targets, so that readers can understand the progress of the undertaking.

### Reporting on measures:

- ▶ Standards should conceptually differentiate and operationalize the reporting on measures in order to do justice to the different types and scopes that measures can have.
- ▶ The standards should ensure that (only) relevant measures at relevant scale are reported on. Irrelevant measures should not be subject of reporting.
- ▶ To further operationalize the reporting of measures, a systematic approach for different types of measures should be developed for the standards.

### Reporting on results:

- ▶ The standards should distinguish between two basic forms of presentation: quantitative tables of outcomes and their textual interpretation and commentary.
- ▶ The standards should specify normative reference values for each environmental matter to ensure meaningful interpretation of results.
- ▶ The standards should ensure a consistent and systematic presentation in the report – regardless of the underlying concept of the performance indicators used.

### Reporting objectives-measures-outcomes in context:

- ▶ Standards for reporting targets, measures, and outcomes should include requirements for their coherent presentation.
- ▶ Standards should incorporate the principles of systematicity, clarity, and completeness to make the relationships between targets, measures, and results easily identifiable and understandable.

## 2. Recommendations on requirements for reporting on greenhouse gas neutrality targets

- ▶ Standards should align reporting requirements with the Science Based Targets Initiative's (SBTi) "Net Zero" understanding to more closely align reporting on greenhouse gas neutrality with global and European climate goals.
- ▶ The standards should clarify that voluntary offsetting of carbon dioxide (CO<sub>2</sub>) emissions should not be an option of neutralization in the context of the Net Zero targets.
- ▶ The standards should regulate that undertakings report whether they are on track to achieve Net Zero, and, if yes, that they provide more specific information regarding their:
  - strategy and governance

- target pathway and interim targets
- scopes of emissions included in the net zero target
- processes and controls
- relation of the target with state-of-the-art climate science
- greenhouse gas accounting boundaries
- the role of voluntary offsets and sinks

### 3. Recommendations to ensure compatibility of environmental reporting with financial industry disclosure requirements

- ▶ At a minimum, the standards should include all mandatory indicators for environmental matters that are required to be reported by the financial industry under the so-called Sustainable Finance Disclosure Regulation (SFDR).
- ▶ The development of reporting standards should ensure consistency and congruence between the requirements of the Corporate Sustainability Reporting Directive (CSRD) and SFDR so as not to create conflicting requirements or unnecessary duplication of environmental reporting and disclosures.
- ▶ The standards should stipulate that reporting on each environmental matter is mandatory, but that the level of detail is determined by the relevance of the respective matter to the undertaking, in order to ensure a balance between the extent and relevance of the information reported.

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