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Sustainability as the Key Factor: the Latest Intervention in its Reporting

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Foreword

The purpose of the following essay is to ultimately provide the state-of-the-art in non-financial reporting, by beginning with the analysis of the baseline environment and then proceeding with the analysis of regulations and key initiatives aimed at outlining sustainability reporting standards with a narrow focus on its future developmental directions. Non-financial reporting and climate change-related reporting in particular hold a critical role as the driver of the ecological and sustainable transformation of our economy.

The dissertation is arranged in three distinctive chapters: the first one deals specifically with the concept of sustainability and reviews its historical evolution and current perspectives. In particular, the focus is placed on the Sustainable Development Goals (SDGs), the 17 goals that compose an agenda for action aimed at the achievement of different sustainability outlooks. The urgency of action on this issue is unquestionably a fundamental collective imperative for the pursuit of predetermined goals in the long term, such as the European Green Deal in 2050.
The second chapter will address current non-financial reporting practices. Being able to

undertake a process of change requires beginning with data reporting, which for issues of non-financial nature needs to combine both quantitative and, often, qualitative information. The analysis in this chapter will focus primarily on the most recent review of the standards advocated by the Global Reporting Initiative and the integrated reporting framework developed by IRCC, which are the two most developed and widely used reporting approaches in non-financial disclosure to date.
Lastly, third and final chapter is devoted to an analysis of the relevant European legislative scenario. From Directive 2014/95/EU and its subsequent supplementary guidelines that are currently in force, the European Union has recently unveiled a proposal for a new directive on the issue named Corporate Sustainability Reporting Directive. The chapter proceeds by counterpoising the latest professional initiative of the IFRS Foundation to this legislative effort. By establishing the International Sustainability Standard Board, the IFRS Foundation aims to build a comprehensive global base of high-quality sustainability disclosure standards to meet the informational needs of investors. Therefore, an in-depth analysis of the ISSB's first Exposure Draft, published on March 31st, 2022, is provided later in the thesis, further capturing any similarities and differences of the latter with the IASB Conceptual Framework.

With the release of the first two Exposure Drafts, a major step has been taken toward establishing a global platform of high-quality sustainability standards, with the goal of improving transparency and comparability in global capital markets. Besides aiming to meet the various needs of investors, the establishment of common principles will also contribute to support companies' efforts to accelerate the transition to full, consistent and comparable disclosure of sustainability issues.

Chapter 1

Developing Sustainability

1.1 Brief Overview of the Notion of Sustainability

The environmental and social non-sustainability of the evolved man's economic strategies has become a well-established reality. The individual became, by effect of social evolution, a new predator of existing ecosystems, subject to exploitation carried out through the use of knowledge with the consequent replacement of natural dynamics and balance with "artificial dynamics and equilibria"[1]

Industrialization has gone hand in hand with intensive exploitation, giving rise to a form of progress whose negative effects have not been grasped for a long time. In this regard, consider pollution, the creation of waste or the exploitation of workers, often considered "a necessary sacrifice for the well-being of society and the economic development of the country"[2].

[1] G. BRAVO, *Alle radici dello sviluppo insostenibile. Un'analisi degli effetti ambientali di società*, Aracne, 2009.

[2] R. SABELLOTTI and G. SABELLOTTI, *A piccoli passi. Percorso di riflessioni*, Edizioni Ofelon, 2011, p. 64.

Against this evolutionary backdrop, the concept of sustainability has progressively asserted itself and has directly involved the operational logic of government bodies, international organizations, large private sector institutions and, above all, the entire economic system and, particularly, companies. As a matter of fact, precisely considering greater sustainability, new practices have been progressively developed within firms' organizational scope, with the potential to combine growth and economic performance with social and environmental sustainability.
In this context, together with the management of the economic-financial aspects of the company, measuring the achievement of sustainability targets pursued by organizations and economic entities through specific reports, which should also be considered as essential communication and disclosure tools, becomes extremely significant[3].

1.1.1 The Roots of the Definition

Even though the term 'sustainability' has its origins in the field of ecological studies, "the theme of sustainability immediately calls into question different fields of knowledge: environmental, ecological, economic, social and cultural"[4]. In fact, it is considered sustainable "the development able to combine the economic, environmental and social dimensions of any human activity, keeping its impact within the carrying capacity of the system in which it takes place"[5].

More specifically, over time, this notion has been the subject of many different definitions. The 1972 UN Conference on the Human Environment in Stockholm already

[3]BANCA D'ITALIA, "Sviluppo sostenibile e rischi climatici: il ruolo delle banche centrali.", Intervento di Ignazio Visco Governatore della Banca d'Italia al Festival dello Sviluppo Sostenibile 2019 "La finanza e i sistemi finanziari per lo sviluppo sostenibile", 2019.

[4]L. VALERA, "La sostenibilità: un concetto da chiarire", *Economia e Diritto Agroalimentare*, vol. 17, no. 1 (2012), pp. 39-45.

[5]P. GAZZOLA, "CSR e reputazione nella creazione di valore sostenibile", *Economia Aziendale Online*, no. 2 (2006), pp. 27-45.

highlighted the existence of the right of the 'human family' to a healthy and productive environment. However, the first complete definition of 'sustainability', understood as sustainable development, can be traced back to the Our Common Future Report, drawn up in 1987 by the World Commission on Environment and Development (WCED), then chaired by the Norwegian Prime Minister Gro Harlem Brundtland. The Brundtland Report had as its objective the proposition of a long-term environmental strategy and dictated guidelines on the subject that are still valid today, stating that 'sustainable' development is a process that "guarantees the needs of present generations without compromising the possibility that future generations will be able to satisfy their own needs"[6]. A definition that obviously reflects the need to safeguard the planet, to encourage the development of a better quality of life for mankind, to promote a more equitable accessibility to resources, whose exhaustively is underlined.

1.1.2 The Pillars of Sustainability

The concept of sustainability is a very broad concept, and often quite difficult to define as it can be interpreted under various perspectives according to the different angles from which one wishes to examine it. To better explain the term sustainability and the adjective sustainable, the concept of ecosystem comes in help, as well explained by Fabio Pranovi, professor at the Department of Environmental Sciences, Computer Science and Statistics, University Ca' Foscari of Venice, in the MOOC "The 2030 Agenda for Sustainable Development", ecosystem is by its very definition sustainable. The characteristics of ecosystems are essentially the following four:

- The presence of a renewable energy resource, such as sunlight;

[6]WORLD COMMISSION ON ENVIRONMENT AND DEVELOPMENT, “Our Common Future (Brundtland Report)”, United Nations, 1987.

- They are based on biodiversity, the loss of which causes serious deficiencies within the ecosystem itself. Biodiversity is not a limitation, but an advantage;
- They are based on mechanisms called 'population control', natural systems that affect the cycle of life, so that the resources provided by the planet are not over-exploited, preventing them from regenerating;
- The material cycles are perfectly closed, there is no accumulation of material and therefore no wastes.

It is clear that the society in which we live is still far away from being sustainable as we are still far from the widespread use of renewable energy. For example, we are not able to value diversity but tend to exclude it, we live using the resources provided by the planet in an excessive and harmful way and finally we produce a very high amount of waste, making it practically impossible to close ecological processes. Today, the concept most referred to is that of integrated sustainability, a notion reached after several years of debates.

The first research on the importance of peace, freedom, development, and the environment dates back to the mid-20th century, but it was in the 1980s that the concept of sustainability began to take shape. Initially, the model was represented by three intersecting circles: society, economy, and environment.
The three pillars of sustainability, economy, environment and society, are represented in equal size and given equal importance within the scheme. The meanings they produce at their intersections are those of fairness, which links the social and economic spheres, the concept of a livable world crossing between environment and society and lastly whatever is achievable by individuals respecting their environment.
In the 1990s, this scheme was modified according to a concentric structure. The three pillars of sustainability are no longer considered, since, according to the scholars of the

time, the environmental dimension is the most important and central one, capable of encompassing the social and economic aspects; it is in fact the enhancement of environmental capital that is the most important process for achieving sustainability.
In the following years, the scheme was updated again, with the aim of highlighting the cultural aspect of sustainability. The circles become four, bringing the different founding elements back to the same level of importance, deepening and distinguishing several aspects previously left out. Subsequently, the discussion leads to the inclusion of a further dimension that encompasses the four concepts, namely the ethical dimension which becomes increasingly significant throughout the process.

Thanks to these analyses, the concept of integrated sustainability has been at least partially defined in recent years as follows:

- Environmental responsibility, not only of society, but first and foremost of individuals. The behavior of the individual influences the collective processes of sustainability, which is therefore understood as the ability to maintain the quality and reproducibility of resources[7].

- Economic responsibility, through processes that create long-term value, integrating and cooperating closely with the social and environmental spheres. Sustainability is interpreted as the ability to generate income and employment to sustain the population[8]. The object of interest in economic sustainability will therefore primarily be the production process, understood as a means of verifying the existing relationship between costs and benefits. Clearly, for an action to be deemed

[7] F. PERRINI, *Sostenibilità*, EGEA, 2018.
[8] F. SUPERTI FURGA, "Note introduttive al bilancio sociale", *Sviluppo e organizzazione*, no. 44 (1977), pp. 21+.

economically sustainable, the benefits must outweigh the costs, or at least be equal to them[9].

- Social responsibility, linked to the concepts of inclusion, interconnectedness, and justice. Interconnectivity not only among the human species but among all species on the planet; the need to achieve social and economic justice, since a world in which there are disparities in treatment cannot be considered sustainable. Sustainability is interpreted here as the ability to guarantee conditions of human well-being (security, health, education, democracy, participation, justice), while maintaining the quality and reproducibility of natural resources[10]. The category of well-being is thus undoubtedly central to the welfare state and it is the product of state activity, besides formal and informal interpersonal relationships (work, neighborhood, family, friendship, group, etc.)[11]. There can only be social sustainability when structures and interpersonal relationships actively support the ability of present and future generations to create livable and healthy social systems.

With the guidelines for a better understanding of the concept of sustainability outlined, the discussion continues with an analysis of the last major international milestone that has made sustainability its core issue.

1.2 Agenda 2030: Sustainable Development Goals

On October 21st, 2015, a very important day for the future of sustainable development took place: through UN General Assembly resolution no. 70/1 the 2030 Agenda for Sustainable Development was approved, and the 17 Sustainable Development Goals (SDGs) were adopted. These goals were defined to develop and expand the scope of the

[9] *See note 4*

[10] W. BECKERMAN, "'Sustainable Development': Is it a Useful Concept?", *Environmental Values*, vol. 3, no. 3 (1994), pp. 191-209.

[11] *See note 5*

previous Millennium Development Goals (MDGs), which had expired that year. The new goals mark a historic turning point for the United Nations towards a single agenda for sustainable development, after a long history of trying to blend economic and social development with environmental sustainability. Moreover, they also represent the most ambitious effort yet to establish goals at the core of global policy and governance[12]. The resolution's foreword clearly describes the goals and motivations behind it:

> "The 17 Sustainable Development Goals and 169 targets which we are announcing today demonstrate the scale and ambition of this new universal Agenda. They seek to build on the Millennium Development Goals and complete what they did not achieve. They seek to realize the human rights of all and to achieve gender equality and the empowerment of all women and girls. They are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental."[13]

It would be appropriate to open a brief parenthesis on the Millennium Goals mentioned above. On September 20th, 2000, 189 heads of state unanimously signed the "United Nations Millennium Declaration" specifying 8 objectives, called Millennium Goals, to be achieved by 2015. They represented an important pillar in international cooperation as they defined the priorities for intervention, setting a well-defined time frame. The 8 MDGs are: eradicate extreme poverty, ensure universal primary education, promote gender equality, and empower women, reduce infant mortality, improve maternity health, combat HIV/AIDS, malaria, and other diseases, ensure environmental sustainability, develop a global partnership for development. The novelty of these principles not only did concern the identification of priorities for subsequent years, but also the

[12]F. BIERMAN et al., "Global governance by goal-setting: the novel approach of the UN Sustainable Development Goals", *Current Opinion in Environmental Sustainability*, vol. 26-27 (2017), pp. 26-31.

[13]UNITED NATIONS, "Transforming our world: the 2030 Agenda for Sustainable Development", *Resolution adopted by the General Assembly on 25 September 2015*, A/RES/70/1, 2015.

fact that quantitative targets were associated with them, seeking a mechanism for measuring and quantifying the starting point and the progress made, through a statistical system capable of providing a global vision starting within a local scenario.

The Agenda 2030 was drafted with the purpose of improving and expanding the Millennium Goals, which could achieve important results while neglecting certain issues and excluding certain realities from their application. It is a treaty that provides for the achievement of 17 targets defined as Sustainable Development Goals (SDGs) divided into 6 key thematic areas, identified as dignity, people, prosperity, planet, and partnerships. The goal is indicated by the Secretary General of the United Nations at the time, South Korean Ban Ki-Moon

> "The following six essential elements would help frame and reinforce the universal, integrated and transformative nature of a sustainable development agenda and ensure that the ambition expressed by Member States in the outcome of the Open Working Group translates, communicates and is delivered at the country level."[14]

The 2030 Agenda and its SDGs aim to accomplish the following goal statements:

- Addressing all players in the system, avoiding any kind of distinction, revising the relationship between countries of the North and South of the world, providing a new model of growth based on mutual exchange;
- Overcome the traditional division between the environmental, social, and economic dimensions, focusing on issues that intersect them;
- To eliminate extreme poverty worldwide;

[14]BAN KI-MOON, "The Road to Dignity by 2030: Ending Poverty, Transforming All Lives and Protecting the Planet", *Synthesis Report of the Secretary-General On the Post-2015 Agenda*, United Nations, New York Dec. 2014, p. 20.

- To be able not only to identify problems, but also to address them, exploiting the potential of both profit and non-profit private organizations, with the idea of designing a path towards the achievement of common goals.

The 17 SDGs are themselves fragmented into 169 targets to be achieved within the period from January 1st, 2016, to 2030. In other words, "It is a Plan whose ambition, potential and, above all, universal scope must be recognized, allowing us to go beyond the priorities traditionally established by Governments for a more realistic logic aimed at achieving change, and 'networking' to reach common objectives"[15].

1.2.1 The 17 Goals

In this section, the different SDGs will be analyzed individually, and their efficacy measured through the analysis of the data reported in the latest report drafted by the United Nations, titled *'The Sustainable Development Goals Report 2021'*.

- **SDG 1, No poverty**: Put an end to all forms of poverty worldwide. The goal aims to eradicate extreme poverty by 2030, which is certainly ambitious but necessary because poor people are the most vulnerable to economic, political and health crises, natural disasters, and violence. The SARS-CoV-2 pandemic has worsened the poverty situation around the world. It is estimated that by 2020, there will be an increase of approximately 119-124 million poor people worldwide. Now casts point to the first rise in the extreme poverty rate since 1998, from 8.4% in 2019 to 9.5% in 2020, undoing the progress made since 2016. The impacts of the pandemic will not be short-lived. Based on current projections, the global poverty rate is expected to reach 7% (around 600 million people) in 2030 against the 6% that was expected in 2019, thus failing the goal of poverty eradication[16].

[15] PAIS I. LENZI I. and ZUCCA A., *Un patto globale per lo sviluppo sostenibile. Processi e attori nell'Agenda 2030*, Social Innovation and Sustainability, Fondazione Eni Enrico Mattei, 2015.

[16] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, tech. rep., UN Department of Economic and Social Affairs, 2021, p. 26.

- **SDG 2, Zero hunger**: Ending food hunger, achieving food security, improving nutrition, and promoting sustainable agriculture. SDG number 2 aims to analyze the issue of hunger in all its forms, while also developing the economic aspects, particularly of farmers who are at the highest risk of malnutrition. COVID-19 is expected to exacerbate all forms of malnutrition, particularly in children, due to loss of household income, lack of available and accessible nutritious food, reduced physical activity, and disruptions to essential nutritional services. Between 720 and 811 million people worldwide will face hunger in 2020, an increase of as much as 161 million from 2019[17].

- **SDG 3, Good health and well-being**: Ensuring health and well-being for all individuals and ages. One of the foundations of sustainable development is to ensure healthy living and promote the well-being of people. Therefore, the issue of infant and maternal mortality, communicable and non-communicable diseases (diabetes), malaria, tuberculosis, are examined, and attention is also put towards the prevention of road accidents and drug abuse. The pandemic has halted or reversed progress in health and poses great threats beyond the disease itself. About 90% of countries are still reporting one or more interruptions in essential health services, and data available from some countries show that the pandemic has shortened life expectancy. Not surprisingly, the virus is disproportionately affecting disadvantaged groups. The pandemic has demonstrated the importance of universal health coverage and multilateral coordination for emergency health preparedness[18].

- **SDG 4, Quality education**: Ensure quality, equitable and inclusive education and promote lifelong learning opportunities for all. Improving the living condi-

[17]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 28.
[18]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 30.

tions of individuals, communities and societies must necessarily include quality education. The link between basic education and vocational training is emphasized, with the goal of ensuring equitable and quality education throughout an individual's life. Prior to the pandemic, progress in education was already too slow to meet Goal 4 by 2030. Special efforts are needed to recover learning losses caused by COVID-19. However, an estimated 65 percent of governments in low and lower-middle-income countries, and 35 percent in upper-middle and upper-income countries, have reduced funding for education since the pandemic began[19].

- **SDG 5, Gender equality**: Achieve gender equality and empower all women and girls. It represents a necessary goal to achieve sustainable development, economic growth, poverty, and conflict reduction, as well as a fundamental human right. SDG 5 aims to ensure women and girls have equal access to education, health care, decent work, and representation in decision-making, political, and economic processes. The pandemic highlighted the need for rapid action to address pervasive gender inequalities globally. Women have played a central role in the response to COVID-19; however, they remain underrepresented in leadership positions, and their rights and priorities are often not explicitly addressed in response and recovery measures. The crisis presents an opportunity to reshape and rebuild systems, laws, policies, and institutions to promote gender equality[20].
- **SDG 6, Clean water and sanitation**: Ensure the availability and sustainable management of water and hygienic facilities for all. The presence of accessible, clean water is a determining factor in all aspects of the world's social, economic, and environmental development. Issues related to water resources management,

[19]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 34.
[20]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 36.

wastewater management, protection and restoration of water-related ecosystems, improvement of water quality and water pollution are addressed. COVID-19 emphasized the need for universal access to these services to combat the pandemic and promote a healthy, green, and sustainable recovery. The world is not on track to meet Goal 6. A dramatic acceleration of current rates of progress and integrated, holistic approaches to water management are desperately needed[21].

- **SDG 7, Affordable and clean energy**: Ensuring access to affordable, reliable, sustainable, and advanced energy supplies for all. Energy is central to the challenges facing the world today. Through UN Secretary General Ban Ki-Moon's "Sustainable Energy for All" initiative at the time, the aim is to ensure universal access to modern energy services, improve energy efficiency and increase the use of renewable resources; Objective 7 also emphasizes the importance of research and the necessary investment in clean energy infrastructure and technologies. Stimulus plans designed to spur economic growth, protect workers, and create jobs could increase the deployment of clean energy technologies. The world will reach the global goal for energy efficiency only through substantial investments on a systematic scale, but at the same time, the least developed countries receive only a fraction of international funding for renewable energy[22].

- **SDG 8, Decent work and economic growth**: Fostering sustained, inclusive, and sustainable economic growth, full and productive employment, and dignified work for all. The presence of a job does not guarantee the ability to escape poverty, which is why sustainable development requires societies to create conditions that allow people to have access to dignified jobs. SDG 8 includes combating forced labor, slavery, and human trafficking; it stimulates better efficiency in

[21] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 38.
[22] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, pp. 40-41.

global resource consumption to foster sustainable economic growth. The global economy grew by an average of about 2 percent from 2014 to 2018. In 2019, real gross domestic product (GDP) per capita increased by only 1.3 percent globally and is estimated to decline by 4.6 percent in 2020. With the launch of vaccines and government aid, a global economic recovery is underway. Global GDP per capita is projected to increase by 4.3 percent in 2021 and 3.1 percent in 2022. However, for many countries, economic growth is not expected to return to pre-pandemic levels until 2022 or 2023[23].

- **SDG 9, Industry, innovation and infrastructure**: Building a responsive infrastructure and promoting innovation and equitable, responsible, and sustainable industrialization. Sustainable industrial development is the primary source of income generation, leading to rapid and sustained increases in people's standard of living. Goal 9 also aims to provide small businesses with greater access to affordable credit and financial services, as well as to support universal access to the internet. Lack of resilient infrastructure, information and communication technology, and basic services limits a country's ability to perform and adapt to shocks. For the global community to achieve Goal 9, industrialization, improving infrastructure, and fostering technological innovation by increasing investment in research and development are essential[24].

- **SDG 10, Reduced inequalities**: Reduce inequality within and among nations. Although important progress has been made, inequalities, particularly related to income among and within countries, are still pronounced. This leads to unequal access to health, education, and other services necessary for adequate development. SDG 10 aims at income growth for the poorest classes, achieving social,

[23]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p.42.
[24]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 44.

economic, and political inclusion for all by 2030. Prior to COVID-19, the average Gini index, which is one of the most used measures of income inequality, was declining for emerging markets and developing countries. However, the International Monetary Fund's World Economic Outlook, October 2020 estimates that COVID-19 will increase the average Gini index for these countries by 2.6 points to 42.7 (a 6 percent increase). This will reverse the decline in inequality since the global financial crisis of 2007-2009. For low-income countries, the impact is expected to be even greater, even though these countries have made less progress in reducing inequality since 2008[25].

- **SDG 11, Sustainable cities and communities**: Make cities and human habitats inclusive, safe, durable, and sustainable. Given that more than half of the world's population lives in cities, with an estimated 70 percent by 2050, Goal 11 represents one of the most important objectives within the Agenda. The aim is to support more inclusive and sustainable forms of urbanization, mitigate the negative environmental impacts of cities, ensure universal access to safe public spaces, and create an efficient and secure transport network. Responding to the crisis, some cities emerged as engines of economic recovery, centers of innovation, and catalysts for social and economic transformation. Recovery from the pandemic offers an opportunity to rethink and re-imagine urban areas as centers of sustainable and inclusive growth[26].

- **SDG 12, Responsible consumption and production**: Ensure sustainable models of production and consumption. Improving degradation and pollution within the production cycle is necessary for enhancing the quality of life of the people of Planet Earth. Goal 12 points to environmentally sustainable management of

[25] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 46.
[26] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 48.

chemicals, reduction in waste production, halving food waste and promoting sustainable procurement policies. Globally, new renewable electricity capacity installations have witnessed significant growth over the past decade, surpassing non-renewable electricity capacity installations since 2012 and steadily since 2015. For the first time, in 2018 the majority of new renewable electricity capacity was installed in developing countries. In 2019, developing countries had 219 watts per capita of renewable energy capacity. However, renewable energy capacity was 880 watts per capita in developed countries, four times higher than in developing countries, suggesting that there is still room for growth[27].

- **SDG 13, Climate action**: Take urgent action to combat climate change and its impacts. Combating climate change is critical to the continuation of human life; drawing on the Paris Agreement and the United Nations Framework Convention on Climate Change, Goal 13 seeks to strengthen resilience to natural disasters, as well as re-promote international cooperation to protect the climate. Despite a pandemic-related economic slowdown, the climate crisis continues largely unabated. A temporary reduction in human activities has led to a decline in emissions. However, greenhouse gas concentrations continued to rise in 2020, reaching new all-time highs. The world remains woefully off track in meeting the Paris Agreement's goal of limiting global warming to 1.5°C above pre-industrial levels and achieving net global carbon dioxide (CO2) emissions by 2050[28].

- **SDG 14, Life below water**: Preserve and make a responsible use of the oceans, seas, and marine resources for the sake of sustainable development. The world's oceans influence global systems by enabling humans to inhabit Planet Earth. Through the targets of Goal 14, the aim is to minimize ocean acidification by

[27]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 51.
[28]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 52.

2025 while protecting marine and coastal ecosystems. Achieving Goal 14 requires the implementation of international instruments, through legal and institutional frameworks, for the conservation and sustainable use of the oceans in a cross-sectoral and integrated manner. While progress has been made, implementation varies across instruments, highlighting the need for renewed effort and support[29].

- **SDG 15, Life on land**: protect, restore, and promote sustainable use of the Earth's ecosystem, prevent desertification, halt, and reverse land degradation, and halt the loss of biological diversity. Thirty percent of the Earth's surface is covered by forests, which are an essential source of climate change mitigation and biodiversity protection. Every year 13 million hectares of forests are lost, that's why SDG 15 is aimed at stopping the process of deforestation, ensuring the restoration of lost forests and the protection of biodiversity through the introduction of urgent measures against poaching and trafficking of protected species. To address these challenges, considerable efforts are being made to expand sustainable forest management and protect critical biodiversity sites. Countries are also enacting laws and accounting standards to make sure wildlife " matters " and address threats to biodiversity[30].

- **SDG 16, Peace, justice and strong institutions**: Promote peaceful and more inclusive societies for sustainable development; provide access to justice for all; and create effective, accountable, and inclusive bodies at all levels. It is one of the founding goals of the United Nations; countries at peace are more likely to achieve the SDGs unlike countries affected by conflict. SDG 16 aims to combat all forms of violence, promotes the fight against corruption and bribery, illicit arms trafficking, and access to equitable justice for all. the crisis has created major disruptions in

[29] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 55.
[30] UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 56.

the functioning of government and has challenged, weakened, and sometimes even destroyed countries' systems of rights and protection. The pandemic is disproportionately affecting the most vulnerable around the world, with children at high risk. Recovery from the crisis and sustainable development must be built on a foundation of peace, stability, respect for human rights, effective governance, and the rule of law[31].

- **SDG 17, Partnership for the goals**: Strengthen the means of implementation and renew the global partnership for sustainable development. It defines the actions to be taken to ensure that the goals included in the 2030 Agenda can be achieved, and for this reason, is the most complex objective of the Agenda. It addresses 7 different thematic areas: finance, technology, capacity building, trade, institutional coherence, and policy, multilateral collaboration programs, data, monitoring, and accountability. The pandemic is further testing multilateral and global partnerships that were already shaky. Although official development assistance (ODA) increased and remittance flows fell less than expected in 2020, foreign direct investment (FDI) fell by 40 percent. The interconnected global economy requires a global response to ensure that all countries, particularly developing countries, can address compound and parallel health, economic, and environmental crises and recover better[32].

The Agenda also stresses the importance of active participation of all stakeholders in order to achieve the ambitious goals. For the further development of this thesis, it is crucial to examine the role of the private sector, which is called to align business strategies with the SDGs. It is necessary that the proposed concept of sustainability is integrated within the corporate mechanisms, thus becoming an integral part of the corporate culture. It

[31]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 58.
[32]UNITED NATIONS, *The Sustainable Development Goals Report 2021*, p. 60.

is emphasized the importance played by enterprises in their development process "We acknowledge the role of the diverse private sector, ranging from micro-enterprises to cooperatives to multinationals, and that of civil society organizations and philanthropic organizations in the implementation of the new Agenda."[33]. If private companies accept the challenge of implementing a business model oriented towards social development and sustainability, they could become a key driver within this process through the creation of jobs, goods and services, skills, environmental sustainability, opportunities, and relationships.

1.2.2 The Significance of SDGs Inclusion by the Private Sector

Understanding why business implementation of the 2030 Agenda Goals is required is an important consideration. According to Scheyvens et al., the 2030 Agenda gives business a key role in the implementation of sustainable development. Businesses are in charge of providing a meaning to the goals determined by the Agenda and are the key players in setting goals and strategies for their implementation[34]. Thus, the private sector must adopt the SDGs as it takes on a significant role in influencing the very development of SDGs. Many scholars argue that the private sector has several characteristics that can be used to achieve the SDGs, including innovation, responsiveness, efficiency, and possession of specific skills and resources. The 2014 United Nations Global Compact White Paper argues that a new paradigm in theories of sustainable development is to recognize the centrality of private enterprise in pursuing the development agenda and vice versa. In fact, businesses, through their activities, are capable of creating new jobs, fostering access to and improving health care, creating new technologies that promote sustainable development, and driving business toward more responsible use of

[33]UNITED NATIONS, “Transforming our world: the 2030 Agenda for Sustainable Development”, p. 10.

[34]R. SCHEYVENS et al., “The Private Sector and the SDGs: The Need to Move Beyond ‘Business as Usual’”, *Sustainable Development*, vol. 24, no. 6 (2016), pp. 371-382.

resources such as, for example, water and energy[35]. Hence, businesses not only play an important role in the concrete implementation of the SDGs, but actually a crucial one. Embedding the SDGs within business strategy is crucial to their effective implementation and simultaneously brings benefits to businesses that embrace them. In 2018, it was estimated that the SDGs would generate market opportunities of at least $12 trillion by 2031, due to the detection and reduction of risks to people and the environment and due to the production of new products and services useful for sustainable development from which businesses can benefit[36]. The SDGs address many sustainable development issues relevant to companies, such as poverty, health, education, climate change and environmental degradation. As a result, companies, by carrying out activities related to these themes, are able to link corporate strategy with global priorities, thus contributing to sustainable development. Companies using the SDGs can benefit from the following advantages:

- *Using a common language and shared purpose*: The SDGs define a framework for action and a common language through which companies will be able to communicate their impact and social performance more effectively. In addition, the goals push companies to collaborate with each other in order to jointly address the most compelling social challenges;
- *Identification of future business opportunities*: the SDGs aim to redirect global public and private investment flows towards their own challenges. In doing so, they are creating growth marketplaces for companies;
- *Enhance corporate sustainability*: although the business of corporate sustainability is already well-established, the SDGs can, for example, create new economic

[35]CHARTERED GLOBAL MANAGEMENT ACCOUNTANT, *Creating a sustainable future. The role of the accountant in implementing the Sustainable Development Goals*, 2018.

[36]GRI & UN GLOBAL COMPACT, *Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide*, 2018.

incentives for companies that use resources more efficiently or switch to more sustainable alternatives;

- *Strengthen stakeholder relationships and stay ahead of regulatory development*: the SDGs are aligned with both stakeholder expectations and future regulatory development at the international, national, and regional levels. Companies' commitment to the SDGs helps demonstrate legitimacy to stakeholders. On one hand, firms that take the SDGs into account are able to improve their relationships with customers, employees, and other stakeholders. As a result, they are more likely to succeed in retaining talented employees and attracting and retaining customers in the long run[37]. On the other hand, those who fail to consider the SDGs are likely to suffer reputational damage and are exposed to greater legal risks;
- *Stabilization of society and markets*: companies cannot succeed if the society in which they operate is characterized by a corrupt government system and/or economic and social difficulties. Companies that adopt the SDGs improve the business in which they operate by encouraging the existence of regulated markets, transparent financial systems and non-corrupt institutions;
- *Using a common language and shared purpose*: SDGs define a framework for action and a common language through which companies will be able to communicate their impact and social performance more effectively. In addition, the goals push companies to collaborate with each other in order to jointly address the most compelling social challenges[38].

Firms that embed the SDGs within their business strategy, therefore, tend to be capable of adapting well to upcoming changes in the competitive and regulatory environment,

[37]W. SCHRAMADE, "Investing in the UN Sustainable Development Goals: Opportunities for Companies and Investors", *Journal of Applied Corporate Finance*, vol. 19, no. 2 (2017), pp. 87-99.

[38]GRI & UN GLOBAL COMPACT & WBCSD, *SDG Compass. The guide for business action on the SDGs*, 2015.

having a lower likelihood of needing to stop production activities prematurely to accommodate changes.
The responsiveness of these companies contributes positively to their operational and financial performance. In fact, according to a recent study, companies with sustainable operations have lower financial volatility, higher sales growth, and a better chance of survival in the medium to long term[39].

Furthermore, firms' implementation of the SDGs improves overall non-financial performance. According to a study that samples the 2019 DNFs of 202 companies, companies that take into account SDGs have better non-financial performance. The study reveals that companies' inclusion of the SDGs appears to be correlated with better non-financial performance, which was measured by Environmental, Social and Governance (ESG) score and ESG combined score. These are two measurement systems: the first measures a company's ESG performance based on public data; the second provides an assessment of the company's sustainability impact and conduct by overlaying the ESG score with their ESG disputes[40].

1.3 The Impact of ESG Investors for Sustainable Development

The transformation process that has taken place in recent years following the signing of the 17 Sustainable Development Goals and the Paris Agreement, has led to changes in the world of finance and consequently on investors. It has heightened the awareness of the long-term sustainability of investment not only from an economic perspective, but also from an environmental, social and governance (ESG) perspective. The Sustainable Finance Working Group has sought to provide a common definition of Responsible In-

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[39] *Ibid.*

[40] DELOITTE, UNIVERSITÀ DI PAVIA DIPARTIMENTO DI SCIENZE ECONOMICHE E AZIENDALI, *Osservatorio Nazionale sulla Rendicontazione Non Finanziaria*, 3rd ed., Mar. 2021.

vestment: "Sustainable and Responsible Investment is a medium- to long-term oriented investment strategy that, in evaluating companies and institutions, integrates financial analysis with environmental, social and good governance analysis in order to create value for the investor and for society as a whole."[41]

1.3.1 PRI: Principles for Responsible Investment

With the purpose of fostering the diffusion of sustainable finance principles among institutional investors, in 2006 the United Nations published the PRI-Principles for Responsible Investment, which are six steps investors should take to integrate ESG criteria into their investment choices. These principles are as follows:

- Embed ESG parameters into financial analysis and investment decision-making processes;
- Be proactive shareholders and embody ESG parameters in shareholder policies and practices;
- Require accountability on ESG metrics from investee corporations;
- Advocate for the acceptance and implementation of PRIs in the financial industry;
- Cooperate to improve the implementation of PRIs;
- Periodically reporting on activities and progress in applying the principles;

There are a variety of ways to deploy a sustainable investment, although it is possible to divide the approaches into two categories:

- Take ESG issues into consideration as early as the making of the investment portfolio. In this case, ESG issues can be incorporated into investment practices using a combination of the following three different approaches.

[41] *See at https://finanzasostenibile.it/attivita/definizione-di-investimento-sostenibile/*

  - o *Integration*. Inclusion of ESG factors in the investment analysis and selection process in order to mitigate risk and improve returns in the future;
  - o *Screening*. Enforcing a screening process on investments based on investor preferences;
  - o *Thematic*. Trying to balance long-term profit and the intention to contribute to a specific environmental or social target.

- Enhancing ESG performance of the companies in which one has already invested. Investors shall encourage companies in which they already invest to implement a risk management model that develops sustainable business practices. There are two different approaches to this issue.
  - o *Engagement*. Discuss ESG issues with the company in order to increase understanding and the importance of accounting for these factors.
  - o *Proxy Voting*. Casting your vote in shareholder discussions on a specific ESG issue[42].

Three major drivers of responsible investing can be identified:

- *Materiality*: the acknowledgement that ESG factors influence the degree of risk and profitability of the investment;
- *Client demand*: the growing demand from stakeholders for greater transparency concerning how firms invest their returns;
- *Regulation*: the various guidelines published at national and international level, aimed at positioning the issue of sustainable finance as central to the process of sustainable development.

[42] *See at https://www.unpri.org/an-introduction-to-responsible-investment/what-is-responsible-investment*

Broadening the motivations that should push investors to be aware of climate change issues was the release of the guide *Climate change and the just transition: A guide for investor* action prepared by the Grantham Research Institute on Climate Change and Environment in collaboration with UN PRI. The guide takes up a key requirement of the Paris Agreement, namely the just transition: "Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities"[43]. It consists of a process that involves both governments and businesses, capable of creating the blueprints, policies and investments that will generate a future in which employment is higher and sustainable, net emissions are reduced to zero, extreme poverty is eradicated, and communities grow through resilience. As a matter of fact, the Paris Agreement makes one specific demand, the implementation of national climate change plans that include just transition measures and place quality of work as one of the priority goals. "As fiduciaries, investors can make an important contribution to achieving a just transition, as stewards of assets, allocators of capital, and as influential voices in public policy"[44]. The report outlines a series of actions that investors must take to accelerate the process of sustainable development:

- Considering indirect issues related to climate change, such as the phenomena of social exclusion and increased inequality which are closely linked;
- Considering social and environmental drivers in long-term performance assessments;
- Recognize the benefits of good practices implemented by companies, such as energy efficiency processes and the introduction of circular economy mechanisms;

[43]UNITED NATIONS, *Paris Agreement*, 2015.
[44]THE GRANTHAM RESEARCH INSTITUTE ON CLIMATE CHANGE AND THE ENVIRONMENT, *Climate change and the just transition. A guide for investor action*, London School of Economics and Political Science, 2018.

- In order to ensure a just transition, consider investments that are also highly relevant from an environmental and social point of view;
- To be an active investor in companies, undertaking actions that address respect for human and labor rights, developing the capacity to innovate processes to implement the SDGs.

1.3.2 EU Contribution towards Sustainable Growth

All of the issues described in the above paragraph are summarized at the European level by the recommendations included in the Action Plan for Financing Sustainable Growth, which is a report, backed by the European Commission, drafted by sustainable finance experts as the result of two years of work. According to them, sustainable finance is based on two very precise obligations:

- Enhance the contribution of finance to sustainable and inclusive growth by finalizing the long-term needs of society;
- Strengthen financial stability by integrating environmental, social and governance factors into investment decision-making.

Having outlined the basics, there are essentially three goals for the action plan:

- Redirect capital flows to sustainable investments in order to achieve sustainable and inclusive growth;
- Manage financial risks derived from climate change, resource depletion, environmental degradation, and social issues;
- Promote transparency and long-term vision in economic and financial activities.

With regard to the first point, the lack of clarity among investors on when to consider an investment sustainable or not is highlighted. This is the reason why, compared to the

2030 targets, Europe accuses a gap of 180 billion euros of investments per year, despite some good results such as the renewal of the European Fund for Strategic Investments (EFSI) for a total of 500 billions of which 40% is allocated to projects related to climate, infrastructure and innovation. Hence in December 2018, the European Commission opened consultations to reach a taxonomy of sustainable activities. The expert group (Technical Expert Group on Sustainable Finance-TEG) published the final report in March 2020 with reference to six main objectives: climate change mitigation, climate change adaptation, sustainability and protection of water and marine resources, transition to circular economy, pollution prevention and control, and finally protection of biodiversity and ecosystems. This paper is meant to be a guide to help investors and companies transition to a low-carbon, resilient and resource-efficient economy. "The EU Taxonomy is one of the most significant developments in sustainable finance and will have wide ranging implications for investors and issuers working in the EU, and beyond."[45].

Regarding financial risks deriving from climate change, the action plan recalls how almost 50% of the risk exposure of banks in the Euro zone depends directly or indirectly on risks deriving from climate change; furthermore, factors such as inadequate working conditions or inequality affect financial companies, including from a legal point of view, undermining long-term growth prospects.

In the third point, the aim is to highlight transparency and sustainability reporting, which is favored by new technologies, and which allows companies to attract new customers and investors.

[45]EU TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE, *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance*, tech. rep., European Commission, Mar. 2020.

CHAPTER 2

Sustainability Reporting and Reporting Principles

2.1 The Development of Corporate Reporting

Corporate reporting is a collection of useful information through which companies engage with their respective financial markets[46]. The regulation of corporate reporting has undergone significant changes in recent years, mainly due to two reasons: the inadequacy and insufficient content of corporate reports during financial crises around the world, especially during the 2008 global financial crisis, and the need to find a uniform reporting standard for all corporations[47].

Financial reporting has had to be adjusted to a context which, in recent years, has undergone various changes, such as: the quality of goods and services traded, the introduction of new communication technologies, the increase in people's awareness of

[46] M. FASAN and S. BIANCHI, *L'azienda sostenibile Trend, strumenti e case study*, Edizioni Ca' Foscari, 2017.

[47] C. LEUZ, "Different approaches to corporate reporting regulation: How jurisdictions differ and why", *Accounting and Business Research*, vol. 40, no. 3 (2010), pp. 229-256.

given issues, such as sustainability and the introduction of new regulations and international benchmark standards. For years, financial reporting has been considered the company's primary tool for conducting external communications.

The purpose of financial statements is to deliver disclosures, almost all of which are financial ones, used by parties, such as investors and markets, who considered that financial statements contain all the required information to assess corporate value[48]. Employing only financial indicators, in particular those contained in financial statements, to determine real economic value and to predict future economic performance, presents some major limitations.

As previously noted, this approach has been found to be unsuitable over time. These limits reside within the following reasons[49]:

- Financial Statements only reflect transactions with external stakeholders. By contrast, many changes in the value of the organization are not driven by external transactions and, therefore, are not accounted for in financial statements.

- The chosen metric affects the profit to be earned from accounting data. This implies that the same event can be accounted for in several different forms resulting in multiple values.

- The profit obtained from accounting data is determined by accounting principles that are mostly conservative and prudential.

- Certain economic values and fluctuations of value that accounting cannot accurately quantify are not accounted for in the calculation of profit.

- A company's investments in intangible assets are represented through a book value which, in most businesses, does not tally with actual market value. That

[48] *Ibid.*

[49] K. A. MERCHANT and W. A. VAN DER STEDE, *Management Control Systems. Performance Measurement, Evaluation and Incentives*, Pearson, 2017.

occurs even despite the fact that, for many companies, these assets are of great significance.

- Financial statements account for the cost of borrowed capital, but not for the cost of equity. Businesses have a real economic return only when the return on their equity is greater than the cost of that equity, thus failing to consider the cost of equity overestimates the difference between the returns and costs. Further, equity is well known to be more expensive than debt capital. Not taking into account those costs within the financial statements does not allow for results comparison among companies that do not have the same debt to equity ratio.

- Accounting profit does not reflect risks and their fluctuations. For instance, if firms do not alter the model of their expected future cash flows and their timing, but rather only make them more assured and therefore less risky, they increase their economic value. Such change in value is not depicted within accounting data.

- Accounting data are a representation of what occurred in the past. Economic value, on the other hand, derives from future outlooks. Past performance may not necessarily be an accurate and predictive indicator of future performance.

It has become evident that to properly assess medium- and long-term performance of a company, which is the major focus of institutional investors, it is essential to have not only financial information, but also available information on non-financial performance not included in annual financial reports. Therefore, there comes the need to introduce a corporate governance instrument designed to include not only financial information, but also non-financial information and, in particular, to capture ESG related performance disclosures.

Embedding ESG performance disclosures in corporate reports is valuable for multiple

reasons. First, some studies point out that firm's inclusion of ESG factors is positively correlated with financial performance. A literature review that gathered findings from 2,200 empirical studies conducted between the 1970s and 2015 revealed that 90% of the studies considered show a significant positive relationship between ESG factors and corporate financial performance. Further, the study also reveals the positive impact of ESG factors on corporate financial performance to be stable over time[50].

The importance of including ESG performance information in corporate reports is further supported by the interest of a specific type of institutional investor in socially responsible investing, Socially Responsible Investment (SRI), which demands non-financial ESG performance information. Socially responsible investing has been growing in recent years and is becoming an increasingly popular practice among investors. Indeed, they have become a known and adopted type of investment practice by many major institutions capable of leveraging businesses. According to the latest release of the Global Sustainable Investment Review from the Global Sustainable Investment Alliance (GSIA), between 2016 and 2018, SRI investments exceeded $35 trillion, a 15% increase over the last two years (2018-2020) and a 55% increase over the last four (2016-2020)[51].

Businesses used to include information on ESG performance in the "sustainability report", a document created in the 1970s that provided mostly non-financial information on social and environmental performance[52]. Over the years, some shortcomings concerning sustainability reports have been observed: they are often lengthy documents in which key concepts are easily lost, they are often considered unreliable, as they tend to disclose only positive sustainability performance, excluding information on negative impacts, and they do not explain the link between social and environmental performance and economic-financial performance. Integrated reporting emerged in response

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[50] G. FRIEDE et al., "ESG and financial performance: aggregated evidence from more than 2000 empirical studies", *Journal of Sustainable Finance & Investment*, vol. 5, no. 4 (2015), pp. 210-233.

[51] GLOBAL SUSTAINABLE INVESTMENT ALLIANCE, *Global Sustainable Investment Review 2020*, 2020.

[52] *See note 46*

to the growing need to have a broader view of companies' information and to the need of SRI investors to have a better tool to obtain information about the company's sustainability activities. Integrated report is now considered the evolution of the state of the art of corporate reporting[53].

2.1.1 Reporting on Sustainability

The sustainability report is a report published by a private company or an organization concerning the economic, social, and environmental impact caused by the company's activities. Moreover, it is a document able to display values and governance model of the organization and to prove the connection between the strategy adopted and the commitment towards a sustainable economy transformation[54]. The sustainability report is the key model for communicating sustainability performance and impacts, whether positive or negative; it is considered a universal synonym for triple bottom line reporting, the Corporate Social Responsibility Reporting.
To this date, most sustainability disclosures remain voluntary in nature and are driven primarily by societal pressure to disclose. As stated by Tanya M. Lee and Paul D. Hutchison in their research: "societal, firm/industry, and individual factors can, individually and working in concert, influence the decision to disclose environmental information"[55].
The drivers for organizations to publish a sustainability report can be primarily related to three macro factors:

- Society-related factors, such as laws and regulations, legality, public pressure, and communications;

[53] *Ibid.*
[54] *GRI 101: Foundation 2016*, GLOBAL SUSTAINABILITY STANDARDS BOARD, 2016.
[55] T. M. LEE and P. D. HUTCHISON, "The Decision to Disclose Environmental Information: A Research Review and Agenda", *Advances in Accounting*, vol. 21 (2005), pp. 83-111.

- Company-related factors, such as company characteristics and profitability analysis to gain competitive advantage:
- Individual factors, such as culture and attitude.

A brief digression is necessary to consider the impact of the introduction of laws and regulations which not only affect the increase in the number of sustainability disclosures, but also improve the level of standardization and comparability of the data reported. If the sustainability reporting is left entirely to the discretion of the management, it becomes useful for the sole purpose of increasing the reputation of the company without, however, constituting a reliable form of disclosure to stakeholders and investors. Within the literature, it is possible to identify further motives that push companies to make sustainability disclosures:

- "The influence of a discrediting event, such as an environmental disaster, and its associated publicity"[56];
- The scale of the company, with larger firms reporting more intensively on sustainability;
- The company's sector of reference, where sustainability reports are more frequent within sectors where the environmental impact is more considerable, such as the chemical, gas and energy, automobile, and airline industries.

Sustainability performance reporting, in addition to its external function, may thus also have the internal function of helping the company to measure its sustainability performance and to develop its own sustainability performance measurement systems that are specific to the company's business. Sustainability reports can be consulted by companies to understand their strengths and weaknesses and to identify possible interdependencies within them.

[56] *Ibid.*

2.2 The Major Sustainability Reporting Standards

Sustainability reporting has become widely practiced over the past decades. Companies drafted such reports voluntarily, on a voluntary basis, as there was no legislation requiring them to be drafted.
The first sustainability reports in Italy suffered from the lack of legislation to guide and impose their drafting and the unavailability of standards and indications from legal theory or practitioners about the content, the type of information to be included and the principles underlying their drafting. As a result, the reports published in early years had different labels, they were not homogeneous, difficult to compare and replicable in terms of both time and space, as they were based on different reporting methods and contained different information.
Once the requirement to report on sustainability became widespread, it proved difficult to measure company performance related to this issue. In response to this problem, over the past decades, many initiatives have been developed in order to define standards and guidelines for measuring and reporting the impact of companies' CSR activities. This led to a period characterized by the simultaneous presence of many differentiated standards that, instead of solving the issue, led to confusion among companies. Thereafter, some standards became more established than others. This has made it easier to compare and repeat sustainability reports over time, and it is now easier to compare the social and environmental performance of different companies[57].
Standards applied in sustainability reporting can either be process standards or content standards. Process standards explain processes of building a sustainability report, merely explaining the principles to be used during its drafting, while content standards define the structure of the report and its content.

[57]P. RIVA, *Ruoli di Corporate Governance. Assetti organizzativi e DNF*, Egea Editore, 2020.

Listed below are some of the primary reporting standards for non-financial information that have been established over the past few years.

2.2.1 Institute for Social and Ethical Accountability, AA1000

In 1999, the Institute of Social and Ethical Accountability (ISEA) developed the AA1000 Accountability Principles framework. These are a set of process standards designed for the purpose of improving the reporting performance of organizations through a process of stakeholders' engagement and collaboration. Their application can be twofold, providing a complement and reinforcement to other standards used or being adopted as a stand-alone system and process for managing and communicating performance and social and ethical responsibility. Their goal is not to replace existing reporting standards, but to complement them, providing useful practices and perspectives for developing additional, eventual approaches to dialogue with key stakeholders.

It is composed by a set of three standards:

- *AA1000 AccountAbility Principles*. Underlying the Standards Series, there is an internationally accepted, principles-based framework that guides organizations through the process of identifying, prioritizing, and responding to sustainability challenges, with the goal of improving long-term performance.
- *AA1000 Stakeholder Engagement Standard*, is the stakeholder engagement standard that supports organizations in their efforts to assess, design and implement an integrated approach to stakeholder engagement, and communicate, fairly and accurately, with stakeholders and the public about those efforts.
- *AA1000 Assurance Standard*, is the approach used for sustainability-related assurance activities to assess the nature and extent to which an organization adheres to the Principles of Accountability.

The A1000 series of standards is rooted in the following principles[58]:

- *Inclusivity*. Include people in decisions that affect them;
- *Materiality*. Clearly identify and address key sustainability issues;
- *Responsiveness*. Acting transparently on sustainability and the impacts businesses generate;
- *Impact*. Businesses must monitor, measure, and be accountable for actions that impact broader ecosystems .

The AccountAbility 1000 framework analytically examines the process of implementing a social accounting and reporting system in the enterprise and breaks it down into five key steps:

- *Planning*. In this stage, the company's values, social and ethical goals, and stakeholders are outlined;
- *Accounting*. The process is defined, information is gathered, indicators and objectives are chosen, and improvement plans are developed. In addition, the impact of the company's activities on the various stakeholder groups is assessed, if such activities may pose any issues to them;
- *Auditing and reporting*. This is the stage in which the report is written and submitted to the stakeholders for approval. In this step there has to be the relation between the achieved performance and the set objectives and a comparison with the data of the previous year;
- *Embedding*. Development of processes through which the report is strengthened and integrated into the company's broader business processes;

[58] *AA1000 AccountAbility Principles*, AccountAbility, 2018.

- *Stakeholder engagement*. All of the aforementioned steps must include engagement and communication with stakeholders.

2.2.2 UN Global Compact and the Communication on Progress (COP)

The UN Global Compact is a United Nations initiative that encourages companies to follow the Ten Principles relating to human and labor rights, environmental protection, and anti-corruption. In addition, the initiative helps companies achieve the UN's broader development goals. Companies participating in the initiative are required to publish the Communication on Progress - COP (Annual Communication), which is a paper describing the activities the company undertakes to incorporate the Ten Principles into its business and the efforts it makes to support issues of societal relevance.
For 2022, UN Global Compact participants can elect to:

- Voluntarily report to use the enhanced CoP by participating in the Early Adopter program. Participants interested in disclosing via the enhanced CoP as early as 2022 can join this initiative and have the opportunity to also help test the enhanced digital platform prior to its implementation for all participating companies in 2023;
- Continue to employ the CoP's current format and deadline schedule.

The document shall, at the least, include: a statement from the CEO expressing ongoing support for the UN Global Compact and reaffirming the participants' commitment to the initiative; a description of the tangible actions the company has taken to implement the Ten Principles; and a measurement of the results achieved[59].

2.2.3 Gruppo di Studio per il Bilancio Sociale (GBS)

The Standards of the Gruppo di Studio per il Bilancio Sociale are an operational guide that contains useful indications for the drafting of the Social Report. They represent

[59] *See at https://www.unglobalcompact.org/participation/report/cop*

a neutral point of view, aimed at guaranteeing the completeness and reliability of the information, as well as the transparency of the process followed to gather, process, and present it.
The goals of the Social Report are the following:

- Making all information relating to the company's performance available to stakeholders, thus establishing a process of interactive social communication;
- provide information on the quality of the company's activities in order to broaden stakeholders' knowledge, including ethical and social issues, to enable them to assess in a more informed way.

The quality of the drafting process of the Social Report and its information is guaranteed by compliance with the following principles: Accountability, Identification, Transparency, Inclusion, Consistency, Neutrality, Third Party Autonomy, Period Competence, Prudence, Comparability, Comprehensibility, Clarity and Intelligibility, Periodicity and Recurrence, Homogeneity, Utility, Significance and Relevance, Verifiability of Information, Reliability and Faithful Representation[60].

2.3 Global Reporting Initiative

The Global Reporting Initiative (GRI) Standards are the most widely adopted standards for sustainability reporting nationally and internationally. The GRI Standards are content standards that provide a common language through which companies can disclose and comprehend their economic, environmental, and social impacts. Their goal is to improve the quality and comparability of information related to sustainability.
Starting from the definition

[60] *See at http://www.gruppobilanciosociale.org/pubblicazioni/pubblicazioni-g-b-s/*

> "Sustainability reporting, as promoted by the GRI Standards, is a corporate practice of public reporting of its economic, environmental and/or social impacts and thus of its contributions - positive or negative - towards the goal of sustainable development"[61],

the composition of the GRI Standards, is shaped by a modular and interconnected structure, which makes them more easily accessible and usable by companies which can use the specific principles of the sector in which they do business.
In 2021, the Guide underwent its latest update. The new GRI Standards model is divided into three macro-groups, Universal Standards, Sector Standards, and topic Standards, which in turn are divided into different modules.
The new Universal Standards, as mentioned above, which are in turn further split into three modules, will actually become effective starting January 1st, 2023. They are structured as follows:

- **GRI 1 Foundation**. It represents the starting point for the use of GRI standards, and it contains the basic principles and recommendations needed to produce a compliant report[62].
- **GRI 2 General Disclosures**. It outlines the ways in which to report the so-called Context Information, which can include strategy, governance, and stakeholder engagement. This information gives insight into the profile and scale of organizations and provides a framework to understand their impact[63].
- **GRI 3 Material Topics**. It provides guidelines for organizations on how to determine material topics. It also explains how Sector Standards are used in this process. It includes information for organizations to report on their action of de-

[61] *GRI 101: Foundation 2016*.
[62] *GRI 1: Foundation 2021*, GLOBAL SUSTAINABILITY STANDARDS BOARD, 2021.
[63] *GRI 2: General Disclosures 2021*, GLOBAL SUSTAINABILITY STANDARDS BOARD, 2021.

termining material topics, their list of material topics, and how they manage each of their respective material topics[64].

The Universal Standards are used by all organizations when they report in accordance with GRI standards. Organizations use the Sector Standards based on the industries in which they operate, and the Topic Standards based on their list of material topics.
The Sector Standards provide information to organizations about their likely material topics. The organization uses the Sector Standards that apply to its sectors when determining its material topics, and when determining what information to report for material topics. Topic Standards contain information that allows the organization to report information about its impacts in connection with specific topics. Topic standards cover a wide range of issues. The organization uses topic standards according to the list of material topics it has determined using GRI 3[65].
Next, only Universal Standards will be analyzed in order to provide an overview of the general guidelines for developing the sustainability report according to GRI.
To facilitate readability and understanding each standard is in turn divided into 3 sections:

- *Requirements and Guidance*. These are mandatory instructions or guidelines; however, it is not strictly necessary for the firm or organization to be obliged to include all of the requirements in drawing up a report in accordance with the standards;
- *Recommendations*. In some cases, there are indications of actions that should be taken;
- *Defined Terms*. These provide contextual variables or examples to help better understand what information to report.

[64] *GRI 3: Material Topics 2021*, GLOBAL SUSTAINABILITY STANDARDS BOARD, 2021.
[65] *GRI 1: Foundation 2021*.

As previously mentioned, GRI 1 contains the requirements and principles for drafting a sustainability report according to the standards.
The principles are fundamental and compulsory in order to produce a quality sustainability report. Indeed, the key principle underlying the fundamental characteristics of a sustainability report drawn up in accordance with GRI standards is the extent to which it can be read and assessed in a clear and comprehensible way by anyone interested in understanding the performance of the action being considered in terms of sustainability. The principles are as follows: Accuracy, Balance, Clarity, Comparability, Completeness, Sustainability context, Timeliness, Verifiability. Among these, the principle of sustainability context is certainly considered as one of the most relevant and distinctive. Sustainability context refers to an organization's obligation to present its performance within a sustainable context where the purpose is to present the organization's performance in respect to broader concepts of sustainability. This includes the analysis of performance within the context of economic, environmental, or social resource constraints and demands at the sectoral, local, regional, or global level[66]. A further requirement is that there should be maximum transparency about the organization's strategy and sustainability issues, as well as the context in which the disclosures are made.

An organization can either draft the report in full accordance with GRIs or use them as a reference. In both cases, however, certain requirements have to be fulfilled.
Reporting in accordance with GRI standards allows an organization to provide a complete overview of its most significant impacts on the economy, environment, and individuals, including impacts on human rights, and how it manages those impacts. This allows users of information to make informed assessments and decisions about the

[66]*GRI 1: Foundation 2021*, p. 22.

organization's impacts and its contribution to sustainable development[67].

The organization has to meet all nine of the following requirements if it intends to claim that its reporting complies with GRI standards:

- *Apply the reporting principles*. The organization must implement all Reporting Principles to define the content and quality of the report.
- *Report the disclosures in GRI 2: General Disclosures 2021*. The organization must report all required disclosures in accordance with GRI 2 2021: General Disclosures.
- *Determine material topics*. The organization must disclose its material topics using the Reporting Principles to define the report content. The organization shall refer to the GRI Sector Disclosures related to its industry, where available, to determine which topics applicable to its industry are also material to the company. If there are some non-material topics, the organization shall report them in the GRI Content Index explaining the reasons for their exclusion.
- *Report the disclosures in GRI 3: Material Topics 2021*. The organization must produce a list itemizing each of its material topic. For each one, the organization must report disclosures about how it is recognized and managed for that issue using GRI 3 2021.
- *Report disclosures from the GRI Topic Standards for each material topic*. The organization should report disclosures specific to its material topics in accordance with the relevant GRI Topic Standard, if the material topic is covered by an existing GRI Standard (200, 300 and 400 series), or it should explain their non-applicability in the GRI content index. In the event that the material topic is not covered by a GRI Topic Standard, the organization must report its management information for that topic following Disclosure 3-3 of GRI 3: Material Topics 2021.

[67] *GRI 1: Foundation 2021*, p. 11.

- *Provide reasons for omission for disclosures and requirements that the organization cannot comply with*. In instances where the organization cannot comply with the disclosure of information for which reasons for omission are permitted, the organization must acknowledge this in the GRI Content Index by specifying which disclosure it cannot comply with. It must also provide a reason and explanation for omission from among the following, Not Applicable, Legal Prohibition, Confidentiality Constraint, and Information unavailable/ incomplete.

- *Publish a GRI content index*. The organization must publish the GRI Content Index, which must include specific required changes necessary to provide an overview of the information reported by the organization, show where the reported information can be found, and then help users access that information. The content index must also include a list of GRI standards used by the organization.

- *Provide a statement of use*. The organization must include this specific statement in its GRI Content Index: "*[Name of organization]* has reported in accordance with the GRI Standards for the period *[reporting period start and end dates]*."[68]

- *Notify GRI*. Finally, the organization must notify GRI about the adoption of the principles.

Alternatively, an organization may report with reference to the GRI Standards if it is unable to meet all the requirements for reporting according to the GRI Standards. The organization should transition to reporting under the GRI Standards over time, as this will provide a complete picture of the organization's most significant impacts on the economy, the environment, and people, including impacts on their human rights.
The organization may also report with reference to the GRI Standards if it uses selected

[68] *GRI 1: Foundation 2021*, p. 16.

GRI Standards, or segments of them, to report information on targeted topics for specific purposes.
The organization must meet all of the three following requirements in order to report with reference to the GRI standards. Finally, the organization must publish a GRI Content Index, provide a statement that the report is prepared in reference to the GRI standards, and notify the GRI of the selection[69].

The GRI 2 standard on general disclosures requires that organizations always disclose specific evidence in order to provide contextual information about them and their sustainability reporting practices, including multiple disclosures by topic area, such as their profile and reporting practices, operations and employees, governance, strategy and policies, and stakeholder engagement practices.

The last of the Universal Standards is GRI 3 which it is divided into two informative sections. The first section outlines the way to determine material topics, the second one contains guidance regarding the process organizations must follow to determine that topic, formulate their own list of material topics and how to properly report on the management of material topics within the report. Initially, it is reported the process an organization should undertake to determine the material issue. It is important to also define the perimeter of impact of the material theme and an assessment of the possible scope of them. Therefore, actual, and potential impacts on the economy, the environment, and the people, including impacts on their human rights, through the organization's activities and business relationships should be considered, whether positive or negative, short or long term, intended or unintended and reversible or

[69] *GRI 1: Foundation 2021*, p. 19.

irreversible[70]. Finally, it is also important to prioritize those impacts that would be most significant to the company's reporting.

2.3.1 GRI Standards and SDGs

GRI developed a number of different tools and initiatives with the purpose of assisting businesses in measuring and achieving the SDGs. One tool developed, for example, is "the Business reporting on the SDGs resources," created in collaboration with the United Nations Global Compact. The purpose of the initiative is to help organizations incorporate SDG reporting into their existing processes to promote the achievement of the SDGs goals[71].
In addition, GRI published a revised report on its website in 2022 that replaced the previous 2020 version, called *Linking the SDGs and the GRI Standards* with the aim of assisting organizations in reporting their progress on the SDGs[72]. The document outlines all 17 UN Goals and links them to the GRI Standards and disclosures applicable to each of them. The document explains how to use the GRIs to assess a company's impact on the SDGs, making it easier to include the SDGs within reports.
The paper provides a table including the following: the SDGs broken down into 169 sub-goals, the available disclosure methods according to the GRI Standards for each sub-goal, and the units and sources of measurement.
The GRI Standards and the SDGs are connected as the GRI Standards are instrumental in achieving sub-goal 12.6 of the SDGs. Goal 12.6 requires all countries to encourage companies to adopt sustainable business practices and include sustainability data in their corporate reports.

[70] *GRI 3: Material Topics 2021*, p. 9.
[71] F. ROSATI and L. G. D. FARIA, "Business contribution to the Sustainable Development Agenda: Organizational factors related to early adoption of SDG reporting", *Corporate Social Responsibility and Environmental Management*, vol. 26, no. 3 (2019), pp. 588-597.
[72] GLOBAL REPORTING INITIATIVE, *Linking the SDGs and the GRI Standards*, 2022, https://www.globalreporting.org/search/?query=Linking+the+SDGs+and+the+GRI+Standards.

A further connection between GRI and SDGs can be observed in the SDG Compass. It is a useful resource for companies to develop a strategic approach to the SDGs and contribute to sustainable development through their core business activities[73]. The SDG Compass has been jointly developed by the Global Reporting Initiative - GRI, the United Nations Global Compact and the World Business Council for Sustainable Development (WBCSD) in order to help companies of all sizes to better align their strategies with the relevant SDGs depending on their sector and type of activity. Specifically, the framework allows companies to measure and manage their impact.

2.4 IIRC International <IR> Framework

According to the definition of the International Integrated Reporting Council (IIRC), an integrated report is a brief communication that explains how an organization's strategy, governance, performance, and prospects enable it to create value over the short, medium, and long term in the business environment in which it operates[74].
The latest version of the Framework was released by IIRC in January 2021. This version replaces the original 2013 Framework and is effective for reporting periods starting from January 2022, although companies may choose to adopt it for earlier reporting periods. The new version was developed to provide for more useful reporting for readers' decisions, but it essentially retains in its entirety the basic thinking and principles contained in the previous 2013 Framework.

Integrated reporting is currently the most advanced tool in terms of non-financial reporting possibilities. The three key factors, which represent a significant change from traditional reporting models, of Integrated Reporting (IR) are outlined by Professor

[73]GRI & UN GLOBAL COMPACT & WBCSD, *SDG Compass. The guide for business action on the SDGs*.
[74]*International <IR> Framework 2021*, INTERNATIONAL INTEGRATED REPORTING COUNCIL, Jan. 2021.

Fasan in his paper entitled *Lo Stato Dell'arte Del Corporate Reporting: Integrated Reporting*[75]:

- The IR focuses its analysis not only on the ways of reporting on the economic and non-economic impacts of management, but also on the measurement process itself;
- The IR is not only a document drafted to communicate data outside the company, but also a process formed by an ongoing interaction among the various corporate functions that allows the identification of corporate strategy, business model, risks, and opportunities;
- The IR is intended to be a tool aimed primarily to investors, thanks to its ability to link and disclose economic-financial performance and sustainability performance.

IR is founded on 'Integrated Thinking', which is the combination of decision-making and actions aimed at creating value in the short, medium and long term. Through a proposal aiming at both creating a flourishing humanity and protecting the Planet, the IIRC's mission is to foster the spread of integrated thinking within mainstream business activities, both in the public and private sectors, ultimately pursuing the vision of

> "a world in which capital allocation and corporate behavior are aligned with the broader goals of financial stability and sustainable development through the cycle of reporting and integrated thinking."[76]

Targeting investors might seem to conflict with the possibility of creating a new type of value, but it is precisely the possibility of delivering the data in a clear and concise form that represents a turning point with the previously discussed environmental report.

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[75] M. FASAN, "Lo stato dell'arte del corporate reporting: Integrated Reporting", *L'azienda sostenibile: trend, strumenti e case study*, a cura di FASAN, M. and BIANCHI, S., Edizioni Ca'Foscari, 2017.

[76] *https://www.integratedreporting.org/the-iirc-2/*

In particular, the long-term approach introduced in the definition is very significant, since the success of the business must necessarily take into account the relationships the company establishes with stakeholders. The Integrated Report provides details of these relationships by giving the data requested by investors.
The framework adopts a principle-based approach in a very flexible context with the goal of assuring a level of comparability between different reports to extract relevant data while taking into consideration each organization's unique features. Differently from GRI Standards, the scheme proposed by IIRC does not provide any specific advice on how to report on the issues identified as material. As a matter of fact, it merely seeks to create a framework within which each entity can decide how to present its data as clearly as possible. The Framework does not list specific performance indicators or measurement methods; therefore, organizations are free to choose which material issues to include and the way to report them, using their own judgment in assessing and managing different types of situations[77].
The value creation process is the core element within the integrated reporting model. The creation of value has to take into account the impossibility to generate value without facing the external environment and without taking into account the significance of stakeholder engagement. This notion is central to the model and is explored through the analysis of different types of capital. The types of capital provided by the framework are the following:

- *Financial capital*: The set of funds that a company can employ to produce goods or provide services. These funds can be raised through operational surplus, borrowing and the different types of financing available on the market;
- *Manufactured capital*: strictly physical objects that the company utilizes to produce goods and provide services;

[77] *International <IR> Framework 2021.*

- *Intellectual capital*: intangible elements such as patents and licenses, and organizational capital represented by the set of procedures, concepts, routines that the company develops;
- *Human capital*: specific expertise of the company's employees, linked to their skills and knowledge, as well as their ability to introduce innovations in products and processes;
- *Social and Relationship capital*: the set of rules, behaviors and values that enable the relationship development within the company and beyond it through communication with stakeholders and the development of the company's reputation;
- *Natural capital*: all processes and resources that have an impact on or make use of the environment, such as water, land, air, minerals, and forests, as well as biodiversity and ecosystems.

An organization is not obliged to include all forms of capital in its Integrated Report. Indeed, although any firm comes across all of the types described above, many times they are either irrelevant or minor, and therefore can be ignored in the report. As such, companies employing the Integrated Report are not necessarily obliged to consider all of the elements if they are not considered key aspects of their value creation process. It is clear that the omission of some items may negatively affect business performance in a context where the market is increasingly focused on the organizations' capability to create value for society.

The value creation process according to the <IR> Framework starts from the inputs that the company employs to create that value, which consist in capitals. Capitals can be seen as the stocks from which the company obtains value that it may increases, transforms, or reduces through its operations and its outputs. The process can be briefly summarized as follows:

- The external environment constitutes the context in which the organization is doing business; on the other hand, the mission and vision define the purpose and reason for which an organization operates;
- Governance is responsible for creating an effective supervisory structure capable of managing risks and seizing opportunities;
- The business model, which represents the core of the framework, enables to transform capital through the activities of the organization by adding the value that can ensure company sustainability in the long term.
- The outcomes are the consequences, either negative or positive, that capital suffers from the organization's operations and decisions.
- Finally, constant tracking and analysis of the external environment is of utmost importance to identify opportunities and risks relevant to the organization to be capable of re-establishing a new cycle of value creation.

According to the Framework, it is clear that the process of value creation is a continuous cycle. Therefore, it is necessary to constantly assess every single element and every possible interaction between them and to estimate future prospects[78].
By creating value for itself, the organization simultaneously provides an economic return to lenders of financial capital. This capability is related to the value created for stakeholders and society through operations, relationships, and interactions. Therefore, when there are activities, relationships, and interactions that influence the ability to create value for the company, they must be included in the Integrated Report[79].

Having understood why integrated reporting is not only content, but more importantly process, it is necessary to identify the drafting guidelines underlying the model:

[78]*International <IR> Framework 2021.*
[79]*International <IR> Framework 2013*, INTERNATIONAL INTEGRATED REPORTING COUNCIL, 2013.

- *Strategic focus and future orientation*. It must contain detailed information about the strategy, capital, and its impact in the short, medium, and long term;
- *Connectivity of information*. It must be able to identify the dynamics and relationships that foster value creation;
- *Stakeholders' relationships*. It must be able to identify, communicate and prioritize stakeholder needs and seek to understand how to respond to the issues raised;
- *Materiality*. It should clearly and consistently identify which aspects have the most significant impact within the value creation process in the short, medium, and long term;
- *Conciseness*. It must be as brief as possible, identifying only the important aspects, without diluting the information with topics of scant interest for reporting purposes;
- *Reliability and completeness*. It should be considered a trustworthy document, drafted without errors, and addressing the full extent of both positive and negative impacts;
- *Consistency and comparability*. It should be consistent over time and provide information that is comparable, for example by reporting in index form for easy reference.

Thus, it is necessary that each Integrated Report presents the following elements:

- Presentation of the organization and the external environment, composed of key stakeholders' needs and interests, the micro and macroeconomic conditions of the environment in which it operates, and finally its market strength, which also depends on the strength of its competitors;

- Description of how a firm's governance structure affects and supports the ability to create value in the short, medium, and long term;
- Description and visualization of the business model in which there must be a description of the inputs, activities, outputs, and impacts generated by the firm's activities;
- Identification of risks, opportunities, and their management. It is crucial to understand the specific risks that affect the company's ability to create value in the short, medium, and long term;
- Indication of the organization's specific goals and how they can be accomplished, meaning identifying clearly and consistently which is the organization's strategy and resource allocation;
- A performance-related assessment of the company itself, which targets have been reached and a description of their impact on capital;
- A forward-looking view related to the prospects and challenges to which the organization is called to respond, what are the major shifts at the strategic and organizational level required to increase future performance;
- It should contain a final outline on how an organization identifies the issues to be included in the report and how they are assessed.

On the basis of the above, it is clear that the drafting of an Integrated Report requires primarily an organizational change. As a matter of fact, in order to be able to draw up a document that not only reports on economic and financial aspects, but that also includes more qualitative aspects with the aim of ensuring a high level of sustainability in the long term, the effort of the whole organization is required, a shift that is not always that simple to implement. The Integrated Report

> "[...] thus becomes the tool for changing the mentality within companies, as well as a real springboard for a "new theory of business" that leverages organizational innovation to push towards a "social" type of innovation"[80].

2.4.1 International <IR> Framework and SDGs

The Integrated Report offers a reporting framework suitable to embed SDGs and contribute to their achievement[81].

Integrated reporting framework is appropriate to complement with SDGs, as its structure is based on the multi-capital model that takes into account, for example, natural and human capital, two important values for sustainability. Furthermore, the framework depicts the historical value creation of an organization and discusses which sustainable development inputs influence the value created. In contributing to the SDGs, there can either be an increase or a decrease in capital availability. Organizations should address sustainable development issues that maximize outcomes for the six capitals to consequently heighten their own contribution to the SDGs[82].

According to Adams, there are five steps through which the SDGs can be embedded through the Integrated Report's recommended process.

The first step is to understand which sustainable development issues, addressed by the SDGs, are relevant to the external environment. The Integrated Report process implies an analysis of the external environment that aims to identify which externalities affect the company's ability to create value. Therefore, SDGS considerations should be included within the IR considerations related to external environment.

The second step is to identify the material issues addressed by the SDGs that affect

[80] F. INDELICATO, "Report and Integrated Reporting: A New Model of Business Reporting", *Equilibri*, vol. 1 (Apr. 2014), pp. 9-37.

[81] C. A. ADAMS, *The Sustainable Development Goals, integrated thinking and the integrated report*, 2017, p. 11.

[82] *Idib.*, p. 35

the company's value creation process. When a company strategizes its approach to the SDGs, it should seek to identify and prioritize the issues raised by the SDGs that are likely to maximize the achievable results on the six capitals and, by increasing its capital, ultimately maximize its contribution toward the SDGs.

The third step is to develop a strategy by means of its business model. The organization must be able to mitigate risks and leverage opportunities and establish goals and strategies to achieve the SDGs that are considered material. The strategy also needs to include a resource allocation plan and specific goal setting.

In the fourth step, companies should develop integrated thinking, connectivity, and governance to link strategy to changes in the external environment. The value of the company is created through its relationships with the outside world; therefore, it is important to understand and meet the needs and interests of the stakeholders. Hence, the following actions should be implemented:

- The process by which stakeholder relationships are established must identify material issues of sustainable development and incorporate them within the strategy to develop suitable targets;
- the organization must develop and maintain relationships with stakeholders in order to improve collective well-being;
- the business model must address all material sustainable development issues addressed by the SDGs that affect capital inputs and outputs;
- Finally, it is important that the strategy also analyzes past SDGs related performance.

As such, the connection implies that the strategy must always be related to changes in the external environment.

The fifth and final step involves drafting the Integrated Report. Organizations should

disclose information regarding sustainable development issues that impact stakeholders and the company's ability to create value. For this they should report on their contributions towards the SDGs and their performance against the six capitals[83].

[83] *Idib.*, p. 31

Chapter 3

The Latest Developments in Sustainability Reporting

Regulations dealing the so-called non-financial information have gradually gained momentum in recent years. The evolution of legislation is closely linked to the growing sensitivity experienced both in institutions and public opinion. Both supranational regulators, such as the Commission and the European Parliament, as well as national ones, and independent entities with cross-cutting and complementary roles to the institutions have taken steps in this regard.

In the following chapter, the aim is to chronologically order the most recent interventions aiming at providing a comprehensive and coordinated picture of the many initiatives on the topic. The final goal is to define the state-of-the-art regulation in sustainability issues in the light of recent news coming from the EU and the newly established body International Sustainability Standard Board (ISSB) of the IFRS Foundation.

3.1 Directive 2014/95/EU of the European Parliament and of the Council

Aligned with what is required to the private sector by the Sustainable Development Goals, specifically goal number 12, Target 6

> "Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle"[84],

a breakthrough occurs at transnational level, as the European Directive 2014/95/EU - Non-Financial Reporting Directive (NFRD) is approved by the European Parliament and the European Council.

The European Parliament acknowledged the importance of private sector sustainability disclosure, addressing, for example, social and environmental factors, in order to identify sustainability risks and increase investor and consumer trust. Indeed, non-financial disclosure is critical to managing the transition to a sustainable global economy by combining long-term profitability, social justice, and environmental protection. This led to the issuance of Directive 2014/95 of October 22nd, 2014.

Directive 2014/95/EU amends Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of specific business typologies. Through this announcement, from voluntarily adopted corporate social responsibility, a shift occurred, as a result, to compulsory disclosure required by law, albeit limited to only specific tiers of corporations, depending on their size. In specific terms:

[84] *SDG 12: Ensure Sustainable Consumption and Production Patterns*, UNITED NATIONS.

> "The scope of those non-financial disclosure requirements should be defined by reference to the average number of employees, balance sheet total and net turnover. SMEs should be exempted from additional requirements, and the obligation to disclose a non-financial statement should apply only to those large undertakings which are public-interest entities and to those public-interest entities which are parent undertakings of a large group, in each case having an average number of employees in excess of 500, in the case of a group on a consolidated basis"[85].

The purpose of the directive, consistent with the Commission's recommendations, is to improve the consistency and comparability of non-financial information reported in the Union. The goal should be achieved through the development of a non-financial statement containing at least social and environmental information, pertaining to employees, human rights compliance, along with the prevention of active and passive corruption. This act establishes a framework addressed to all European Union countries for subsequent transposition into their national laws and gives guidance on the content that non-financial statements (DNFs) should contain. The directive is not aimed at standardization but only at initial harmonization by establishing the minimum information and requirements that the resulting document should contain.

In particular, references are made to environmental aspects for which such information is significant with regard to the current and foreseeable impact of the company's activities on the environment as well as on health and safety, use of renewable and/or nonrenewable energy resources, greenhouse gas emissions, use of water resources, and air pollution.

As for social and personnel-related aspects, the information provided in the statement may cover actions taken to ensure gender equality, working conditions, social policy

[85] *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014*, EU COMMISSION, Recital 14.

practice, respect for workers' right to be informed and consulted, respect for trade union rights, occupational health and safety, and dialogue with local communities, and/or actions taken to ensure the protection and development of those communities.
The Directive was expected to be transposed by the member states by December 6th, 2016 so that the latter would provide with relevant domestic regulatory acts. The provisions of the Directive itself were to be applied to all subject companies as of the fiscal year beginning on January 1st, 2017 or during the year 2017.
This directive was transposed into Italian law by Legislative Decree No. 254 of December 30th, 2016, which came into force the following January 25th.

The innovative scope of this directive is absolutely relevant and anticipatory of similar initiatives undertaken globally. It clearly demonstrates the importance given by the European Community to environmental and social issues, which, in a context of globalization and short-term profit-oriented competition, often ignores issues related to the environment and respect for mankind. Indeed, it should not be seen only as a productive factor but a "being" who has the right to receive just compensation and the right protection of his or her health in addition to being guaranteed equal opportunities for economic and professional growth regardless of gender race and social background.
The European Directive, and its consequent implementation into legislation within each member state, represents a turning point with respect to the harmonization of non-financial reporting in Europe. This is because the latter category of reporting takes on a mandatory character for a certain group of legal entities. The harmonization of this aspect is aimed at increasing the consistency and comparability, in time and space, of this type of information, to the benefit of the individual stakeholder and, as a consequence, also of society at large.
The directive on the disclosure of non-financial information is currently being reviewed

with the intention of further refining the disclosure of the company's social and environmental performance and impact.

3.1.1 Decreto Legislativo 30th December 2016, n. 254

As mentioned, the NFRD, has been transposed into Italian law by Decreto Legislativo December 30th 2016, No. 254 representing a fundamental step forward with regard to disclosure of non-financial information in Italy. The provisions of Legislative Decree 254/2016 represent the current mandatory rules with regard to disclosure related to environmental, social and governance factors.

This decree required companies that meet certain criteria to draft and release, starting from 2018, a non-financial disclosure on environmental, social, employee management, human rights, and anti-corruption issues. The statement is called Non-Financial Statement (NFS). Specifically, the requirement to submit an individual non-financial disclosure is addressed to relevant public interest enterprises.
Thus, the application perimeter includes Italian companies issuing securities listed on an Italian or European Union regulated market, banks, insurance companies and reinsurance companies, as well as companies issuing financial instruments, which, although not listed on regulated markets, are distributed to the public in a significant way. The scope also includes entities that had, on average, during the fiscal year more than 500 employees and, as of the reporting date, exceeded at least one of the following two size limits: total balance sheet assets greater than 20 million euros or total net sales revenues greater than 40 million euros. The obligation to prepare the consolidated non-financial statement is also extended to parent companies of a group that meet the same size requirements. Although there is no specific mention, subsidiaries are required to make available all relevant information to the parent company regarding the preparation of consolidated statements.

The Decree also provides that all other enterprises not subject to the obligation can also submit a declaration of a non-financial nature in a voluntary form on the areas indicated in Article 3 of the Decree, providing, in a context of proportionality, for SMEs, simplified forms. In fact, the declarations of enterprises with fewer than 250 employees, unlike the others, can be considered in compliance with the regulations without being subject to audit requirements.

Regarding the content that companies are required to disclose, the Decree fully implements Directive 2014/95/EU, which stipulates that the non-financial statement must cover environmental, social, personnel-related, human rights issues, and the fight against active and passive corruption, which are deemed relevant taking into account the company's activities and characteristics. The disclosure statement, which must cover certain relevant topics, must also describe the business model of management and organization of the enterprise's activities, the policies practiced by the enterprise, and the main risks faced by the enterprise[86]. Regarding the risks faced by the company, the *Legge di Bilancio 2019* establishes as mandatory to indicate the management approaches of the same risks, implemented by the company[87].

With specific reference to environmental issues, the decree provides for the inclusion of information regarding the use of energy resources with the distinction between renewable and nonrenewable, greenhouse gas emissions of pollutants into the atmosphere, as well as the impact on the environment, possibly based on realistic assumptions and scenarios even in the medium term.

The statement must point out all the information necessary to understand the company's business model for managing and organizing its activities, including the management of the issues mentioned above. It must also list the policies practiced by the enterprise, including due diligence policies, the results achieved as a result of them and the relevant

[86]*Decreto Legislativo 30th December 2016, n. 254*, G.U., REPUBBLICA ITALIANA, Jan. 2017, article 3.
[87]*Richiamo di attenzione n.1 28th febbraio 2019*, CONSOB, 2019.

non-financial key performance indicators. The Legislative Decree specifies the minimum areas on which it is required to report its activities and performance. In doing so, it leaves room for each company or group of companies to choose the reporting standard they prefer, to identify the key performance indicators that best describe the company's activities in relation to the issues considered, and finally to adopt the measurement methods deemed most appropriate.
Legislative Decree 254/2016 gives individual entities the freedom to choose the reporting standard from those issued by authoritative supranational, international, or national bodies, whether public or private in nature, which are suitable for fulfilling the reporting requirements of the decree itself. However, in this way, a desirable degree of standardization and homogenization of the information provided, which should be preparatory in enabling appropriate cross-comparisons, is not achieved.

Materiality assessment is decentralized to the directors of the public interest entity, as the Decree deals with for the possibility of not indicating one of the aforementioned topics as long as this choice is motivated and justified. This demonstrates the Legislature's awareness of the stakeholders' variety. Material information is defined according to two dimensions: the dimension of relevance and the dimension of significance of information. The drafting of the NFS is allowed, by this decree, in two ways:

- As a dedicated and separate section, called 'Non-financial Statement', within the Annual Report;
  In the event that the statement is included in the Annual Report the same shall be adequately identified within the Report in a specific section that must contain the information required by the Decree. In the same section it may, in however, refer to other sections of the same management report or indicate other documents where to locate said information, including the separate report, if any.

- As an independent and distinct document from others, appropriately marked such that it is clearly aimed at fulfilling the information obligations provided for in the Decree.
  In this case, once it has been approved by the management body, it must be made available to the supervisory body within the same deadlines as for the submission of the financial statements.

The NFD must then be filed with the Register of Companies together with the Annual Report. Further, this Non-Financial Statement is subject to the same time limits required for the submission of financial statements[88].

The Decree does not establish compulsory certification by third parties of the statements delivered by companies but requires auditing by those in charge of the statutory audit of financial statements. By means of a dedicated report, that party issues an opinion on the compliance of the information disclosed with the requirements of the decree and with the principles, methodologies and procedures also set forth in the Legislative Decree. It is important to emphasize that if the NFS is included in the Annual Report, the auditor's assurance does not contain the aforementioned statement, as it remains distinguished from the certification of the annual financial statements.

Full responsibility for publishing the non-financial statement belongs to the directors of the public interest entity. The Decree includes sanctions for directors and supervisory bodies in case of failure to make or false declaration[89]. In the specific, the administrative fine sanction is intended to be applied with different degrees of severity depending on the type of irregularity found. Consob is responsible for the assessment and enforce-

[88] ASSONIME, *Gli obblighi di comunicazione delle informazioni non finanziarie*, Circolare n. 13 del 12 Giugno 2017, 2017, pp. 43-47.

[89] *Decreto Legislativo 30th December 2016, n. 254*, article 8.

ment of sanctions.
The Legislative Decree, transposing the EU directive, includes, for the first time, an obligation for companies to report a range of sustainability information in their annual and consolidated financial statements, but its scope is beyond the current limitation to large and public interest companies only. Indeed, empirical evidence indicates the use of such reporting even by companies not under the regulatory requirement.
Open corporate disclosure culture suggests further developments in both statement contents and regulations regarding non-financial disclosure. In fact, several benefits are related to it, including the potential to guide the investment decisions of individuals more consciously and, above all, of so-called "universal owners" towards those companies that are the most virtuous in terms of social and environmental impacts capable of favoring sustainable development and with better resilience to environmental and climate shocks. This will also allow the opportunity to access new forms of financing and be a stimulus of that ESG-friendly economy.

3.1.2 European Commission's non-binding guidelines

Directive 2014/95/EU in making the drafting of NFS mandatory defined its regulatory framework. However, in Article 2 the directive, being aware of the lack of complete provisions regarding the procedures and contents of drafting the statement, referred to a later action of the Commission called to develop

> "non-binding guidelines on the methodology for reporting non-financial information, including general and sectoral key performance indicators, in order to facilitate relevant, useful and comparable disclosure of non-financial information by companies. In developing such guidelines, the Commission shall consult stakeholders."[90]

[90] *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014*, article 2.

On June 20th, 2019, the Commission issued *Guidelines on non-financial reporting: Supplement on reporting climate-related information*, also known as 'non-binding guidelines' on climate change-related disclosures. Indeed, the document emphasizes that the disclosures provide non-binding guidelines and do not introduce new legal obligations. The guidance presented in the document complements previous guidance on non-binding disclosure published in 2017 (C (2017) 4234 final) and should be read in conjunction with Directive 2014/95/EU.

Communication from the Commission C (2017) 4234 final

In particular, the June 26th, 2017 *Guidelines on non-financial reporting (methodology for reporting non-financial information)* has a broader scope as it gives guidance that addresses the application of the entire regulatory framework represented by the NFRD. They are intended to assist companies in reporting-in accordance with the obligations established by the Directive-quality, relevant, useful, consistent, and more comparable non-financial information that promotes sustainable and resilient growth and employment and supports transparency to stakeholders.
In setting these guidelines, it should be emphasized that the Directive's guidance is meant to give freedom to each company on how to prepare the statement with the goal of avoiding any unnecessary administrative burdens.
In this regard, it is worth recalling Recital 17 of the NFRD, which specifies that in preparing such non-binding guidelines, "it is appropriate for the Commission to take into account existing best practices, international developments, and the results of relevant EU initiatives"[91]. This implies that companies may choose to use high-quality, widely accepted disclosure standards as well as to do so by ensuring partial or full compliance. They may rely on international, EU or national standards, and if they do

[91] *Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014*, Recital 17.

so, they must specify the standards they use.
Then, in the Commission document there are stated the six basic principles for proper disclosure of non-financial information, according to which the information disclosed must be[92]:

- *Material information*. The NFRD introduces a new element to be considered in assessing the materiality of non-financial information by referring to information "to the extent necessary for understanding [...] the impact of the [...] activity [of the company]." The assessment of relevance must be made within a specific context: information may in fact be relevant in one context but may not be relevant in another. Companies within a given industry are likely to share similar environmental, social, and governance challenges. Consequently, it may be appropriate to directly compare relevant disclosures of non-financial information from firms belonging to the same sector.

- *Fair, balanced and understandable*. The non-financial statement should give fair consideration to favorable and unfavorable issues, as well as the information should be evaluated and presented in an unbiased manner; the information provided should clearly distinguish the facts from the views of the drafter.
  Equally important is the clarity of the information to be included in the statement using straightforward language that can be understood even by those who are not necessarily experts in the subjects discussed by the company. Also, for a better understanding of the contents of the statement, it is necessary to declare what performance measurement models are being disclosed precisely to better appreciate the results.

[92] *Guidelines on non-financial reporting (methodology for reporting non-financial information)*, C(2017)4234, COMMUNICATION FROM THE COMMISSION, EU COMMISSION, 2017, pp. 9-15.

- *Comprehensive but concise*. The minimum information should at least cover news about certain categories of issues explicitly mentioned in Directive 2014/95/EU. An appropriate level of depth in the information reported is therefore particularly important so that stakeholders can understand the company's performance, its results, its situation, and the impact of its activities. Thus, while on the one hand the information must be complete, on the other hand it is rewarded for being concise to prevent providing irrelevant information and thereby making disclosure less effective.

- *Strategic and forward-looking*. The information provided as part of the non-financial statement should be properly framed in the context in which the company operates and in particular bearing in mind its strategies and prospects. The statement should therefore provide insights into the business model, its strategy and implementation, and explain the short-, medium- and long-term implications of the disclosed information. Forward-looking information enables users of the information to monitor over time the degree to which the stated objectives are being achieved.

- *Stakeholder orientated*. In order for the information included in the statement to be effective, it is necessary for all parties to whom the statement is addressed to be taken into account in the wording of the statement.

- *Consistent and coherent*. The non-financial statement should be consistent with other information provided by the company including that contained in the Annual Report.
  Making clear links between the information presented in the non-financial statement and the other information disclosed in the Annual Report makes that information more useful, relevant, and consistent. Since the contents are correlated, explaining the key links between them makes it easier for investors and other

stakeholders to understand the relevant information and their interdependencies. Finally, the content of the non-financial report should be consistent over time to facilitate its comparability and truthfulness over time.

Communication from the Commission (2019/C 209/01)

Strengthening business disclosure with reference to climate risk is one of the key points of the Sustainable Finance Action Plan. In this sense is what is contained in the Commission's second major 2019 communication entitled *Guidelines on non-financial reporting: Supplement on reporting climate-related information*.

The preface of the Communication emphasizes that it presents non-binding guidance and does not introduce new legal obligations. Companies using this guidance can also rely on international, national or EU standards. In this regard, the Commission explicitly refers to the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), established by the G20 under the Financial Stability Board in 2015. Indeed, the TCFD was charged with the task of issuing recommendations-guidance on climate-related disclosures in order to promote more informed investment and lending decision-making. The Commission's 2019 Communication complements the TCFD's recommendations and gives companies with guidance consistent with the Non-Financial Disclosure Directive and the aforementioned recommendations.

The Commission's document stresses the need to incorporate into the company's disclosures not only the physical risks and transition risks that companies face as a result of climate change, but also the impact that companies themselves have on the change itself.

Basically, two different materiality of disclosure are highlighted, a perspective called double materiality[93]:

- on the one hand, the one of financial nature: climate-related information should be disclosed if it is necessary for the understanding of the company's performance, results, and situation; this perspective is the one that usually interests investors the most;
- on the other hand, the environmental and social one: information should be disclosed if it is necessary for understanding the company's external impact. This perspective is usually of most interest to citizens, consumers, employees, business partners and civil society in general.

However, the information must be mutually linked in that it is intended not only for investors, but also for citizens, consumers, and civil society organizations. In order to better allocate financial flows to environmentally-conscious activities, disclosures must enable investors to assess the potential impacts of climate change on the return on possible investments, as well as citizens to better assess how the use of their savings relates to environmental issues.

In fact, proper communication of climate-related information can bring significant benefits to the reporting entity:

- the mere requirement to report on these issues raises the level of awareness and understanding of climate-related risks and opportunities within the enterprise. This, consequently, allows for better risk management, more informed decision making and strategic planning;

[93] *Guidelines on non-financial reporting: Supplement on reporting climate-related information*, 2019/C 209/01, COMMUNICATION FROM THE COMMISSION, EU COMMISSION, 2019.

- broaden and diversify investors' pool resulting in lower cost of capital by virtue of higher credit ratings for bond issuance and better creditworthiness ratings for bank loans and a more proactive relationship with stakeholders.

With regard to the content that communications are desirable to provide, the Communication includes a set of indicators useful for climate change-related reporting, which are categorized.
Specifically, a first set concerns the amount of Greenhouse Gas (GHG) emissions. Whether they are direct, generated from sources owned by the company, and indirect, from the production of energy used by the company, in addition to those generated upstream and downstream in the value chain.
Other indicators concern energy, specifically total energy consumption and/or production from renewable and nonrenewable sources. This information should be supplemented with information regarding the targets and thus the company's efforts to achieve low consumption and production of energy from alternative sources. Companies should also describe progress against their energy targets.
Furthermore, indicators related to physical risks, i.e., those related to external events that may affect production, should also be reported. It is important to read this indicator in conjunction with information on strategies and adaptive policies employed by the enterprise.
Additional indicators concern products and services. For example, the percentage of turnover from products and services associated with activities that meet sustainability criteria or processes associated with activities that meet criteria to contribute to climate change mitigation.
Finally, another aspect to be reported are indicators related to so-called green finance, i.e., exposing the share of outstanding green bonds and debt, compared to total sources of financing.
This indicator helps companies communicate how their plan to transition to a low-

impact future is supported by debt financing activities and how capital is raised for new and existing projects that carry climate benefits.

Due to the growing demand, mainly from investors and community organizations, for more quantitative and qualitatively meaningful information on the social and environmental performance and impacts of companies' activities, the European Commission, in December 2019, during the presentation of the European Green Deal, expressed its willingness to take action on Directive 2014/95/EU.

The effectiveness of the measures identified in the consultation phase for the revision of the Directive would be enhanced by developing common international reporting standards. This would ensure a high level of comparability of NFIs, representing the only way to effectively ensure equal treatment for EU companies and those operating in the Community.

3.2 EU Commission Proposal for a Corporate Sustainability Reporting Directive

On April 21st, 2021, the European Commission (EC) published its proposed Corporate Sustainability Reporting Directive (CSRD), following the review process of the Non-Financial Reporting Directive (NFRD). The CSRD proposal is a key element of the EU Sustainable Finance Package, which includes a comprehensive set of measures to improve the flow of capital into sustainable activities across the EU. The proposals also include changes to the Accounting Directive, the Transparency Directive, the Audit Directive, and the related Audit Regulation. The EC expects that, all combined, these proposals will play an essential role in transforming the corporate reporting ecosystem to improve the quality and consistency of sustainability information.

First noteworthy in the proposal is the change in the name of the report, changing from

non-financial statement to corporate sustainability reporting. The change cannot be seen as merely a nominal one but a substantive one that leads to sustainability reporting being given equal value to financial reporting and not as being ancillary to it.

The goal of the CSRD proposal is to improve sustainability reporting to make the most of the potential of the European Single Market and contribute to the transition to a fully sustainable and inclusive economic and financial system, consistent with the European Green Deal and the United Nations Sustainable Development Goals (SDGs).
The proposed legislation requires EU Member States to transpose the CSRD by December 1st, 2022, and its provisions will apply from January 1st, 2023, that is, for reports to be published in 2024. The requirements for listed small and medium-sized enterprises (SMEs) will apply to fiscal years beginning January 1st, 2026[94].

Location of the disclosure and extent of application

Sustainability information will have to be included in the Annual Report. The proposal thus removes the existing option for member states to allow companies to publish the required information in a separate report. This provision aims to promote the integration and accessibility of information, as well as to bring the responsibility of management and the board of directors for preparing the sustainability report to the same level as the annual report and financial report.

The scope of CSRD includes all large companies and all companies listed on EU-regulated markets including SMEs, with the exception of micro enterprises even if they are listed.

[94]EU COMMISSION, *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, COM(2021) 189 final, 2021, Article 5.

Large companies are those that exceed at least two of the following three criteria *i)* balance sheet assets of 20 million euros, *ii)* net revenues of 40 million euros, *iii)* average number of employees during the financial year of 250. Also included in the scope are non-EU companies that are listed on EU regulated markets and EU subsidiaries of non-EU companies. The proposal would not impose any new requirements on small and medium-sized enterprises (SMEs), with the exception of SMEs that are listed on EU regulated markets.

The expanded scope would mean that about 49,000 companies (accounting for about 75% of the revenue of all European reporting companies) would have to publish the required sustainability information. This compares well with respect to the approximately 11,600 entities (representing about 47% of the revenue of all reporting companies) that are currently within the scope of the NFRD.

The proposal would exempt subsidiaries from publishing sustainability reporting in their Annual Report if the sustainability reporting in the parent company's Annual Report complies with EU standards (or, for subsidiaries with a non-EU parent company, standards considered equivalent by the EC), includes information about the subsidiary, and is available at the time the subsidiary publishes its Annual Report.

Clearly, such provisions carry some implementation issues for those smaller companies that may face rather significant administrative and management burdens. Hence the proportionality principle, which is expected to provide for the establishment of two different reporting standards, one referring to large companies and the other a simplified one for small and medium-sized enterprises. As mentioned above, a longer period would be granted for the latter to adapt to the new regulatory requirements with mandatory adoption only after 3 years from their enactment. These are expected to be adopted by October 31st, 2023.

Double Materiality perspective

In the proposal, the EC specified that companies would be required to consider each of the materiality perspectives, by publishing information to the extent necessary for an understanding of how sustainability factors affect the company's development, performance, and business position (the "inside-out" perspective), but also on the information necessary for an understanding of the impact of the company's activities on society and the environment (the "outside-in" perspective). Resuming the NFRD guidelines issued in 2019, this is referred to as the "dual materiality" perspective, where both risks and opportunities for the company and the company's impacts are each accounted for as a materiality dimension.

3.2.1 Contents and Standardization of the Proposal

As noted above in the essay, sustainability is an intrinsic component of corporate resilience and the ability to create value over time. The value of companies today is increasingly embodied in intangible assets such as skilled employees, reputation, brand, intellectual capital, licenses to operate, and customer relationships. These are directly affected by sustainability factors. Companies that do not manage and measure them risk underperforming or eroding their value, for example, with worsening brand reputation, loss of key people or customers.

Under the proposed CSRD, companies will have to publish the information needed to understand the company's impacts on sustainability factors and understand how these affect the company's development, performance, and business position. Therefore, companies, complying to latest international guidelines and frameworks, will have to provide qualitative and quantitative information, both forward-looking and retrospective information, and finally information having short-, medium- and long-term time horizons. Some examples of required disclosure according to CSRD are as follows:

- A description of the business model and strategy, including business model resilience and opportunities in relation to sustainability factors, impact on sustainability factors, stakeholder interests, and the company's plans to ensure that its business model and strategy are consistent with its transition to a sustainable economy.

- Sustainability targets and goals set by the company and its ongoing progress in achieving them.

- Administrative, managerial, and supervisory governance related to ESG issues.

- Corporate policies and practices in relation to sustainability factors.

- The key positive and negative business impacts of the company related to the value chain, including its own operations, products and services, business relationships, and supply chain.

- A description of the company's main risks related to sustainability factors, including key interdependencies and how those are managed.

- Relevant indicators for ESG disclosures and how they are addressed by the company.

The CSRD proposal will introduce mandatory sustainability reporting standards for EU companies tailored to the level of ambition of the European Green Deal and the EU's 2050 climate neutrality target.

The standards will be developed and proposed by the European Financial Reporting Advisory Group (EFRAG). Prior to adoption, the EC will need to consult with various EU institutions, including the European Securities Market Authority (ESMA) and other European supervisory bodies, the Member States' Expert Group on Sustainable Finance,

the Platform on Sustainable Finance, the EU Council, and the EU Parliament[95].

These European requirements are set to cover the following cases:

- *Environmental factors*
  - o Consistent with the environmental objectives of the EU Taxonomy Regulation, climate change mitigation and adaptation, water and marine resources, resource use and circular economy, pollution, biodiversity, and ecosystem protection.
- *Social factors*
  - o Equal opportunities for everyone, including gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities.
  - o Working conditions, including safe employment, wages, social dialogue, collective bargaining and worker involvement, work-life balance, and a healthy and safe working environment.
  - o Respect for human rights and fundamental freedoms and the standards set forth in the International Bill of Human Rights, the International Labor Organization's (ILO) Declaration on Fundamental Principles and Rights at Work, the ILO Fundamental Conventions, and the EU Charter of Fundamental Rights.
- *Governance factors*
  - o The role of the company's administrative, management and supervisory bodies including sustainability factors and their composition.

[95]EU COMMISSION, *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, p. 15.

- o Business ethics and corporate culture including anti-corruption.
- o Relationships with public administration including lobbying activities.
- o Relations with business partners including the payment terms.
- o Internal control and risk management systems including the reporting process.

Standards should be developed with consideration of the requirements of other EU legislation and policies such as the Sustainable Finance Disclosure Regulation (SFDR)[96] and Taxonomy Regulation[97], the Benchmarks Regulation applying to directors, capital requirements for financial institutions, and other requirements or recommendations-for example, related to greenhouse gas emissions, or for measuring the life-cycle environmental performance of products and organizations.

Recent recommendations published by EFRAG's Project Task Force contain proposals for building up a coherent and comprehensive set of reporting standards, covering all sustainability factors, in line with the dual materiality perspective. These recommendations also contain a detailed roadmap for the development of such standards aligned with the proposed CSRD timeline, and proposals for mutually reinforcing cooperation between global standard-setting initiatives and EU standard-setting initiatives.
Indeed, to minimize possible reporting disruptions for European companies that already publish sustainability information, the EC states that EU standards should take into account existing standards and frameworks for reporting and monitoring sustainability performance where they are already in place. These include those of the Global

[96]The SFDR, EU Regulation 2088/19, entered into force on March 10th, 2021, and governs how financial market participants (including asset managers and financial advisors) should disclose sustainability information to ultimate investors and asset owners.

[97]The Taxonomy Regulation establishes a classification system for environmentally sustainable business activities, with the aim of increasing sustainable investments and countering greenwashing of 'sustainable' financial products. It requires companies in non-financial reporting to disclose selected indicators on the degree to which their activities are environmentally sustainable according to the taxonomy.

Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC), the Task Force on Climate-Related Financial Disclosures (TCFD), the Climate Disclosure Standards Board (CDSB), and the CDP (formerly the Carbon Disclosure Project), and any sustainability reporting standards developed under the auspices of the International Financial Reporting Standards (IFRS) Foundation. In addition, the EC states that in order to avoid unnecessary regulatory fragmentation that could adversely affect companies all over the globe, European standards should contribute to the process of convergence of sustainability reporting standards globally[98]. In this regard, the Commission is explicitly committed to dialogue and collaboration with similar initiatives that are being expanding internationally. This is intended to minimize discontinuity of reporting for those companies that already report sustainability information, based on existing reporting standards. Standard fragmentation and especially a high degree of inconsistency among companies could, in fact, lead to significant comparability issues but also possible systemic risks for the financial system.

The proposal envisions that the first set of standards will be adopted by October 31st, 2022. This will cover all the reporting areas required by the CSRD proposal. The second set of standards, on the other hand, is expected to be adopted by October 31st, 2023, to cover additional information, including sector-specific information. The standards will be revised at least every three years to take into account relevant developments, including developments in international standards, so as to ensure comparability and convergence of the most widely used existing frameworks.

[98] EU COMMISSION, *Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting*, p. 4.

Digital sustainability and accessibility

Another key aspect of financial and non-financial reporting concerns accessibility. The ambition of the European Union is to create an ecosystem where data flows from companies to investors and the other way back, so the sustainable finance framework that was outlined with the 2018 Action Plan becomes effectively operational. To achieve these goals, digitalization of reporting plays a meaningful role. Digitalization would create the opportunity to leverage information more efficiently while holding the potential for significant cost savings for both users and firms.
Companies will then be required to prepare their financial statements and Annual Report in format according to the Euopean Single Electronic Format (XHTML) in accordance with Article 3 of Delegated Regulation (EU) 2019 /815. The proposal also requests to digitally label published sustainability information according to digital taxonomy. This format by allowing information to be labeled gives the possibility to promptly isolate and target sustainability-related disclosures.

Assurance

According to the proposal, CSRD will require, for all companies within its scope, limited assurance on sustainability reporting, with the aim of helping to ensure that information reported are reliable and accurate. In particular, the assurance will need to cover digital labeling, the indicators included in the management report under Article 8 of the Taxonomy Regulation (i.e., revenue allocation and CAPEX/OPEX to sustainable economic activities), as well as the process adopted to identify the information to be reported.
The EC will also consider, at a later stage, the possibility of requiring reasonable assurance with respect to sustainability information so that the type of report issued by auditors on financial accounts is consistent, even in its content, with the type of report that is issued for non-financial data and thus for sustainability data.

A key step in achieving this is giving sustainability information equality compared to financial information. To date, sustainability information is tolerated within corporate reporting, for which the aforementioned limited assurance is considered enough differently from financial information. To achieve this, it is essential for companies to be strongly involved in expanding the relevance of sustainability information internally, through investment in training but also in furnishing corporate information systems with those tools that support the detection of non-financial information and thus fit into integrated corporate information systems. It also turns out to be necessary for this information having a system of internal controls structured to ensure its truthfulness and verifiability even by external auditors with the same focus and strictness as that used for financial information. In fact, as repeatedly stated, sustainability data will increasingly represent an assessment element not only for clients, and investors but also for lenders.

Member states will be allowed to permit independent parties to issue the Assurance Report, provided they are subject to requirements consistent with those applicable to auditors. The Assurance Report will have to be issued together with the annual financial statements and the Annual Report; moreover, it will need to state among other things *i)* the sustainability reporting framework used, *ii)* the scope of the assurance of sustainability reporting and the assurance standards used, and *iii)* the statutory auditor's judgment on sustainability reporting.

Member states will have to require statutory auditors and audit firms to perform assurance on sustainability reporting in accordance with assurance standards to be adopted by the EC through delegated acts. In the absence of assurance standards adopted by the EC, auditors will have to apply national assurance standards, procedures, or requirements.

Achieving consistency in assurance standards is particularly significant. As a matter of fact, the proposal envisions a single report within which financial and sustainability

information is reported resulting in a potential information asymmetry between financial information subject to full audit and sustainability information subject, currently, to limited audit.

Consequently, the professional figure of those to be licensed for this new certification issue then becomes of relevant aspect. The proposal states that member states should establish requirements that ensure consistent results in the certification of sustainability reporting performed by assurance service providers. Therefore, all independent assurance service providers should be subject to requirements consistent with those set forth in Directive 2006/43/EC (Audit Directive) regarding assurance of sustainability reporting. Rules on the approval and recognition of statutory auditors issued by member states should ensure that they have an adequate level of theoretical knowledge of relevant matters to make appropriate judgments and ensure the truthfulness and reliability of sustainability reporting. However, the Audit Directive will be amended to strengthen the role and responsibilities of the audit committee in monitoring the sustainability reporting process, including its digital part, the effectiveness of internal quality control and risk management systems, the assurance of sustainability reporting, and the maintenance of auditor independence.

Observation

The current legal framework, along the lines of the NFRD, does not guarantee that users' sustainability information needs are met. Indeed, these needs have been increasing significantly in recent years and almost certainly will continue to do so. There are several reasons for this. One is the growing awareness among investors that sustainability issues may put companies' financial performance at risk. Another is the growing market for investment products that explicitly seek to comply with certain sustainability standards or achieve certain sustainability goals. The current situation is also troublesome for companies that must provide this information. The lack of precision in

current reporting requirements and the large number of existing private standards and references make it challenging for companies to know exactly what information they need to report.

The proposed revision of the Non-Financial Reporting Directive goes in the direction of meeting these multiple and additional needs as well as seeking to reduce, as much as possible, the unnecessary costs of sustainability reporting through an approach of proportionality and efficiency.

Surely the intentions formulated by the CSRD proposal represent a key pillar of what the European strategy is regarding the role of sustainability reporting that will become utterly relevant.

The expansion to a wider range of entities required to report on sustainability as well as a consistent implementation in content are a major challenge for recipients in the light of fragmented standards. The adoption of European rules could improve this context if they are properly coordinated with those issued by other international standard setters. The Commission's proposal aims to build on and contribute to international sustainability reporting initiatives. EU sustainability reporting standards should be developed in constructive two-way cooperation with major international initiatives and should align with these initiatives as much as possible taking into account European particularities. To this end, it might be worthwhile to proceed to 'modular integration' with the latter in order to prevent perhaps higher-profile and strict European requirements thus finding it difficult to achieve proper diffusion and acceptance among companies.

3.3 International Sustainability Standards Board – IFRS Foundation

At the 26th United Nations Conference of the Parties (COP26), the IFRS Foundation trustees announced the formation of an International Sustainability Standards Board (ISSB), a major development in the move toward improving the consistency and comparability of companies' sustainability disclosures to meet the needs of capital markets. This responds to the growing and urgent demand to improve the global consistency and comparability of companies' sustainability disclosures to meet the needs of investors and other financial markets participants. The global ISSB standards are intended to promote transparency and consistency in sustainability disclosures to better inform decision-making for users of general-purpose financial reporting.

The announcement is an important milestone because it charts a path forward for companies to report transparently on key sustainability matters, such as climate risks and opportunities, and to be held accountable for their actions.

The Board is tasked with developing a comprehensive global baseline of high-quality sustainability disclosure standards to meet investors' information needs. These global sustainability standards will facilitate consistent and comparable reporting by companies across jurisdictions, which will help direct capital to long-term, resilient businesses as the world transitions to a low-carbon economy. The standards are an essential part of a system change that will be required to create a global baseline of sustainability information addressing the needs of global capital markets participants.

The ISSB will sit alongside and work in close cooperation with the International Accounting Standards Board (IASB), promoting connectivity and compatibility between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards. Like the IASB, it is expected to have 14 members, including a chair and vice-chair(s). To ensure public interest legitimacy, both boards are overseen by the IFRS Foundation Trustees,

who are in turn accountable to the Monitoring Board of capital markets authorities responsible for corporate reporting in their jurisdictions. Interesting to note that the Trustees have adopted a multi-hub location model for the new board to facilitate deeper cooperation with regional stakeholders. Thus, office will be located both in EU and in North America, while Discussions are in progress for offices in Asia Oceania region to give the new board a footprint also in those countries.

At the same time, the IFRS Foundation announced a commitment with the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) (formerly the Sustainability Accounting Standards Board (SASB) Foundation and the International Integrated Reporting Council (IIRC)) to consolidate their technical expertise, content, staff, and other resources with the ISSB. The consolidation of the CDSB has been completed and the consolidation with the VRF is expected to be completed by June 2022. As the consolidation process of the Value Reporting Foundation (VRF) proceeds, International Accounting Standards Board (IASB) Chairman Andreas Barckow and International Sustainability Standards Board (ISSB) Chairman Emmanuel Faber recently announced plans for the future role, governance, and development of the VRF's Integrated Reporting Framework and Integrated Thinking Principles. For the purpose of this paper, amongst these plans the following are worth mentioning:

- The Integrated Reporting Framework will become part of the IFRS Foundation source material.

- The Integrated Reporting Framework will initially be positioned as a voluntary source for drafters.

- IASB and ISSB are committed to collaborate to agree on how the Integrated Reporting Framework will be developed and integrated into their standard-setting

projects and requirements. This work could include joint projects undertaken by the IASB and ISSB to evolve and improve the Integrated Reporting Framework.

- The IASB and ISSB will use the principles and concepts of the Integrated Reporting Framework in their standard-setting work. This includes looking for opportunities to align and incorporate Integrated Reporting Framework concepts with similar concepts in the IASB and SASB conceptual frameworks into a cohesive whole.

- The chairs of the IASB and ISSB are committed to a long-term role for a corporate reporting framework that incorporates the principles and concepts of the current Integrated Reporting Framework. A corporate reporting framework would provide guidance to companies on how to prepare an integrated report and/or otherwise support the connection between the reports required by the IASB and ISSB. This would enable connected, holistic and cohesive corporate reporting.

This work, which includes joint projects undertaken by both the IASB and ISSB to evolve and improve the Integrated Reporting Framework, will result in the publication of materials applicable to both bodies. This is undoubtedly a major step forward for the global standardization of financial and sustainability reporting requirements.

The trustees of the IFRS Foundation have published revised statutes, which will require the ISSB to sit alongside the International Accounting Standards Board (IASB) and follow the same robust review process as the IASB. The intent is for the new ISSB to address the wide range of sustainability topics that are critical to businesses, although it will initially prioritize climate, given its urgency. The ISSB will have two key advisory bodies, which are being established: the Sustainability Consultative Committee and the Sustainability Standards Advisory Forum. When the Trustees announced the creation of the ISSB, they published two prototype standards developed by the Technical Readi-

ness Working Group (TRWG): *i)* Prototype of General Requirements for Disclosure of Financial Information Related to Sustainability, *ii)* Prototype of Climate Disclosure. The TRWG was created in March 2021 to kick off the ISSB. It aims at complementing and developing the work of organizations interested in meeting investors' information needs by giving technical recommendations for submission to the ISSB.

The IFRS Foundation has adopted four areas of strategic focus in their approach to the establishment of the ISSB:

- *Investor focus — enterprise value*

  ISSB standards will essentially adopt the same materiality criteria as financial reporting, which will facilitate connectivity. Companies will have to determine materiality based on issues that may affect enterprise value. Enterprise value is determined by capital market participants based on their estimation of the amount, timing, and certainty of future short-, medium- and long-term cash flows, as well as the value they place on those cash flows.

- *Building on existing frameworks*

  The ISSB will build on the work of existing investor-focused reporting initiatives to become the global standard for sustainability disclosures for financial markets. These include the work of the CDSB, the FSB's Task Force on Climate-related Financial Disclosures (TCFD), the VRF, including the Integrated Reporting Framework and SASB standards, and the WEF International Business Council's (IBC) Stakeholder Capitalism Metrics.

- *A broad remit, with climate disclosures a priority*

  The ISSB's standards will cover sustainability topics relevant to capital market's needs. The first thematic standard will be on climate, reflecting the urgent need for consistent and comparable information for capital markets to support the

transition to a low-carbon economy. However, from the very first, the prototype general requirements will require companies to report on all material sustainability issues, using a high-level framework. Over time, additional thematic and sector standards will provide more specific requirements.

- *Building blocks*
  ISSB standards focused on capital markets are the first building block of a comprehensive corporate reporting system. Additional elements can be added by jurisdictions to respond to public policy priorities.

On March 31st, 2022, the International Sustainability Standards Board (ISSB) published its first two Exposure Drafts related to sustainability standards:

- The first ISSB Exposure Draft (IFRS S1) establishes general sustainability reporting requirements related to financial reporting;
- the second one (IFRS S2) focuses on climate-related disclosures. The focus here is on environmental issues related to climate transition, which is also the objective of the taxonomy of Regulation (EU) 2020/852.

Throughout the remainder of the dissertation, attention will be focused only on the ISSB's first Exposure Draft (IFRS S1), which, in essence, highlights the desire to overcome the duality between financial and non-financial documentation, by proposing the preparation of a single comprehensive document that contains, within it, financial and non-financial information, which to date has been disclosed through a different report from financial statements and legally detached from the latter.
The following section discusses the main points addressed by this newest Exposure Draft IFRS S1 and compares its contents with the respective key points outlined by IASB Conceptual Framework.

3.3.1 IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

ED IFRS S1 establishes general requirements for an entity to disclose sustainability-related financial information about all of its significant sustainability-related risks and opportunities in order to provide the market with a comprehensive set of sustainability-related financial information. Indications are given on the qualitative characteristics of relevant sustainability-related financial information[99].

The proposed objective of IFRS S1 is to require an entity to have access to information about significant sustainability-related risks and opportunities that is useful to the primary users of general financial reporting when assessing the value of the enterprise and deciding whether to commit any resources to the entity.

The reporting entity must present material information about all significant sustainability-related risks and opportunities to which it is exposed. The assessment of materiality should be made in the context of the information needed by users of financial statements for general purposes to assess enterprise value. An entity's general purpose financial reporting should include a complete, neutral, and accurate representation of sustainability-related financial information.

The ED proposes to define enterprise value as the total value of an entity, which is the sum of the value of the entity's equity (market capitalization) and the value of the entity's net debt.

Enterprise value reflects expectations about the amount, timing, and assurance of future cash flows in the short, medium and long term and the value of those cash flows in light of the entity's risk profile, as well as the entity's access to financing and cost of capital.

The ED states that financial information related to sustainability are more extensive than the information reported in the financial statements and may cover disclosures on:

[99] *Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information*, INTERNATIONAL SUSTAINABILITY STANDARDS BOARD, 2022, p. 22.

- an entity's management of sustainability-related risks and opportunities and its strategy for addressing them;
- decisions made by the entity that could result in future inflows and outflows that may not have satisfied yet the criteria for recognition in the financial statements.
- the reputation, performance, and prospects of the entity as a result of its activities, such as its relationships with, and impacts and dependencies on, people, the planet, and the economy;
- the development of knowledge-based activities by the entity.

IFRS S1 additionally dictates the basis for sustainability-related financial disclosures that:

- is comparable with both the entity's sustainability financial information from previous years and sustainability financial information from other entities;
- is linked to other information in the entity's general financial reporting.

The proposed definition and explanation of enterprise value recognizes that the impacts an entity has on people, planet, and economy through its direct activities and value chain influence the entity's performance, prospects, and cash flows over time. Thus, the intent of the proposal is to grasp the full scope of sustainability-related risks and opportunities that could affect enterprise value.

In 2020, the 'Group of 5', the international leaders in standards and frameworks for sustainability, defined materiality issues for enterprise value as a subset of an entity's wider impacts in relation to sustainable development. This subset forms the basis of materiality assessment for disclosure in traditional corporate reporting, in line with the approach defined in the ED. The 'Group of 5' also highlighted that some of these impacts on business value have already occurred at the reporting date (or are included in cash

flow projections that support future cash flow valuations and estimates) and thus are already represented as monetary amounts recognized in the financial statements.

Scope and core content

An entity will apply IFRS S1 in drafting and disclosing sustainability-related financial information in accordance with IFRS Sustainability Disclosure Standards. Furthermore, an entity may apply ISSB Sustainability Standards regardless of whether the related financial statements are prepared in accordance with IFRS or another accounting framework.

Unless another IFRS sustainability disclosure standard permits or requires otherwise, an entity should provide information on:

- *Governance*. The governance processes, controls, and practices that the entity uses to monitor and manage sustainability-related risks and opportunities.
- *Strategy*. The approach to address sustainability-related risks and opportunities that could affect the entity's business model and strategy in the short, medium, and long term, including:
    - o Identification of sustainability-related risks and opportunities
    - o Strategy and decision-making process
    - o Financial position, financial performance, and cash flows
    - o Resiliency
- *Risk Management*. The processes used by the entity to identify, assess, and manage sustainability risks.
- *Metrics and Targets*. Information used to assess, manage, and monitor the entity's performance over time in relation to sustainability-related risks and opportuni-

ties. The metrics should enable users to understand how the entity assesses its performance, including progress toward set goals. An entity should identify metrics that apply to its activities in line with its business model and in relation to specific sustainability-related risks or opportunities. Some entities have a range of activities and, therefore, may need to apply metrics that apply to more than one area.

General features and *IASB Conceptual Framework Comparison*

The ED states that financial information related to sustainability is useful when it is relevant and accurately represents what it is intended to represent. The ED describes these as key qualitative characteristics. Usefulness is enhanced if the information is comparable, verifiable, timely, and understandable.
Sustainability-related financial information falls within the scope of general-purpose financial reporting, and as a result, qualitative features of IASB's Conceptual Framework for Financial Reporting also apply to sustainability-related financial information. However, the nature of some of the information that is required to fulfill the objectives of the proposed IFRS S1 differs from the information provided in general purpose financial statements. Thus, the ED defines the qualitative characteristics of useful sustainability-related financial disclosures.
The ISSB's approach is rooted in the key concepts of the IASB's Conceptual Framework. The consistency of the expected attributes of reported information with the IASB's approach is intended to facilitate stronger connection and consistency between sustainability information and financial statements. To reinforce this, the ISSB in the Basis for Conclusions of ED S1 states:

> "This approach reflects feedback on key requirements for success in the Trustees' 2020 consultation on sustainability reporting and builds upon the well-established work of the TCFD. The Exposure Draft uses definitions and

> requirements that are consistent with the IASB's Conceptual Framework for Financial Reporting, IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"[100].

The general characteristics section of the Exposure Draft contains proposed requirements referring to the reporting entity, related disclosures, fair presentation, materiality, comparative information, frequency of disclosures, location of information, sources of uncertainty in estimates and results, errors, and statement of compliance. These sections of the proposal are adapted from IAS 1 and IAS 8.

Hence, the proposals are based on GAAP and IFRS accounting standards. The reason for this is that these standards will be familiar to entities that prepare general purpose financial statements, particularly those that prepare them in accordance with IFRS. Sustainability-related financial information is expected to be provided as part of general-purpose financial reporting along with financial statements. This approach has been taken to further help ensuring that all information in general financial reporting is prepared on a consistent basis, whenever appropriate, and can be related to one another. The requirements and guidance adapted from IAS 1 and IAS 8 have only been amended to refer to financial information related to sustainability, with two exceptions: the positioning of information is changed, and there is a special application of sources of uncertainty and estimation and result errors, which will be analyzed later in the paper.

Reporting entity

Financial information related to sustainability should provide information about the same entity that prepares the general financial statements. For example, if the reporting entity is a group, the consolidated financial statements are those of a parent company and its subsidiaries; therefore, the sustainability-related financial information of that

[100]INTERNATIONAL SUSTAINABILITY STANDARDS BOARD, *Basis for Conclusions on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information*, 2022, p. 7.

entity is intended to enable users of general financial reporting to assess the enterprise value of the parent company and its subsidiaries.

The entity must designate the financial statements referred to in the sustainability financial information. When currency is specified as the unit of measure, the entity should use the presentation currency of its financial statements.

To achieve the objective of IFRS S1, the entity should provide relevant information about all significant sustainability-related risks and opportunities to which it is exposed. These risks and opportunities relate to activities, interactions and relationships, and the use of resources along its value chain, such as:

- its employment practices and those of its suppliers, waste associated with the packaging of products it sells, or incidents that could disrupt its supply chain;
- the assets it controls (e.g., a manufacturing plant that relies on scarce water resources);
- the investments it controls, including net investments in affiliates and joint ventures (such as financing a greenhouse gas emitting business through a joint venture);
- the sources of financing.

It is suggested that the value chain should be defined as the full range of activities, resources, and relationships related to a reporting entity's business model and the external environment in which it operates, including the activities, resources, and relationships that the entity employs and relies on to create its products or services from design to supply, consumption, and end-of-life.

Connected information

According to the proposals, an entity should provide information that enables users of general financial reporting to assess the connections between various sustainability-

related risks and opportunities and to evaluate how information about those risks and opportunities are linked to disclosures in its financial statements.

When IFRS sustainability disclosure standards require the disclosure of shared information, the ED proposes that the entity should avoid unnecessary duplication. For example, when an entity integrates its oversight of sustainability-related risks and opportunities, governance disclosures must be integrated too, rather than being provided as separate governance disclosures for each significant sustainability-related risk and opportunity.

It is envisioned that information on sustainability-related risks and opportunities should be integrated as a whole, rather than presented as disconnected statements, topic by topic, which could compromise the understandability of the reporting as well as increase its length.

Connectivity between sustainability-related information and financial information is a major concern and has been repeatedly requested by investor groups. The ED therefore emphasizes that an entity may need to disclose the effects of sustainability-related risks and opportunities on its financial position, results of operations, and cash flows in the short, medium, and long term. This information may also have to be linked to information in the financial statements and to specific metrics and targets.

Fair presentation and *IASB Conceptual Framework Comparison*

> "A complete set of sustainability-related financial disclosures shall present fairly the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation requires the faithful representation of sustainability-related risks and opportunities in accordance with the principles set out in this [draft] Standard"[101].

[101] *Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information*, p. 32.

A fair presentation also requires

> "to disclose information that is relevant, representationally faithful, comparable, verifiable, timely and understandable; and to provide additional disclosures when compliance with the specific requirements in IFRS Sustainability Disclosure Standards is insufficient to enable users of general purpose financial reporting to assess the implications of sustainability-related risks and opportunities on the entity's enterprise value."[102]

These are the terms of the ED regarding one of its key principles, Fair Representation. Thus, it is proposed that a complete set of sustainability-related financial information fairly presents the sustainability-related risks and opportunities to which an entity is exposed. Fair presentation requires the faithful representation of sustainability-related risks and opportunities in accordance with the principles set forth in the proposed standard.

Fair presentation is a well-understood concept within GAAP and IFRS accounting standards, and this notion and terminology has been derived from IAS 1 and adapted in the context of sustainability-related financial reporting.

The ED assumes that application of IFRS Sustainability Disclosure Standards, with further disclosures being added, if necessary, will result in sustainability-related financial reporting that attains fair presentation.

To identify significant sustainability-related risks and opportunities, and related metrics and targets, an entity would apply the IFRS Sustainability Disclosure Standards. The entity would also consider disclosure topics contained in the SASB Industry Standards, non-mandatory guidance from the ISSB (such as the CDSB Framework's application guidance for water and biodiversity disclosures), and the most recent pronouncements of other standard-setting bodies whose requirements are designed to meet the disclosure

[102] *Ibid.*

needs of investors. An entity would also be required to consider sustainability-related risks and opportunities identified by companies operating in the same industries or geographic areas.

In addition, the Exposure Draft would require the entity to consider all relevant facts and circumstances when deciding how to aggregate information in sustainability-related financial reporting, but the understandability of the information should not be diminished "by obscuring material information with immaterial information or by aggregating material items that are dissimilar"[103]. The notion of aggregation and disaggregation in the Exposure Draft is based on IAS 1, and the proposal includes examples of features that could provide the basis for aggregation or disaggregation. This concept, which is included in IAS 1 is intended to ensure that users of general financial reporting receive information at an appropriately aggregated level.

An entity would use the same sources mentioned in previous paragraph to identify information, including metrics, that might be useful in assessing how the sustainability-related risks and opportunities to which it is exposed might affect its enterprise value, with the additional requirement that the information must *i)* be relevant to the decision-making needs of the users of general financial reporting; *ii)* faithfully represent the entity's risks and opportunities in relation to the specific sustainability-related risk or opportunity; and finally *iii)* be neutral.

The approach proposed in the ED is similar to the one of IAS 8:10, which states that in the absence of an IFRS Accounting Standard that specifically applies to a transaction, other event, or condition, management should use its judgment in developing and applying an accounting standard that produces relevant and reliable information. This approach ensures that an entity can provide relevant information on all significant sustainability issues, including those not covered in an IFRS Sustainability Accounting

[103] *See note 101*

Standard. Guidelines from other standard-setting bodies that management could use in applying its judgment in identifying supplementary information about a significant sustainability-related risk or opportunity, include the TCFD's latest guidance on metrics, targets, and transition planning, the VRF's International <IR> Framework, and/or the World Economic Forum's (WEF) International Business Council's (IBC) Metrics for Stakeholder Capitalism. It implies that if there is no IFRS sustainability disclosure standard for a given topic, an entity would be able to continue to report the disclosure already provided in line with another framework if the latter satisfies the requirements above.

Materiality and *IASB Conceptual Framework Comparison*

> "Sustainability-related financial information is material if omitting, misstating, or obscuring that information could reasonably be expected to influence decisions that the primary users of general-purpose financial reporting make on the basis of that reporting, which provides information about a specific reporting entity. [...] Material sustainability-related financial information provides insights into factors that could reasonably be expected to influence primary users' assessments of an entity's enterprise value. The information relates to activities, interactions, and relationships and to the use of resources along the entity's value chain if it could influence the assessment primary users make of its enterprise value. It can include information about sustainability-related risks and opportunities with low-probability and high-impact outcomes."[104]

The ED proposes that sustainability-related financial information is relevant when it displays insights into factors that might reasonably be expected to affect primary users'

[104] *Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information*, p. 34.

assessments of an entity's enterprise value. Such information concerns activities, operations, interactions, and relationships, and the use of resources along the entity's value chain if they could influence primary users' assessments of its enterprise value. They may include information on sustainability-related risks and opportunities with low-probability but high-impact outcomes.

The proposed illustrative guidance delineates additional information on the implementation of materiality judgments. Whether information can reasonably be expected to influence decisions made by the primary users of a specific reporting entity's general financial information, the entity considers the characteristics of those users and its own unique circumstances.

In order to fulfill common information needs of its primary users, an entity first separately identifies the information needs endorsed by one of the three types of primary users defined in the proposed standard, e.g., investors (existing and potential), then repeats the assessment for the two remaining groups, i.e., lenders (existing and potential) and other creditors (existing and potential). The set of identified information needs represents the set of common information needs that the entity seeks to address.

An entity is asked to disclose the information required by an IFRS sustainability disclosure standard only if it deems the information to be material. The assessment of materiality involves both qualitative and quantitative considerations. For instance, IFRS Practice Statement 2 Making Materiality Judgements states that such qualitative considerations may include "characteristics of a transaction, other events or conditions of the entity or their context that, if present, make it more likely that the information will influence the decisions of the major users of the entity's financial statements"[105]. Consequently, by its nature, some disclosures required by IFRS Sustainability Disclosure Standards are likely to be material because of the presence of a qualitative factor. For

[105] *IFRS Practice Statement 2: Making Materiality Judgements*, INTERNATIONAL ACCOUNTING STANDARDS BOARD, 2017.

example, all entities exposed to a significant climate-related risk are likely to consider information about the governance of that risk relevant.

An entity is not obliged to disclose information otherwise required by an IFRS Sustainability Disclosure Standard if local laws or regulations prohibit the entity from providing such information. If the entity omits material information for this reason, it should clearly identify the type of information withheld and explain the reason behind the omission.

Since materiality judgments are entity-specific, the entity's disclosures are expected to provide:

- information specific to the entity's business practices and circumstances, rather than a generalized disclosure;
- relevant information needed to assess how the entity contributes to and is affected by sustainability-related risks and opportunities.

The Exposure Draft defines material information in line with the definition contained in the IASB's Conceptual Framework for General Purpose Financial Reporting and IAS 1. However, materiality judgments on sustainability-related financial information will deviate from those for general purpose financial statements. In particular, information on sustainability-related risks and opportunities is not constrained by asset and liability definitions and recognition criteria. When drafting sustainability-related financial information, it is expected that preparers would take into consideration financial implications over longer time periods than those considered in the preparation of general-purpose financial statements; drafters would also have to consider the financial implications of interactions throughout their value chain. Materiality is assessed in relation to the effect of relevant sustainability-related risks and opportunities on enterprise value. The material financial information related to sustainability provided by an entity may change from year to year, due to changing assumptions and conditions, as well as the expec-

tations of primary users of financial statements. Thus, the entity is supposed to use its judgment to identify what material is, and materiality judgments have to be reassessed at each reporting date. The Exposure Draft proposes that although a specific IFRS standard on sustainability disclosures would require for specific disclosure requirements, an entity should not report such disclosures if the resulting information is not material. Similarly, when specific requirements are not sufficient to meet the information needs of users, the entity should consider whether to include additional disclosures. This approach is consistent with the requirements of IAS 1.

Given the IFRS Foundation's current approach there would be a focus, first and foremost, only on that information that assists investors' decisions, thus aligning with financial-type materiality by only considering relevant information on the impact of climate risks on the entity's business. Such approach is justified by the fact that in Europe the Paris Climate Agreement is in place and it addresses the impacts of business activities on the environment as well, while in other jurisdictions this is not yet done. Therefore, the IFRS Foundation believes that providing for dual materiality (thus also requiring disclosures about the impacts on the environment caused by the individual entity) is premature particularly for those jurisdictions that are still some distance away from the Paris Agreement. This is contrary to European-level requirements (contained in both the NFRD and the CSRD proposal) where there is a notion of dual materiality referring also to the impact the entity's business may have on the environment. However, according to the ISSB to initially begin with a dual materiality approach will increase the complexity of the project and could potentially affect or delay the adoption of the standards. At a later stage, the ISSB might consider expanding its scope to provide a more comprehensive assessment of risks and opportunities for a reporting entity.

Comparative information, frequency of reporting, sources of estimation, compliance and errors and *IASB Conceptual Framework Comparison*

The entity would be required to disclose comparative information from the previous year for all metrics disclosed in the current year. When such information is relevant to understanding the current year's sustainability financial reporting, the entity should also disclose the comparative information for both narrative and descriptive sustainability financial reporting.
When metrics cannot be directly quantified and can only be estimated, measurement uncertainty occurs. The ED recognizes that the use of reasonable estimates is an essential part of preparing sustainability-related metrics and that this does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a significant extent of measurement uncertainty would not necessarily prevent an estimate from providing useful information. The entity should identify metrics that have significant measurement uncertainty and indicate the sources and nature of estimation uncertainties and the influencing factors.
When sustainability-related financial information includes financial data and assumptions, the ED proposes that these should be consistent with the related financial data and assumptions in the entity's financial statements, as far as possible.
The entity should also provide information on the assumptions made for its future and other sources of significant uncertainty, related to the information provided on the possible effects of sustainability-related risks or opportunities, when there is significant uncertainty about outcomes.

An entity whose sustainability-related financial information complies with all relevant requirements of the IFRS Sustainability Disclosure Standards would be required to include an explicit and unqualified statement of compliance. The ED proposes that an entity correct significant errors from previous periods by restating comparative amounts

for the prior period(s) indicated unless it is impracticable to do so.

The Exposure Draft outlines proposed requirements for comparative information, sources of uncertainty in estimates and results, and errors. As such, it plays a similar role to the IASB's Conceptual Framework for Financial Reporting, IAS 1 and IAS 8 for financial statements prepared in accordance with IFRS. However, rather than requiring a change in estimate to be reported as part of the current year's disclosures, the Exposure Draft proposes to disclose comparative information that reflects revised estimates, except where this is not practicable, that is, comparative data would be restated to consistently reflect a better estimate.

An entity would be required to provide sustainability-related financial disclosures at the same time as its financial statements, and the sustainability-related financial disclosures would have to relate to the same reporting period as its financial statements.
An entity would also be asked to insert the information required by IFRS Sustainability Disclosure Standards as part of its comprehensive Annual Report.
Notwithstanding regulations or other requirements applicable to an entity, the ED recognizes there are several feasible positions in an entity's general financial reporting where sustainability-related financial information could be provided. For example, sustainability-related financial information could be included in the entity's executive comments when the management comments are part of the entity's general financial reporting.
Executive commentary complements the entity's financial statements. They present information on factors that have affected the entity's financial performance and financial position and factors that could affect the entity's ability to create value and generate cash flows. Management commentary may be either known or incorporated into reports with various designations, including management's discussion and analysis, operational and

financial review, integrated report, and strategic report.

The ED allows information required by an IFRS sustainability reporting standard to be reported through cross-reference, as long as the information is available to users of general financial reporting under the same terms and at the same time as the information being referenced.

Reporting sustainability-related financial information simultaneously with the relevant financial statements could result in a major shift for entities that currently release a separate sustainability report at a different time than their own financial statements.

IASB Conceptual Framework Comparison

The Foundation does not dispose of a separate conceptual framework that applies directly to sustainability-related financial information. The proposals in the Exposure Draft include guidance on the qualitative characteristics of useful sustainability-related financial information. This guidance is an integral part of the proposals. The features are tailored from the Conceptual Framework for Financial Reporting (Conceptual Framework) and are intended to ensure that all disclosure documents within general financial reporting, both sustainability financial reporting and financial statements, are useful to users. The document was also included to provide information to assist entities in preparing financial information related to sustainability. Regardless, the substantial reference to the operating principles defined in the Conceptual Framework for Financial Reporting is not unexpected. The ISSB itself and ED S1 state that an entity should apply Draft S1 in preparing and disclosing sustainability-related financial statements under IFRS Disclosures when the entity's related financial statements are prepared under IFRS or other GAAP. In addition to these explicit references, Draft S1 states that it includes operating principles consistent with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

From these comments, it can be concluded that the financial reporting governed by

IAS/IFRS, and the composite report proposed by Draft S1 form pieces of a unique set of disclosures intended for companies' external use. In order for the various documents that compose this comprehensive reporting, financial and non-financial, to function together, the operating principles must be consistent or, even better, must coincide. For this reason, Draft S1 makes explicit, and thus also implicit, reference to IAS 1, IAS 8, and the Conceptual Framework for Financial Reporting issued over time by the IASB. Indeed, the ISSB explicitly affirms the convergence of the two disclosures in the foreword of ED S1 by declaring "The Exposure Draft includes proposals for definitions and requirements that are consistent with the IASB's Conceptual Framework for Financial Reporting, IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"[106].

Observation

As can be seen, new sustainability reporting requirements imposed on companies urged the emergence of several initiatives aimed at establishing reporting norms for non-financial information. Such initiatives, mostly being international in nature and thus global in scope, if not properly coordinated with each other, do not guarantee information comparability. ISSB's proposal appears to address the need for an organized and comprehensive set of standards to ensure consistency requirements, which should not necessarily be implemented entirely anew, but rather by optimizing and complementing existing ones. Indeed, the ISSB's aim is to integrate and maintain the heritage set of existing standards for investor-oriented sustainability disclosure, including the TCFD, CDSB, SASB standards, Integrated Reporting, and World Economic Forum metrics. Moreover, IFRS Foundation is partnering with the Global Reporting Initiative to reduce the reporting burden on jurisdictions and companies when integrating ISSB's

[106] *Exposure Draft ED/2022/S1 General Requirements for Disclosure of Sustainability-related Financial Information*, p. 6.

global perspective and GRI's multi-stakeholder sustainability reporting requirements. Once in action, the future success of the global baseline will depend on the combined actions of public authorities incorporating it into their jurisdictions' reporting requirements and market demand from investors and other stakeholders that will foster the use of the ISSB's IFRS sustainability disclosure standards. The ISSB reaffirmed its commitment to collaborate with jurisdictions and stakeholders in pursuit of this public interest goal and is ready to engage proactively as jurisdictions and other stakeholders begin to evaluate and subsequently implement ISSB standards. To achieve this goal, ISSB will establish a new advisory body, the Sustainability Standards Advisory Forum, over the next quarter to facilitate smooth discussions with a broad range of jurisdictions and high-level guidance.

Further, to support timely global baseline developments, the ISSB has formed a working group composed of delegates from several jurisdictions actively engaged in standard-setting in the field of sustainability reporting. The working group will discuss the compatibility of these initiatives to determine how the global baseline standard, by fully addressing the needs of global market participants, can help optimize the efficiency of reporting for companies in these jurisdictions and how they can develop the global baseline standard according to their own needs.

Corporations may consider aligning future sustainability reporting with key components of the General Requirements Standard, including building on corporate and industry standards such as those of the SASB. As the sustainability reporting process transitions from voluntary to mandatory, companies that have mature sustainability disclosure programs will likely be well-placed to meet the evolving demands of stakeholders and regulators.

Besides stakeholders, this will benefit all enterprises, not only European ones, which will find themselves, if properly developed, operating under a common sustainability

standards system with evident benefits of both comparability and lower implementation costs. Indeed, the ISSB global baseline represents a unique opportunity to reduce the current and further fragmentation of sustainability disclosure requirements. The widespread use of this benchmark will reduce costs for those responsible for preparing the data and improve the accessibility of information to users.

Considerations and Closing Remarks

Society's growing interest in the issue of 'sustainability' has been matched by an increased awareness of the need to preserve the planet's scarce resources from depletion. Nonetheless, this concept is rather complex, revealing a cross-sectional nature, characterized by the correlation between economic, social, environmental and cultural dimensions that simply cannot ignore the entire economic system and especially businesses being directly involved.

The notion of sustainability has evolved significantly within international normative instruments and reached its apex with the United Nations General Assembly's approval in September 2015 of the Agenda 2030 for Sustainable Development and its 17 Sustainable Development Goals.

This evolution on the regulatory side has been balanced by an increase in corporate awareness and a growth of the importance of Corporate Social Responsibility as well as the role of corporate governance in implementing strategies to embed a 'culture of sustainability' within the organization to become a core value.

It seems an established objective that sustainability has also become a factor of competitiveness, providing an influential driver for changes in business strategies, which are no longer restricted to the purely economic profit, but also extend to social and environmental dimensions[107]. A shift that is significantly affected by the increased bargaining power of the consumer, who is now becoming increasingly aware of both sustainability and manufacturing practices.

As a result it is now attainable to grasp the relevance of monitoring company's achievement of its goals and reporting on the results attained to external stakeholders. An ethical, social and environmental commitment - with a notably important influence on business process management and value creation - that underlines the increasingly relevance of financial and non-financial reporting tools.

While sustainability has become a topic of key and central concern, a major sticking point remains for the ESG movement since there are still no universally adopted standards for how companies can measure and report on their sustainability performance. The most likely initiative supposed to give the answer to the issue is the establishment of the International Sustainability Standards Board.

It is clear that the ED IFRS S1 proposes to overcome a fragmented vision of standards in sustainability financial reporting. It proposes the publication of a single set of documents that includes both the financial reporting of the year and a document containing information related to sustainability in a wider sense. The Draft vision would overcome the duality of documents, which as of today is the norm in reporting.

Impacts of sustainability reporting standards will be enormous, though one possible problem lies within companies themselves as they will have to put these standards into practice. As long as companies perceive those communication as a mere obligation and

[107] PERRINI, *Sostenibilità*.

not as an opportunity, it will be difficult to improve corporate communication.
To overcome this, executives may have to be able to factor sustainability issues into strategy and capital-allocation decisions. This would help to ensure the sustainability of corporate financial performance, particularly over the long term. Boards of directors may have to see sustainability not as a side issue to be managed in a committee but as a major issue that the entire board needs to focus on. As a consequence, the companies that are most effective at managing sustainability will be more attractive to investors. Lastly, since sustainability performance can be a leading indicator of financial performance, investors will seek the same consistency and clarity in a company's sustainability reporting as they now expect for its financial reporting[108].

The recent establishment of the ISSB was justified by the growing and urgent demand and need for consistency in reporting and comparable information. But while this was largely welcome by the private sector and professional associations, other stakeholders such as academics and non-governmental organizations have raised significant concerns about the fundamentals and understanding of concepts and definitions such as sustainability, 'ESG', stakeholders, (double) materiality as well as misleading claims primarily due to completely ignoring prior peer-reviewed academic research of the last half-century. Specifically, the IFRS Foundation – via its new ISSB – seems to not only keep, but also amplify the focus of corporate reporting in general to remain shareholder-centric 'to fulfill the information needs of investors'[109].
According to Charles H. Cho, the future of corporate reporting presents significant concerns, yet it offers many opportunities to further research and support a broader

[108] R. BARKER et al., *The Future of ESG Is . . . Accounting?*, Harvard Business Review, 2020.
[109] G. MICHELON et al., "Narrative Reporting: State of the Art and Future Challenges", *Accounting in Europe*, vol. 19, no. 1 (2022), pp. 7-47.

stakeholder and accountability-based approach[110]. Furthermore, like other rapidly evolving fields and topics within the accounting discipline and research in general, it is believed that improved and wider accounting education practices are indeed a required tool to drive large-scale changes. Thus, Social and Environmental Accounting (SEA) has undoubtedly the potential to achieve long-term environmental change and positively contribute to environmental challenges by means of the following possibilities[111].

First, concern must be focused on the underlying "socio-economic arrangements," rather than being limited by conventional accountability's focus on individual entities[112]. In opposition to organization-focused research, there are emerging literature centered on socio-ecological systems that aim to re-center SEA research attention away from individual entities[113]. Their findings suggest that new forms of ecological reporting could increase the visibility of both the social and ecological interdependencies of society. This systems approach would allow accounting researchers to reflect on the interdependencies and interconnections within the environmental system in which the society as a whole is doing business. Similarly, more research on leveraging SDGs to shape understanding of organizational responsibilities could help address the link between organizations and interactions at the global level[114].

Second, the attention of SEA academics will be required for the employment of science-based scenario modeling and emission target setting in order to support organizations' climate action. Such an effort could help understand how global sustainability analyses

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[110] C. H. CHO et al., "The Future of Corporate Reporting", *Accounting in Europe*, vol. 19, no. 1 (2022), pp. 1-6.

[111] C. H. CHO et al., "Sustainability at stake during COVID-19: Exploring the role of accounting in addressing environmental crises", *Critical Perspectives on Accounting*, vol. 82 (2022), p. 102327.

[112] J. BEBBINGTON and C. LARRINAGA, "Accounting and sustainable development: An exploration", *Accounting, Organizations and Society*, vol. 39, no. 6 (2014), pp. 395-413.

[113] *Ibid.*

[114] J. BEBBINGTON and J. UNERMAN, "Advancing research into accounting and the UN Sustainable Development Goals", *Accounting, Auditing & Accountability Journal*, vol. 33, no. 7 (2020), pp. 1657-1670.

can be reflected at the organizational level[115]. In this regard, recent initiatives such as the Task Force on Climate-related Financial Disclosures, which focuses on risk-based indicators and climate-related dependencies, represent an area where accounting scholars could contribute.

Third, a complete paradigm shift is needed in the understanding of accountability as well as functions and boundaries of conventional accounting techniques and tools. In particular, the complexity of the interaction between ecosystems and industries requires a wider understanding of accounting and "the aspects for which organizations can be held accountable and how that accountability can be determined and discharged"[116]. For instance, it could be considered unclear whether measuring and reporting sustainability indicators will have an impact on climate change mitigation and action. In this context, investors have generally been assumed to be the primary users of this information, particularly when it comes to their investment decisions. Despite the importance of these parties, some scholars have suggested that greater recognition of a wider range of stakeholders outside financial accountability is needed, since climate change relief is more than mere "market issues"[117]. Expanding the boundaries of traditional accountability has the further upside to bring new insights into new potential conceptual tools pertinent to accounting. Achieving these goals is likely to require multi-disciplinary, interdisciplinary, and cross-disciplinary engagements to re-frame organizations' responsibilities and accountability and thereby potentially transform them[118].

Finally, the need for such changes should also be extended to the way of teaching and

[115]C. LARRINAGA, "'The World for Which we Account': Systems Thinking in Rob Gray's Works", *Social and Environmental Accountability Journal*, vol. 40, no. 3 (2020), pp. 186-190.

[116]J. BEBBINGTON et al., "Accounting and accountability in the Anthropocene", *Accounting, Auditing & Accountability Journal*, vol. 33, no. 1 (2020), pp. 152-177.

[117]M. LAINE and G. MICHELON, *Some reflections on the Consultation Paper on Sustainability Reporting published by the IFRS Foundation*, European Accounting Association's (EAA) Accounting Research Center, Nov. 2020, `https://www.arc-eaa.com/blog/some-reflections-consultation-paper-sustainability-reporting-published-ifrs-foundation`.

[118]E. PIMENTEL et al., "The blind spots of interdisciplinarity in addressing grand challenges", *Critical Perspectives on Accounting* (June 2022), Article in press, p. 102475.

training future accountants and managers. Sustainability integration in accountancy courses is important for two purposes. On the one hand, changes in accounting education aimed at enabling future accountants to better understand and manage this complex social and environmental system in which they operate is still in its early stages[119]. To understand the severity and complexity of ethics analysis and problem solving, it is crucial that students undertake courses in accounting ethics and sustainable development[120]. On the other hand, these changes are linked to research-informed teaching[121]. Addressing and understanding sustainable challenges requires new methodologies and new ways of approaching accounting education. Novel kinds of multidisciplinary thinking and collaborative approaches will likely be useful in figuring out how organizations can creatively address sustainable transformations.

Altogether, there are several ways in which accounting research could contribute to global environmental challenges and lead to improvements in existing practices used to address current and future challenges. In particular, it is felt that these areas where academic research can contribute should be considered and addressed in the development of broader legislative frameworks, such as the EU Green Deal and further efforts by nongovernmental and private bodies. Embedding an accounting system influenced by science-based goals, with better accountability mechanisms and incorporating better educational practices as well, might achieve transformational changes. Together with developing research on new accounting approaches, academia can help organizations

[119]CHO et al., "Sustainability at stake during COVID-19: Exploring the role of accounting in addressing environmental crises".

[120]C. H. CHO and H. MÄKELÄ, *Can Accountants Save the World? Incorporating Sustainability in Accounting Courses and Curricula*, European Accounting Association's (EAA) Accounting Research Center, Aug. 2019, `https://www.arc-eaa.com/blog/can-accountants-save-world-incorporating-sustainability-accounting-courses-and-curricula`.

[121]C. H. CHO et al., "Towards a better understanding of sustainability accounting and management research and teaching in North America: a look at the community", *Sustainability Accounting, Management and Policy Journal*, vol. 11, no. 6 (2020), pp. 985-1007.

and standards bodies in their efforts to successfully embrace different practices toward a sustainable society and planet.

The ISSB's desire to convey meaningful information to capital markets by cooperating with groups such as GRI and VRF, both of whom having a concern for sustainable development above investor focus, could be even more valuable to society as a whole if these academics' future perspectives would be fully taken into account.

Hence, besides now being a necessary perspective for businesses, sustainability and its accountability will emerge as a decisive factor in setting society at the core of an evolutionary process affecting the entire collectivity, aimed at an ultimate imperative goal of a brighter future.

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