ESG Reporting Guidelines
Guide for issuers
May 2021
Disclaimer

This report is informed by the Polish and European legislative landscapes and international standards and frameworks on sustainability reporting available by the cut-off date of the publication (21 April 2021). As the relevant ESG reporting standards and legal framework develop over time, the contents of these Guidelines may be updated in the future.

This publication has been produced by Steward Redqueen with the assistance of the European Bank for Reconstruction and Development (EBRD) and the Warsaw Stock Exchange (WSE/GPW). The contents of this document do not necessarily reflect the views of the EBRD and the WSE. Whilst every effort is taken to avoid errors, EBRD, WSE and Steward Redqueen cannot accept responsibility for the accuracy of any statement or information contained within the report, nor for any decision made on the basis of any statement or information included herein.

The document has been prepared in the English language. If any text of the original edition in English is inconsistent with the text of the Polish translation, the original edition in English shall govern.
Foreword by WSE

Investors, lenders, and asset managers worldwide require private and public companies to measure their Environmental, Social, and Governance (ESG) performance. Increasingly, entrant retail investors are aware of the abbreviation ESG. In 2021, the majority of global asset managers are committed to full ESG integration in their investment processes.

Disclosure around non-financial data has proven to be a key element in investment decisions. This accelerated during 2020, as the COVID-19 global pandemic made each and every one of us realise how exposed we are to the natural world, the impact of environmental degradation and the related social pressures.

Stock exchanges all over the world are in prime position to contribute to changing ESG related demands and responsibilities, and promote sustainable investment by enhancing transparency, and building trust and confidence in capital markets. The Polish capital market has been developing very successfully. Poland was recognized by FTSE Russell as an emerging market in 2004, and in 2018, as the first and, so far, only country from Central & Eastern Europe (CEE), to be upgraded into the group of 25 most developed markets in the world.

The upgrade of Poland to developed market status represents an acknowledgement of the progress of the Polish economy and capital markets and was a major step in our development. Poland has all the features of a developed market, including secure trading and post-trade services, as well as advanced infrastructure. Furthermore, our listed companies (domestic and international) meet the highest standards of corporate governance and disclosure requirements. Warsaw Stock Exchange is the regional leader according to the number of listed companies since May 1997, by market capitalization since January 2000 and in the value of trading since April 2008. This is why we feel an extra responsibility within CEE to set the best possible example for other markets and listed companies.

2021 marks the 30th anniversary of Warsaw Stock Exchange and we are launching these Guidelines as part of our evolving ESG strategy. Having joined the United Nations Sustainable Stock Exchanges initiative as a member in 2013, and signed up to the United Nations Global Compact in 2020, Warsaw Stock Exchange wants to play key role in promoting responsible investment and ESG integration across the Polish and Central & Eastern Europe capital markets. Alongside our intense dialogue with companies, investors and regulators, we hope this guide will support the adoption of the sustainable finance agenda by market participants all over our region.

Together with our partners, the European Bank for Reconstruction and Development and the sustainability consultancy Steward Redqueen, Warsaw Stock Exchange’s ESG Guidelines for Listed Companies are intended to be a practical tool supporting issuers with ESG disclosure, according to latest European Union and local regulations.

The document is comprised of two sections: firstly, the what and why of ESG reporting, and secondly, how companies should be reporting ESG. The Guidelines have been consulted with a broad group of stakeholders including listed issuers, local and international investors, and public administration bodies. The process has produced a comprehensive body of work, useful both to reporting companies and the recipients of their disclosure.

Warsaw Stock Exchange would like to wholeheartedly thank all the issuers, investors, advisers, private and public institutions who engaged in the production of these ESG Guidelines for Listed Companies. Our special thanks go to our project partners, namely the whole team at European Bank for Reconstruction and Development and Steward Redqueen. Your expertise, vast experience and insight have been instrumental to the success of this important milestone for the Polish and Central & Eastern European capital markets.

Izabela Olszewska,
Member of the Management Board, Warsaw Stock Exchange
Foreword by EBRD

Sustainability reporting is essential for the development of modern capital markets. Increased regulatory scrutiny, a gradual shift of global financial flows towards sustainable investment alongside societal pressure are steadily driving the sustainability agenda forward. The international business community is increasingly incorporating ESG considerations into their policies, practices and reporting. Effective corporate ESG integration is vital for risk management and the identification of new business opportunities as countries move towards net zero economies.

Environmentally sound investment and sustainable development lie at the heart of the European Bank for Reconstruction and Development (EBRD)’s mandate and are underpinned in each project by our Environmental and Social Policy. We have been supporting green finance in Poland and the other economies where we invest for the past 30 years. We are a signatory to the UN Principles for Responsible Investment and supporter of the Task Force for Climate-related Financial Disclosure (TCFD), having published our first stand-alone TCFD-aligned report in 2020. We also act as an observer to a number of sustainability initiatives, such as the EU Platform on Sustainable Finance and the Task Force on Nature-related Financial Disclosures.

We are committed to supporting Poland in its transition to a low carbon and climate resilient economy in line with the EU sustainability finance considerations. In 2020, more than two-thirds of our investment in Poland was green. We achieve impact through our unique business model, which combines investment, policy dialogue and technical assistance. We finance sustainable investments and support policy initiatives, which help our partners and clients assess and integrate material ESG factors into the investment decision-making process.

As part of our country policy engagement, we are pleased to have been able to support our partner, the Warsaw Stock Exchange (WSE), in developing these Guidelines for ESG Reporting. This work takes into account the increased demand from investors for consistent and comparable ESG data, and integrates the key principles of the EU sustainable finance policy framework aimed at supporting the transition to a climate-neutral, green, competitive and inclusive economy.

This guide aims to help issuers provide useful information that investors would like to see in ESG reports, and contribute to a more harmonised and consistent reporting. WSE has a powerful role to play in facilitating ESG data flow between companies and investors by fostering transparency, providing guidance, services and awareness-raising to its clients and the broader group of stakeholders.

This innovative guide is also a testament to WSE’s commitment to help companies effectively identify and manage ESG risks and opportunities, and develop an attractive market where investors can better assess the prospective drivers of value creation. This, in turn, will contribute to the development of a well-functioning and more resilient market, which would steer investment towards climate and sustainable development priorities.

This guide is published as our two institutions celebrate their 30th anniversaries. We hope that this timely work provides companies, investors and other market participants in Poland and the region with a clear and practical guide in their journey towards a more sustainable economy.

Jürgen Rigterink,
EBRD’s First Vice President and the Head of the Client Services Group
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<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CAPEX</td>
<td>Capital expenditures</td>
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<tr>
<td>CDSB</td>
<td>Climate Disclosure Standards Board</td>
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<tr>
<td>CEE</td>
<td>Central Eastern Europe</td>
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<tr>
<td>CO2</td>
<td>Carbon dioxide</td>
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<tr>
<td>CO2 e</td>
<td>Carbon dioxide equivalent</td>
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<tr>
<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>CSRD</td>
<td>Corporate Sustainability Reporting Directive</td>
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<tr>
<td>DPSN2021</td>
<td>Dobre Praktyki Spółek Notowanych na GPW 2021</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ESG</td>
<td>Environmental, Social and Governance</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EU-ETS</td>
<td>European Union Emissions Trading System</td>
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<td>GHG</td>
<td>Greenhouse gases</td>
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<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
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<td>IIROC</td>
<td>International Integrated Reporting Council</td>
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<tr>
<td>NFRD</td>
<td>Non-Financial Reporting Directive</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OPEX</td>
<td>Operational expenditures</td>
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<tr>
<td>PRI</td>
<td>Principles for Responsible Investment</td>
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<tr>
<td>SASB</td>
<td>Sustainability Accounting Standards Board</td>
</tr>
<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
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<tr>
<td>SEC</td>
<td>U.S. Securities and Exchange Commission</td>
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<tr>
<td>SFDR</td>
<td>Sustainability Finance Disclosure Regulation</td>
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<tr>
<td>SME</td>
<td>Small Medium Enterprises</td>
</tr>
<tr>
<td>SSE</td>
<td>Sustainable Stock Exchanges</td>
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<tr>
<td>TCFD</td>
<td>Task Force on Climate-related Financial Disclosures</td>
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<tr>
<td>TSC</td>
<td>Technical screening criteria</td>
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<td>WEF</td>
<td>World Economic Forum</td>
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<tr>
<td>WSE / GPW</td>
<td>Warsaw Stock Exchange</td>
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</table>
PART 1

WHAT IS ESG AND WHY SHOULD A COMPANY REPORT ON IT?
Introduction

1.1. Background

The international business community is increasingly addressing environmental, social and governance issues to meet sustainability challenges. This is in part driven by changing shareholder demands, a broader shift among capital providers, regulation, societal debates and reputational concerns. However, it is also driven by new business opportunities that are emerging, such as alternative product and market combinations, better access to talent and anticipation of changes in consumer behaviours.

The sustainability agenda is gaining momentum in Poland as well. The introduction of the European Union (EU) Non-Financial Reporting Directive (NFRD) and its transposition into Polish law in 2017 has further increased companies’ awareness. However, while an increasing number of companies are defining their business case for ESG reporting, the breadth, depth, and consistency of reported information varies.

These Guidelines are the result of an extensive, collaborative process. They are tailored to the specific needs of the Polish capital market and business community. There is a consensus that ESG reporting is part of a broader drive towards a more sustainable economy. To inform their investment decisions, investors are looking for robust data on long term value creation as well as short term material ESG risks. They want companies to be responsible and accountable as they increasingly recognise that effective ESG management of companies is a reflection of operational excellence. An ESG report is by no means a stand-alone product. Consistent and effective ESG reporting helps build the sustainability profile of the company. The sustainability business case that drives operational choices and target-setting across functions is a process of continuous improvement that is reflected in ESG reporting. By providing these Guidelines on sustainability reporting, WSE joins a group of 56 stock exchanges globally that have published ESG reporting guidance for their listed companies.1

1.2. Purpose of the Guidelines

These Guidelines are not a new standard, they do not replace legal obligations, nor do they introduce new indicators. Rather the Guidelines as presented in this document aim to help companies listed on the Polish stock exchange enhance their ESG reporting practices. It is a roadmap based on international references such as the NFRD, the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation at the EU level, and the Task Force on Climate-related Financial Disclosure (TCFD) recommendations at the global level.

These Guidelines aim to contribute to better, more consistent, comparable and reliable sustainability reporting in a way that meets local and global market needs. It is a roadmap that builds on internationally accepted reporting metrics and provides companies with a practical tool for setting up a focused reporting capacity. Companies that have little or no experience in ESG reporting will appreciate the support and guidance that these Guidelines offer. Yet, companies that are more advanced in ESG reporting may use these Guidelines to confirm that their reporting matches international best practice. These Guidelines could be used as a reference for non-listed companies.

On a macro-level, these Guidelines will further strengthen the Polish capital markets and the business community in a global perspective. International investors are demanding more clarity from companies on their ESG performance. The dialogue between investors and companies will intensify and the quality of ESG reporting will impact the access to capital to a greater extent. Thus, these Guidelines will inform the transition towards a more sustainable economy and raise the investment’s attractiveness of the region.

These Guidelines cover the why, what and how of ESG reporting. However, ESG reporting is a complex topic and there is no one-size-fits-all approach. By developing their business case and understanding the needs of their stakeholders, companies, regardless of their maturity in ESG reporting, must navigate this complex territory and find solutions that work for them also in view of their activity and business model. WSE is offering training materials that will support its clients and other companies in raising the quality of their ESG reporting, thus making ESG disclosure an opportunity for issuers and other companies.

1.3. Evolution of ESG reporting in Poland

ESG reporting in Poland is not a novel concept. Many companies have been publishing sustainability reports for many years. The chart below (Figure 1) summarises how the concept of sustainability reporting has evolved over time in line with emerging regulations and companies’ increasing awareness of ESG risks.

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1 56 of the 103 Stock Exchanges tracked by the Sustainable Stock Exchange Initiative, [https://sseinitiative.org/esg-disclosure](https://sseinitiative.org/esg-disclosure) [last checked on April 21st 2021]
The transposition of the Non-Financial Reporting Directive into Polish law was a tipping point for sustainability reporting in Poland and had a positive impact on the availability of ESG data published by the companies. It is worth highlighting, that following the introduction of NFRD, a local reporting standard - the Non-financial Information Standard (SIN) was developed to help companies fulfil reporting obligations instituted by the NFRD. The initiative was coordinated by the Fundacja Standardów Raportowania and Polish Association of Listed Companies.

In parallel, Warsaw Stock Exchange has been promoting transparency in the Polish capital market and encouraging companies to consistently improve sustainability reporting, not least through the introduction of the RESPECT Index in 2009 – the first sustainability index in the Central and Eastern (CEE) region. The index was subsequently replaced by the WIG-ESG index, which became an underlying instrument for exchange-traded products.

### Regulatory context

The Guidelines are aligned with the current EU and Polish legislation.

#### Poland


The main policy document governing the disclosure of ESG information in Poland is the Accounting Act transposing the provisions of the EU Non-financial Reporting Directive (Directive 2014/95/EU). Accordingly, large public interest entities that have more than 500 employees and meet at least one of two specific criteria related to total balance sheet and net turnover are required to disclose material ESG information as part of their annual reporting. Disclosure should be done with respect to four sustainability areas: environment, social and employee issues, human rights and bribery and corruption. It should cover relevant policies, risk management processes and KPIs and the description of the company business model.

Companies have the option to disclose required ESG information either as part of the Management Report (in which case it should

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2 Non-financial Information Standard consists of the main document and five supplementary annexes. They can be downloaded at: https://standardy.org.pl/sin/ or https://www.seg.org.pl/pl/standard-informacji-niefinansowych-sin


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**Figure 1 Evolution of sustainability reporting in Poland**

<table>
<thead>
<tr>
<th>2009</th>
<th>2016</th>
<th>2017</th>
<th>2019</th>
<th>2020</th>
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</thead>
<tbody>
<tr>
<td><strong>2009</strong></td>
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<td><strong>2016</strong></td>
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<tr>
<td><strong>2017</strong></td>
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<tr>
<td><strong>2019</strong></td>
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<tr>
<td><strong>2020</strong></td>
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<tr>
<td><strong>CSR ERA</strong></td>
<td></td>
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<tr>
<td>— disclosure focused on good practices</td>
<td>— no clear link between sustainability efforts and business strategy</td>
<td>— ESG risks and opportunities rarely addressed</td>
<td>— limited reporting on climate-related matters</td>
<td>— lack of visible progress over time</td>
</tr>
<tr>
<td><strong>TRANSITION PERIOD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies in scope of the NFRD had to report non-financial information for the first time in 2018</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>EMERGENCE OF ESG REPORTING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>— integration of ESG considerations into business strategy and financial planning</td>
<td>— reporting on climate change improving</td>
<td>— more quantitative ESG metrics disclosed</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
be called “Oświadczenie na temat informacji niefinansowych”) or as a stand-alone non-financial information statement (“Sprawozdanie na temat informacji niefinansowych”). In the latter case, the statement can also be in the form of a sustainability report.

As shown in the Figure 2, NFRD has also introduced additional disclosure obligations for diversity issues. These have been regulated by the Regulation of the Minister of Finance (from May 25th, 2016) on current and periodic disclosures. Accordingly, large listed companies that meet at least two of three specific criteria related to number of employees, total balance sheet or turnover should provide information on their diversity policy in relation to the management and supervisory bodies. Disclosures should be made in the corporate governance statement (“Oświadczenie o stosowaniu zasad ładu korporacyjnego”).

If the company does not have a policy for diversity issues or other sustainability aspects specified in the NFRD, it should disclose this fact in accordance with the comply or explain principle.

Companies required by the directive to prepare a non-financial information statement are obliged to disclose information on their business model, principal risks and KPIs even in the absence of relevant policies.

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**Disclosure Obligations under NFRD**

<table>
<thead>
<tr>
<th><strong>Who</strong></th>
<th><strong>What</strong></th>
<th><strong>Where</strong></th>
</tr>
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<tbody>
<tr>
<td>&gt; 500 employees</td>
<td>Business model</td>
<td>Management report or separate document</td>
</tr>
<tr>
<td>+ Meets one of the following criteria:</td>
<td>Principal risks (incl. due diligence)</td>
<td></td>
</tr>
<tr>
<td>total balance sheet &gt; PLN 85 mln</td>
<td>Policies regarding: environmental, social and employee matters, human rights, and bribery and corruption</td>
<td></td>
</tr>
<tr>
<td>net turnover &gt; PLN 170 mln</td>
<td>KPIs</td>
<td></td>
</tr>
<tr>
<td>&gt; 250 employees</td>
<td>Diversity policy with respect to the governing bodies covering aspects such as: age, gender, geographical diversity as well as educational and professional background</td>
<td></td>
</tr>
<tr>
<td>total balance sheet &gt; PLN 85 mln</td>
<td></td>
<td></td>
</tr>
<tr>
<td>net turnover &gt; PLN 170 mln</td>
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</table>

**Non-binding guidelines supplementing NFRD**

To guide corporate ESG disclosure, the European Commission has published two non-binding documents supplementing the NFRD:

- Guidelines on non-financial reporting (2017)\(^5\)
- Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019)\(^6\) integrating the TCFD recommendations

Companies should consult those guidelines as part of their ESG disclosure process.

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4 Please note that the criteria may vary for the capital groups
Corporate governance principles for companies listed on WSE

Another important document that concerns companies listed on WSE and recommends disclosure of certain ESG information is the amended “Good Practices of Companies Listed on the WSE 2021” („Dobre Praktyki Spółek Notowanych na GPW 2021” or DPSN2021). The code, which is in force since 2002, outlines a list of corporate governance principles for companies to observe, in line with the comply or explain principle.

With respect to the ESG information, Section 1.3 and 1.4 of the DPSN2021 recommend companies to consider ESG issues as part of the business strategy and planning and provide disclosure especially on climate-related risks and related KPIs. Companies should also disclose the employee pay gap ratio and inform whether actions have been taken to eliminate gender inequalities.

The indicators outlined in Part 2 of the Guidelines are aligned with the amended corporate governance principles for diversity and broader sustainability issues mentioned above.

1.4.2. EU sustainable finance regulatory framework

In recent years the European Commission has adopted new strategies and regulations to address climate and broader sustainability risks and opportunities. They include the revision of the NFRD as well as the EU Taxonomy Regulation and the SFDR (Taxonomy Regulation: Regulation 2020/852; SFDR: Regulation 2019/2088). The first two will have a direct implication for the companies’ ESG reporting obligations. The SFDR targets financial market participants. However, it will affect companies through increased investor demand for detailed ESG disclosure. See Annex B for a comprehensive overview of regulatory frameworks for ESG disclosure at EU level.

Corporate Sustainability Reporting Directive

The NFRD is currently being revised by the European Commission to enhance the consistency of sustainability reporting requirements with the broader legal framework on sustainability finance (see Annex C) including the SFDR and the Taxonomy regulation. In April 2021, the European Commission published a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD) that should apply to companies for the financial years starting on or after 1 January 2023, assuming agreement between EU Member States and the European Parliament during the first half of 2022.

The Commission proposes to:

— **Extend the scope** of the reporting requirements to all large companies and to all companies (including non-EU companies) with securities listed on EU regulated markets (except listed micro-companies). Listed SMEs will be subject to a 3-year phase-in and a simpler reporting regime.

— **Detail the information companies should publish in their management reports** and require them to report on strategy, targets, indicators, the role of the board and management, its principal adverse impacts, intangibles, and the process for identifying the information that has to be reported. Companies under scope would be required to use EU sustainability reporting standards. The first set of standards (to be adopted by the Commission by October 2022) will cover information about sustainability factors and reporting areas. By October 2023, a second set of standards should detail complementary information and provide details on required sector-specific reporting. The CSRD will embrace the concept of double materiality (see 5.1) in its reporting approach.

— **Align the Sustainability Reporting Standards** with other mandatory EU sustainability reporting standards such as the EU Taxonomy and the SFDR.

— **Facilitate digitalisation** by requiring companies to prepare financial statements and management report in a single electronic reporting and machine-readable format (digital tagging).

— **Require and facilitate external assurance** of the companies’ sustainability reporting.

The proposal for revision of the NFRD and the upcoming delegated acts due in 2022 and 2023 demonstrate that the requirements and expectations for ESG reporting are developing and the EU legislative framework is progressing accordingly.

**EU Taxonomy**

The EU Taxonomy is a classification system to define environmentally sustainable activities. It imposes certain disclosure obligations for financial market participants under the scope of the SFDR and companies under the scope of the NFRD. These disclosure obligations will apply to companies for two of the six environmentally sustainable economic activities from January 1st 2022, and for all six from January 1st 2023.

— **The EU Taxonomy requires companies** such as large public interest entities as defined by the NFRD, to disclose whether and to what extent their economic activities are aligned with the EU Taxonomy. Companies must disclose the proportion of their turnover, capital expenditures (CAPEX) and operational expenditures (OPEX) that are aligned with the EU Taxonomy.

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ESG REPORTING GUIDELINES

TO BE ALIGNED WITH THE EU TAXONOMY, AN ECONOMIC ACTIVITY MUST:

- Substantially contribute to at least one of the six environmental objectives
- Do no significant harm to any other objective
- Comply with Minimum Safeguards

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

Figure 3 Methodology assessment of the EU Taxonomy

The EU Taxonomy requires financial market participants offering “environmental” or “sustainable” financial products and services in the EU to disclosure how and to what extent the economic activities are in line with the EU Taxonomy. This includes the type of environmental objectives it contributes to and the share of investments (such as turnover, CAPEX and OPEX) associated with Taxonomy-aligned activities.

The Technical screening criteria (“TSC”) explain what it means to contribute or harm one of the environmental objectives. To be aligned with the EU Taxonomy, companies will have to follow the three-fold assessment as shown in Figure 3. Consequently, they should disclose whether they substantially contribute to at least one of the six environmental objectives, that they do not significantly harm any other and whether and to what extent they comply with the minimum safeguards. This assessment will allow companies to report on the financial metrics mentioned above (turnover, CAPEX, OPEX).

Sustainable Finance Disclosure Regulation (SFDR)

The SFDR aims to prevent greenwashing and increase market transparency for financial market participants and financial advisers. It introduces a set of disclosure requirements around integration of ESG risks in the investment processes, which are legally binding since March 2021.

The SFDR entails two levels of disclosure for both financial market participants and financial advisers:

- The firm level: disclosure on the principal adverse impact and sustainability risk as well as the firm’s remuneration policy (on the firm’s website)
- The product level: disclosure on the products principal adverse impacts, sustainability risks (in pre-contractual disclosures and in periodic reports for financial market participants only)

Although the SFDR does not apply to non-financial companies, it will impact them due to new reporting requirements from financial market participants.

The indicators outlined in Part 2 of the Guidelines have been selected to help companies towards compliance with the Taxonomy regulations on minimum safeguards. Additionally, and in line with the EU Taxonomy (article 8), a “green revenue indicator” has been included for companies to disclose whether and to what extent their economic activities qualify as environmentally sustainable under the regulation.


11 Financial market participants are defined in Article 2 of the SFDR
ESG – what it is and why it matters

It is in every company’s interest to adequately address environmental, social, and governance risks and opportunities. Material ESG risks just like any other corporate risks may become important and even detrimental to the company. The costs to repair damages can be higher than preventative measures and proactive ESG risk management. Evidence shows that companies that fully integrate ESG, that are accountable to stakeholders and transparent, are better positioned for long-term success. The financial sector is mainstreaming ESG, and its integration in finance is expected to accelerate further. This chapter provides an overview of how ESG affects issuers and other companies.

2.1. ESG and sustainability

While the term ESG is commonly used among investors, the term sustainability is more common among companies. Although subtle nuances exist, for the purpose of these Guidelines, both terms are seen as encompassing the broad set of environmental, social and governance considerations. The term Corporate Social Responsibility (CSR) has been avoided as it is often interpreted to only cover aspects of the social dimension and be related to philanthropic activities.

Environmental, social, and corporate governance criteria are often used by investors to screen potential investments. These three criteria are essential in measuring the sustainability and societal impact of a company. Environmental factors include the contribution a company makes to climate change through greenhouse gas emissions, along with waste management, energy efficiency and the eventual impact on the natural environment and the biodiversity.

Social factors refer to how humans are affected by a company and its activities – as employees, clients, suppliers, and communities – and how humans and society in turn may affect the company. This includes but is not limited to labour relations, health and safety, diversity and inclusion matters, and fundamental human rights.

Governance is the internal system of practices, controls, and procedures a company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders. Every company requires sound corporate governance, adapted to its size and its business model, ambition and priorities.

Figure 4 Examples of ESG issues
While ESG factors are at times called “non-financial” or “extra-financial”, a more accurate description is that they vary in terms of how easy it is to convert them into financial impacts. For example, more efficient use of resources can be directly linked to the cost of raw material, energy and related savings.

It may be more challenging to estimate the financial impacts for other factors, nonetheless, they are relevant and even vital for different stakeholders. For example, investors as well as regulators demand sound corporate governance, which include strong anti-bribery and corruption management, and independent directors on the board of a company. Another matter is health and safety and good working conditions, which has a direct bearing on a company’s license to operate, its reputation and the motivation of its workforce. Hence, it is important to consider which ESG topics are most relevant to a company and starting to measure, manage and report on these.

2.2. The business case for ESG

The value driver model of the UN Global Compact and the Principles for Responsible Investment (PRI) (Figure 5) is a tool for communicating the business value of sustainability.12 Linking three categories of sustainability drivers (growth, productivity and risk management) to return on capital and key business metrics helps disprove the myth that business success and ESG management are not aligned. Business and investors are likely to speak the same language when ESG is captured in a model like this.

Risk management

As the value driver model explains, integrating ESG in risk management is an important step on a sustainability journey. A negative ESG business case in the sense of losing value because of avoidable risks is well understood by many boards. How may ESG impact the company’s value chain? What material sustainability issues may hit operation, or reputation? Physical and transition risks13 linked to climate change are ever more material. For example, the World Economic Forum’s (WEF) Global Risks Report 2021 rates climate change related risks as very significant.14 Other environmental risks, such as natural resources crises and biodiversity loss and societal risks, like the erosion of social cohesion erosion dominate the global risk landscape, according to the WEF’s research. How do these risks impact operations and license to operate? Being aware of ESG risks and handling these adequately is a fundamental part of running a business and pursuing operational excellence. Mapping and prioritising ESG risks, for example by filling out a materiality matrix, and managing this over time is of great importance (see part two of this report).

Productivity

The value model also describes that ESG offers opportunities to increase productivity, doing more with less. Increasing efficiency in, for example, the use of raw material and other resources such as energy and water management is good for both the planet and a company’s financial bottom line. As employees are a vital part of the equation, it is important to recognise the impact of ESG on labour markets. A vast majority (around 70%) of millennials say they prefer working in a company with a strong sustainability agenda.15 Companies may want to consider whether this poses a risk or an opportunity to their productivity.

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13 Physical and transition risks as defined in section 6.3 of these Guidelines (indicator E-M3 Climate risks and opportunities)


Growth
ESG can drive top line growth in both business-to-consumer and business-to-business markets. Research suggests that 79% of consumers are changing their purchase preferences based on social responsibility, inclusiveness, or environmental impact. Moreover, COVID-19 has increased consumer awareness and commitment to buying sustainably: 67% of consumers said that they will be more cautious about the scarcity of natural resources due to the COVID-19 crisis, and 65% said that they would be more mindful about the impact of their overall consumption in the “new normal.” Some companies even claim that their sustainable brands grow faster than other parts of their business.

In business-to-business markets, ESG management is more prominent. One reason is that as businesses are increasingly committed to reducing their footprint, they are looking for solutions across their value chains that contribute to that goal. As part of their formal purchasing policies, they can manage this reduction of footprint and reduce reputational risk as well. Suppliers that are best positioned to meet these demands will create a competitive advantage.

The drivers of the ESG business case may have different weights from one sector to another, but they are equally applicable for large cap or small cap businesses. Long-term value creation by leveraging ESG potential will be key to define success in business.

Principles for Responsible Investment (PRI)

The PRI were established by 100 investment institutions in 2006. It outlines six voluntary and aspirational investment principles to incorporate ESG issues into investment practice.

In 2010 PRI had 800 signatories with USD 22 trillion AUM. In the ten years that followed, the collective AUM represented by PRI signatories increased by 370% to US$103.4 trillion, and the number of signatories increased to a total of 3,038 signatories as of 31 March 2020.

From an issuer perspective, good ESG reporting is thus an advantage in attracting capital from these investors.


17 Unilever. Brands with purpose grow – and here’s the proof. Featured article (publ. 11 June 2019).
2.4. Increasing regulatory and societal pressure

Companies need to comply with local, national and international regulation and standards as a baseline for their ESG agenda. This may relate to a broad set of topics, ranging from waste management to pollution and energy efficiency as well as human rights and labour responsibility. The European Union has an ambitious ‘green agenda’ to adapt its economy and society to the sustainability challenges our world is facing. By being a frontrunner, it aims to capture the opportunities that a green economy will offer in terms of jobs, prosperity and well-being (within the limits of the earth’s carrying capacity).

The number of global ESG regulations is increasing (Figure 6). Across the world’s 50 largest economies, there have been over 730 hard and soft-law policy revisions, across some 500 policy instruments, which support, encourage or require investors to consider long-term value drivers, including ESG factors. Regarding the legislative framework in the European Union, the European Financial Reporting Advisory Group (EFRAG) recently confirmed the “strong need and support for a significant step forward in sustainability reporting in the EU, including the adoption of robust standards […] there is a pressing need to foster greater relevance, comparability and reliability of sustainability reporting through a combination of legislative and regulatory provisions”.

Rather than taking a minimum-compliance approach, issuers could consider the regulatory requirements as an opportunity to enhance their reporting to investors. Moving beyond the areas covered in regulation and toward identifying your business’ most material ESG themes and the underlying indicators based on global standards makes a difference relative to a merely regulation compliant ESG reporting. Only then a company will be able to produce ESG reporting that aligns closely with its own material issues, and that enables a richer data flow and dialogue with investors to take place.

It is not only via formal legislation and soft law that sustainability is being nudged. Societal expectations about sustainable development are becoming more explicit. A report by Cambridge University captures it well: “The slow pace and reactive nature of regulation means that society cannot rely solely on governments and policymakers to effectively navigate these challenges. There is growing public expectation that businesses must step up and take responsibility for delivering positive outcomes for society and the environment.”

Interest groups are confronting companies and governments with the impact of their actions. Social media allow for swift communication on issues and incidents. Oil spillages, low-paid factory workers in developing countries, and melting glaciers all find their way to the screens of citizens around the world. NGOs launch public campaigns against companies, but also take multinationals to court.

![Number of responsible investment-related policy instruments over time across the world’s 50 largest economies](image)

Figure 6 Responsible investment regulatory and soft-law development

20 Cambridge University, Institute for Sustainability leadership. Rewiring leadership: The future we want, the leadership we need. (Publ. 2018) https://www.cisl.cam.ac.uk/resources/publication-pdfs/rewiring-leadership.pdf
When selecting the approach for sustainability reporting, companies should consider the needs and expectations of their stakeholders in terms of content, format and granularity of data. This chapter provides an overview of key considerations to help companies navigate this process.

3.1. Reporting formats

Companies can choose the reporting format that best suits their needs provided it meets the relevant legal requirements. The overview below presents different options companies can follow.

**Annual report**

It is increasingly common that companies discuss key ESG issues within their annual reports. However, reporting may be limited to a few ESG topics and metrics to match the style and structure of the financial reporting. Additional information can be provided separately through the corporate website and/or more comprehensive stand-alone sustainability report. Best practice stipulates that such information is properly referenced in the annual report. Companies under the scope of NFRD may publish ESG information as part of the management report or as a stand-alone non-financial information statement.

**Stand-alone sustainability report**

This approach is among the most frequently used among companies internationally as it allows all sustainability information to be gathered in one dedicated document. Publishing stand-alone sustainability report gives companies flexibility to present ESG data in whichever way suits them best. Issuers falling under the scope of the NFRD have the option to either publish a standalone non-financial information statement covering the ESG topics required by the directive or issue a fully-fledged sustainability report. In the latter case, companies may decide to include a reference table linking content of the report to the disclosure topics required by the NFRD to allow users to easily find relevant information. The Global Reporting Initiative (GRI) offers guidance for the reporting process and deliverables. However, the option of issuing a stand-alone sustainability report will disappear under the current CSRD proposal as all information would have to be disclosed in the company’s management report.

While it is possible to publish sustainability reports up to 6 months after the publication of the annual report, it is best practice to publish them at the same time to allow the reader to read them together as a complete package of information. It is also best practice to ensure that the information reported in the stand-alone sustainability report is consistent and comparable with the annual report, for example by ensuring that it covers the same period.

**Integrated report**

Integrated reporting combines financial and sustainability reporting in a single document. It shows how the company strategy and value creation model is linked to the ESG performance. For that reason, it is mostly used by companies with advanced ESG management systems. This approach has been promoted by the International Integrated Reporting Council (IIRC).
3.2. Reporting standards and frameworks

Companies are encouraged to disclose ESG information in accordance with internationally accepted reporting standards and frameworks, which also constitute important points of reference for the forthcoming proposed EU standards. Figure 8 presents some of the most commonly used frameworks.

<table>
<thead>
<tr>
<th></th>
<th>GRI</th>
<th>IIRC</th>
<th>SASB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>USERS</strong></td>
<td>All companies</td>
<td>Public companies</td>
<td>Public companies in the US</td>
</tr>
<tr>
<td><strong>AUDIENCE</strong></td>
<td>Various stakeholders</td>
<td>Investors</td>
<td>Investors</td>
</tr>
<tr>
<td><strong>PURPOSE</strong></td>
<td>To help companies and other</td>
<td>To help companies explain how</td>
<td>To help companies listed in the</td>
</tr>
<tr>
<td></td>
<td>organisations communicate their</td>
<td>they create value in the short,</td>
<td>US disclose material sustainability</td>
</tr>
<tr>
<td></td>
<td>impact on the economy,</td>
<td>medium and long-term both in</td>
<td>information in the US Securities</td>
</tr>
<tr>
<td></td>
<td>environment and the society.</td>
<td>financial and non-financial</td>
<td>and Exchange Commision (SEC)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>terms through integrated</td>
<td>filings.</td>
</tr>
<tr>
<td><strong>SCOPE</strong></td>
<td>Sustainability reporting standards</td>
<td>Principle-based framework that</td>
<td>Sustainability accounting standards</td>
</tr>
<tr>
<td></td>
<td>providing companies with</td>
<td>focuses on six capitals essential</td>
<td>covering the following areas:</td>
</tr>
<tr>
<td></td>
<td>guidance on reporting specific</td>
<td>to the value creation process:</td>
<td>– Environment</td>
</tr>
<tr>
<td></td>
<td>metrics within the following</td>
<td>financial, manufactured,</td>
<td>– Social capital</td>
</tr>
<tr>
<td></td>
<td>areas:</td>
<td>intellectual, human, social and</td>
<td>– Human capital</td>
</tr>
<tr>
<td></td>
<td>– General disclosure</td>
<td>relationship, and natural.</td>
<td>– Business model and innovation</td>
</tr>
<tr>
<td></td>
<td>– Economic</td>
<td></td>
<td>– Leadership and governance</td>
</tr>
<tr>
<td></td>
<td>– Environmental</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Social</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**SECTORAL</td>
<td>Some sector-specific guidance</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>GUIDANCE**</td>
<td>provided</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ALIGNMENT</strong></td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>WITH NFRD**</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In November 2020, the SASB and IIRC has announced plans to merge into one organisation – the Value Reporting Foundation, which will focus on creating a comprehensive reporting framework.

Figure 8 Major international reporting frameworks

3.3. The importance of decision-useful climate reporting

Over recent years climate change has become the number one ESG theme as it poses significant risks and opportunities for businesses, investors, economies and societies alike. Regulations increasingly ask financial market participants to evaluate climate-related risk and opportunities and integrate them in the investment management process. The demand for meaningful climate-related corporate disclosure is following suit.

To address financial markets’ needs for increased and consistent climate reporting, in 2015 the Financial Stability Board established the TCFD. In 2017 TCFD presented a framework to help companies disclose information on their approach for managing climate-related risks and opportunities. It focuses on four key areas: governance, strategy, risk management, as well as targets and metrics, outlined in the table below.
## GOVERNANCE

Disclose the organisation’s governance around climate-related risks and opportunities.

- a. Describe the organisation’s governance around climate-related risks and opportunities.
- b. Describe management’s role in assessing and managing climate-related risks and opportunities.

## STRATEGY

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.

- a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
- b. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.
- c. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

## RISK MANAGEMENT

Disclose how the organisation identifies, assesses, and manages climate-related risks.

- a. Describe the organisation’s processes for identifying and assessing climate-related risks.
- b. Describe the organisation’s processes for managing climate-related risks.
- c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.

## METRICS AND TARGETS

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

- a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.
- c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

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**Figure 9 TCFD Recommendations**

While the TCFD recommendations remain a voluntary, market-led initiative, regulators are taking steps to encourage its broader adoption. The EU Commission’s Non-Binding Guidelines on Reporting Climate-Related Information, which supplements the Non-Financial Reporting Directive, refer to the TCFD recommendations as “widely recognised authoritative guidance on the reporting of financially material climate-related information.”

The Commission’s proposal for a Corporate Sustainability Reporting Directive embeds the concepts of the TCFD more clearly into EU legislation. Combined with the proposed EU standards, it would in effect make the TCFD mandatory.

Other frameworks that facilitate disclosure of climate-related information include CDP and the Climate Disclosure Standards Board (CDSB) Framework:

- CDP allows companies to disclose detailed information on their climate change impacts through standardised questionnaires, which are subsequently scored by the CDP to help drive environmental leadership;
- The CDSB Framework helps companies provide investors with disclosure on environmental matters and related risks and opportunities in their annual reports.

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PART 2

HOW CAN A COMPANY REPORT ON ESG?
Key characteristics of investor-oriented ESG reporting

As ESG disclosure is increasingly demanded by analysts and capital market participants, it is important for issuers to respond to these information needs accordingly. Decision-useful ESG disclosure has several key characteristics. It should be:

**Material**
Materiality is perhaps the single most important factor to consider when preparing ESG disclosures. Applying a rigorous materiality process helps identify relevant ESG issues and prioritise them according to the likelihood and magnitude of their potential impact on company operations. Section 5.1 provides further details.

**Objective**
Disclosure should be objective and balanced, including both positive and negative developments. Any misstatements or omissions of material information should be avoided. Companies should explain the scope and boundaries of the reported information, especially when certain information pertains only to some (but not all) of its activities or subsidiaries.

**Clear and concise**
ESG reporting should be presented in a clear and concise manner and for a specific period, usually a given reporting year. Reporting excessive or irrelevant information can lead to the confusion and obscure key messages.

**Comparable and reliable**
Prioritising quantitative data facilitates peer comparison by investors and analysts. Reported KPIs should be linked to the company business strategy and present the company’s performance in key ESG areas. A narrative description providing additional context is also important and helps explain the numbers and how the company is progressing.

**Strategic and forward-looking**
Generic, “boiler-plate” disclosure is of limited use to investors and analysts. Disclosure on material ESG issues should be aligned with strategic information necessary for investment decision-making, such as description of relevant risks and opportunities as well as a process for managing them. It is also important for the disclosure to be forward-looking, such as linking quantitative ESG metrics and targets to the company strategy.

**Verifiable**
External assurance of reported data helps to increase its credibility, allowing for more effective integration by investors.

**CORPORATE GOVERNANCE AND OPERATIONAL EXECUTION**

ESG reporting should be understood as part of the corporate business cycle, not as a stand-alone product. Sound corporate governance that drives the ambition to integrate ESG in core processes, taking responsibility and being accountable for that are the foundation of the transition towards more sustainable operations. An ESG report, built on the presented characteristics, reflects on the process of continuous improvement of the company.
Chapter 5 presents a step-by-step guide to help companies decide which information to disclose. It introduces the concept of materiality, minimum safeguards and minimum disclosure metrics. Additional sector-specific disclosures that companies could consider including in their ESG reporting are also discussed in this chapter.

1. IDENTIFY PURPOSE & AUDIENCE

As a first step, it is helpful for a company to identify who is the audience targeted with this report and what do they want to know. To do so, the company should consider:
- What is the purpose of this reporting exercise?
- Who do we target with this report and what are their needs?

2. CONDUCT A MATERIALITY ASSESSMENT

Based on the targeted audience, a company can define which information is material to report (section 5.1).

3. ASSESS COMPLIANCE WITH MINIMUM SAFEGUARDS

To be in line with the EU taxonomy, issuers are to disclose whether and how they comply with minimum safeguards (section 5.2).

4. SELECT THE RELEVANT INDICATORS TO REPORT ON

1. Align with minimum disclosure requirements
2. Consider additional sector specific risks and opportunities
3. Tailor set of KPIs to your Company

TOOLBOX
- Heatmap (p. 27)
- Metrics (Chap. 6)

5. ANALYSE DATA AND BUILD YOUR REPORT

Content of the report
- brief description of the business model
- description of policies & processes
- description of policies’ outcomes
- principal ESG risks and implications
- KPIs, analysis and implications of the results
- describe compliance with min. safeguards
- report on green revenue

NFRD

EU TAXONOMY

Comply or explain
If material information is not reported, explain why

Figure 10 Step-by-step approach to report on ESG
5.1. Materiality: What is relevant to investors and other stakeholders?

The concept of materiality is commonly used in the context of financial accounting and disclosure. In essence it defines which information is decision-useful and, as stated in the Non-Financial Reporting Directive, necessary for the “understanding of the company’s development, performance and impact of its activities.”

It is important to note that the definition of materiality by the NFRD implies a double materiality perspective, by connecting financial materiality with environmental and social materiality. As such, ESG disclosures should be driven by actual and potential ESG risks and opportunities that can have material implications for the company’s financial and operational performance as well as the consideration of its external impact on the society and environment. The graph below summarises the double materiality perspective introduced by the NFRD.

Materiality is specific to the company, its context and stakeholders. When deciding which issues and information are material, companies may consider the following:

- **Business model and company-specific circumstances.** Company business strategy, goals and values as well as principal risks within its value chain are important factors to assess.
- **Sector-specific issues.** Companies within the same industry are likely to face similar ESG risks and opportunities. Benchmarking against peers and competitors can thus help to identify relevant issues. SASB Standards can also provide useful input for companies as they conduct their materiality assessments.
- **Stakeholder expectations.** Proactive engagement with internal and external stakeholders (including investors) can help to better understand their interests and needs.

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**Figure 11 Double Materiality Perspective**

![Double Materiality Perspective](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52019XC0620%2801%29)

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5.2. Assess whether and how you comply with minimum safeguards

To be in line with the EU Taxonomy, issuers should disclose whether and to what extent they comply with minimum safeguards such as:

- **The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises**[^25]: A set of recommendations for responsible business conduct in a global context. Recommendations cover a variety of topics (such as human rights; employment and industrial relations; environment; bribery; consumer interests; science and technology; competition and taxation).

- **The UN Guiding Principles on Business and Human rights**[^26]: Guiding principles covering the corporate responsibility to respect human rights.

- The eight fundamental conventions of the **International Labour Organisation**[^27]: Legal instruments covering subjects that are considered fundamental principles and rights at work such as freedom of association and right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

- **The International Bill of Human Rights**[^28]: It consists of the five core human rights treaties of the United Nations.

5.3. Indicators selection process

Not all ESG issues are equally relevant to all businesses. Deciding what ESG metrics to report can be a difficult task, especially for companies which have yet to build capacity in the ESG reporting area. A two-step approach consisting of minimum disclosures and additional sector-specific disclosures will help to level companies’ performance and increase availability and consistency of data. More importantly, by focusing on a smaller but carefully considered pool of indicators companies will be able to better prioritise key issues in line with the current and anticipated regulatory developments, and key risk and opportunities relevant to their sector.

The chart below (Figure 12) presents a simple step-by-step process a company may follow to select a set of metrics and KPIs to report on.

![Figure 12 Indicator selection process](image)

Minimum and sector-specific disclosures are defined in line with the existing and potential regulatory requirements. In addition, they also consider the relevance to investors and other stakeholders, existing disclosure practices, and finally the potential of an issue to affect the company performance and financial condition.

It is important to emphasise that this process is provided merely as an illustration. More advanced companies may prefer to conduct their own materiality assessment supported by stakeholder consultation to determine which ESG issues are material.


After conducting its materiality assessment and having selected themes to report on, a company can start reporting against selected metrics. Chapter 6 defines those metrics theme by theme. The metrics are presented as per Table 1.

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>S-M1</td>
<td>Board Diversity</td>
<td>Percentage (%)</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>S-M2</td>
<td>Gender Pay Gap Ratio</td>
<td>Percentage (%)</td>
<td>•</td>
<td>•</td>
</tr>
</tbody>
</table>

Table 1 An example of how metrics are presented in Chapter 6

An indicator is introduced with its unit. As a reference, the GRI code that covers the indicator is specified (although those may differ in certain circumstances). The table also tells whether an indicator is in line with EU legislation such as the NFRD and other frameworks (e.g. SASB, CDP, TFCD etc.). The EU legislation framework is further defined in annex B.

To guide a company’s interpretation and selection of relevant metrics, each metric has an ID code. Figure 13 details how a metric’s ID code is built. It is composed of two letters and one number. The first letter depends on the high-level category of the indicator: environmental, social or governance. The second letter tells whether the indicator is considered minimum or sector-specific disclosure.

**Figure 13 Definition of the Indicator ID**

### 5.3.1. Minimum disclosures (Blue ID Indicator in Chapter 6)

As a first step a list of minimum disclosures that every company should consider regardless of its business model or sector-specific characteristics is identified. The metrics proposed in Table 2 cover key areas under the NFRD, namely environment; social and employee issues; human rights; and bribery and corruption. They are also aligned with the NFRD’s diversity provisions and the ESG disclosure requirements included in the updated WSE’s corporate governance code.
5.3.2. Sector-specific disclosures (Green ID indicator in Chapter 6)

The 13 minimum disclosures are supplemented with a list of sector-specific disclosures. These are issues that are likely to be relevant to some companies based on the sector they operate in and the ESG risks and opportunities common to that sector. To help identify material ESG themes per sector, a simplified heatmap has been provided below. As can be observed in the map, some sectors are exposed to a larger number of ESG risks and opportunities than others. For example, a company from the extractives sector might need to consider a wider range of issues than a technology company. Hence, the company’s ESG disclosure should reflect that.

The heatmap is based on the SASB materiality map as well as other industry-specific considerations. As such, it does not represent an exhaustive list of all relevant topics. It should therefore be used as a guidance, and not an absolute suggestion.
For each sector, the heatmap specifies which topics and corresponding metrics should be considered in addition to the minimum disclosures. The different levels of relevance are indicated by the following colour codes:

- **Minimum disclosures**
- **Likely to be relevant**
- **Less likely to be relevant**

### HEATMAP - Guidance to select sector specific themes

<table>
<thead>
<tr>
<th>Indicators per theme</th>
<th>Consumer goods</th>
<th>Healthcare</th>
<th>Financials</th>
<th>Industrials</th>
<th>Extractives</th>
<th>Utilities</th>
<th>Technology &amp; communication</th>
<th>Trade &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Climate Change</strong></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>E-M1 GHG Emissions</td>
<td>•</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-M2 Energy Consumption</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-M3 Climate Risks &amp; Opportunities</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-S1 Emissions Intensity</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-S2 Emissions Management</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Natural Resources</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-S3 Water Consumption</td>
<td>•</td>
<td></td>
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<tr>
<td>E-S4 Water Management</td>
<td>•</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
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<td>E-S5 Impact on Biodiversity</td>
<td>•</td>
<td></td>
<td></td>
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<tr>
<td><strong>Waste and pollution</strong></td>
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<td>E-S6 Waste Management</td>
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<td><strong>Diversity</strong></td>
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<td>S-M1 Board Diversity</td>
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<td>S-M2 Gender Pay Gap</td>
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<td><strong>Working conditions</strong></td>
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<td>S-M3 Employee Turnover</td>
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<td>S-M4 Freedom of Association and Collective Bargaining</td>
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<td>S-S1 Employee Health and Safety</td>
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<td><strong>Human Rights</strong></td>
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<td>S-M5 Human Rights Policy</td>
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<td>S-M6 Human Rights Due Diligence</td>
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<td><strong>Corporate Governance</strong></td>
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<td>G-M1 Board Composition</td>
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<td><strong>Business Integrity</strong></td>
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<td>G-M2 Business Ethics Standards</td>
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<td>G-M3 Anti-corruption Policy</td>
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<tr>
<td>G-M4 Whistle-blower Mechanism</td>
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<tr>
<td><strong>Data Security &amp; Privacy</strong></td>
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<tr>
<td>G-S1 Data Security Policy</td>
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</tbody>
</table>
Chapter 6 gathers a set of metrics in line with existing reporting frameworks including:

- green revenue in line with the EU Taxonomy (section 6.1)
- sustainability governance (section 6.2)
- environmental indicators (section 6.3)
- social indicators (section 6.4)
- governance indicators (section 6.5)

6.1. Green revenue in line with the EU Taxonomy

Identifying and measuring a company’s exposure to green products and services is challenging in multiple ways. The EU Taxonomy is useful in assessing associated revenues from “environmental” activities by providing a threefold assessment (see figure 3). According to the EU Taxonomy (article 8), companies that are under the scope of the NFRD shall include in their non-financial statement or consolidated non-financial statement information how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable.

By requiring companies to disclose to what extent their activities contribute to environmental objectives, the EU Taxonomy will over time generate greater volumes of data about sustainable economic activities. This facilitates more sophisticated analysis helping investors to anticipate and respond to emerging trends in the green economy.

**Definition:**
Green revenue is defined as a company’s revenue associated to sustainable products and services in line with the EU Taxonomy.

**What should be disclosed?**
To disclose whether and to what extent their economic activities are aligned with the EU Taxonomy, companies under the scope of the NFRD shall disclose both of the following:

- The proportion of their turnover derived from products or services associated with economic activities that qualify as environmentally sustainable according to the EU Taxonomy.
- The proportion of their capital expenditure and the proportion of their operating expenditure related to assets or processes associated with economic activities that qualify as environmentally sustainable according to the EU Taxonomy.

The Commission will specify the content and the presentation of the information to be disclosed including the methodology to be used to report on the above by means of a delegated act (to be adopted by 1 June 2021).

6.2. Sustainability governance

Providing a clear overview of how ESG issues are embedded and managed within an organisation is a cornerstone of effective sustainability communication. A description of the business model and the sustainability framework is thus essential for stakeholders to gauge a company’s preparedness to respond to sustainability challenges and opportunities over time.
Business model

The way the company operates and creates value over time provides an important context to understand its exposure to sustainability issues.

As such, the companies may choose to provide information about the following:

- activities, products and services
- markets of operation
- size (i.e. workforce, business locations, revenue, etc.)
- organisational structure (i.e. ownership and legal form)

Companies in scope of the NFRD are required to provide a description of their business model.

Roles and responsibilities

Assigning roles and responsibilities for sustainability matters is paramount for effective implementation of sustainability-related policies, strategies and goals as well as the management of the sustainability reporting process. It also helps to increase accountability and can serve as a yardstick by which the leadership commitment to sustainability is measured.

The chart below (Figure 14) provides an overview of how this structure can be set up and what are some important considerations.

- Is this ‘highest’ governance body including ESG in its supervisory responsibilities?
- Is sustainability discussed periodically in board meetings?
- Is there a dedicated sustainability committee (similar in structure and function to a risk management or remuneration committee)?
- Who is the responsible board member for development and implementation of sustainability-related strategies, policies and targets?
- What is the scope of the sustainability related work of this executive?
- Is the sustainability performance of the board included in its remuneration (bonus) system?
- Is there a dedicated sustainability/ESG department in the organization?
- What is the scope of the sustainability related work of this department?
- Is this department responsible for the sustainability reporting process?
- How is sustainability integrated in the work of functional departments and line management?
- Are there specific targets and KPIs?
- Are these part of the remuneration (bonus) system?

Figure 14 Sustainability governance
Under TCFD recommendations companies should also provide information on governance around climate-related issues. See section 3.3 for more details.

Sustainability-related policies, strategies and goals

Integrating sustainability considerations into overall business strategy and planning helps to show where priorities are in the organisation and which direction it is heading.

Sustainability strategy outlines the company’s sustainability ambitions along with the actions and deadlines for achieving them. It should be bolstered by specific policies and action plans for their implementation.

Companies in scope of the NFRD are required to disclose policies related to environmental, social and employee matters, human rights, and bribery and corruption. Comply or explain principle applies.

Risk management

Embedding environmental and social risks into company overall risk management processes helps to further anchor sustainability in business operations and strategic decision-making. It is important to consider risks within the company’s own operations as well its supply chain. Companies should consider environmental and social risks through the implementation of due diligence processes of the principal or potential adverse impacts. These risks may apply to a company’s operations, its products and services, its business relationships, and its supply chains.

Companies in scope of the NFRD are required to disclose their principal risks and relevant due diligence process.

6.3. Environmental indicators

Environmental indicators cover issues that arise from, or impact the natural environment. Companies can decide to report all indicators or select those that are most relevant to their business operations.

Climate Change

Climate change has emerged as the biggest environmental challenge of our times, posing significant risks and opportunities for businesses and investors alike. As the momentum around necessary climate action continues to build with new regulatory measures entering into force, the demand for climate-related information and metrics is expected to follow suit.

Relevance to investors / issuers

Investors want to understand whether companies:

- might be negatively impacted by tightening carbon regulations (i.e. carbon pricing) for example through regulatory fines or the stranded assets risks
- consider physical risks of climate change as part of business continuity/resilience planning
- are transition-ready and have aligned their strategies and investment plans with the requirements of the Paris Agreement and the low-carbon economy
- pursue climate-related opportunities such as investments in innovative technologies or new products or services
Recommended disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>E-M1</td>
<td>GHG Emissions</td>
<td>Tons carbon dioxide (CO₂) equivalent</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>E-M2</td>
<td>Energy Consumption</td>
<td>MWh</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>E-M3</td>
<td>Climate Risks &amp; Opportunities</td>
<td>Description</td>
<td>•</td>
<td>-</td>
</tr>
</tbody>
</table>

Minimum disclosures (applicable to all sectors)

Sector-specific disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>E-S1</td>
<td>Emission Intensity</td>
<td>Tons CO₂/unit of activity</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>E-S2</td>
<td>Emission Management</td>
<td>Description</td>
<td>•</td>
<td>-</td>
</tr>
</tbody>
</table>

* companies with significant exposure to climate change risks (i.e. those in high impact climate sectors) should consider fully aligning their disclosures with the TCFD recommendations. However, as a minimum, companies are advised to provide information on the additional sector-specific disclosures suggested in the table above.

CLIMATE CHANGE KPIs
MINIMUM DISCLOSURES

**CLIMATE CHANGE**
**GHG EMISSIONS**

**Definition:**

These definitions are aligned with those of the GHG Protocol.

GHG emissions are understood as total direct and indirect emissions. They should be further categorised into Scope 1, Scope 2 and Scope 3 emissions (if relevant) as follows:

**Scope 1 Emissions**

Direct emissions from owned or controlled sources, including: stationery combustion (fuels and heating sources), mobile combustion (vehicles), fugitive emissions (resulting from refrigeration or air conditioning leakages), and process emissions from industrial processes.

**Scope 2 Emissions**

Indirect emissions from purchased or acquired electricity, heat or steam.

**Scope 3 Emissions**

Other indirect emissions that occur in the value chain of reporting company both “upstream” and “downstream” of its operations.

*It should be noted that reporting on Scope 3 Emissions under SFDR will be applicable from 1 January 2023. Hence, companies shall start preparations for disclosure of such data.

**What should be disclosed?**

- Methods and assumptions used for calculation of the emissions.
- Scope 1, Scope 2 and Scope 3 (if relevant) emissions for the last three reporting years to facilitate performance assessment over time.
- Explanation of significant changes in performance (whether negative or positive), if relevant.

* It is recommended to use internationally recognised standards for the corporate accounting and reporting of GHG emissions such as the GHG Protocol or the ISO 14064-1:2018 standard.
Definition:
Energy consumption is the total amount of energy consumed within an organisation. It comprises purchased and self-generated energy sources.

What should be disclosed?
- Methods and assumptions used for calculation of the energy consumption.
- Total amount of energy consumed within the organisation (in MWh).
- Percentage (%) of energy consumed by type of energy (i.e. renewable and non-renewable energy sources).

CLIMATE CHANGE
CLIMATE RISKS AND OPPORTUNITIES

Definition:
This indicator and related definitions are aligned with the TCFD recommendations.

Climate-related risks are understood as any potential negative impact resulting from climate change. They can be divided into two types of risks:

<table>
<thead>
<tr>
<th>Transition risks</th>
<th>Physical risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks associated with the transition to a lower-carbon economy, including:</td>
<td>Physical impacts of climate change, including</td>
</tr>
<tr>
<td>— policy and legal risks (e.g. risks stemming from current and emerging regulations; litigation risks)</td>
<td>— acute risks (driven by extreme weather events, such as droughts, floods or fires)</td>
</tr>
<tr>
<td>— technology risks (e.g. investments in climate-friendly technology)</td>
<td>— chronic risks (resulting from long-term shifts in climate patterns, such as temperature rise or sea-level rise)</td>
</tr>
<tr>
<td>— market risks (e.g. changing consumer behaviour, increased cost of raw materials)</td>
<td>— reputational risks</td>
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<tr>
<td>— reputational risks</td>
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</tr>
</tbody>
</table>

Climate-related opportunities, on the other hand, are understood as any potential positive impacts resulting from climate change. Examples can include:
- potential efficiency gains and cost-savings
- development of new products or services
- development of innovative technologies

What should be disclosed?
- Processes for identifying and evaluating climate-related risks (including what types of risks are considered the most relevant, their likelihood, time horizon and potential impact).
- Process in place to manage identified risks.
- Identified climate-related opportunities along with the strategy to realise them (unless deemed commercially sensitive).
- Whether and how the company integrates climate-related risks and opportunities into business strategy and financial planning.

Additional considerations and resources
- Make reference to the TCFD, if possible.
- Inform your stakeholders if you have responded to the CDP questionnaire.

See also: Climate Disclosure Standards Board (CDSB) website, TCFD Knowledge Hub, and CDP resources.
CLIMATE CHANGE KPIS
SECTOR-SPECIFIC DISCLOSURES

**CLIMATE CHANGE**
**EMISSION INTENSITY**

**Definition:**
Emission intensity is the ratio of GHG emissions per unit of economic activity.

Different approaches to calculate this metric may apply. For example, under the SFDR, emission intensity should be calculated as total Scope 1, 2 and 3 GHG emission per €M revenues. Different methods may be used by companies falling under the European Union Emissions Trading System (EU-ETS).

**What should be disclosed?**
- Methods and assumptions used for calculation.
- Ratio of total GHG emissions divided by a unit of economic activity.

It is recommended that companies in carbon-intensive sectors, depending on their business operations, use output of production to normalise their GHG emissions. For example:
- Electric utilities: tonnes of CO₂e per MWh of electricity generated
- Cement: tonnes of CO₂e per tonne of cementitious product.

**CLIMATE CHANGE**
**EMISSION MANAGEMENT**

**Definition:**
Emission management is a process an organisation follows to manage and mitigate their GHG emissions. It should include an explicit strategy for how to reduce GHG emissions and time-bound targets for reducing GHG emissions.

**What should be disclosed?**
- Whether the company has implemented a strategy for GHG emission management and what are its key elements.
- Whether the company has set a time-bound target to reduce its GHG emissions and/or other climate-related targets (for example to increase renewable energy use).
- Whether the company strategy and targets are aligned with the objectives of the Paris Agreement, to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit global warming to 1.5°C.

**Additional considerations and resources**
- If your disclosure is not yet fully aligned with the TCFD recommendations inform your stakeholders how you plan to address that in the next reporting cycles.
- See also:
  - Transition Pathway Initiative methodology and resources
  - Science-Based Targets Initiative website and resources

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Natural Resources

Certain companies by nature of their operations may have significant impacts on natural resources. Heightened risk of over-exploitation of natural resources can be a result of water-intensive operations (especially if they are located in water-stressed areas) or impact on biodiversity and wildlife habitat. Companies that do not manage those issues properly may face regulatory risks, reputational risks and/or community opposition.

Recommended disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
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<tr>
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<td></td>
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<td>NFRD</td>
<td>SFDR</td>
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<tr>
<td>E-S3</td>
<td>Water Consumption</td>
<td>m³</td>
<td>•</td>
<td>-</td>
</tr>
<tr>
<td>E-S4</td>
<td>Water Management</td>
<td>Description</td>
<td>•</td>
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<tr>
<td>E-S5</td>
<td>Biodiversity Impacts</td>
<td>Description</td>
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</tbody>
</table>

NATURAL RESOURCES KPIS
MINIMUM DISCLOSURES

**NATURAL RESOURCES**

**WATER CONSUMPTION**

Definition:
Water consumption is the total volume (in m³) of water consumed by the organisation.

What should be disclosed?
- Total amount of water consumed within the organisation (in m³).
- Total amount of water recycled and reused as a percentage of total water withdrawn.

**WATER MANAGEMENT**

Definition:
Water management is a process by which a company optimises its water consumption to reduce its impact on natural environment. It includes activities to reduce water use within operations, increase water circularity (through water reuse and recycling) and preserve water resources (through water stewardship efforts).

What should be disclosed?
- Whether the company has adopted and implemented a water management program and what it entails.
- Companies with operations in water-stress areas should also disclose a process for identifying and mitigating water-related risks.
**NATURAL RESOURCES**

**BIODIVERSITY IMPACTS**

**Definition:**
Biodiversity has been defined by the UN Convention on Biological Diversity as “the term given to the variety of life on Earth and the natural patterns it forms.” It includes species diversity as well as genetic and ecosystem diversity.

Biodiversity loss is considered a serious environmental challenge. It arises due to destruction and fragmentation of habitats mainly by human activities, such as overexploitation of resources, land use changes (e.g. deforestation, urbanisation, intensive mono-culture), pollution and climate change.

**What should be disclosed?**
- Whether the company has an impact on biodiversity (both directly or indirectly through its supply chain) and what are the main drivers of this impact.
- What policies are in place to conserve and restore biodiversity and combat deforestation, and whether they are applicable to suppliers.
- What process is in place to manage and mitigate impacts on biodiversity, and whether it is applicable to supply chain.

**Additional considerations and resources**
- Inform your stakeholders if you have responded to the CDP Water or CDP Forest questionnaire

See also:
- [CEO Water Mandate Corporate Reporting Guidelines](https://www.watermandate.org)
- [WRI Aqueduct water risk atlas tool](https://www.wri.org)

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**Waste and Pollution**

The public, regulators and investors are increasingly scrutinising companies waste management practices. Proper management of hazardous waste as well as efforts to reduce, reuse and recycle waste materials are a particularly salient topic for companies with high levels of waste generated as mismanagement of this issue can lead to regulatory fines and reputational damage.

**Recommended disclosures:**

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<th>Other frameworks</th>
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<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>E-S6</td>
<td>Waste Management</td>
<td>Description, percentage (%)</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

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30 The UN Convention on Biological Diversity. [https://www.cbd.int/convention/](https://www.cbd.int/convention/)
WASTE AND POLLUTION
SECTOR-SPECIFIC DISCLOSURES

WASTE AND POLLUTION
WASTE MANAGEMENT

Definition:
Waste management is a set of activities to monitor, manage and reduce (including reuse and recycle) waste produced by an organisation.

What should be disclosed?
— Total amount of hazardous and non-hazardous waste generated (in tonnes).
— Waste by type of treatment (e.g. recycled, landfill) in percentage (%).
— Narrative explaining what activities are undertaken to manage waste and ensure regulatory compliance.

6.4. Social indicators

Social indicators relate to the rights, well-being and interests of people and communities. Companies can decide to report all indicators or select those that are most relevant to their business operations.

Diversity

A growing body of evidence suggests that more diverse companies tend to perform better financially than their peer with less inclusive cultures. Gender diversity at the board level and in senior and middle management is thus often considered by fund managers in their investment process.

Relevance to investors / issuers

Investors are interested in companies that:
— foster diversity (including gender diversity) at the board level and among its employees
— develop and promote women into managerial and executive positions
— are able to show progress on diversity efforts

Recommended disclosure:

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<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>S-M1</td>
<td>Board Diversity</td>
<td>Percentage (%)</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>S-M2</td>
<td>Gender Pay Gap Ratio</td>
<td>Percentage (%)</td>
<td>•</td>
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</tbody>
</table>

* Dobre Praktyki Spółek Notowanych na GPW 2021 (Good Practices of Companies Listed on WSE 2021)

DIVERSITY KPIS
MINIMUM DISCLOSURES

S M1 DIVERSITY
BOARD DIVERSITY32

Definition:
Board diversity aims to measure whether an organisation’s governance bodies are represented by people with varied characteristics, including gender but not limited to, in addition to skills and experience.

What should be disclosed?
Percentage of female board members in the management board and supervisory board.

S M2 DIVERSITY
GENDER PAY GAP RATIO

Definition:
This definition is aligned with the one in the DPSN2021.

Gender pay gap ratio is a difference between the average (gross) remuneration (including bonuses and other economic incentives) of men and women within an organisation.

What should be disclosed?
The gender pay gap ratio.

To calculate gender pay gap ratio:

— Divide the total annual pay for all full-time male employees by the total number of male full-time employees (A)
— Divide the total annual pay for all full-time female employees by the total number of female full-time employees (B)
— Calculate the gender pay gap ratio by using the following formula: \( \frac{(A - B)}{B} \times 100 \)

The result of the formula tells how much more (or less) men earn than women on average in your organisation, and thus by how much women’s average salary would need to be raised (lowered) to equal that of men.

Working Conditions

Maintaining good working conditions is key to the sustainability of a business. This is especially the case for labour intensive businesses where productivity relies on employees’ commitment and satisfaction. Poor workforce management can impact productivity and eventually the profitability of a business.

Relevance to investors / issuers
Investors are interested in companies that:

— recognise the value of its workforce and provide reasonable terms of employment
— align with labour and certification standards
— have a stable structure and operations
— do not interfere or discourage workers from forming or joining workers’ organisations

32 Board diversity is often considered a corporate governance issue. However, as it relates directly to the topic of gender diversity, it is included under Diversity theme.
Recommended disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>Minimum disclosures (applicable to all sectors)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S-M3</td>
<td>Employee Turnover</td>
<td>Percentage (%)</td>
<td>•</td>
<td>-</td>
</tr>
<tr>
<td>S-M4</td>
<td>Freedom of Association and Collective Bargaining</td>
<td>Percentage (%), Description</td>
<td>•</td>
<td>-</td>
</tr>
<tr>
<td>S-S1</td>
<td>Employee Health and Safety</td>
<td>Number (#), Description</td>
<td>•</td>
<td>-</td>
</tr>
</tbody>
</table>

* Companies with significant exposure to occupational accidents (e.g. extractives or infrastructure) should consider providing additional information on their approach to managing health and safety issues.

WORKING CONDITIONS KPIs
MINIMUM DISCLOSURES

WORKING CONDITIONS EMPLOYEE TURNOVER

Definition
The employee turnover measures the proportion of employees that have left an organisation during the fiscal year. The employee turnover rate could be:

— voluntary (when an employee actively chooses to leave such as resignation or retirement)
— involuntary (when an employer chooses to end a contract and dismiss an employee such as layoff, retrenchment, or non-renewal of a contract due to an employee’s performance, behaviour or the company’s decision to downsize)

High employee turnover may signal dissatisfaction with the work environment, compensation or workplace health or safety.

What should be disclosed
— The voluntary turnover rate (in percent).
— The involuntary turnover rate (in percent).

The turnover rate is calculated by dividing the number of employees that left the company during the fiscal year (voluntary or involuntary) by the average number of employees within the year.

WORKING CONDITIONS FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

Definition
Collective bargaining and freedom of association is the right for workers to join workers’ organisations of their own choosing and to negotiate their terms of employment.
What should be disclosed

- The percentage of the active workforce covered by collective bargaining agreements. This is calculated as the number of active workforce employees covered by a collective bargaining agreement divided by the total number of active workforce members within the reporting year.
- Measures taken by companies to support workers’ rights to exercise freedom of association and collective bargaining (both in their own operations and in their supply chain).

WORKING CONDITIONS KPIs

SECTOR-SPECIFIC DISCLOSURES

**S1**

**EMPLOYEE HEALTH AND SAFETY**

**Definition**
Employee health and safety is a set of activities and procedures to prevent accidents and injuries in the workplace. Company performance on this issue is often measured by the following indicators:

- total number of employee and contractor fatalities within a given period
- total number of work-related injuries within a given period
- lost-time incident rate (LTIR) - total number of incidents resulting in lost time from work, per measure of time (e.g. per 100,000 hours worked)

**What should be disclosed**

- Whether the company has implemented a health and safety management system, what percentage of its operations does it cover and what elements does it include.
- Relevant performance indicators for the last three reporting years to facilitate performance assessment over time, broken down by full-time and contractual employees.

**Human Rights**

Businesses have a responsibility to respect international human rights standards. Beyond ethical concerns, companies that do not evaluate and manage their human rights impacts may face reputational and regulatory risks and/or lose its social licence to operate.

**Relevance to investors / issuers**
Investors are interested in companies that:

- understand its responsibility to respect human rights
- embed human rights considerations into its operations and risk management process
- actively manage human rights impacts both within own operations and supply chain

**Recommended disclosures:**

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td></td>
<td>Minimum Disclosures (applicable to all sectors)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S-M5</td>
<td>Human Rights Policy</td>
<td>Description</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>S-M6</td>
<td>Human Rights Due Diligence</td>
<td>Description</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>
HUMAN RIGHTS KPIS
MINIMUM DISCLOSURES

S M5 HUMAN RIGHTS
HUMAN RIGHTS POLICY

Definition
Human rights policy is a formal document outlining the company’s position on human rights. It can have a stand-alone format or be integrated into a wider set of company standards such as a code of ethics or an employee/supplier code of conduct.

What should be disclosed?
— Whether the company has a human rights policy that extends to suppliers and business partners.

It is recommended that the policy:
— makes reference to internationally recognised human rights standards the company commits to respect (i.e. International Bill of Human Rights and ILO’s Declaration on Fundamental Principles and Rights at Work);
— sets out the company’s expectations of its employees
— sets out the company’s expectations of its suppliers and business partners
— describes a process for its implementation
— is communicated internally and externally

S M6 HUMAN RIGHTS
HUMAN RIGHTS DUE DILIGENCE

Definition
Human rights due diligence is a set of activities to identify, mitigate and act on actual and potential risks of human rights violations.

What should be disclosed?
— Whether the company conducts human rights due diligence throughout its value chain to assess risk exposure to human rights issues, including child labour and forced labour.

It is recommended that the company discloses whether its human rights due diligence includes:
— identification of activities within own operations at risk of human rights violations
— identification or mapping of suppliers/raw materials with high exposure to human rights risk
— human rights risks assessment of new suppliers
— incorporation of human rights provisions into procurement contracts
— audit and monitoring of suppliers’ operations
— corrective action in case of identified non-compliance

Additional considerations and resources
— UNGP Reporting Framework with implementation guidance (in Polish)
— United Nations Global Compact, Guide on How to Develop a Human Rights Policy
— World Benchmarking Alliance, Corporate Human Rights Benchmark Methodology
6.5. Governance indicators

Governance indicators cover issues relating to corporate governance and business ethics standards.

Corporate Governance

Corporate governance is a system of controls and procedures by which an organisation is operated. A company with strong corporate governance structures is defined by professional management, a well-structured board, and organised systems and processes. These in turn reduce and mitigate risks, and ensure decisions are aligned with the company’s and the shareholders’ interests. Weak governance performance can impact the risk exposures and the bottom line significantly, and thereby also the credit ratings, and the access to capital over time.

Relevance to investors / issuers

Investors favour companies that demonstrate good corporate governance, including:

— a well-structured framework of policies and procedures
— the protection and equitable treatment of all shareholders, including minority shareholders
— a good understanding and management of stakeholders’ interests vis-à-vis the company
— defined transparency and disclosure practices
— clear responsibilities of the board addressing the role of the board, compliance matters, treatment of shareholders, the code of conduct, and the company’s objectives
— a board structure that considers balance of skills and includes independent board members
— transparent corporate governance and accounting practices

Recommended disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>G-M1</td>
<td>Board Composition</td>
<td>Description</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

CORPORATE GOVERNANCE KPIS

MINIMUM DISCLOSURES

**CORPORATE GOVERNANCE**

**BOARD COMPOSITION**

Definition

Board composition refers to the characteristics of the company’s highest governance bodies i.e. the management board and the supervisory board. It covers qualifications and competences of board members, as well as their independence and tenure.

What should be disclosed?

— Short bio of each of the management and supervisory board members indicating competences, qualification and background.
— Information whether a supervisory board member is independent or not.

Additional considerations and resources

For more guidance on corporate governance matters please refer to WSE’s corporate governance code “Good Practices of Companies Listed on WSE 2021”, and the G20 / OECD Principles of Corporate Governance.
Business Ethics Standards

Business ethics refer to organizational principles that serve as guidelines for the way a business conducts itself and its operations. Business ethics standards define the extent to which companies conduct business ethically, and in line with applicable laws and accepted norms. It is a critical component of long-term value creation.

Relevance to investors / issuers

Investors are interested in companies that:

— have embedded strong ethical standards in their everyday operations
— regularly assess compliance with internal standards of conduct and take corrective actions accordingly
— work to increase employee awareness of related topics and provide them with appropriate channels to raise concerns

Recommended disclosures:

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>G-M2</td>
<td>Business Ethics Policy</td>
<td>Description</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>G-M3</td>
<td>Anti-Corruption Policy</td>
<td>Description</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>G-M4</td>
<td>Whistle-Blower Mechanism</td>
<td>Description</td>
<td>●</td>
<td>●</td>
</tr>
</tbody>
</table>

* EU Whistleblower Protection Directive

BUSINESS ETHICS STANDARDS KPIS

MINIMUM DISCLOSURE

G M2 BUSINESS ETHICS STANDARDS

BUSINESS ETHICS POLICY

Definition:

A business ethics policy (also called code of conduct or code of ethics) is a formal document outlining standards of ethics and responsible business conduct to which the company commits itself. The policy clarifies the company’s values and principles and provides guidelines of behaviour for employees (and third parties).

What should be disclosed?

— Whether the company has a business ethics policy. The policy should be accessible internally and externally.

G M3 BUSINESS ETHICS STANDARDS

BUSINESS ETHICS POLICY

Definition:

Anti-corruption policy is a formal document outlining the company’s position on bribery and corruption. It can have a stand-alone format or be integrated into a wider set of company standards of conduct such as a code of ethics or a code of conduct as described above.

What should be disclosed?

— Whether the company has an anti-corruption policy that extends to suppliers and business partners.
It is recommended that the policy:

— outlines the company position regarding bribery and corruption, conflict of interest and facilitation payments
— defines what is understood by each of the terms above
— provides a clear explanation and examples of what is acceptable and non-acceptable behaviour
— is communicated internally and externally

**BUSINESS ETHICS STANDARDS**

**WHISTLE-BLOWER PROCEDURE**

**Definition:**
A whistle-blower procedure (also called grievance mechanism) is a system that enables reporting of suspected or actual violations of rules or misconduct. It can be internally operated by a company (e.g. a dedicated email) or managed by an independent third-party.

**What should be disclosed?**
— Whether the company has a whistle-blower procedure in place. The methods for reporting a violation or concern (e.g. dedicated email, reporting hotline, etc.) along with the process for handling of the report should also be disclosed.

It is recommended that the whistle-blower procedure:

— allows the reporting of violations anonymously and without fear of retaliation
— is available to suppliers and third parties

**Data Security and Privacy**

Data privacy is about the rights of individuals such as employees, customers and partners with respect to their personal information. Data security focuses on protecting the personal data from any unauthorised third-party access.

**Relevance to investors / issuers**
Investors are interested in companies that:

— comply with data privacy regulations
— ensure end-customers’ and business-to-business customers’ privacy protection
— limit data security risks and protects the company from related financial losses

**Recommended disclosures:**

<table>
<thead>
<tr>
<th>Code</th>
<th>Indicator name</th>
<th>Unit</th>
<th>EU legislation</th>
<th>Other frameworks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>NFRD</td>
<td>SFDR</td>
</tr>
<tr>
<td>G-S1</td>
<td>Data Security Policy</td>
<td>Description</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
DATA SECURITY & PRIVACY
DATA SECURITY POLICY

Definition:
Data security seeks to protect employees’, customers’ or partners’ data and prevent unauthorised access to it. Data security includes data privacy which is related to a proper handling of data (data collection, processing, storage and usage). A data security policy aims to implement, guide and monitor the secure handling of the company’s data.

What should be disclosed?
— Whether the company has a cyber and data security policy in place.

A comprehensive data security policy:
— details the scope of data protection
— describes cyber and data security risk management arrangements like protocols, roles and responsibilities (for instance cyber/information security team), reporting and performance monitoring
— outlines security protocols to ensure adequate protection from intrusions, data breaches, unauthorised access, malicious content and other attacks
<table>
<thead>
<tr>
<th>Code</th>
<th>Name</th>
<th>Type</th>
<th>Definition</th>
<th>Unit</th>
<th>Alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-M1</td>
<td>GHG Emissions</td>
<td>Quantitative</td>
<td>Direct and indirect emissions (scope 1, 2 and 3) resulting from company activities</td>
<td>tCO2eq</td>
<td>NFRD, SFDR, TCFD, GRI, CDP</td>
</tr>
<tr>
<td>E-M2</td>
<td>Energy Consumption</td>
<td>Quantitative</td>
<td>Energy consumed (purchased and self-generated) within an organisation</td>
<td>MWh</td>
<td>NFRD, SFDR, TCFD, GRI, CDP</td>
</tr>
<tr>
<td>E-M3</td>
<td>Climate Risks &amp; Opportunities</td>
<td>Qualitative</td>
<td>Approach for identifying and managing climate-related risks and opportunities</td>
<td>-</td>
<td>NFRD, TCFD, GRI, CDP</td>
</tr>
<tr>
<td>E-S1</td>
<td>Emissions Intensity</td>
<td>Quantitative</td>
<td>Ratio of CO2 emissions per unit of economic activity</td>
<td>tCO2eq</td>
<td>NFRD, SFDR, TCFD, GRI, CDP</td>
</tr>
<tr>
<td>E-S2</td>
<td>Emissions Management</td>
<td>Qualitative</td>
<td>Process an organisation follows to manage and mitigate its GHG emissions</td>
<td>-</td>
<td>NFRD, TCFD, GRI, CDP</td>
</tr>
<tr>
<td>E-S3</td>
<td>Water Consumption</td>
<td>Quantitative</td>
<td>Total volume of water consumed by the organisation</td>
<td>m³</td>
<td>NFRD, GRI, SASB</td>
</tr>
<tr>
<td>E-S4</td>
<td>Water Management</td>
<td>Qualitative</td>
<td>Process a company has implemented to optimise its water consumption</td>
<td>-</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>E-S5</td>
<td>Biodiversity impacts</td>
<td>Qualitative</td>
<td>Any negative impact on biodiversity and process for managing and mitigating it</td>
<td>-</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>E-S6</td>
<td>Waste Management</td>
<td>Qualitative &amp; Quantitative</td>
<td>Total amount of hazardous and non-hazardous waste generated&lt;br&gt;Set of activities to monitor, manage and reduce waste produced by an organisation</td>
<td>#</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>S-M1</td>
<td>Board Diversity</td>
<td>Quantitative</td>
<td>Proportion of board members by gender and by age group</td>
<td>%</td>
<td>NFRD, SFDR, GRI, SASB, WSE CG</td>
</tr>
<tr>
<td>S-M2</td>
<td>Gender Pay Gap</td>
<td>Quantitative</td>
<td>Difference between the average gross remuneration of men and women within an organisation</td>
<td>%</td>
<td>NFRD, SFDR, GRI, SASB, WSE CG</td>
</tr>
<tr>
<td>S-M3</td>
<td>Employee Turnover</td>
<td>Quantitative</td>
<td>Proportion of employees that have left an organisation during the fiscal year</td>
<td>%</td>
<td>NFRD, GRI, SASB</td>
</tr>
<tr>
<td>S-M4</td>
<td>Freedom of Association and Collective Bargaining</td>
<td>Quantitative</td>
<td>Proportion of active workforce covered by collective bargaining agreements</td>
<td>%</td>
<td>NFRD, GRI, SASB</td>
</tr>
<tr>
<td>S-S1</td>
<td>Employee Health and Safety</td>
<td>Qualitative &amp; Quantitative</td>
<td>Set of activities and procedures a company has implemented to prevent accidents and injuries in the workplace</td>
<td>#</td>
<td>NFRD, GRI, SASB</td>
</tr>
<tr>
<td>S-M5</td>
<td>Human Rights Policy</td>
<td>Qualitative</td>
<td>Whether the company has a human rights policy in place and description</td>
<td>-</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>S-M6</td>
<td>Human Rights Due Diligence</td>
<td>Qualitative</td>
<td>Set of activities to identify, mitigate and act upon actual and potential risks of human rights violation</td>
<td>-</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>G-M1</td>
<td>Board Composition</td>
<td>Qualitative</td>
<td>Information on characteristics of the company’s highest governance bodies</td>
<td>-</td>
<td>GRI</td>
</tr>
<tr>
<td>G-M2</td>
<td>Business Ethics Standards</td>
<td>Qualitative</td>
<td>Whether the company has a business ethics policy in place and description</td>
<td>-</td>
<td>NFRD, SFDR, SASB</td>
</tr>
<tr>
<td>G-M3</td>
<td>Anti-corruption Policy</td>
<td>Qualitative</td>
<td>Whether the company has an anti-corruption policy in place and description</td>
<td>-</td>
<td>NFRD, SFDR, GRI, SASB</td>
</tr>
<tr>
<td>G-M4</td>
<td>Whistle-blower Mechanism</td>
<td>Qualitative</td>
<td>Whether the company has a whistle-blower procedure in place and description</td>
<td>-</td>
<td>NFRD, SFDR, SASB</td>
</tr>
<tr>
<td>G-S1</td>
<td>Data Security Policy</td>
<td>Qualitative</td>
<td>Whether the company has a cyber and data security policy in place and description</td>
<td>-</td>
<td>GRI, SASB</td>
</tr>
</tbody>
</table>
## Annex A: Main international reporting guidelines and frameworks

<table>
<thead>
<tr>
<th>Category</th>
<th>Framework</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU legislation</strong></td>
<td>SFDR</td>
<td>The <strong>Sustainable FinanceDisclosure Regulations</strong> introduces a set of disclosure requirements for financial market participants and financial advisers to prevent greenwashing and increase market transparency</td>
</tr>
<tr>
<td></td>
<td>NFRD</td>
<td>The <strong>Non-Financial Reporting Directive</strong> requires large companies to disclose non-financial and diversity information in their annual reports and on their website. Currently being revised, see proposal for a Corporate Sustainability Reporting Directive (CSRD)</td>
</tr>
<tr>
<td></td>
<td>EU Taxonomy</td>
<td>The <strong>EU Taxonomy</strong> aims to facilitate sustainable investment thanks to a classification system helping companies to define whether their economic activities are environmentally sustainable</td>
</tr>
<tr>
<td><strong>Reporting standards and frameworks</strong></td>
<td>GRI</td>
<td>The <strong>Global Reporting Initiative</strong> helps any organisation (regardless of size, sector or location) to start reporting on their impacts on the economy, the society or the environment thanks to reporting guidance, information and support.</td>
</tr>
<tr>
<td></td>
<td>SASB</td>
<td>The <strong>Sustainability Accounting Standards Board</strong> sets standards to guide companies disclosing financial materiality sustainability information to their investors.</td>
</tr>
<tr>
<td></td>
<td>IIRC</td>
<td>The <strong>International Integrated Reporting Council</strong> helps organisation explains how they create financial and non-financial value through concise and integrated reporting.</td>
</tr>
<tr>
<td></td>
<td>TCFD</td>
<td>The <strong>Task Force on Climate-related Financial Disclosures</strong> seeks to improve and increase reporting of climate-related financial information to investors, lenders, insurers and other stakeholders.</td>
</tr>
<tr>
<td></td>
<td>CDP</td>
<td>CDP provides questionnaires and scores companies based on their journey through disclosure and towards environment leadership.</td>
</tr>
<tr>
<td></td>
<td>CDSB</td>
<td>The <strong>Climate Disclosure Standards Board Framework</strong> sets out an approach for reporting environmental and climate change information in mainstream reports, such as annual reports or integrated report.</td>
</tr>
<tr>
<td></td>
<td>IFRS</td>
<td>In 2021, the Trustees of the <strong>IFRS Foundation</strong> published two documents in relation to their project on sustainability reporting. It includes an Exposure Draft outlining the proposed targeted amendments to the IFRS Foundation to set IFRS sustainability standards.</td>
</tr>
<tr>
<td><strong>Reporting related initiatives</strong></td>
<td>UNGC</td>
<td>The <strong>UN Global Compact</strong> sets a set if 10 principles to help companies operating in ways that, at a minimum, meet fundamental responsibilities.</td>
</tr>
<tr>
<td></td>
<td>SDG</td>
<td>The <strong>Sustainable Development Goals</strong> are a set of 17 goals adopted by all UN member states in 2015, as part of the 2030 Agenda for Sustainable Development.</td>
</tr>
</tbody>
</table>
### Annex B: EU regulations

**THE EUROPEAN GREEN DEAL**

<table>
<thead>
<tr>
<th>NFRD (Directive 2014/95/EU)</th>
<th>(1) EU taxonomy (Regulation (EU) 2020/852)</th>
<th>(2) SFDR (Regulation (EU) 2019/2088)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who: Large companies with more than 500 employees</td>
<td>Who: Financial market participants (under SFDR scope) and large companies (under NFRD scope)</td>
<td>Who: For financial market participants and investment advisers</td>
</tr>
<tr>
<td>What: Require transparency on sustainability risks</td>
<td>What: Define environmentally sustainable economic activities through six environmental objectives</td>
<td>What: Disclosure on sustainability risks in investment decision-making process</td>
</tr>
<tr>
<td>Where: Non financial &amp; governance statements with management report, website</td>
<td>Where: Periodic reports, pre-contractual disclosures and on websites</td>
<td>Where: Periodic reports, pre-contractual disclosures and on websites</td>
</tr>
<tr>
<td>When: Revised version April 2021 (Proposal for a Corporate Sustainability Reporting Directive)</td>
<td>When: 12 July 2020</td>
<td>When: 10 March 2021</td>
</tr>
</tbody>
</table>

**Guidelines on non financial reporting**

- Not legally binding
- Key principles & KPIs

**Additional guidelines: Climate related**

- Not legally binding
- Aligned with TCFD

**Technical Screening criteria**

- Criteria defining contribution to each objective
  - For CC mitigation & adaptation: January 2022
  - For the other four objectives: January 2023

**Regulatory Technical Standards (RTS)**

- Legally binding with the SFDR
- Metrics, templates and methodologies
- Publication date 2021

**Covered topics**

- Climate change mitigation & adaptation
  - Use & protection of water and marine resources,
  - Transition to a circular economy
  - Pollution prevention & control
  - Protection & restoration of biodiversity & ecosystems
- Climate, environment
  - Social, employment
  - Human rights
  - Anti-corruption & bribery

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**LEGEND:**

- supplement
- Under review or development

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**ESG REPORTING GUIDELINES**
Annex C: Reference list

EU legislation
Corporate Sustainability Reporting Directive (revised NFRD) (link)
Guidelines on non-financial reporting (2017) (link)
Guidelines on non-financial reporting: Supplement on reporting climate-related information (2019) (link)
Sustainable Finance Disclosure Regulation (SFDR) (link)
EU Taxonomy Regulations and delegated acts (link)
EU Whistle-blowers directive (link)
Framework for Communication action in the field of water policy Directive 2000/60/EC (link)
Assessment of the effects of public and private projects on the environment Directive 2011/92/EU (link)

Polish legislation/supporting document
Polish Accounting Act transposing Non-financial Reporting Directive (link)
Regulation of the Minister of Finance (from May 25th, 2016) on current and periodic disclosures
Ministry of Finance website for further information on the NFRD (link)
Publication of RBF prepared in consultation with the Ministry of Finance on NFRD (link)

Reporting standards and framework
Standard Informacji Niefinansowej (SIN) with annexes (link)
The Global Reporting Initiative (link)
The Sustainability Accounting Standards Board (link)
The International Integrated Reporting Council (link)
The Task Force on Climate-related Financial Disclosures (link)
CDP (link)
Climate Disclosure Standards Board (link)

Good practices and guidelines
General guidelines
Good Practices of Companies Listed on WSE 2021 (link)
UN Guiding Principles Reporting Framework (link), in Polish
OECD Guidelines for Multinational Enterprises (link)

Environmental guidelines
UN Convention on Biological Diversity (link)
Transition Pathway Initiative (link)
Science-Based Targets Initiative (link)
CEO Water Mandate (link)
WRI Aqueduct, water risk atlas tool (link)

Social guidelines
Guidelines principles on business and human rights (link)
ILO Conventions and Recommendations (link)
The International Bill of Human Rights (link)
World Benchmarking Alliance, Corporate Human Rights Benchmark Methodology (link)
United Nations Global Compact, Guide on How to Develop a Human Rights Policy (link)

Corporate and Governance guidelines
G20 / OECD Principles of Corporate Governance (link)

Other
UN Global Compact (link)
World Economic Forum, Global Risks Report 2021 (link)
S&P Global, Daniel J. Sandberg, When Women Lead, Firms Win (link)
EFRAG, Proposal for a relevant and dynamic EU sustainability reporting standard-setting (link)
Context and Overview

Background and investor objectives
These ESG Reporting Guidelines support companies listed on the Polish stock exchange in their ESG reporting practices. They provide clarity on various ESG topics, how these may apply to different sectors, specific indicators to be used, and a step-by-step guide for the ESG reporting process. While the reporting companies benefit by better identifying, understanding and managing their ESG risks, investors can also derive value by better understanding the companies and their value potential.

Investors seek to have as complete and good understanding as possible of companies, their performance, risk exposures, and future outlook. In addition to using financial analysis, ESG reporting can complement and improve the understanding of a company and its long-term potential value, either where there is a direct bearing on value at risk, or where it may be a broader reflection of general operational or managerial excellence.

ESG factors covered
The number of ESG topics can be overwhelming. To provide guidance, structure and priority to the ESG reporting, a limited number of ESG topics have been defined in these Guidelines. Furthermore, to make both the reporting for companies, and the ESG reporting analysis for investors better and easier, there is a defined set of minimum disclosure requirements. These are effectively independent from sector-specific ESG matters as illustrated in Table 3.

However, just like when interpreting financial statements, ESG reporting and issues differ widely between different sectors. The health and safety aspects in industrials and manufacturing are obvious, just like data security and client information sensitivity in the health care and financial services sectors. For that reason, the Guidelines also contain an overview table – of benefit to companies and investors alike – to understand which additional ESG risks may be material or relevant to disclose for a particular company.

Interpretation of disclosures
First, investors should develop an understanding of which risks they consider material for a potential investment. If a prospective company leaves out reporting on supposedly core ESG matters, that should raise questions and potentially concerns. If the company on the other hand explains the reason for leaving it out, such concerns may then dissipate.
Second, analysing corporate ESG reporting and performance should be done from a comparative angle – with other companies in the same or similar sectors, and within as well as outside the specific country or market.

Third, the Guidelines are a support for the investment process and decision, but not a replacement for analysis and independent thought. In a similar vein, the primary data provided by the companies in their respective ESG reporting is an important source of information. However, while it complements the investor’s data to be analysed, it neither replaces nor is replaced by external ESG company specific data, ratios and information.

Benefits for investors

Asset owners and managers can have many different reasons for integrating sustainability and ESG data in their investment and portfolio management processes. For investors it is important to understand which reasons are the most relevant for them, and to integrate this data accordingly in their operations.

I. Complying with fiduciary or regulatory requirements

Regulations are on the increase: The NFRD came into place in Poland in 2017, and a revised version will be published during 2021. Meanwhile the EU Taxonomy outlines disclosure obligations for financial market participants under the scope of the SFDR and companies under the scope of the NFRD, gaining full legal application by 2023. These and other developments are discussed in more detail in Chapter 1. Hence, investors will need to consider and disclose some ESG data stipulated in these regulations.

II. Meeting client, market and other stakeholder demands

Many investors view ESG risk management as essential to handle broader reputational risks – to new and existing clients, to local communities surrounding portfolio companies, and to clients of the portfolio companies’ products and services. Being aware of the risk exposures, comfortable with how they are handled by a company, and prepared in case a risk materialises is part of sound investment management.

In addition, communicating such awareness may provide an advantage over other investors in attracting and retaining institutional and individual clients with increasingly higher demands on sustainability integration, such as institutionally specific climate targets, alignment with the Paris Agreement, and goals tied to the Sustainable Development Goals (SDG) 2030 Agenda.

III. Complementing the financial analysis with ESG analysis

ESG reporting can complement traditional financial analysis by providing a more comprehensive coverage of risk exposures. Climate resilience, regulatory risks and demands, reputational risks, supply chain operations and practices and other ESG topics do not form part of financial analysis, but they do have a potential to impact a company’s operations, profitability and value.

In addition, the ESG reporting from companies reveals how they perceive their risk exposure – which are the material risks, how are they managed, and how are they performing. Just like other strategic and tactical analyses and decisions, the ESG reporting can complement an investor’s view of how well managed a company is.

IV. Improving investment decisions

While some ESG factors are difficult to quantify others are not. And regardless of whether they are quantified or not, those ESG factors that are deemed material in terms of their impact on a company need to be considered in investment decisions.

For those factors that are either quantifiable, or whose impacts on a company may have financial repercussions could also impact valuations. This could happen via various channels like adjusted forecast financials (revenues, operating costs, capital expenditure), adjusted valuation models (discount rates, terminal values), and credit risk adjustments.

Furthermore, taking these factors together across a portfolio may also lead to shifting of strategic and tactical asset allocations – either by taking the risks and related valuation impacts into account, or more proactively by including thematic or ESG objective tilts.

V. Facilitating consistency and comparability across markets

The increased amount of ESG reporting resulting from these Guidelines will improve data availability to investors. Furthermore, the alignment of the ESG indicators to be used and the setting of core/minimum reporting requirements will make reporting and performance comparisons between companies easier.

This applies both to comparing companies in the Polish market and those in other markets since the ESG indicators are aligned with broadly established and recognised international standards. This includes alignment with NFRD on disclosures, with the TCFD recommendations on climate-related disclosure in particular, the integration of the EU Taxonomy requirements, and the SFDR ASI core indicators.
Project execution

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Steward Redqueen is an independent consultancy that works across the globe advising organisations on impact and sustainability (ESG). Its mission is to make business work for society. Key areas of work include integrating sustainability, private sector development, quantifying impact and facilitating change. The company’s offices are in Haarlem (the Netherlands), Singapore and Washington DC (as per May 2021). The company is also represented in Spain, Sweden and Poland. Clients of Steward Redqueen include multinational corporations, (development) financial institutions and non-profit organisations across the globe.

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- Michael Zimonyi, Policy and External Affairs Director Climate Disclosure Standards Board (CDSB)
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- Joanna Alasa, ESG Project Lead, Senior Analyst NN Investment Partner TFI
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