Water Disclosure in EU Regulation

Policy Explainer: Short Brief

February 2025

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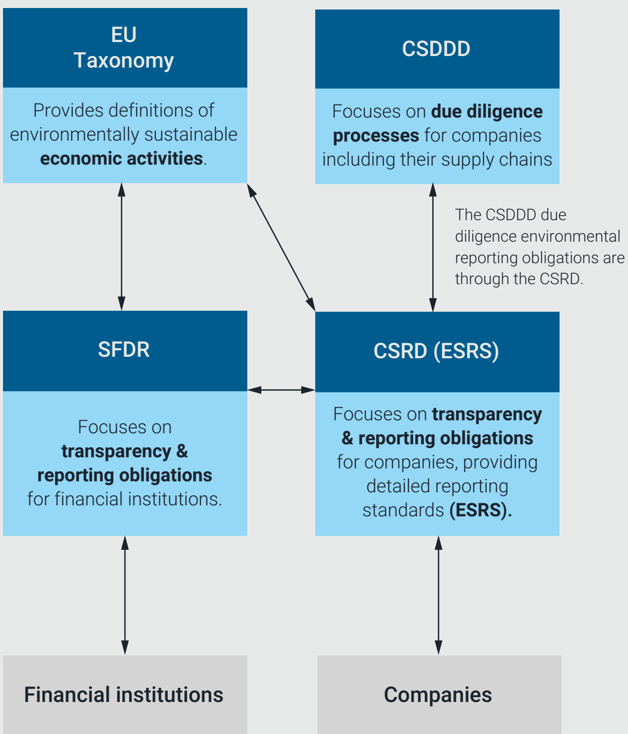
Introduction

In 2018, the European Union (EU) launched its most ambitious and comprehensive strategy on sustainable finance to date: the Sustainable Finance Action Plan. Aimed at reorienting capital flows towards sustainable investments, the plan was swiftly followed by the adoption of the EU Green Deal, designed as a holistic strategy to address these interconnected sustainability challenges. The most notable legislation on environmental disclosure within the Deal includes the Corporate Sustainability Reporting Directive (CSRD) and its associated European Sustainability Reporting Standards (ESRS), the Corporate Sustainability Due Diligence Directive (CSDDD), the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.

For a comprehensive overview of the legislation, please refer to CDP's policy explainers linked above.[1]

EU legislation on environmental reporting



The SFDR and water resources

The SFDR (in force since March 10th, 2021) aims at improving transparency in the financial sector regarding sustainability. It requires financial market participants to disclose how they integrate environmental, social, and governance (ESG) factors into their investment decision-making processes. In particular, the SFDR requires all financial actors that fall under its scope to report against a set of indicators, the **Principal Adverse Impacts (PAI) indicators**.

Investee companies are required to report on 14 mandatory PAI indicators, one of which pertains to water. The **"Emissions to Water" indicator** measures the discharge of solid, liquid or gaseous pollutants or contaminants into a body of water. In addition, investee companies must report on at least one additional environmental indicator and one social indicator from a list of additional indicators.

Mandatory PAI Indicator
Emissions to water
Optional PAI Indicators
Water usage and recycling
Investments in companies without water management strategies
Exposure to areas of high-water stress
Investments in companies without sustainable oceans/seas practices

This applies to investee companies with 500 or more employees. Investee companies below this threshold can opt out provided they follow a "comply or explain" approach. For real estate assets, sovereign and supranational investments, different PAI indicators apply, none of which pertain to water.

1 For further information on CDP's work and recommendations on water policy, see this water brief "A Holistic Water Strategy for the European Union: It's time to 'think blue'".

The EU taxonomy and water resources

A shared understanding of what counts as a sustainable activity is needed to shift capital flows toward more sustainable activities. This is the purpose the EU Taxonomy follows.

The EU Taxonomy (in force since July 12, 2020) is a **classification system that defines criteria for economic activities** that are aligned with a net zero trajectory by 2050 and other European environmental goals. Activities listed in the taxonomy are considered to contribute to at least one of the six following environmental objectives (**in bold**, objectives that are particularly relevant to water):

	Environmental Objectives
1	Climate change mitigation
2	Climate change adaptation
3	**The sustainable use and protection of water and marine resources**
4	**The transition to a circular economy**
5	**Pollution prevention and control**
6	**The protection and restoration of biodiversity and ecosystems**

The EU Taxonomy is designed as a constantly updating, dynamic system. New activities are regularly added to the Taxonomy via delegated acts. The EU Taxonomy currently lists 151 activities. Other activities are expected to be included in the future (e.g., mining or agriculture).

To be classified as a sustainable activity under the Taxonomy, an economic activity must:

- Contribute substantially to one of the six objectives.
- Avoid significant harm to any other objective – the Do No Significant Harm (DNSH) principle.
- Comply with minimum safeguards pertaining to human rights and labour law.

Case 1: An activity works towards a water-specific objective.

Objective 3 specifically focuses on water resources. Due to the recent nature of the regulation, only six activities are listed under this objective, all of which are in the water sector (e.g., urban wastewater treatment or water supply).

Other objectives (in particular, 4 and 5) include selected requirements pertaining to the preservation of water resources, such as specific requirements on effluent discharge.

Case 2: An activity works toward a non-water specific objective.

As it currently stands, this is the case for most activities listed in the taxonomy. As such, it is mostly via the DNSH principle that the Taxonomy addresses water questions across the economy.

Concretely, most activities (with notable exceptions) are required to respect existing water-related regulations, and, in addition, it is asked that "environmental degradation risks related to preserving water quality and avoiding water stress are identified and addressed with the aim of achieving good water status and good ecological potential."

See the generic criteria as set in Appendix B of the EU Taxonomy.

The CSRD and water resources

The CSRD entered into force on January 5, 2023, with the objective to help investors, civil society, organisations, consumers, and other stakeholders to evaluate the sustainability performance of companies **by establishing reporting obligations**.

The CSRD requires all large companies and all listed companies (except listed micro-enterprises) to disclose information on what they see as the risks and opportunities arising from social and environmental issues, and on the impact of their activities on people and the environment.

It is expected that the CSRD will directly impact about 50,000 companies, including 10,000 non-EU companies — if they generate over EUR 150 million on the EU market.[2] The first set of companies will have to apply the new **CSRD rules for the first time in the 2024 financial year**, for reports published in 2025.

Companies subject to the CSRD will have to report according to common ESG standards developed by the EU Commission. These standards, known as the ESRS, apply to companies under the scope of the CSRD regardless of the sector in which they operate.

2 Quantis, "Everything businesses need to know about the EU's Corporate Sustainability Reporting Directive (CSRD)". 06 | 05 | 2024. Available at: CSRD: Implications for businesses inside + outside the EU (quantis.com)

The ESRS and water resources

The first set of ESRS, adopted on a delegated regulation on July 31, 2023, were developed with the objective to specify the information that a company shall disclose under the CSRD.[3] The ESRS set a common ground to help companies communicate and manage their sustainability performance and to have **better access to sustainable finance**, while reducing reporting costs in the medium and long term.

The ESRS take a "**double materiality**" perspective, meaning companies report both on their impacts on people and the environment, and on how social and environmental issues create financial risks and opportunities for the company. While all standards are mandatory, the topical standards are subject to a **materiality assessment**. This means that companies only need to report information considered relevant ('material') to their business model and activities, and/or have an impact on the environment and people.

The ESRS are divided into 12 standards:

European Sustainability Reporting Standards (ESRS)	
ESRS 1	General requirements
ESRS 2	General disclosures
ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity and ecosystems
ESRS E5	Resource use and circular economy
ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers and end-users
ESRS G1	Business conduct

ESRS 2 ('General Disclosures') are general, cross-cutting requirements that are to be read with and reported alongside the topical (environmental and social) ESRS standards. In addition, the PAIs that are required to be reported by financial institutions through the SFDR are also identified as requirements to be reported by corporates, if deemed material (Appendix B, ESRS 2).

Water-related disclosure requirements are covered through topical standards. **E2-3** ('Pollution') requires setting targets for prevention and control of emissions to water. **E4-5** ('Biodiversity & Ecosystem Services') requires impact metrics related to freshwater use change. Social standards (S1, S2, & S3) also include reporting obligations on Water, Sanitation and Hygiene (WASH) related questions in materiality assessment.

ESRS E3 ('Water and Marine Resources') presents a clear focus to water-related disclosure. It outlines disclosure requirements to identify impacts on water and marine resources. It also covers how to report actions taken to address risks and opportunities related to water and its consumption.

ESRS E3 Disclosure Requirements	
E3-1 - §9 - §14	Policies related to water and marine resources
E3-2 - §15 - §19	Actions and resources related to water and marine resources
E3-3 - §20 - §25	Targets related to water and marine resources
E3-4 - §26 - §29	Water consumption
E3-5 - §30 - §33	Anticipated financial effects from material water and marine resources (related risks and opportunities)

3 Adopted by the EU Commission based on technical advice from EFRAG (European Financial Reporting Advisory Group), an independent, multistakeholder advisory body, mainly funded by the EU.

In June 2026, two years later than planned, **sector-specific standards** and standards for third-country companies will be adopted. The European Financial Reporting Advisory Group (EFRAG) is currently drafting these standards, based on the Taxonomy's classification of economic activities and cover sectors, like agriculture, manufacturing and mining.[4]

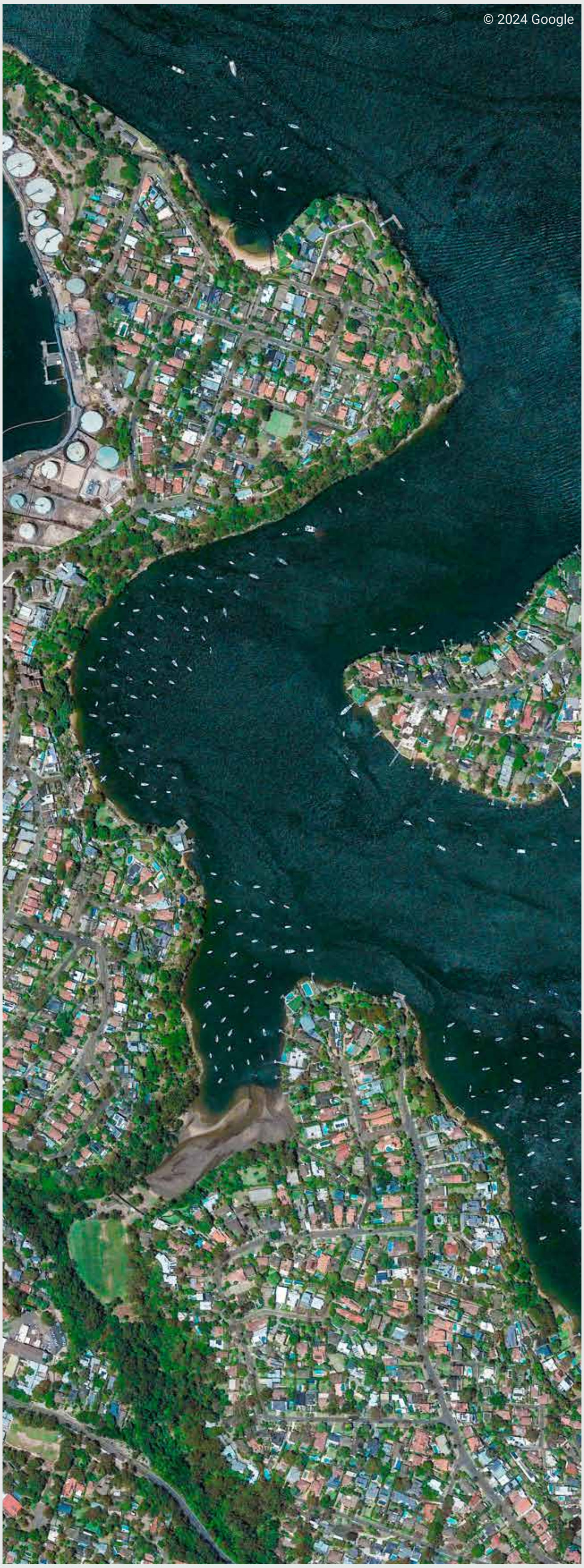
The ESRS requires companies to make 'reasonable efforts' to identify **impacts in their value chain**.[5] This means that if a company has made sufficient effort to gather data from its value chain but cannot obtain it, they may report estimated values instead.

The CSDDD and water resources

The CSDDD came into force on July 25, 2024. The objective of this Directive is to address adverse human rights and environmental impacts where they occur most frequently: **global supply chains**. It aims to ensure that companies active in the EU market contribute to human rights protection & sustainable development.

The CSDDD does not add extra reporting obligations. Companies under the scope of the CSDDD fulfil their reporting obligations through the CSRD and the ESRS. These directives work closely together identifying **adverse impacts in the value chain**.

The CSDDD will apply to companies to avoid adverse impacts in sectors and value chains with **high water use intensity**. However, much remains to be seen, as implementation guidelines are still being developed, with a gradual rollout planned to start in July 2027.



4 EFRAG has just released the voluntary reporting standard for non-listed SMEs and is currently developing the mandatory one for listed SMEs (a mandatory for listed SMEs and a voluntary one for non-listed SMEs).

5 Any one of these criteria could on its own be sufficient to determine that reasonable efforts have been made: size and resources of the reporting undertaking, technical readiness, availability of tools or level of influence.

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Important notice