

Country briefing:

Polish companies' performance
under the EU Non-Financial
Reporting Directive

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Polish companies' performance under the EU Non-Financial Reporting Directive

The Climate Disclosure Standards Board (CDSB) is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital. The CDSB Framework for reporting environmental and climate information¹ provides reporters the tools to report on non-financial information with the same rigour as that of financial information. The CDSB Framework is referenced in the Non-financial Reporting Directive's (NFRD) non-binding guidelines.

We have used the 64 companies examined by the Alliance for Corporate Transparency (ACT) in their analysis of EU companies' performance under the NFRD² compared to 1,000 companies across Europe. This data will be assessed alongside our own findings where possible and we will look to reach a conclusion on how Poland is performing next to the average level in the EU.

Outcomes of the Polish companies' non-financial reporting analysis

The review of Polish companies' non-financial reporting results revealed an overall below average level of compliance with NFRD requirements when compared to the rest of the EU. Whilst Polish businesses are smaller in revenue relative to other businesses in Europe, their composition of activities exposes them to a higher level of environmental, including climate, risk. Although Polish companies were performing above average when it came to the accessibility and traceability of their non-financial information, they underperformed in several other key areas. In particular, policies and due diligence in mitigating risk, as well as climate-related KPIs were the weakest areas of performance for Polish companies.

Strengths

Accessibility of information

Weaknesses

Climate-related KPIs and targets
Climate-related policies and due diligence
Governance

Policies and due diligence

Well-articulated corporate policies provide the basis to inform and structure a company's environmental and climate-related disclosure. Polish companies performed generally below the EU average:

- Nearly half of Polish companies failed to disclose their policies related to climate change (45.3%) and biodiversity (34.4%), this was against a European average of 17.8% and 64.3% respectively; and
- No organisation described how executive compensation is affected by their performance against ESG criteria, against a European average of 14.1%.

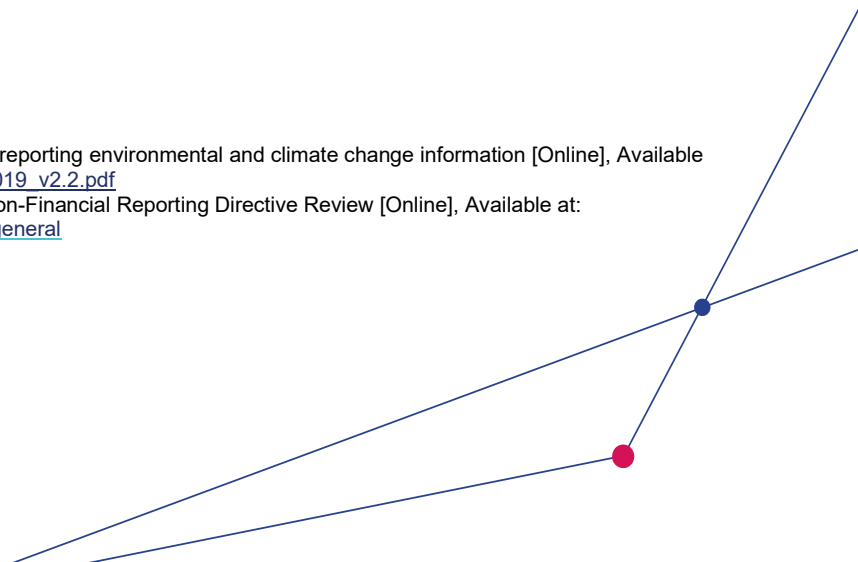
¹ Climate Disclosure Standards Board (2019), Framework for reporting environmental and climate change information [Online], Available at: https://www.cdsb.net/sites/default/files/cdsb_framework_2019_v2.2.pdf

² Alliance for Corporate Transparency (2019), Database for Non-Financial Reporting Directive Review [Online], Available at: <https://www.allianceforcorporatetransparency.org/database/#general>

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Business model

Poland performed slightly below the EU average when it came to disclosing business models:

- Polish companies were less likely to make reference to environment or climate within their business models than the EU average as displayed in the chart below.

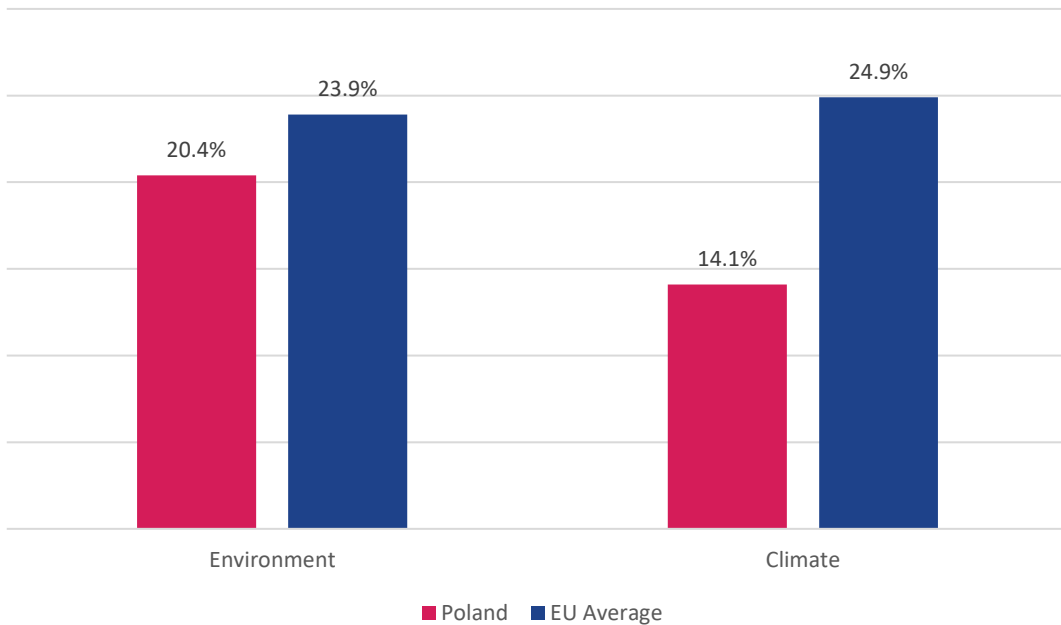


Figure 1: Poland vs EU business model disclosure comparison

Policy outcomes and KPIs

Beyond relevant policies the company put in place, reported outcomes enable investors to understand how companies are progressing against them and, ultimately, whether they are aligning their activities with these ambition statements. Polish companies perform consistently well below the EU average and generally did not:

- Disclose in a clear, detailed and logical manner the outcomes of their environmental policies;
- Showcase clarity over progress against policy commitments; and
- Provide quantitative and qualitative information to give the reader an indication of performance on climate-related issues.

Although Poland underperformed against all environmental matters, this was particularly pronounced regarding climate change, of which 82.8% failed to disclose against a European average of 29%.

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KPIs

KPIs are a useful tool to assess the progress of a company against previously set policies. Polish companies perform below the EU average.

- Polish companies underperformed against the European average of disclosing all of GHG Scope 1,2&3.
- No Polish company disclosed its performance regarding de-forestation as opposed to 14% of the European average.

Challenges also remain in ensuring the consistent and comparable reporting of metrics that reflect risks and enable relative performance to be understood and related to policy commitments. The KPIs overview also needs to be presented in a more structured way.

Risks and TCFD implementation

The environmental and climate-related risks which businesses face should play an important role in informing their business model, policies and KPIs. This is also a key emphasis of the recommendations of the G20

Financial Stability Board's Task Force on Climate-related Financial Disclosures³. Risk disclosures were a key area of weakness in Polish companies' disclosures.

When it comes to TCFD recommendations:

- **Governance:** 6.3% of companies indicated how sustainability is integrated in the Board and senior management operations and mandate, compared to a European average of 53.8%.
- **Strategy:** No Polish company provided adequate disclosure on strategic resilience using scenario analysis (EU average 5.9%).
- **Risk Management:** Below average in assessing physical risk. No adequate disclosure time horizons of risks. Above average in disclosing management actions (see principal risks).
- **Metrics and Targets:** Below par in terms of prevalence and quality of KPI types and less likely than average to have incorporated KPIs/targets into executive remuneration (see KPIs).

Accessibility of disclosures

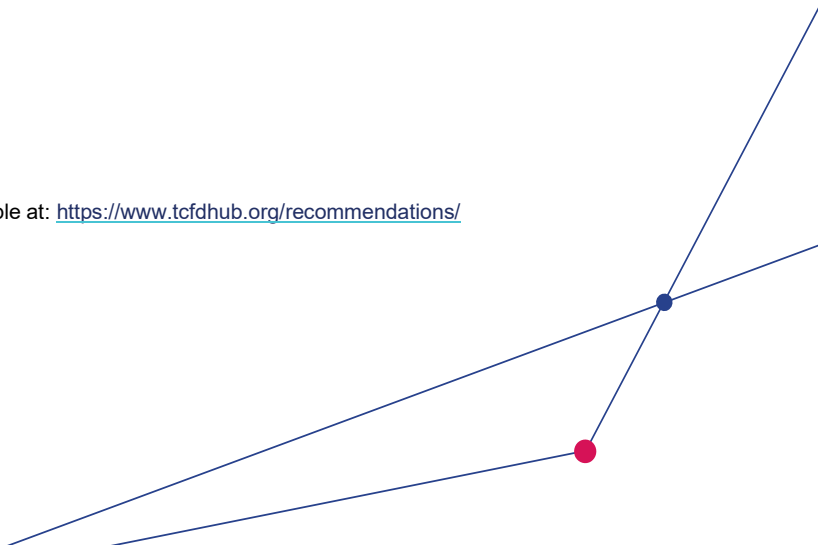
Polish companies provided greater accessibility of information against the European average, where 96.9% of information was traceable compared to the European average of 85.9%. Similar to other European companies, less than half of Polish companies link to other documents to provide further information (37.5% vs 39.3%). However, this is to be expected given the lower average size of Polish companies in terms of revenue and employee size when compared to other European businesses, resulting in less overall disclosure.

³ TCFD Hub (2017), Recommendations Overview [Online], Available at: <https://www.tcfdhub.org/recommendations/>

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Key policy recommendations

As Poland's businesses are some of the most susceptible to environmental and climate risk, it is important that Poland's Government and the Warsaw Stock Exchange supports its companies in improving their non-financial reporting:

1. The Polish Financial Supervision Authority (PFSA) should work to provide feedback to issuers on their implementation of the requirements of Act of 15 December 2016, Amending the Accounting Act 614;
2. The Warsaw Stock Exchange should provide training to its issuers on implementing Poland's Non-Financial Reporting requirements. CDSB would like to offer support in conducting such training.

As part of the current review of the European Non-Financial Reporting Directive, Poland should advocate to:

1. Remove the exemption allowing the non-financial statement to be reported outside the mainstream report, as this will support accessibility, consistency and comparability of disclosures and our review demonstrates that, for most, this is already the norm;
2. Review the principal risk requirements of the Directive to ensure emphasis is placed on risks and impacts 'to' the business (not simply 'by' the business). Member State policymakers should consider the interface between the NFRD and other risk disclosure requirements implemented nationally to support companies in making cohesive disclosures;
3. Incorporate 'climate' into the wording of the Directive to ensure companies consider climate-related matters explicitly in their disclosures, including the associated financial impacts;
4. Define key terms used in the Directive, such as 'policies' and 'due diligence' to ensure a common understanding and application of the Directive's content categories;
5. Embed the TCFD recommendations into the Directive to drive stronger linkage of non-financial and financial reporting, and a more unified, harmonised and convergent approach;
6. Ensure that supervision of non-financial information is at the same level as for financial information, in order to provide authoritative feedback to corporate report preparers; and
7. Provide a clear definition for 'outcomes' within the Directive to clarify both reporting expectations for companies and to enable more effective supervision by Member State regulators for this content category.

For any questions relating to this, please contact our Policy and External Affairs Director, Michael Zimonyi. Michael.Zimonyi@cdsb.net

⁴ Ustawa z dnia 15 grudnia 2016 r. o zmianie ustawy o rachunkowości

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