Setting the high-water mark for mandatory disclosure

June 2022

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Foreword

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More than 10 years ago, CDP pioneered corporate water disclosure. It was a breakthrough moment, bringing capital to the table and paving the way for the transition to a water secure economy. Today, water disclosure is an expected business norm, increasingly demanded by policy makers, capital markets and customers, with tangible benefits that range from management of risks and impacts to enhanced brand value and regulatory alignment. During this time, we have seen an upswell in interest from capital markets for the data collected as well as an uptick in the ability of companies to provide that data in a consistent and comparable manner.

However, we are at a critical moment where we need to go further and faster to tackle the water and related nature and climate crises. While advancements have been made in how we measure and manage corporate water impacts, the scale of the challenge we face is increasing rapidly. In May 2022, an international team of researchers led by the Stockholm Resilience Centre and Potsdam Institute for Climate Impact Research[1] found that the planetary boundary for freshwater has now been transgressed, posing "a threat to life support systems on Earth". In August 2021, the IPCC issued a "code red for humanity": its Sixth Assessment Report (AR6)[2] was a stark warning that disastrous tipping points are nearing, and that urgent system-wide action is needed now to increase resilience and reduce vulnerability of water resources and related ecosystems to the effects of climate change.

The situation is translating into real-world impacts for many companies. Latest research from CDP demonstrates that water risk factors have already stranded multibillion-dollar assets throughout the coal, nuclear, oil, gas and mining sectors[3]. The analysis shows that the top 20 financial firms have provided **US$2.5 trillion** in bond, loan, and equity financing to these sectors over the past decade but that they lack the water-related data needed to effectively identify and manage these risks.

Water disclosure has a huge part to play in addressing these issues. While CDP has succeeded in increasing water transparency of over 3,300 companies worldwide, it is not enough. As climate disclosure continues to grow and policy and regulation are increasingly mandating climate disclosure, it is now time for policy makers to include comprehensive water disclosure for all companies and financial institutions in policy and regulation.

Moving from voluntary to mandatory will not only ensure the market has the data it needs to manage financial risks, but, as evidence from the Banque de France demonstrates[4], it will also accelerate the transition to a nature-positive economy by shifting capital towards those firms and activities doing well and away from those performing poorly on water.

CDP works closely with governments and regulators to support them in mandating and enforcing the highest possible standards of disclosure – putting our data, insights and expertise at their disposal, leveraging capital markets and policy. Here, we use our experience to set out the six main elements of high-quality mandatory water disclosure that policymakers must consider for regimes that would truly advance the environmental agenda and lead to real change that positively impacts people and the planet.

1. Freshwater boundary exceeds safe limits - Stockholm Resilience Centre
2. Sixth Assessment Report – IPCC
3. High and Dry: How Water Issues Are Standing Assets - CDP
4. Showing off cleaner hands: mandatory climate-related disclosure by financial institutions and the financing of fossil energy | Banque de France (banque-france.fr)

The rising tide of mandatory environmental disclosure regulation

1

A decade in the making

CDP has been operating the world's only global corporate water disclosure mechanism since 2009. Since then, voluntary water disclosures via CDP have increased substantially, from 176 companies in 2010 to 3,370[5] in 2021, with a 20% yearly average increase rate over the last five years. During the same period, market interest in, and demand for, the data collected has also grown. In 2021, the TCFD[6]-aligned water questionnaire was issued to 6,303 companies on behalf of over 680 financial institutions with US$130 trillion in assets under management and over 200 multinational buyers controlling US$5.5 trillion of procurement spend.

The corporate water security questionnaire at the heart of CDP's disclosure mechanism represents the gold standard in corporate water disclosure frameworks. It has evolved to capture the relevant data that allows companies and investors to measure and manage water-related risks and impacts stemming from changes in water quality, quantity and access to water, sanitation and hygiene. It facilitates the integration of local context into reporting and enables the consistent, comprehensive collection of data associated with corporate strategy; governance and targets; facility water accounting; value chain engagement activities; business impacts; risk assessment procedures; risks, opportunities and responses to them. The increasing demand from stakeholders and investors is pushing the development of quantitative, comparable, and forward-looking metrics. These metrics will assess commitments by corporate and financial institutions and the pathways companies are on to contributing to nature positive outcomes[7].

Figure 1. CDP's view of a comprehensive, high quality corporate water disclosure framework

Governance	Strategy	Risk Management	Metrics & Targets
Disclose the organization's governance around water-related risks, opportunities and impacts	Disclose the actual and potential impacts of water-related risks and opportunities on the organization's businesses, strategy and financial planning	Disclose how the organization identifies, assesses and manages water-related risks	Disclose the metrics and targets used to assess and manage relevant water-related risks and opportunities

Governance		Strategy		Risk Management		Metrics & Targets	
Governance	Collects data related to whether and how corporate governance mechanisms are used to manage water related risks, opportunities and impacts	**Business Impacts**	Collects data related to whether or not the company has already been impacted by water-related issues	**Procedures**	Collects data related to the procedures a company has in place to assess water-related risks	**Global and Facility Water Accounting**	Collects data related to enterprise and facility-level water consumption, withdrawal and discharge
		Business Strategy	Collects data on whether, and how, a company is adapting its short, medium and long-term strategic and financial plans to address water-related risks, opportunities and impacts	**Scenario assessment**	Collects data related to whether or not a company uses scenario analysis to consider different possible water futures	**Value at risk**	Collects data related to the number of assets in water stressed locations and the financial value of these assets
				Risks & opportunities	Collects data related to exposure to substantive water-related risks and opportunities	**Targets**	Collects data related to water targets and goals including progress made against these

5. The CDP 2021 corporate water questionnaire was sent in total to 6,303 companies, of which 3,370 companies responded. The analysis in this report is based on this set of data.
6. Published in 2017, The Taskforce on Climate-related Financial Disclosures (TCFD)´s recommendations are structured around four thematic areas ("pillars") that represent core elements of how companies operate: governance, strategy, risk management, and metrics and targets.
7. Locke, H. et al. A Nature-Positive World: The Global Goal for Nature. (2021) https://www.wbcsd.org/download/file/11960

Corporate water disclosures are becoming the norm

CDP now holds the world's largest corporate water dataset, with more companies reporting than ever before. This dataset provides evidence that voluntary corporate disclosure of water-related data is becoming the norm thereby providing evidence that mandating corporate water disclosure would not present a regulatory burden for companies already disclosing. Of the 171 water-related data points analyzed by CDP in 2021, 99 (58%) achieve disclosure rates of 80% or more.

It is noteworthy that of the 3,370 disclosures analyzed, key findings are:

Procedures: over 90% of respondents can disclose data associated with water risk assessment procedures, including the level of coverage, timeframe and frequency of assessment. 85% specify the types of tools and methods used to assess.

Water-related risks: 98% of all respondents can disclose whether or not they are exposed to substantive water-related risks. 95% can disclose the number of facilities exposed; 72% the amount of revenue at risk per river basin and 80% are able to provide a breakdown of each substantive risk they are exposed to including river basin, risk driver, timeframe, magnitude, likelihood and response strategy. Disclosure rates of financial risk data associated with upstream and downstream risks are significantly lower.

Water-related opportunities: 98% of all respondents can disclose whether or not they are exposed to substantive water-related opportunities. Over 95% of these respondents are able to provide a breakdown of each substantive opportunity they are exposed to including driver, timeframe, magnitude, likelihood and strategy. It is worth noting that just 28% of responders can disclose a financial value for each opportunity.

Enterprise and facility-level water accounting data: 89% of respondents can disclose data on total volumes of water withdrawn, discharged, and consumed across all operations. 90% are able to make a comparison with the previous reporting year and 83% can indicate whether water is withdrawn from areas of water stress. When it comes to providing facility-level data over 80% of respondents can disclose total water withdrawals by source; water consumption; and water discharge by location with 84% able to provide year-on-year comparisons and river basin information for each facility.

Governance and business strategy: 98% of respondents can disclose whether or not water-related issues receive board oversight while 98% of respondents disclose whether or not water-related issues are integrated into, and affect, business strategy. Of these respondents, 40% are able to disclose data relating to current and future water-related capital and operational expenditure.

Targets: 97% of respondents are able to disclose whether or not they set water-related targets, as well as data associated with target quantitative metrics, baselines, start and target years, and the percentage of targets achieved.

Our analysis suggests that respondents find it easier to disclose water-related data that they can directly measure, or for which they have control. When the evidence needed to derive metrics falls outside company boundaries, or relates to future, uncertain outcomes, disclosure rates are consistently lower. Hence, while forward-looking metrics, the use of scenarios and consideration of variables beyond a company boundary are needed to accurately assess and mitigate water risks and impacts, a company's ability to disclose this data is not yet sufficiently mature. The same can be said of quantitative financial data particularly in respect to ascribing a financial value to risks and opportunities. This may be explained by the intrinsic uncertainty in this area but may also be linked to a reluctance to report financial information, which is often deemed confidential.

Nonetheless, these are metrics most needed by financial market participants. Mandating disclosure of such data would stimulate an improvement in market maturity and make it possible to bridge the data gaps that financial institutions currently experience.

Encouragingly, there is evidence that **reporting water-related data has increased the environmental and financial performance of respondents** while enhancing the ability of investors to make more informed capital allocation decisions.

For example, a review of water withdrawal data disclosed via CDP found that withdrawals have begun to stabilize or decrease in every sector[8]. And independent research[9] by McGill University and consultancy firm Milani found that companies that disclose through CDP have a greater ability to access capital than the average business establishing that "between 2012 and 2016, firms that disclosed through CDP ranked 19 percentiles better than the average firm in their ability to access capital."

We, and other investors, benefit from high quality corporate disclosures to inform our risk management, company engagements, voting and investment decisions. We recognize the important role CDP plays in ensuring consistency, comparability and a common repository of water data.

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8. GCDP, 2021, A wave of change: The role of companies in building a water-secure world. Global Water Report 2020. Available at: https://www.cdp.net/en/research/global-reports/global-water-report-2020
9. Craig M., E. Coloumbe and A. Nosrat, 2019, The Role of CDP Disclosure to Improve Access to Capital. Research Note available at: https://f01c8ee6-cac3-40ff-a0e4-8bfb54f2b88b.filesusr.com/ugd/66e92b_30b06fd11b9c43d88428f768676e9a8b.pdf

Sector-specific water data

In addition to the water-related data common to all companies, there is a need for more specific water-related data associated with highly impactful business activities. Since 2018, CDP has been facilitating the disclosure and distribution of specific water data for the following sectors:

Chemicals
Water intensity of and pollutants associated with chemical activities.

Electric Utilities
Water intensity and pollutants associated with power generation activities.

Food and Beverage
Volume of commodities sourced from water stressed locations.

Metals and Mining
The number, status and management plans for tailings dams.

Oil and Gas
Water intensity per business division.

On average, disclosure rates associated with this data sit at 83%, suggesting once again that companies in these sectors, particularly those already disclosing, should not face any significant regulatory burden, should disclosure of sector-specific water data be mandated.

Financial institutions

In 2022, CDP introduced the world's first water disclosure framework for financial institutions (FIs). The framework reflects the unique role these stakeholders play. In April 2022, the framework was issued to 1,200 listed FIs providing them with an opportunity to disclose water-related risks and opportunities associated with financed activities.

Why mandate water disclosures?

Corporate disclosure of comparable and consistent water information is the foundation for transformative action to stem both the environmental and climate crises. Measuring and disclosing risks, opportunities and impacts of economic activities is critical to support the green transition. As can be seen with the normalization of climate disclosure, such information helps stakeholders including investors, banks, large buyers, policy actors, civil society and consumers make smarter decisions and increase their expectations of companies with respect to their performance. This compels companies to act.

For example, in 2021, Banque de France published evidence of the effects of mandating French financial institutions to regularly report portfolio-related greenhouse gas emissions and associated climate risks[10]. The institution found that holdings of fossil energy securities by French institutional investors targeted by the reporting requirement decreased sharply once the law had been implemented, compared with holdings by financial institutions not targeted by the law. A significant effect that vindicates the consideration of wide adoption of water-related reporting obligations.

The world's finite supply of freshwater has been driven to the brink by population growth, increasing industrialization and a changing climate. As a result, freshwater biodiversity has suffered the greatest loss of life of any other biome – a catastrophic 83% decline since the 1970s[11]. Companies and the financial institutions fueling them face a plethora of material risks. Indeed, 69% of the publicly listed companies disclosing water-related data to investors via CDP report being exposed to substantive water risks with value at risk topping out at over US$225 billion, while the cost of response was US$119 billion[12].

The finance sector is also waking up to the risks posed by the destruction of natural ecosystems such as freshwater. In March 2022, the 66 central bank members of the Network for Greening the Financial System stated that "the NGFS is of the view that nature-related risks, including those associated with biodiversity loss, could have significant macroeconomic implications, and that failure to account for, mitigate, and adapt to these implications is a source of risks for individual financial institutions as well as for financial stability"[13].

It is now widely acknowledged that curbing the over-exploitation and pollution of freshwater resources is essential to reach the objectives set in the Sustainable Development Goals of 2015. Further, the Kunming Declaration, at COP15 of the Convention on Biological Diversity (CBD) in October 2021, emphasized the need to "transform economic and financial systems" and "align all financial flows in support of the conservation and sustainable use of biodiversity". The G20 Sustainable Finance Roadmap[14] highlighted several priorities, including the integration of nature and biodiversity in future work on sustainable finance including important efforts to improve disclosure.

Water-related transparency is a fundamental step towards achieving our global goals and the reasons are straightforward. Less information means less certainty for investors. When a company is not transparent about how it is addressing water security issues, investors can never be sure about a company's real fundamentals and true risk. For instance, a firm's growth prospects are intrinsically tied to its ability to secure reliable access to a stable supply of water; to its efforts to eliminate pollution and avoid infrastructure failings; not to mention its success in gaining and maintaining the trust and confidence of the local communities housing it. How the firm accounts for water issues in its growth strategies and whether it invests in solutions is vital information. It is difficult, if not impossible, to evaluate a company's investment performance if its investments in and governance of water security issues are hidden from view. In this way, **mandatory water disclosures enhance market stability, contribute to creating a sustainable financial system and align financial systems with national and international water security targets.**

10. Mésonnier and Nguyen, 2021.
11. WWF. 2018. Living Planet Report - 2018: Aiming Higher. Grooten, M. and Almond, R.E.A.(Eds). WWF, Gland, Switzerland. Available at https://c402277.ssl.cf1.rackcdn.com/publications/1187/files/original/LPR2018_Full_Report_Spreads.pdf
12. CDP, 2022
13. NGFS, 2022, Statement on Nature-Related Financial Risks, Available at: https://www.ngfs.net/sites/default/files/medias/documents/statement_on_nature_related_financial_risks_-_final.pdf
14. G20, 2022, Sustainable Finance Roadmap. Available at: https://g20sfwg.org/wp-content/uploads/2022/01/RoadMap_Final14_12.pdf

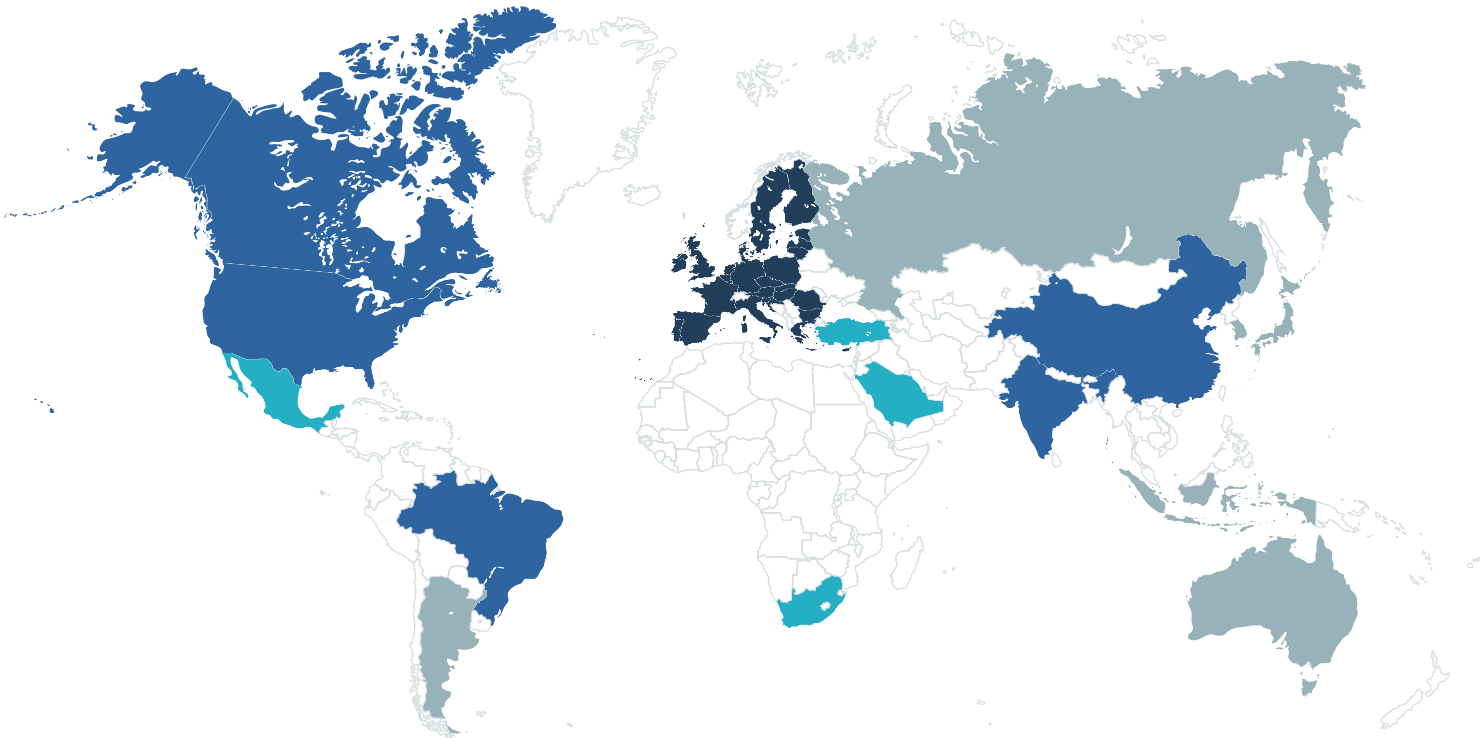
The state of mandatory water-related disclosures around the world

2

In 2021, countries and jurisdictions including Japan, China, Switzerland, India and Brazil, have moved towards mandatory climate disclosure for corporations and financial institutions. This trend has accelerated in 2022 with some jurisdictions taking important steps to expand beyond climate to consult on proposals for mandatory water disclosure (see Annex). While several jurisdictions are taking relevant steps, there is still a lot of work to do for policymakers to align their proposals to reach what CDP considers to be the high-quality mandatory water disclosure regime (see Figure 1) needed to fully support the shift of financial flows towards the goals of the 2030 Agenda on Sustainable Development.

As of June 2022, just two G20 members, the EU[15] and the UK, are in the process of mandating comprehensive water disclosure. The majority of G20 members are missing an important opportunity to provide solutions that will enable companies and financial institutions to account for and address the risks posed by water insecurity as well as the impacts they have on freshwater resources.

Figure 2. Existing and proposed water disclosure regulations in G20 countries



Full/comprehensive water disclosure* **Partial water disclosure**** **Voluntary** **None*****

* Disclosures that enable data users to gain a comprehensive view of the risks, opportunities and responses by corporate and financial institutions to water insecurity.
** Disclosures that enable only a limited view of the steps being taken to manage water-related risks and opportunities.
*** Some environmental disclosures in place but no water considerations.

15. With the Corporate Sustainability Reporting Directive (CSRD), the European Commission defines a common reporting framework for sustainability data for the first time (see Annex). Companies are required to submit their annual CSRD-aligned reports on 1 January 2024, for the 2023 financial year. To note that France, Italy, the Netherlands and Germany are part of the EU and will implement EU CSRD through national legislation (the application starts in 2024 for companies already subject to the NFDR and will be phased in the consecutive years). The EU legislation will also be implemented in non-G20 countries that are part of the EU27, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Ireland, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

The current state of play

The European Commission's newly proposed Corporate Sustainability Reporting Directive (CSRD) shows it is ahead of the curve. It is the first G20 member to announce the implementation of economy-wide mandatory disclosure requirements that aim to ensure there is adequate publicly available information about the risks that water and other sustainability issues present for financial and non-financial companies. The proposals contain significant developments for water reporting.

When the new rules are implemented, companies with more than 250 employees will be required to disclose comprehensive coverage of several water management aspects from 2024. These include corporate strategy and business models; governance; impacts, risks and opportunities; policy, action plans and resources; and performance measurements such as total water withdrawals; total water consumption; total water discharges; and, where material, discharges for priority substances of concern. The regulation will apply to businesses that are either an EU company, or have an EU subsidiary or branch, potentially absorbing some of those companies headquartered in jurisdictions with partial or no water reporting mandates but have a trade or business relationship.

There are significant shortfalls and inconsistencies in and between almost every other G20 member when compared with Europe (see Annex). These inconsistencies threaten the ability to create a level playing field for companies as well as the establishment of a common, comparable water-related dataset. This is an essential ingredient for effective capital allocation and aligning finance with water outcomes.

For example, reporting requirements proposed in the **United States of America** restrict water-related metrics to those only in relation to climate-related risks, applying a single materiality lens[16]. This means that a respondent would only be required to disclose any water-related data if it was exposed to material climate risks, and even then to limit that disclosure to the amount of assets located (e.g. book value and as a percentage of total assets) and percentage of total water used in drought-prone regions, and to provide a discussion of the strategy being deployed to increase the water efficiency of its operations. This approach, while a good start, misses important datapoints associated with risks associated with physical risks such as water pollution or groundwater depletion; or transition risks such as product bans, water re-allocation, or water pricing.

We see a shift in reporting philosophies across Asia, where a number of G20 members have recently mandated simple metrics of water use and pollution and appear open to widening the scope of disclosure requirements, based on feedback from corporations or national priorities.

For example, under its mandatory Business Responsibility and Sustainability Report (BRSR), the Securities and Exchange Board of **India** (SEBI) requires the top 1,000 listed companies by market capitalization to disclose a small selection of water-related data, limited to enterprise-wide water usage, discharge and intensity metrics irrespective of whether water-related risks influence enterprise value.

Disclosure rules in **China** currently require companies with high pollution potential to report water-related pollution control and management data, including for example pollutant generation, treatment, and discharge information, total emissions, emission concentrations, and number of days of annual production. Further developments on water resources and water security disclosures are signposted in the country's 14th Five-Year Plan on Water Security which clearly points out a shift on priorities from "pollutant control" to "water/resource conservation".

Other G20 countries, namely **South Africa and Türkiye**, have published guidance on voluntary disclosures that establishes a comprehensive approach to water reporting for all companies listed on the respective stock exchanges.

Indonesia and the Republic of Korea do not have any form of mandatory water requirements in place (although are already mandating climate-related disclosures).

One final, important distinction to highlight is that of the target entities for which water reporting is being mandated. In most cases, where water reporting policies exist, water reporting is limited to companies that depend on water in their direct operations, supply chains or goods and services. G20 members **Brazil and India** have expanded the target of their water-related reporting mandates to include the financed risks of financial institutions. These are the risks associated with lending, investing, insuring and underwriting activities. While this is by no means normalized across the G20, we are encouraged to see the emergence of these requirements given the central role this sector plays in the economy.

16. These risks are then considered, identified and assessed only if they influence enterprise value, i.e. "performance, development and position" of a company.

Upcoming trends in water-related disclosures

Given the wide range of G20 members implementing various degrees of water-related disclosure policies, and the fact that the trend is still relatively recent, it is currently too early to identify well-developed best practices. Nonetheless, some points of convergence and divergence are starting to emerge.

First, there is a recognition that the scope of these regulations should not be limited to public companies (be it by market size or number of employees), but rather extended to wider parts of the economy, including private companies and, in some cases, to consider the activities of financial institutions. In Europe, for example, credit institutions and insurance companies will be subject to sustainability reporting requirements provided that they meet certain size criteria.

Second, the type and scope of requirements can vary depending on the country. In North America, for instance, the scope is limited to climate-driven water risks and only if those risks affect enterprise value. In other cases, disclosure requirements vary depending on the targeted entities. In China, for example, "key polluting entities" must disclose following more stringent reporting requirements. The mandated metrics also vary, and in some cases a distinction between "core" (compulsory) and "optional" (voluntary) metrics is observed, like in India.

Third, it is clear that the momentum towards mandatory water disclosure is growing, but there is no globally recognized reference for current or upcoming regulations. It is therefore important for the Taskforce on Nature-related Financial Disclosures (TNFD) to continue its work on recommendations, and for stakeholders to engage with this process. This is already happening, with recent consultations on the nature-related reporting framework and metrics and data.

While these early efforts by G20 members are encouraged, the high degree of international, national and regional divergence in corporate water reporting regimes is a major cause for concern. The considerable variation in the level of disclosure requirements across jurisdictions, in addition to gaps in definition, comparability, accessibility, and assurance of the disclosed information, needs to be addressed. In their current form, water-reporting provisions:

- make it difficult, if not impossible for investors to price-in water impacts and risks;
- pose a barrier to ensuring financial decisions take account of an entity's impacts on the society and the environment; and
- are not yet commensurate with global or national water challenges.

CDP´s recommendations for high-quality mandatory water disclosure

3

To support the shift of financial flows towards the goals of the Paris Agreement and the 2030 Agenda for Sustainable Development, high quality mandatory disclosure regimes should be focused on a set of principles that ensure consistency in regulation, together with the high quality of the information provided. This would help companies better manage their risks and impacts, allow financial institutions to access better information on their potential investments, and support policymakers to design better policies. CDP has identified a set of six main principles that should be applied to mandatory water disclosure regimes:

1 Comprehensive water-related disclosures that advance the water agendas at the international, national and local levels

All G20 members should mandate water reporting with policies that move beyond basic metrics of water use or policies that are limited only to climate-driven water risks. Analysis of CDP's water disclosure database shows that it is now normal for companies to provide comprehensive, high quality disclosure of water-related data (considering water quality, quantity and access to water, sanitation and hygiene). This includes disclosure related to governance, strategies, risks and opportunities, financial value at risk, enterprise, river basin, and facility level metrics and targets. Mandating such reporting should not impose a regulatory burden on regulated companies and will ensure financial institutions have the data they need to effectively understand and manage water-related risk and grasp opportunities.

2 Ensure compatibility of disclosure standards required or recommended

The policy needs to be aligned with existing internationally agreed standards and frameworks. If national standards are developed, they also need to be compatible with these same standards. Policymakers should rely on existing standards and reporting practices, enter into a dialogue with other jurisdictions to agree on a common baseline, and raise ambition at the national and international level to align with their 2030 SDG targets.

3 Adhere to technical quality and content of the reporting process

To meet this criterion, reporting should not only focus on risks but also strategy and impact. It should consider sector-specific topics and ensure comparability, reliability, and accuracy of disclosures. It should require forward-looking information as well as trend data to support the nature-positive transition. For example, companies should be required to fully integrate water factors at board level, both in terms of board composition and executive compensation and set targets that align with national and international water conservation goals. This would provide companies with the expertise and commitments at levels of seniority needed to push for the development of business plans aligned with a water secure future.

4 Focus water reporting requirements where it matters

While mandating disclosure of facility level water metrics is essential for companies using or potentially polluting water, this same focus should not be applied to financial institutions, many of which use water only in taps and toilets. Instead, regimes should focus water reporting requirements for financial institutions on financed risks, impacts and opportunities.

5 Provide an enforcement system

Policy implementation should be monitored by the relevant government authority, and effective measures for non-compliance should be in place. First and foremost, it is essential for policymakers to ensure that water security is treated as intrinsically material at the company level and highlight that non-disclosure is not permitted under any circumstance. In addition, enforcement agencies' mandates should include water issues. These agencies should strive to build internal expertise in the specific topics covered by regulatory requirements, also by collaborating with external actors with a focus on water security.

6 Allow space for innovation and mature disclosure

The regulation should not form a ceiling and create a box-ticking exercise but serve as a minimum requirement that stimulates more ambitious, broader, and deeper disclosure and action. As other regulatory and policy regimes continue to develop, other frameworks, such as CDP's can guide the expansion into other areas and provide a pathway into corporate reporting. CDP has been at the forefront of this movement and will continue to leverage its fully TCFD-aligned water questionnaire to inform the development and evolution of standards, both in terms of scope and of the kind of data gathered.

Annex:

Water-related voluntary and mandatory disclosure around the world (proposed or enforced) – G20 countries

June 2022

Country	Regulation/ Guidance	Description	Disclosure Requirement	Targeted Stakeholders	Supervision & enforcement	Approach to deriving the standard	Scope of water reporting	Status	Comment
Argentina	**Resolution CNV 622/2013**	The National Securities Commission introduced voluntary environmental disclosure	Mandatory for corporate governance	Listed firms (except for SMEs) and listed financial institutions	National Securities Commission	Not specified	Generic reference to the environment pillar, but there is an indication to refer sustainability to indicators important for the business	NA	It is generic guidance covering sustainability and environmental disclosure. No mention of water
Australia	**APRA's latest guidance on climate change CPG 229**	CPG 229 does not impose new requirements on corporates, but it provides guidance, sets out examples of better practice and aims to assist institutions in managing climate-related risks and opportunities	Voluntary	Banks, insurers and superannuation trustees	Not applicable	Financial Materiality	Climate related risks only	NA	The 20-page guidance does not mention water. There is a lack of universally adopted standards and regulatory guidance on ESG reporting, with Australian ESG obligations as minimal
Brazil	**Resolution 139 BCB**	Resolution 139 BCB covers the reporting on social, environmental and climate risks and will come into force in 2022. Comprehensive content description is provided by the related Normative Order 139	Mandatory partial	Financial institutions	Banco Central do Brazil (BCB)	Financial Materiality	Climate- related risks, enlarged to include social and environmental issues Regulations describe in a structured manner which content is required and which content is voluntary to be disclosed. It states whether the information should be qualitative or quantitative, and mentions specific metrics	Implemented	The guidance includes a new definition of environmental risk, related to losses resulting from environmental degradation, including water. It is comprehensive, in that it further explains what is meant by governance of the risks management or real and potential risks
Canada	**The Canadian Securities Administrators ("CSA") published guidance to assist issuers in defining material environmental information that should be disclosed.**	Canada's financial regulator OSFI will require federally regulated financial institutions to publish climate disclosures aligned with the TCFD framework beginning in 2024, stating that it will use a "phased-in" approach for the requirements	Mandatory partial	Banks and insurance companies	Not specified	Financial Materiality	Climate-related risks	Implemented	The Budget 2022 does not mention specific metrics on water use. Under Canadian securities legislation, there are currently no separate specific requirements mandating environmental and social-related disclosure, but the "Guidance" includes water use as one of the E factors
China	**In 2021 the China´s (SRC) published revised versions of the information disclosure rules**	Mandatory environmental disclosure rules are implemented among certain corporate categories, which will be required to compile annual reports	Mandatory partial	High environmental polluting companies	China Security Regulatory Commission (SRC)	Impact on the environment	For water related disclosure requirements, the new-released rule covers corporate's main pollutant generation, treatment, and discharge information (including wastewater), and are part of the general requirements of environmental disclosure rules	Implemented	The focus of China's water relevant disclosure is mainly on pollutant control and management. More developments on water resources and water security disclosure are expected. The 14th Five-Year Plan on Water Security clearly points out a future direction and a shift on priorities from "pollutant control" to "water/resource conservation"
India	**Circular No.: SEBI/HO/CFD/ CMD-2/P/CIR/2021/562**	The reporting framework issued in May 2021 by the Securities and Exchange Board of India (SEBI) introduces new reporting requirements on ESG parameters made easily accessible to entities with detailed instructions	Mandatory partial, only water metrics for water use	Applicable to both corporates and FIs. SEBI mandates top 1000 listed entities by market capitalization to disclose under the BRSR framework	SEBI	Focus on quantitative metrics of water use (compulsory) and discharge (voluntary)	Water is part of the E, under Resource usage (energy and water) and intensity metrics. Water disclosures are sought under Section C Principle 6 of the BRSR wherein 2 questions are asked in the Essential Indicators band (mandatory) and 2 questions in the Leadership Indicators band (optional to answer)	Implemented	No future updates have been announced yet, but SEBI will consider feedback from companies in future. No qualitative information on governance, strategies and risk management are mandated

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Water-related voluntary and mandatory disclosure around the world (proposed or enforced) – G20 countries

Country	Regulation/ Guidance	Description	Disclosure Requirement	Targeted Stakeholders	Supervision & enforcement	Approach to deriving the standard	Scope of water reporting	Status	Comment
Indonesia	**OJK (Otoritas Jasa Keuangan – "OJK") No.51/ POJK.03/2017**	In OJK Rule 51 regulated entities are also required to submit a Sustainable Finance Action Plan and/ or a Sustainability Report to OJK, to disclose sustainability-related activities	Mandatory (no water)	Financial Services Providers, Issuers and Public Listed Companies	OJK	Mostly focused on resource use, not disclosing in financial terms, but mainly in terms of plans and strategies	Environmentally Friendly Material, Energy, Emissions, Biodiversity, Waste and Effluent, Environmental complaint	Implemented	Water is not included in the mandatory regulation yet, but in 2025 a new roadmap will be developed
Japan	**In Japan there is no regulation that addresses comprehensively ESG disclosure.**	The Corporate Governance Code encourages companies to disclose non-financial information, such as business strategies and business issues, risk, and governance	Voluntary	Public-listed companies	Tokyo Stock Exchange	Financial Materiality	Water is not mentioned in the Corporate Governance code, but ESG matters are, with the recognition that they should be treated more proactively by corporates	NA	Japan´s FSA is considering making climate change disclosure compulsory. Each ESG component is addressed through sectoral laws
Republic of Korea	**In January 2021 the FSC introduced plans for the Korea Exchange to require ESG reporting by all KOSPI-listed firms**	The guidance produced by the Korea exchange introduced mandatory ESG disclosures from 2025	Mandatory ESG (from 2025), no water	Companies listed on the main KOSPI market with over KRW2 trillion (USD1.8 billion) in assets are required to disclose ESG factors by 2025	Financial Services Commission (FSC) - Korea's financial regulator	NA	The guidelines consist of 23 sub-principles under the 10 key principles and specify information that companies should provide in their reports. Water metrics are not included	Under consider-ation	Through amendments to the relevant exchange regulations, the Korea Exchange will gradually expand the companies subject to mandatory disclosure starting from 2022. Following a phased approach, this mandate will be extended to all companies by 2030
Mexico	**2017 Sustainability Guide**	ESG Guidance is in line with the SSE ESG Disclosure information. It gives a comprehensive definition of sustainability strategies, encouraging corporates to consider risks	Voluntary	Listed companies are encouraged to develop sustainability practices that consider risks, material impacts and definition of business strategy	BMV	Financial Materiality	Water is included in the E pillar. Companies should disclose indicators of water intensity, ie income / water used (extracted)	Implemented	There is no ESG Regulation in Mexico. The Mexican Stock Exchanges (BMV and BIVA) have an ESG disclosure project which was originally intended to help the listed companies consolidate all their sustainability disclosures and tend to the different purposes the data is for (rating agencies, investor surveys, etc)
Russia	**Draft Federal Law on Public Non-financial reporting**	Central bank recommended companies to disclose their ESG compliance and evaluate risks related to the global ESG agenda	Voluntary	State-owned companies; companies with a revenue of about 135 million; and any other companies listed on stock exchanges	NA	Financial Materiality	Central Bank recommendations refer to generic ESG-related risks	NA	Non-financial reporting standards mostly provide for qualitative and descriptive metrics
Saudi Arabia	**Guidance published in 2021**	ESG voluntary disclosure guidelines for listed companies to promote sustainable growth in the Kingdom	Voluntary	The guidelines target 200 listed companies and prospective firms looking to go public with their ESG. The new guidelines introduced reporting standards and options for companies of all sizes	Saudi Stock Exchange	The guidance stressed the benefit for disclosing companies in terms of financial performance and value creation	Water stress is included as an ESG factor. Companies are evaluated on the water intensity of their operations, the water stress in their areas of operation and their efforts to manage water-related risks and opportunities	NA	Advancing ESG issues is core to diversifying the economy and creating a sustainable financial sector

Annex:
Water-related voluntary and mandatory disclosure around the world (proposed or enforced) – G20 countries

Country	Regulation/ Guidance	Description	Disclosure Requirement	Targeted Stakeholders	Supervision & enforcement	Approach to deriving the standard	Scope of water reporting	Status	Comment
South Africa	**JSE Sustainability and Climate Disclosure Guidance (SCDG) consulted until 28 February 2022**	The JSE developed SCDG consultation papers to promote transparency and good governance and guide listed companies on best practice in ESG disclosure	Voluntary	JSE listed companies	Johannesburg Stock Exchange (JSE)	Double Materiality	The guidance covers disclosures related to sustainability-related impacts, risks, and opportunities. Water use, along with water discharges are part of the environment theme in ESG (withdrawals in areas of water stress and discharges are part of the leadership metrics)	NA	Advanced and comprehensive, this voluntary disclosure system introduced Core (C) and Leadership (L) metrics, seeking to balance the desirability of a 'simple list' with an applied materiality principle
Türkiye	**ESG Guidance published in 2015**	The Turkish Stock Exchange has published a guidebook for listed companies on sustainability and corporate responsibility	Voluntary metrics disclosure, but it is mandatory to report whether they are implemented or not (comply or explain)	Publicly listed companies	Turkish Stock Exchange	NA	Comprehensive. Water is part of the ESG coverage, in the E pillar.	Implemented	Besides water metrics, the Principle Compliance Outline also recommends disclosing risk and opportunities and the determination of a Corporate Strategies
United Kingdom	**Published in October 2021, the Greening Finance: A Roadmap to Sustainable Investing policy paper listed SDRs as a key element**	Sustainability Disclosure Requirements SDRs are a new integrated regime for disclosure of climate and other sustainability issues for UK companies, the financial sector and creators of investment products that will have to report under forthcoming international standards	Mandatory (full, under development, comply or explain)	UK-registered companies, including financial services firms; and UK-listed companies	Financial Reporting Council (FRC)	NA	SDR categories mirror those introduced by the EU, and include: sustainable use and protection of water and marine resources, and pollution prevention and control	Under consider-ation	SDRs are designed to broaden UK sustainability reporting, which currently focuses almost exclusively on climate-related risks, to cover a much fuller range of issues, including water. They will be introduced following a staged approach, starting from "most economically significant companies"
United States	**In March 21, 2022, the Securities and Exchange Commission (SEC) voted on proposed rules for climate-relate disclosure statements**	A central focus of the Commission's proposed rules is the identification and disclosure of a registrant's material climate-related risks	Mandatory partial (under consultation)	All SEC-registered companies	SEC	Financial Materiality	Decreased availability of freshwater and drought are classified as chronic risks: the proposed rules would require a registrant to disclose the amount of assets (eg book value and as a percentage of total assets) located in such regions in addition to their location. Flood is considered as acute risk, and registrant should disclose location of assets at risk	Under consultation	Water risks are considered as part of climate-related risks. The proposed rules would require a registrant to disclose any climate-related risks reasonably likely to have a material impact on the registrant's business or consolidated financial statements, business operations, or value chains, as a whole
EU	**CSRD proposal**	The EU compliance and disclosure requirements (draft published on May 3, 2022) are designed to make corporate ESG reporting within the EU more accurate, common, consistent, comparable, and standardized, just like financial accounting and reporting	Mandatory full (under consultation)	All companies with: Over 250 employees More than €40M in annual revenue. More than €20M in total assets Publicly-listed equities with more than 10 employees or €20M revenue. Non-European companies with 150 million net turnover in the EU.	National competent authorities responsible for supervision and enforcement	Double Materiality	Exposure ESRS drafts cover the following topics: E1 climate change, E2 pollution E3 water and marine resources, E4 biodiversity and ecosystems, E5 resource use and circular economy,	CSRD (level 1): Adoption ESRS (level 2): Under consultation	In June 2023, sector-agnostic standards will be mandated. Topical, sector-agnostic standards will be accompanied by sector-specific standards

Source: Carrot and Stick database and National Regulations

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CDP is a global non-profit that runs the world's environmental disclosure system for companies, cities, states and regions. Founded in 2000 and working with more than 680 financial institutions with over $130 trillion in assets, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce greenhouse gas emissions, safeguard water resources and protect forests. Over 14,000 organizations around the world disclosed data through CDP in 2021, including more than 13,000 companies worth over 64% of global market capitalization, and over 1,100 cities, states and regions. Fully TCFD aligned, CDP holds the largest environmental database in the world, and CDP scores are widely used to drive investment and procurement decisions towards a zero carbon, sustainable and resilient economy. CDP is a founding member of the Science Based Targets initiative, We Mean Business Coalition, The Investor Agenda and the Net Zero Asset Managers initiative.

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