Executive Summary

Analysis of Best Practices in Environmental Disclosure Policies

A review of 101 policies worldwide based on Five criteria for high-quality disclosure

There is a growing focus on the need to shift capital effectively and rapidly toward environmentally sustainable solutions to innumerable challenges. Key questions remain, however, as to how investors, stakeholders, and decision-makers can best assess what companies, activities, or financial products are truly sustainable. Even when answers can be found, how can this information best be standardized across a wide array of contexts?

Much of the common practice in sustainability reporting has been reached through voluntary disclosure requirements. However, the detailed, comparable, enforceable, and decision-useful information needs of investors and decision-makers has made it clear that we have reached the next step in the journey of environmental disclosure policies. Underpinning the answer to the challenges are regulatory activities that help meet the information needs of the private sector for nonfinancial and sustainability information. With landmark legislation being introduced in a number of jurisdictions in the world, it is clear that the much-needed shift to mandatory disclosure requirements is under way. This regulatory development meets the need for a higher granularity in the quality of information available, greater clarity and comparability across the board between companies and industries, and timely and accessible data.

In order to assist regulators with an appetite for filling this important information gap, we have produced this report providing a comprehensive analysis of the state of environmental disclosure. First, we assess 101 policies to better understand what best practices exist in developed economies with deep financial markets. Second, we illustrate the current situation in these economies when it comes to environmental disclosure policy. Finally, we provide regulators with a framework to formulate better policies capable of helping fill the information needs.

We differentiate between developed and developing economies for two key reasons. Developing economies tend to be at an earlier stage in their journey of setting disclosure requirements. This creates an opportunity for these jurisdictions to leapfrog and incorporate best practices from more mature jurisdictions. Next to this, the appetite of these economies to attract investment creates a clear opportunity to act on the 2030 Agenda, the Paris Agreement, and the upcoming Global Biodiversity Framework.

Our analysis examines policies through the lens of the five success criteria set out by CDP on mandatory disclosure requirements.[1] According to these criteria, successful policy should (1) ensure environmental integrity, addressing sustainability-related financial disclosures as well as impacts on people and the planet, with a holistic environmental approach; (2) ensure compatibility of required or recommended disclosure standards; (3) provide an enforcement system; (4) adhere to the technical quality and content of the reporting process; and (5) allow space for innovation and more mature disclosure.

The initial aim of our analysis was to understand best practices in developed economies and to use this assessment to assist regulators in developing economies. However, our analysis also highlighted that due to the special positioning of developing markets, these jurisdictions are well on the path of innovation and have many lessons to offer to themselves across organizations internally and to other economies.

Based on our analysis we outline an overarching process, which regulators can use to embark on a policy (re) iteration process. This process can help regulators focus on aligning key indicators in policy with existing standards, focus on collating disclosed information in decision-useful ways, and regularly revisit and adjust disclosure requirements.

[1] For more information, see CDP. 2021. "Shaping High-Quality Mandatory Disclosure: Taking stock and Building upon the TCFD Recommendations." London: CDP. ***https://cdn.cdp.net/cdp-production/cms/policy_briefings/documents/000/005/863/original/TCFD_disclosure_report_2021_FINAL.pdf?1631608521***.

Figure 1: Five Criteria for Successful Mandatory Disclosure Requirements

1	**Environmental integrity, addressing sustainability-related financial disclosures as well as impact on people and planet, with a holistic environmental approach**	The policy is designed to advance the environmental agenda and is designed to lead to real change that impacts people and the planet positively.
2	**Ensure compatibility of disclosure standards required or recommended**	If not based on existing internationally agreed standards, the policy needs to be aligned with them. If national standards are developed, these need to be compatible with international ones.
3	**Provide an enforcement system**	The policy implementation should be monitored by the relevant government authority, and effective measures for noncompliance should be in place.
4	**Adhere to technical quality and content of the reporting process**	To meet this criterion, reporting should focus not only on risks but also on strategy, impact, sector focus, comparability of disclosures, reliability, and accuracy. It should require forward-looking information to allow transition.
5	**Allow space for innovation and more mature disclosure**	The regulation should not form a ceiling and create a tick box exercise but serve as a floor/ minimum requirement that stimulates even more ambitious, broader, and deeper disclosure and action.

Source: CDP. 2021 "Shaping High-Quality Mandatory Disclosure: Taking stock and Building upon the TCFD Recommendations." London: CDP

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