ESG Thema

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ESG Corporate Disclosure: Towards more demanding and harmonized reporting

Amundi
ASSET MANAGEMENT

Key takeways

- **The 21st century company is one that must go beyond considerations of financial profitability,** ensuring that the ecosystem in which it operates is preserved.
- Protecting the environment and the employees who work for a company can only be done if the latter **has identified the ESG risks it is likely to face and has an action plan in place to manage them.**
- For this reason, the EU passed the **Non-Financial Reporting Directive (NFRD)**[1] in 2014, requiring public interest enterprises with more than 500 employees to report on a number of non-financial information, including on the "double materiality" concept.
- This first directive will be replaced in December 2022 by the **Corporate Social Responsibility Directive (CSRD),** which is more demanding in terms of reporting and the comparability of information provided by companies. It notably expands considerably the number of companies subject to extra-financial information reporting.
- If the European Union is taking the lead in terms of sustainability, **it is worth mentioning that other initiatives are being developed around the world as well.**
- For example, the G20, the G7 and the Financial Stability Board among others are **developing initiatives to create a baseline of global sustainability disclosure requirements and reporting standards** that would build on the work of the Task Force on Climate-related Financial Disclosures (TCFD).
- The emergence of other, non-binding, international legislations outside Europe has thus increased the **importance and potential of CSR as a means to hold businesses accountable for the negative externalities of their activities.**

1. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN

Why does corporate sustainability reporting matter?

The 21st century company is not only a company that must maximize financial profitability. In addition to ensuring profitability, it must also ensure that the ecosystem in which it operates is preserved. That is to say, companies should respect the principles of sustainable development as defined in the Brundtland Report, published in 19872: a sustainable development is one "that meets the needs of the present without compromising the ability of future generations to meet their own needs".

It is about the natural and physical limits of the Earth – we must give the Earth time to regenerate if we do not want to deplete its resources – but also about social rules – companies must respect international laws such as the International Labour Organization (ILO) standards.

Protecting people and the planet's resources is at the heart of the European Green Deal, which aims to promote a society and an economy in transition in the face of the climate emergency and the social risks it entails. As stated in the introduction of the Corporate Social Responsibility Directive (CSRD) proposal[3]: *"The European Green Deal aims to transform the EU into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050. It will decouple economic growth from resource use, and ensure that all EU regions and citizens participate in a socially just transition to a sustainable economic system. It also aims to protect, conserve and enhance the EU's natural capital, and to protect the health and well-being of citizens from environment-related risks and impacts".*

To achieve this, the European Union has developed the Green Deal around 3 important texts:

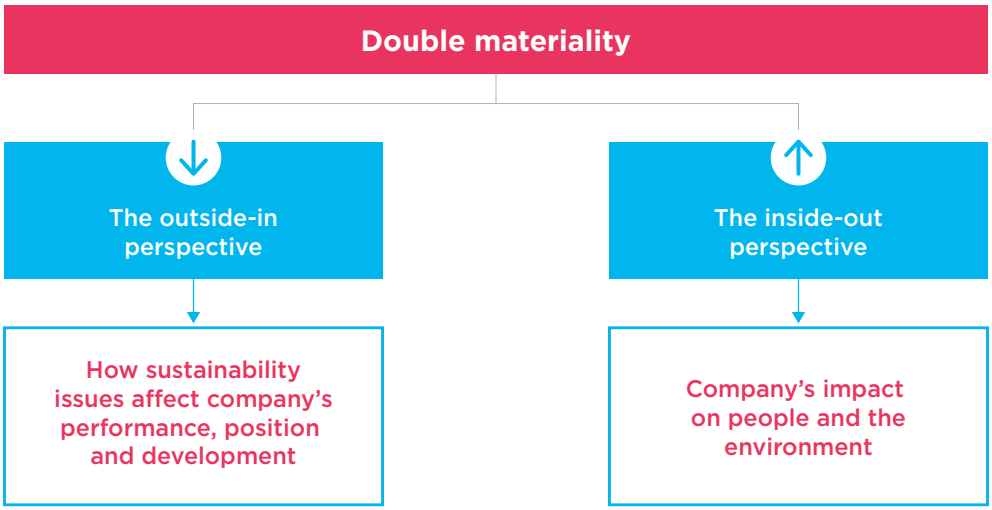
Figure 1 - The EU Green Deals is based on 3 major texts defining for each actor how to participate to the ecological transition

Source: Amundi Asset Management

2. https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf
3. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN

Protecting the environment and the employees who work for a company can only be done if the company has identified the environmental, social and governance risks it is likely to face and has an action plan in place to manage them. **For this reason, in 2014, the European Union passed the Non-Financial Reporting Directive (NFRD)[4], which requires public interest enterprises with more than 500 employees[5] to report on a number of non-financial information.** The NFRD notably introduces the obligation for companies to report on their "double materiality".

Figure 2 - Companies need to report on their financial statements but also on their sustainability double materiality



Source: Amundi Asset Management

This first directive is currently being revised and will be replaced by the "Corporate Social Responsibility Directive" (CSRD), which is more demanding in terms of reporting and the comparability of information provided by companies.

Indeed, the objective of this reporting is that companies take these sustainable externalities into account in their business management. They should also be transparent about them so that financial actors can assess their ESG risks and their ability to participate in a sustainable economy. **The European Union wants, through financial actors, to bring about a sustainable economy that will "decouple economic growth from resource use, and ensure that all EU regions and citizens participate in a socially just transition to a sustainable economic system".** To be able to finance this transition economy, financial actors need more comprehensive, relevant and comparable sustainable information.

4. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN
5. and public interest entities that are parent companies of a large group and employ on average more than 500 employees on a consolidated basis

The CSRD : a new step towards a sustainable Europe

According to the announced calendar, the CSRD should come into force by December 2022 and companies should disclose their first reporting accordingly in 2024 on FY 2023.

Hereunder is a table summarizing the main highlights to keep in mind regarding the CSRD:

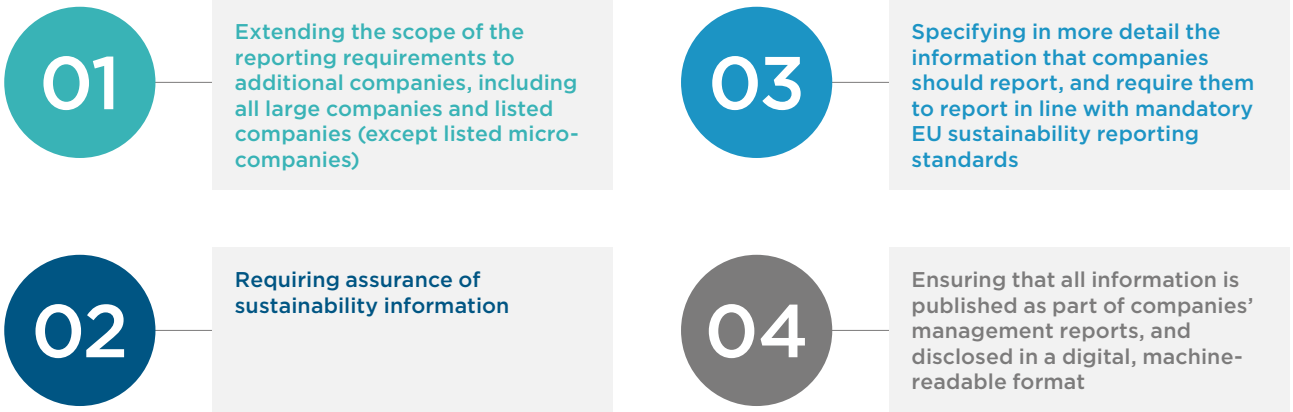
Figure 3 - What are the CSRD requirements?

Topics	CSRD
Which companies are targeted?	– **Listed companies:** All companies except micro-companies (<10 people) – **All large companies meeting at least 2 out 3 criteria:** > 250 employees > €40M Turnover > €20M Total Assets – **Small and medium listed companies get an extra 3 years to comply**
What are the expecting requirements?	– **Double materiality concept:** Sustainability risk (including climate change) affecting the company + Companies' impact on society and environment – **Thematic content:** • **Environment:** compliance with the 6 environmental objectives described by the EU Taxonomy (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, and (6) protection and restoration of biodiversity and ecosystems • **Social:** compliance with (1) equal opportunities for all, (2) working conditions, (3) respect for human rights • **Governance:** compliance with (1) the role of the undertaking's administrative, (2) management and supervisory bodies, (3) business ethics and corporate culture, political engagements, (4) the management and quality of relationships with business partners, (5) the undertaking's internal control and risk management systems – **Business-model and strategy,** including how the company is resilient to sustainability matters, opportunities and action plan to ensure the company is compatible with the transition to a sustainable economy and with limiting global warming to 1.5°C in line with the Paris Agreement – **Targets and progress** related to sustainability matters – **Governance organization** with regard to sustainability matters. – **Policies** in relation to sustainability matters, including (1) due diligences, (2) principal adverse impacts (supply chain, internal operation, products and services, etc.) and (3) mitigation actions – **Sustainability risks and mitigation** – **KPIs** relevant to the above mentioned points – **Intangible assets:** intellectual, human and social capital
Does the CSRD refer to other EU sustainable legislations?	– **Taxonomy** • By complying with the 6 environmental objectives • By disclosing ratios: green turnover, CAPEX and OPEX – **SFDR:** Companies will need to disclose information according to the SFDR's KPIs templates so that financial actors can consolidate their data
Is a third party verification required?	– **Yes:** A limited level of assurance is mandatory including on (1) the sustainability reporting (including KPIs from the Taxonomy), (2) the process of identification of the information to be disclosed; (3) the digital/tagged information
Where does the Corporate social responsible reporting need to be disclosed?	– The Corporate social responsible information must be disclosed in the annual management report – The management report must be in a digital format – Digital tagging, including Taxonomy KPIs, must be available at the EU level to create a unique dataset – The reporting is under the responsibility of the top management, including the audit committee
When will companies have to first disclose the corporate social responsibility reporting?	– 2024 on FY 2023

Source: Amundi Asset Management

This new directive expands considerably the number of companies subject to extra-financial information reporting. **While the NFRD concerned about 11,600 companies, the CSRD estimation of companies targeted is 49,000 with four big changes, as mentioned in the CSRD introduction[6]:**

Figure 4 - Big evolutions from NFRD to CSRD



Source: Amundi Asset Management

In order to get a harmonized sustainability reporting from companies that stakeholders will be able to compare, the European Commission has delegated this work to the European Financial Reporting Advisory Group (EFRAG) **which should disclose a European sustainability reporting standard draft by the end of the first semester of 2022.** This standard should include:

- **A sector agnostic set of data:** which can be seen as a common basis for all companies no matter the sector in order to ensure comparison;
- **A sector specific set of data:** which ensures relevance and comparisons between peers;
- **A company specific set of data:** which reports on company's specificities.

This data should cover the environmental, social and governance themes and being explained through 3 steps: strategy, action plan and KPIs.

This harmonized framework is a big step in the sustainability reporting as, as of today, comparison from a company to another is almost impossible due to different methodologies, scopes, etc.

If the European Union is taking the lead in terms of sustainability, it is worth mentioning that other initiatives are being developed around the world as well.

6. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN

What about other Corporate social responsibility reportings around the world?

Around the world, and especially between developed economies and emerging markets, there are notable differences in Corporate social responsibility (CSR) reporting because of:

- A lack of consensus on what constitutes CSR amongst businesses,
- A lack of uniformity in the timeline for which CSR practices have been adopted,
- A lack of equivalent regulatory regimes to the EU's Corporate Social Responsibility Directive.

For this reason, CSR around the world is regarded as a voluntary activity rather than a mandatory one. At the same time, over the past few decades there has been a number of requests from countries, industry associations, NGOs and foundations to require corporations to report on CSR initiatives.

For example, the G20, the G7 and the Financial Stability Board among others are developing initiatives to create a baseline of global sustainability disclosure requirements and reporting standards that would build on the work of the Task Force on Climate-related Financial Disclosures (TCFD). The proposals of the International Financial Reporting Standards (IFRS) Foundation to create an International new Sustainability Standards Board is another example, as is the work already carried out by established initiatives including the Global Reporting Initiative, the Climate Disclosure Standards Board and the Carbon Disclosure Project (CDP). In September 2021, an international taxonomy for integrating Sustainability Accounting Standards Board (SASB) standards into corporate reporting was released by the Value Reporting Foundation, an organization created by the merger of the International Integrated Reporting Council and the SASB.

Even though the most advanced mandatory CSR regulations have been developed in Europe, the emergence of other, non-binding, **international legislations has increased the importance and potential of CSR as a means to hold businesses accountable for the negative externalities of their activities.** Examples of such legislations are the United Nations Global Compact, United Nations Guiding Principles on Business and Human Rights (UNGPs), ISO 26000 Guidance Standard on Social Responsibility and OECD Guidelines for Multinational Enterprises, to which many countries are signatories. Apart from the Global Compact, which binds the signatories to follow universally accepted principles of social responsibility and which are tracked for implementation, other laws are non-binding unless translated into national legislation.

For the United Nations Guiding Principles on Business and Human Rights, only 26 countries have published a National Action Plan, and only a handful have published an updated version (see table below).

Country	Date
United Kingdom	First version launched September 2013 and updated May 2016
The Netherlands	First version launched December 2013
Denmark	First version launched April 2014
Finland	First version launched October 2014
Lithuania	First version launched February 2015
Sweden	First version launched August 2015
Norway	First version launched October 2015
Colombia	First version launched December 2015
Switzerland	First version launched December 2016 and updated January 2020
Italy	First version launched December 2016
United States of America	First version launched December 2016
Germany	First version launched December 2016
France	First version launched April 2017
Poland	First version launched May 2017
Spain	First version launched July 2017
Belgium	First version launched July 2017
Chile	First version launched July 2017
Czech Republic	First version launched October 2017
Ireland	First version launched November 2017
Luxembourg	First version launched in 2020
Slovenia	First version launched November 2018
Kenya	First version launched June 2019
Thailand	First version launched October 2019
Japan	First version launched October 2020
Uganda	First version launched August 2021
Pakistan	First version launched October 2021

Source: https://www.ohchr.org/en/issues/business/pages/nationalactionplans.aspx

SECTORAL FOCUS

How can the Food & Drink sector meet the Net Zero goal?

Key takeways

- **Agriculture accounts for one fifth of greenhouse gas (GHG) emissions worldwide,** according to estimates by the Intergovernmental Panel on Climate Change (IPCC).
- While the food sector has made great strides in the 20th century, **GHG emissions from this sector have doubled in the last fifty years and could increase by 30% by 2050.**
- In this paper, we will focus on three issues that we believe are key to reinventing our food system: **changing our diet, working with the supply chain to improve practices, and fighting food waste.**
- **The first solution to reduce GHG emissions from our food is to reduce our meat consumption.** This requires all actors to make changes, from farmers to food retailers and consumers.
- Then, **different stakeholders in the food sector need to work together to improve agricultural practices and consumption patterns,** to combat deforestation from agricultural expansion and limit the GHG emissions of our food.
- Decreasing food waste is a third major solution: **if food waste were a country, it would be the third biggest emitter after China and the USA.** Consumers in developed countries have a particularly important role to play in this regard.
- As an investor and shareholder, **Amundi has been actively encouraging food industry companies to change their practices.** This is notably done by asking companies to publicly commit to Science Based Targets to reduce their greenhouse gas emissions and by engaging with them on their strategy, action plan and KPIs on the aforementioned issues.

Why should the Food & Drink sector play a role in the Net Zero race ?

The fight against climate change is a global issue that affects all sectors, including the food sector. While the focus today is mainly on certain sectors (i.e. energy or building sectors), we depend on many other sectors in our daily lives: food, clothing, transport, etc… sectors that also emit greenhouse gases (GHG).

Agriculture accounts for one fifth of greenhouse gas (GHG) emissions worldwide, according to estimates by the Intergovernmental Panel on Climate Change (IPCC). According to the Food and Agriculture Organisation (FAO), these emissions come mainly from enteric fermentation (40%), manure deposited on pastures (16%) and synthetic fertilizers (13%).

While the food sector has made great strides in the 20th century with a sharp increase in production, high mechanisation and participation in economic activity – in Africa, 50% of economic activity comes from agriculture – some aspects are less positive. **GHG emissions from this sector have doubled in the last fifty years and could increase by 30% by 2050,** according to the FAO. Moreover, if food production is sufficient to feed 7 billion people, 800 million people are still suffering from hunger. This number jumps to 2 billion if we extend the definition to malnutrition, which represents about 25% of the global population, while 2 billion of people overconsume.

Furthermore, **our food supply is largely responsible for the decline in biodiversity:** 70% of biodiversity loss is due to land conversion, 80% of deforestation is due to agricultural expansion, 35% of our fish are overfished vs. 10% in 1974 and between a third and a half of what we produce is wasted each year.

Globalisation and strong increase in international trade to import and export foodstuffs and to have access to exotic or off-season products must also be taken into account in the increase of GHG emissions due to the sector.

Consequently, our mode of production and consumption of food products must be profoundly reviewed. **We are not talking about additional or incremental changes but about rethinking the whole process, from farm to fork.**

In this context, the European Commission has recently announced that it will require companies to show that their soy, beef, palm oil, cocoa, coffee and wood products are certified "deforestation-free". **Ultimately the EU aims to prevent food and wood imports from deforested areas to enter the European market.** This regulatory proposal is without doubt a groundbreaking one, showing that the EU is leading by example and moving beyond illegal deforestation to address deforestation driven by agricultural expansion. Ultimately, demand for "deforestation-free" products is expected to grow, thereby boosting sustainable businesses and business models across the world. This is a step in the right direction that could help the industry transform globally and advance sustainable development. Nonetheless, it is important to note that this proposal is still in early policy stages and has not yet been ratified into European law.

How can the food sector contribute to the Net Zero objective?

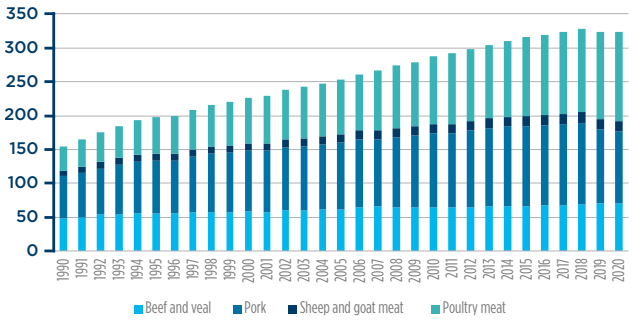
In this paper, we will focus on three issues that we believe are key to reinventing our food system:

- Changing our diet,
- Working with the supply chain to improve practices,
- Fighting food waste.

Changing our diet

Meat consumption more than doubled worldwide between 1990 and 2020, from 150 million metric tons to more than 300 million metric tons. There are two main reasons for this: access to meat products for people in developing countries and the increase in the weight of meat products in the diet of developed countries.

Figure 1 - Meat consumption worldwide from 1990 to 2021, by meat type (in million tons)



Source: Statista

Methane emissions from ruminants have a warming power more than twenty times greater than that of CO_2 and are the main sources of GHG emissions from agriculture according to the FAO. Therefore, **the first solution to reduce GHG emissions from our food is to reduce our meat consumption.** According to the EAT-Lancet Commission Report, red meat consumption has to drop by 70% in 2050 compared to 2010 levels, in order to reach the scientific targets set for healthy diets and sustainable food production[7]. This requires many changes, including cultural changes that often take a long time. Indeed, even today, a large part of the cuisine of developed countries is still based on meat, with vegetables being only a side dish. Moreover, meat is perceived as having many qualities, notably that of giving strength – especially for red meat – which encourages all stakeholders to perpetuate this pattern: increase in herds, increase in meat products sold by food retailers and increase of meat in our daily recipes. This is despite growing concerns and warnings about the need to change our diet or the harmful effects of over-consumption of meat, which can develop a fertile ground for cardiovascular diseases and cancers.

All actors must make efforts here. **First, farmers who must turn away from productivist models** that have been encouraged since the end of the Second World War by all Western states (i.e. thousand-cow farm, etc.) and who must reposition themselves towards fruit and vegetable crops that they know little or nothing about. This transition must take place within the framework of state policies and, in particular for Europe, within the framework of the Common Agriculture Policy, which is currently not being done sufficiently.

Food retailers also have a role to play in influencing the culinary practices of their

7. Source: https://eatforum.org/content/uploads/2019/07/EAT-Lancet_Commission_Summary_Report.pdf

customers: by promoting products with alternative proteins, by developing their vegetarian offer, by raising awareness and educating the customer on the benefits of a vegetarian diet versus a meat diet.

Finally, consumers must be able to question decades-old culinary habits and learn to cook vegetarian recipes more often.

While plant-based food diets have taken off in the last years, there has been rising uncertainty in recent months about the growth of the plant-based protein market. Data from the US and the UK have indeed shown that sales flattened out in 2021, after soaring in 2020. Although falling sales might be a temporary phenomenon, it does demonstrate that eating habits are slow to change[8].

Working with the supply chain to improve practices

The different actors in the food sector need to work together to improve agricultural practices and consumption patterns.

In many countries in South America, including Brazil, Africa and South East Asia, **deforestation is intense in order to allow agriculture to expand.** This deforestation has two main negative aspects: it contributes to the expansion of intensive agriculture (monoculture or cattle breeding) and thus to the increase of GHG emissions, and it reduces the carbon sinks that are the forests, which are necessary to capture GHG emissions.

It is therefore important that food retailers and consumers pay particular attention to the traceability of products. Food retailers must work hand in hand with their suppliers to ensure that the products they sell do not take part in deforestation. Most of the biggest retailers have implemented controls and monitoring, including geo-monitoring or satellite monitoring to localize their suppliers and ensure that deforestation is not increasing.

On their side, consumers must pay attention to the origin of what they buy to ensure that their purchases are not responsible for deforestation. Numerous initiatives have flourished in recent years to help them: commitments and policies on the part of food retailers, creation of labels (especially on palm oil, soya, cocoa, etc).

Over the last thirty years, consumers have become accustomed to having more and more access to exotic and/or off-season products. The carbon footprint of these products is significant as they are imported by air and/or require energy-intensive infrastructures. In addition, the increase in long-distance imports and exports has increased the GHG emissions from the transport of food goods.

It is therefore necessary today to relearn how to eat locally and in season in order to limit the GHG emissions of our food.

The increasing use of pesticides and nitrogen products by farmers since the end of World War II is also responsible for the increase in greenhouse gases from the food sector, as the quantity of these products is constantly increasing in both developed and developing countries. The massive use of these pesticides also has other negative effects, such as the depletion of land and decreasing yields over time, the development of diseases (i.e. cancers) in some cases, the loss of biodiversity, etc. The sector is increasingly thinking about how to reinvent agriculture so that it allows the soil to regenerate and biodiversity to exist. Indeed, micro-organisms are essential for the regeneration and fertility of soils.

8. Source: https://www.ft.com/content/61e78273-2b3c-4bb6-b3f1-b01ef338a04d

Fighting food waste

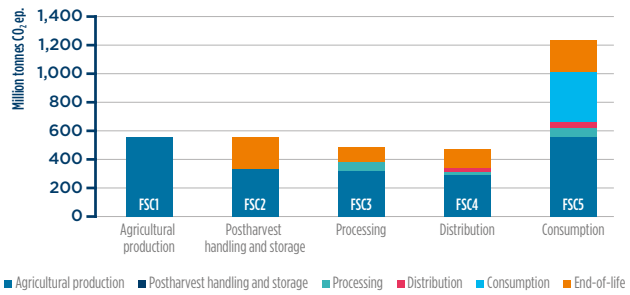
According to the FAO, the economic cost of food waste, based on 2009 produce prices, is about 750bn$ that can be broken down as follows:

- $240 billion for food wasted in agriculture globally , representing about 415m tonnes of food,
- $340 billion for food wasted after harvest and up to the point of sale, equivalent to about 600m tonnes of food,
- $170 billion wasted at the consumption stage, about 280m tonnes of food.

Of course, differences exist according to the country, the standard of living of households...

In terms of GHG emissions and still according to the FAO, the total carbon footprint of food wastage is around 4.4 Gt GHG per year, or about 8% of global GHG emissions. **If food waste were a country, it would be the third biggest emitter after China and the USA.** The average carbon footprint of food wastage is about 500kg of GHG per capita annually, while a human being should emit 2 tons per capita every year to remain well below a 2°C increase by 2100.

Figure 2 - Carbon footprint of food wastage, by phase of the food supply chain with respective contribution of enbedded life-cycle phases



Source: Food wastage footprint – Impacts on natural resources, FAO 2013

Here again, all actors need to play a role in decreasing food waste. **However, consumers may have an even more important role to play than other actors in this regard – at least for developed countries.** Indeed, in North America and Oceania, 61% of food waste occurs at the consumer level and in Europe, this number reaches 52% vs. 5% for Sub-Saharan Africa, where food waste mostly appears at the production level. Consumers need to realize that overconsumption of food is negative for the planet. While the consumer is not the only one to play a role in fighting food waste, reducing food waste might be one of the easiest solutions to implement at citizen level to fight climate change.

Of course, in developed countries, brands and food retailers need to change their marketing operations, such as selling "2 products for 1", discounting some products near to the end-date so that food waste is not accounted at their level but at the consumer level, or putting end dates on products that do not need them (rice, sugar, flour, etc.).

What can we do as investors to influence actors to change?

Changes in the food industry as a result of growing environmental awareness and health considerations are bringing about new business opportunities. For example, providing incentives to livestock farmers could boost the market for feed additives which limit the amount methane released by cows, creating further opportunities for chemicals companies already positioned on such solutions. In this context, investors can benefit greatly from new opportunities arising in the Food and Drink sector.

Moreover, as an investor, Amundi is in constant discussions with companies and continuously engage with them on the aforementioned issues.

By joining the Net Zero Asset Manager Alliance, we have committed to participating in this race and influencing the companies in which we invest to bend their GHG emissions curve so that it is compatible with a 2°C or even 1.5°C scenario.

Over the past two years, we have embarked on a campaign to engage with over 100 companies, including food and drink producers and food retailers, **to publicly share their commitments to reduce GHG emissions to a scenario compatible with the Paris Agreement, and to have these commitments validated by the Science-Based Target Initiative.** In the event of non-publication of this information or proven unwillingness on the part of the company, an escalation of sanctions is envisaged, including a vote against the management at the General Assembly.

We also engage with food companies on their strategy, action plan and Key Performance Indicators (KPIs) in place to monitor the various aforementioned aspects. We influence the companies on the future indicators to be put in place in order to obtain complete and comparable information between players. This work, however, sometimes requires several years of joint work in order to develop the right indicator, the right approach, and the right calculation method, to obtain the most relevant information. This is why we are part of the FAIRR Investor Coalition, which encourages the world's largest food companies to develop a global, evidence-based approach to diversify protein sources away from an over-reliance on animal proteins. In this context, we ask 25 global food companies to diversify their protein sources to drive growth, increase profitability, reduce risk exposure and improve their ability to compete and innovate in a resource-constrained world.

Finally, Amundi promotes and participates in joint working groups that bring together several players in the same sector to advance thinking, find common answers and share good practices.

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