Przegląd Prawniczy Uniwersytetu im. Adam Mickiewicza | Adam Mickiewicz University Law Review

Vol. 16, 2024
DOI 10.14746/ppuam.2024.16.15

Ryszard Kamiński[1]

Corporate Sustainability Reporting: Regulations of the International Sustainability Standards Board and the European Union

Abstract: The disclosure of enterprises' achievements in the field of sustainable development requires the use of a specific set of indicators framed in a coherent reporting system. The aim of this article is to present and assess two international regulations that create systems for reporting social, environmental, including climate and management issues by enterprises. These are the standards developed by the International Sustainability Standards Board and legal regulations, including reporting standards adopted in the European Union. The discussion in the article shows that although both systems differ in their degree of maturity, they meet the basic challenges related to the need to inform about the goals and achievements of enterprises in the field of their sustainable development. Therefore, there is a chance for these systems to converge in the future.
Keywords: sustainable development, corporate reporting, ESG reporting, reporting standards

Introduction

Standardising the reporting of corporate sustainability performance is an extremely pressing challenge for many organisations around the world today.

1 Ryszard Kamiński, Adam Mickiewicz University Poznań, Faculty of Law and Administration, Poznań, Poland. e-mail: ryszard.kaminski@amu.edu.pl, https://orcid.org/0000-0003-4717-1942.

This need is driven by the imperative to communicate much more effectively than before the progress made by companies in implementing sustainability, as well as widespread criticism of the current practice of reporting on this area of activity by business entities. Examples of efforts to unify systems for reporting social, environmental and management achievements are the new regulations and standards introduced by the International Sustainability Standards Board (ISSB) and the European Union. These organisations have developed new corporate reporting solutions. There are many similarities between these solutions; however, they differ on many issues. This can cause controversy as to their proper understanding and practical application, and certainly lead to a lack of comparability of some of the content reported by companies relying on different reporting systems. It is this situation that inspired this article, which aims to present the new solutions for corporate sustainability reporting developed by the ISSB and the EU. This makes it possible to compare and evaluate them from the point of view of the possibilities and effects of implementation in practice. The paper introduces the main issues and outlines indicator-based measurement of sustainable development.

The paper provides an introduction to the main issues discussed by outlining indicator-based measurement of sustainable development. The paper was prepared on the basis of the literature on the subject as well as legal acts and reporting standards. A critical analysis of literature sources and legal regulations along with a comparative method were used. The legal status as of 31 December 2024 was taken into account.

Indicative Measurement of Sustainable Development

The function of a sustainability report is to measure the level and rate at which a company's sustainability objectives are achieved, and also to signal the risks it has already encountered or may encounter in the near future. A prerequisite for a sustainability report is the adoption of a specific set of indicators of this development. These indicators should not only make it possible to give an opinion on how sustainable particular development is, but also to assess the degree to which the company's principles and strategic objectives are being met.[2]

Depending on their methodology and the scope of their content, sustainable development indicators include aggregate indicators, also called synthetic indicators (constructed on the basis of at least two diagnostic variables), and cross-sectional indicators.[3]

Synthetic indicator measurement methods use a single measure combining all areas considered in assessing the sustainability of an enterprise. Their merit lies in their making it easier to interpret the indicators established and to evaluate a company by comparing it with others in its environment. An example of such a method is the sustainable value (SV) method developed by F. Figge and T. Hahn,[4] which solves the problem of the multidimensionality of measuring sustainability. The SV concept starts from the premise that an investment is profitable when the new value created is greater than the opportunity cost. This means that the sustainability of an enterprise is achieved when, by using all the resources consumed, the enterprise creates more value than would have been created using the same resources in an alternative or reference solution.[5] The literature also points out the disadvantage of this method, which is that the value created by a firm depends directly on the scale of the firm's operations. Firms with high profits and/or high resource consumption will have absolute

2 Tadeusz Borys, "Jak mierzyć postępy we wdrażaniu zrównoważonego rozwoju?," in *Barometr zrównoważonego rozwoju 2008/2009*, ed. Krzysztof Kamieniecki and Bożena Wójcik (Instytut na rzecz Ekorozwoju, 2009), 57–67.

3 Krzysztof Kompa, "Budowa mierników agregatowych do oceny poziomu społeczno-gospodarczego," *Zeszyty Naukowe SGGW – Ekonomika i organizacja gospodarki żywnościowej*, no. 74 (2009): 5–26, https://doi.org/10.22630/EIOGZ.2009.74.14.

4 Frank Figge and Tobias Hahn, "Sustainable Value Added: Measuring Corporate Contributions to Sustainability Beyond Eco-Efficiency," *Ecological Economics* 48, no. 2(2004): 173–87, https://doi.org/10.1016/j.ecolecon.2003.08.005.

5 The calculation of the sustainable value created by a company requires the determination of the surplus value generated by the use of the i-th resource in the company compared to its use in alternative (benchmark) applications. (Krzysztof Posłuszny, "Metody oceny zrównoważonej działalności przedsiębiorstw przemysłowych," *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, no. 491(2017): 336, https://doi.org/10.15611/pn.2017.491.31).

SV values different to those of small firms, even though the efficiency of resource transformation may be similar. In order to compare the efficiency of an operation and to decouple its magnitude from the scale of operation, it would be necessary to normalise the SV magnitude by relating it to the benchmark efficiency.

Most measurement methods are based on sets of multiple indicators measuring different aspects of a company's activities relevant to sustainability. While the report prepared on their basis is comprehensive and analytical in nature, this unfortunately makes it difficult to interpret this information unambiguously. A set of multidimensional indicators to measure sustainability has been proposed by international and national organisations promoting corporate reporting systems. Over the past twenty-odd years, these organisations have developed frameworks and reporting standards. A reporting framework is understood as guidelines for the structure of information, the way it is prepared and the scope of topics covered, all based on general principles derived from a conceptual framework. Standards, on the other hand, define specific, detailed and repeatable requirements for what should be reported on each topic, including specific relevant indicators. Standards enable the production of reports that are comparable, consistent and reliable.[6]

Legislation of a normative nature has emerged in various countries and regions of the world to clarify the obligations of companies to report sustainability aspects. The guiding principle behind these regulations was that they should be universal and applicable to different companies, although some regulations contain individual guidelines for specific sectors (e.g. the financial sector). The stated objectives of these regulations are similar. They are to help companies measure, monitor and communicate their progress towards sustainability using a variety of indicators and practical working procedures useful for making capital allocation decisions. All regulations emphasise the need to

6 Ryszard Kamiński, *Polityka bilansowa a ocena działalności przedsiębiorstwa* (Ars boni et aequi, 2003), 37.

provide and disclose high-quality, verifiable information; some require independent auditing of the information reported.

International Sustainability Standards

As already stated, the existence and practical application of multiple sustainability reporting regulations results in a problem regarding the comparability of disclosed reports. Hence, initiatives have emerged to converge these reporting concepts. Actions in this direction have been taken, among others, by the International Financial Reporting Standards (IFRS) Foundation. This organisation established the International Sustainability Standards Board (ISSB) in 2021. It is understood that the ISSB's objective is to develop high-quality, comprehensive and globally accepted sustainability disclosure standards, taking into account the needs of investors and financial markets.

The ISSB's activities build on the legacy of existing reporting initiatives, mainly SASB and TCFD, as well as IIRC and CDSB.[7] The ISSB's activities resulted in the development and dissemination in June 2023 of the first two sustainability reporting standards – one on general requirements (S1)[8] and the other on climate (S2).[9] The main basis for developing the S1 and S2 standards was the TCFD framework for climate-related disclosures (used in countries such as Canada, Switzerland and Japan). This framework assumes that there is consistency between sustainability and financial information. Standards S1 and S2 will apply for the first time in annual reports for 2024. This means that companies' first disclosures according to these standards will appear in 2025. The ISSB intends to develop further non-financial reporting standards in the

7 "SASB: Your Pathway to ISSB," SASB, accessed February 11, 2024, https://sasb.ifrs.org/sasb-your-pathway-to-issb/.

8 International Sustainability Standards Board, *IFRS S1 IFRS® Sustainability Disclosure Standard, General Requirements for Disclosure of Sustainability-Related Financial Information* (June 2023).

9 International Sustainability Standards Board, *IFRS S2 IFRS® Sustainability Disclosure Standard Climate-Related Disclosures* (June 2023).

future, both thematic and industry-specific. The ISSB's announcement of the new standards was welcomed by the business community and international organisations, including the G20 and the UN, as they were seen as a route to standardising sustainability reporting worldwide.

Standard S1 sets out the general requirements for how companies must prepare and report sustainability-related financial disclosures. According to this standard, companies should disclose information on all sustainability risks and opportunities that can be expected to affect their cash flows, access to finance or cost of capital – in the short-, medium- or long term.

In particular, this information relates to:

1) Governance (on such aspects as governance processes, controls and procedures used to monitor and manage sustainability risks and opportunities and, in addition, the governing bodies, such as boards or committees, or those responsible for overseeing sustainability risks and opportunities).
2) Strategy (on such aspects as the sustainability risks that may materially affect the future of the company in the short, medium or long term, as well as how the company has responded to these risks; information on the resilience to sustainability risks, including the resilience of the adopted strategy and business model, as well as information on how the risk assessment was carried out and its time frame, and an analysis of possible scenarios for the development of risks and resilience to them, should be disclosed here).
3) Risk management (which is intended to provide an understanding of the company's processes for identifying, assessing, prioritising and monitoring sustainability risks, including whether and how these processes are integrated and inform the entity's overall risk management process; this requires information to be provided on the sources of data and how the nature, likelihood and magnitude of risks are assessed and how scenario analysis is used to identify sustainability risks).

4) Measures and targets (which will disclose any sustainability risks that can be expected to affect the entity's prospects; this requires stating the indicators and metrics that the entity uses to measure and monitor sustainability, including those linked to specific business models, activities or other characteristics of the industry in which the company operates).[10]

Sustainability-related financial disclosures may be included in a management report (commentary) or similar report if it forms part of the overall financial statements. It is accepted that the management report may have different (and already used) names, e.g. 'management report', 'discussion and analysis', 'operational and financial review', 'integrated report' or 'strategic report'. According to paragraph B27 of Appendix B of Standard S1, it is the company's responsibility to ensure transparency of financial disclosures related to sustainability, which should be presented in conjunction with relevant, reliable and credible non-financial information on the topic. In turn, the financial data and assumptions included in the sustainability disclosures must be consistent with the corresponding financial data and assumptions used in the preparation of the entity's financial statements, where possible, taking into account the requirements of IFRS or other standards e.g. GAAP (Generally Accepted Accounting Principles). Of course, any sources of guidance used by the entity should be indicated.

Standard S2 is the first thematic standard and addresses climate change risks. It requires an entity to disclose information about climate-related risks and opportunities that is useful to key users of financial statements. This obligation applies to information about risks and opportunities that can be expected to affect an entity's cash flows, access to finance or cost of capital in the short-, medium- or long term.

These risks include:

10 Paula Galbiatti Silveira, "Understanding the ISSB Standards," Enhesa, accessed April 2, 2024, https://www.enhesa.com/resources/article/understanding-the-issb-standards/.

– physical risks, related to specific events resulting from climate change (such as storms, floods, drought or heat waves), or chronic risks resulting from long-term climate change, such as changes in precipitation and temperature, sea level rise, reduced water availability, loss of biodiversity, changes in soil productivity;
– transition risks (arising from efforts to transition to a sustainable economy), including political risks, liability risks, technological risks, market and reputational risks.

Standard S2 requires disclosure of a number of indicators of a technical nature, including greenhouse gas emissions. This is to be done in accordance with the instruction Greenhouse Gas Protocol: a Corporate Accounting and Reporting Standard (GHGP).[11] In addition to this, Standard S2 requires an entity to disclose information related to carbon emissions, investment expenditure related to climate risk and information showing whether and how climate issues are factored into executive remuneration. The S2 standard is also complemented by the industry-based guidance on its implementation in practice 'Part B-Industry-based Guidance for IFRS S2',[12] which presents methods for identifying, measuring and disclosing information related to specific business models, activities or other typical characteristics of an entity's participation in an industry. This industry-based guidance is taken from SASB standards, which are accepted by the ISSB.

It should be added that the ISSB has proposed several measures to alleviate the burden of reporting GHG emissions, namely:

11 World Business Council for Sustainable Development and World Resources Institute, *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (World Business Council for Sustainable Development and World Resources Institute, 2004), accessed February 11, 2024, https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf.

12 "2023 – Issued Standards, Part B – Industry-based Guidance for IFRS S2," IFRS, accessed February 12, 2024, https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/sustainability-pdf-collection/?language=en&issue-type=%2Fcontent%2Fcq%3Atags%2Fifrs%2Fproduction%2Fissue-type%2Fissued&year=2023&layer=%2Fcontent%2Fcq%3Atags%2Fifrs%2Fproduction%2Fstandard-layer%2Fbase.

- a temporary exemption from the application of the GHGP standard for the first annual reporting period where an entity has previously used another method to measure GHG emissions;
- relief allowing an entity to use an alternative method of measuring GHGs if required in the country in which it operates;
- a temporary exemption from disclosure of Scope 3 emissions[13] in the first annual reporting period in which the entity applies the S2 standard.

Standard S1 requires an entity to consider its application in reporting on the issues mentioned above but is not required to do so if it establishes that the issues do not apply to it. Similarly, under Standard S2, entities are required to consider the applicability of industry guidance, but are not required to apply the specific indicators in that guidance.

The ISSB also provides ‘for the omission of commercially sensitive information on sustainability opportunities from sustainability-related financial disclosures under certain conditions’. However, an entity using this exemption is required to disclose this fact. The ISSB also notes that an entity ‘will not be able to use commercial sensitivity as a broad justification for non-disclosure or omit information about sustainability risks’.

For both the S1 and S2 corporate standards, reporting information should be disclosed in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). There is a presumption that reports prepared on the basis of the S1 and S2 standards should be attested in accordance with the requirements of the respective jurisdictions.

---

13 Scope 3: Other indirect greenhouse gas emissions is an optional reporting category that applies to all other indirect emissions. Emissions in this group are a consequence of a company’s activities. These emissions are upstream and downstream GHG emissions other than Scope 2 emissions (i.e. from sources that the reporting entity does not own or directly control and may include, but are not limited to, purchased goods and services, business travel, employee commuting and processing and use of sold products). These emissions can be calculated using primary emissions data from entities in the value chain or using secondary data such as industry averages or proxy data (World Business Council for Sustainable Development and World Resources Institute, *Greenhouse Gas Protocol*, 25).

An entity may be required to apply both Standard S1 and Standard S2 for annual reporting periods beginning on or after 1 January 2024, but the specific date of application of the standards will depend on the jurisdiction in which they are adopted. Earlier application of standards S1 and S2 is permitted. In this case, the entity is required to disclose that it applies these standards and apply both standards concurrently. Alternatively, an entity may choose to apply the aforementioned interim exemption for sustainability-related disclosures. This exemption is intended to give companies more time to align the reporting of sustainability-related disclosures with their financial statements. If the entity intends to use the interim exemption, it will have to disclose this fact.

It is likely that many countries may be required to apply the S1 and S2 standards. The ISSB's work has the support of the G7 and G20, the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, governments of many countries, and central bank governors from over 40 jurisdictions.[14] So far, countries that have indicated that they are establishing mechanisms to consider applying the ISSB standards include Australia, Canada, Hong Kong, Malaysia, New Zealand, Nigeria, Singapore, and the United Kingdom.[15] In addition, several countries, such as Japan and South Korea, have sustainability standards boards that are likely to be interested in working with the ISSB and may be implementing the ISSB standards in their own laws. An example of the introduction of S1 and S2 standards into national regulation is Brazil, where in October 2023 the Brazilian Securities Commission (Comissão de Valores Mobiliários – CVM) adopted a resolution to incorporate the ISSB standards into the Brazilian regulatory framework, establishing their voluntary application from 2024 and their future mandatory application from 1 January 2026 for listed companies.[16]

14 Galbiatti Silveira, "Understanding the ISSB Standards."

15 Raxhelle Toplensky, "Pro Take: Forget the SEC, International Climate Reporting Standards Could Become the Global Baseline," *Wall Street Journal Pro Sustainable Business*, updated June 26, 2023, https://www.wsj.com/articles/pro-take-forget-the-sec-international-climate-reporting-standards-could-become-the-global-baseline-ea01d05a.

16 Galbiatti Silveira, "Understanding the ISSB Standards."

EU Regulations on Sustainability Reporting

Information relating to the impact on the environment and methods of its protection and social issues related to the activities of companies located in the EU have been disclosed since 2017 on the basis of Directive 2014/95/EU of the European Parliament and of the Council.[17] In 2022, they were replaced by new regulations on corporate reporting on sustainable development, namely, Directive EU/2464/2022 of the European Parliament and of the Council (CSRD).[18] Its aim is to improve reporting on the sustainable development of companies by:

- expanding the circle of entities obliged to report, which is to meet the growing information needs of interested recipients,
- increasing the comparability of data from different entities,
- increasing the credibility, availability and detail of published information on sustainable development.

According to the CSRD directive, the following entities are required to report on sustainable development:

a) all large entities that meet at least two of the following three requirements on the balance sheet date: balance sheet total above EUR 20 million, net sales revenue above EUR 40 million, average number of employees in the financial year above 250,
b) small and medium-sized entities (SMEs) listed on a regulated market of a Member State, other than micro entities,
c) entities outside the EU that generate net sales revenues in the EU exceeding EUR 150 million and have at least one branch or subsidiary in the Union.

17 Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ EU 2014 L 330/1).

18 Directive 2022/2464/EU of the European Parliament and of the Council of December 14, 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting (Text with EEA relevance), PE/35/2022/REV/1 (OJ L 322, 16.12.2022).

Directive EU/2464/2022 has significantly expanded the scope of mandatory sustainability reporting. It is estimated that this will apply to around 50,000 companies in total.

The new directive also requires companies to audit their sustainability information. Reports will be verified by a certified auditor or an independent accredited certifier, including in terms of their compliance with the European Sustainability Reporting Standards (ESRS) presented below. Ultimately, it is planned to achieve a similar level of assurance in sustainability reporting, as in the case of financial reporting.

It should be emphasized that Directive EU//2464/2022 introduced the principle of 'double materiality' in determining what content is to be disclosed, i.e. financial materiality and environmental and social materiality. According to this principle, the following should be done:

– firstly, to identify and disclose matters concerning sustainable development that are material to the financial situation of the company and its value (in addition to those matters that have already been disclosed in the financial statements) and;
– secondly, to identify and disclose actual or potential significant impacts on people and the environment related to the company's own activities and its value chain (upstream and downstream).

This means that companies are required to provide not only information to the extent "necessary to understand" the company's development, results and situation, but also information necessary to understand the impact of the company's activities on environmental and social issues, respect for human rights, anti-corruption and bribery matters.

Companies were required to submit a report on the following areas:

a) strategy and business model in relation to sustainable development;
b) management and organisation in relation to sustainable development;
c) assessment of the significance of impacts, risks and opportunities related to sustainable development;

d) implementing measures, including policies, objectives, actions and action plans, resource allocation;
e) performance indicators.

The CSRD Directive assumes that information on the reporting of sustainable development is to be included in the reports on the activities of the entity. The CSRD Directive also assumes that the reports on activities will be published in XHTML format.

The timetable for implementing the CSRD Directive into practice is set out in Article 4, which states that the Directive shall apply from 1 January 2024 for financial years starting on or after 1 January 2024 in four stages:

Phase 1 – for 2024 – entities that are subject to the current Directive 2014/95/EU will report. They will be required to apply the European Sustainability Reporting Standards (ESRE) in full.

Phase 2 – for 2025 – all other large listed and unlisted entities and other large capital groups (i.e. parent entities of all sizes within large capital groups) will report. These entities will be required to apply the ESRS in full.

Phase 3 – for 2026 – small and medium-sized listed companies will report. They will have the option to choose the full or simplified version of the ESRS.

Phase 4 – the directive will cover companies from third countries; the obligation to apply CSRD will apply from the financial year starting on 1 January 2028 and after that date.

Non-financial reports of companies prepared so far could be based on international, European or national guidelines. This situation did not serve the comparability of information on sustainable development. Therefore, at the request of the European Commission, the European Financial Reporting Advisory Group (EFRAG) prepared the European Sustainability Reporting Standards.[19] These were adopted by the European Commission in July 2024 in the form of a delegated

19 "European Sustainability Reporting Standards," EFRAG, accessed January 15, 2023, https://www.efrag.org/News/Project-579/EFRAG-publishes-today-the-last-PTF-ESRS-Cluster-Working-Paper.

act to Directive 2013/34/EU.[20] These standards consist of 12 documents describing in detail the requirements in the areas of environment, social and corporate governance, as well as cross-sectionally describing general issues. Although the standards are separate documents, they are closely related to each other.

The first two standards, ESRS 1 and ESRS 2 (so-called cross-cutting standards), formulate the principles of sustainability reporting and overarching requirements for disclosure. They are mandatory for all organizations. ESRS 1 contains general principles for using the rules, basic concepts, the structure of the standards and basic principles for creating ESG reports. ESRS 2, on the other hand, contains a set of mandatory indicators (12 required disclosures). They constitute guidelines for creating an ESG report and concern issues such as:

– general information about the company,
– the company's business model and strategy,
– sustainable development objectives,
– implemented policy and processes related to achieving these objectives,
– the role and composition of the company's bodies competent in the matter of sustainable development,
– ESG due diligence procedures,
– the process of identifying material areas and risk management,
– metrics.

The ESRS cross-cutting standards are divided into topics and subtopics, which specify detailed requirements for disclosure. Individual areas of disclosure are marked with the letters E, S, G. The following standards apply to the environmental area:

ESRS E1 – climate change. (This concerns the ways in which a company prepares for climate change and attempts to mitigate it. It should disclose in the report information on its carbon footprint and energy consumption, as well as a strategy for decarbonising the company's operations).

20 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council with regard to sustainability reporting standards, C(2023) 5303 final (OJ L, 2023/2772, 22.12.2023).

ESRS E2 – pollution. (This concerns various types of pollution, including air, water, soil, living organisms, and food. The standard also discusses the issue of potentially hazardous substances and substances of great concern. Its aim is to prompt reflections on how a company affects pollution emissions and what actions it has taken to prevent them, what risks are associated with the pollution generated, and what plans and goals it has for reducing pollution).

ESRS E3 – water and marine resources. (This standard covers the extraction and use of marine resources, water consumption, water collection and discharge. According to this standard, companies must describe how they affect water and marine resources, what actions they have taken to prevent negative impacts, and what plans they have for the protection of water resources).

ESRS E4 – Biodiversity and Ecosystems. (This standard covers direct factors affecting the loss of biodiversity, the status of species, and the range and condition of ecosystems. According to the E4 standard, companies should disclose how they affect biodiversity and ecosystems, what actions they have taken to prevent negative impacts, and what plans they have to reduce their impacts on biodiversity and ecosystems).

ESRS E5 – Resource Use and Circular Economy. (This standard covers resources, waste, creating a circular economy focused on durability, optimal use or reuse, refurbishment, product regeneration, recycling, and nutrient cycling).

The following four standards address social issues:

ESRS S1 – own employees. (This addresses all employee issues. The aim of the standard is to show the management of employee matters, including job security and stability, freedom of association, social dialogue, and work-life balance. The standard also addresses issues of equal treatment and equal opportunities for all, employment and integration of people with disabilities, measures to prevent mobbing, and opportunities to develop skills through training. This standard covers both people employed in the enterprise under a contract and the self-employed).

ESRS S2 – employees in the value chain. (This addresses the same issues as in the ESRS S1 standard. However, it applies to people performing work in the enterprise's value chain at an upstream or downstream level, including logistics or distribution service providers, franchisees, retailers).

ESRS S3 – affected communities. (It addresses the economic, social, cultural, political, and civil rights of a given community, including the right to housing conditions, and freedom of speech and assembly. Another important issue to discuss concerns the rights of indigenous peoples, including the preservation of their culture, as well as the impact of communities on the company, which, on the one hand, can damage its reputation or disrupt its operations, and on the other, can bring many business benefits, e.g. easier recruitment at the local level).

ESRS S4 – consumers and end users. (This concerns consumers and end users, and in particular, their rights to privacy, freedom of speech, access to high-quality information, security. This standard assumes that the services of a given company cannot be discriminatory, inaccessible to a given community, and marketing practices should be responsible).

The issue of corporate governance is regulated in the ESRS G1 standard – business practices. It concerns what is broadly understood as corporate culture (e.g. management of relationships with suppliers, protection of whistleblowers, good payment practices), as well as prevention, detection of corruption and bribery. It should be added that significant number of issues related to corporate governance are also included in the mandatory ESRS 2 standard.

Currently, the European Commission, in cooperation with EFRAG, is conducting activities aimed at developing standards dedicated to companies from the SME sector listed on the stock exchange and sectoral (industry) standards. These are planned to enter into force in 2026.

The requirement to apply these standards will be gradually introduced for different types of companies. The first year in which companies will apply the new standards is 2024 (reports based on these standards will be published in 2025). This applies to the largest entities. Other listed companies will be required to apply the standards at later dates to help them prepare properly for this obligation. For companies with fewer than 250 employees, special transitional periods are provided for the first year of disclosure of information on greenhouse gas emissions in Scope 3 (ESRS E1), although they will still have to set up the necessary systems to collect data and design and implement the required processes. For all companies, there is also the possibility to report only after the first year of operations on certain topics, including those related to employment (ESRS S1) and expected financial impacts related to non-climate-related environmental issues (pollution, water, biodiversity and resource use).

Another relief introduced by the European Commission regards treating some mandatory reporting information as voluntary. For example, transitional plans for biodiversity in accordance with ESRS E4 on biodiversity and ecosystems and some indicators on persons performing work for the company in accordance with ESRS S1 on employment may be disclosed voluntarily.

To conclude the outline of the most important elements of the new EU regulations on sustainability reporting by a company, it is worth mentioning a very important regulation related to Directive EU/2494/2022, which is the Communication from the Commission: Guidelines on reporting on non-financial information: Supplement on reporting climate-related information (2019/C 209/01).[21] This Communication contains non-binding guidelines and therefore does not create new legal obligations: it is something of an interpretation of Directive EU/95/2014 on the disclosure of climate-related information. The European Commission added that companies using these guidelines may also rely on international, EU or national frameworks. The Commission considers this paper not to constitute a technical standard and neither the preparer of the non-financial statements nor any other party – acting on behalf of the preparer or otherwise – should rely on the compliance of the non-financial statements with its content.

It can be concluded that the introduction of the CSRD directive into the practice of companies will not only increase their business transparency,

21 Communication from the Commission – Guidelines on reporting non-financial information: Supplement on reporting climate-related information (2019/C 209/01).

but above all will force a change in the way they are managed. Company managers will be required to describe how they assess the business opportunities and risks related to sustainability issues (including the impact of companies on the environment and society), as well as the expected impact of these issues on financial results. In particular, there will be a need to explain whether and how the company's overall strategy takes into account sustainability factors and their financial effects, as well as how it plans to improve its performance in the area of sustainability. All this information will have to be documented and published in a single report, which investors and other stakeholders will undoubtedly use for their comparative analyses. In a situation where the company's management does not take due care in assessing sustainability issues and planning its activities in this area, the reporting information disclosed may give the impression that the company is facing undesirable financial and legal consequences. In addition, companies will also have to plan their operations in advance to ensure the identification and collection of relevant information and the implementation of the necessary data management and control frameworks. Importantly, CSRD requires external verification of reports. As such, appropriate systems and controls are needed to ensure that data is verifiable.

The new EU regulatory system for information on sustainable development of enterprises is extremely complex in terms of the content of the provisions, which are contained in many interconnected legal acts. This makes respecting the established regulations a very difficult task. Regardless of this fact, it should be recognized that the general and specific assumptions of the new enterprise reporting system are strongly justified. Implementing ESRS standards will certainly pose a challenge for companies with little or no experience in creating ESG reports. It seems that these entities should start working as early as possible on adapting their business model to the challenges related to sustainable development, in order to meet the ESG reporting requirements (compliant with ESRS) in a few years. The data disclosed within these areas should help them understand what impact they have on the sustainable development of their company and the external environment (industry, sector, the entire economy).

Conclusion

The ISSB and EU regulations on corporate sustainability reporting appeared at the same time, but their level of "maturity" is different. The European Union regulations are more advanced. As one might assume, this is due to the fact that this organization already has many years of experience in conducting activities for sustainable development. It is the undisputed leader in this area on a global scale. For years, EU bodies have been determined to implement the principles of sustainable development announced by the UN in the 2030 Agenda in the Member States.[22] Therefore, the reasons for introducing new reporting regulations are primarily ideological. They are an expression of the desire to achieve the fundamental principles, i.e. the sustainable and balanced development of the societies of the EU Member States.

The sustainability reporting standards developed by the ISSB are less advanced. This is chiefly due to the positioning of the Board within the entire structure of all the largest international organizations operating in the area of financial and non-financial reporting of enterprises. The goal of the ISSB is to bring about a convergence of existing reporting systems by developing unified standards, which – by their very nature – must constitute a compromise between various organizations with their own interests, not only ideological ones, but above all business interests. It seems that one can be moderately optimistic about the further intentions of the ISSB aimed at developing further sustainability reporting standards and their effective promotion and application around the world – as was the case with the IFRS standards.

22 United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development*, gov.pl, accessed October 22, 2020, https://www.gov.pl/web/rozwoj-technologia/agenda-2030.

The common feature of the standards introduced by the ISSB and the EU is the emphasis on mandatory reporting of climate issues (which will probably force companies to establish cooperation with external experts in the field of climate change and accounting for carbon dioxide emissions). This seems to indicate a deep understanding of the problem of threats resulting from climate change and determination in making efforts to interrupt or delay this process. This is an optimistic conclusion and all the more valuable because it is likely that the above-mentioned organizations and other entities will take joint action to converge climate reporting standards on a global basis. This would be a natural process and possible to carry out due to the subject of reporting, which is the same all over the world. The process of unifying standards in this area would be facilitated due to the common starting point of the ISSB and EU Standards, which are the recommendations on disclosing climate-related information developed by the Task Force on Climate-related Financial Disclosures. The convergence of standards would allow double preparation of reports by companies using both the ESRB and IFRS S1 and IFRS S2 to be avoided.

The regulations presented here also show similarity in terms of the process of their implementation into practice. This process has been spread over time, and the scope of reporting obligations is already or is to be adapted to the size and capabilities of the companies preparing the reports. This is not surprising considering the complexity of the introduced regulations, the need for companies to prepare for this type of reporting (including external cooperation with entities in their value chain – often using different and not yet standardized methodologies for collecting and recording non-financial data), as well as the diversification of the human, organizational and financial potential of companies covered by the new reporting obligations. The market for services in the field of sustainable development reporting and report attestation will probably develop in the preparatory period for adopting these obligations. It is obvious that the costs of operating companies will increase in connection with the new information and reporting challenge. In response to this fact, one can only state that the lack of such an obligation could result in increased threats related to the unsustainable development of companies and, as a result, lead to damage significantly exceeding the expected reporting costs.

References

Borys, Tadeusz. “Jak mierzyć postępy we wdrażaniu zrównoważonego rozwoju?” In *Barometr zrównoważonego rozwoju 2008/2009*, edited by Krzysztof Kamieniecki and Bożena Wójcik. Instytut na rzecz Ekorozwoju, 2009.

EFRAG. “European Sustainability Reporting Standards.” Accessed January 15, 2023. https://www.efrag.org/News/Project-579/EFRAG-publishes-today-the-last-PTF-ESRS-Cluster-Working-Paper.

Figge, Frank, and Tobias Hahn. “Sustainable Value Added: Measuring Corporate Contributions to Sustainability Beyond Eco-Efficiency.” *Ecological Economics* 48, no. 2(2004): 173–87. https://doi.org/10.1016/j.ecolecon.2003.08.005

Galbiatti Silveira, Paula. “Understanding the ISSB Standards.” Enhesa. Accessed April 2, 2024. https://www.enhesa.com/resources/article/understanding-the-issb-standards/.

IFRS. “2023 – Issued Standards, Part B – Industry-based Guidance for IFRS S2.” Accessed February 12, 2024. https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/sustainability-pdf-collection/?language=en&issue-type=%2Fcontent%2Fcq%3Atags%2Fifrs%2Fproduction%2Fissue-type%2Fissued&year=2023&layer=%2Fcontent%2Fcq%3Atags%2Fifrs%2Fproduction%2Fstandard-layer%2Fbase.

International Sustainability Standards Board. *IFRS S1 IFRS® Sustainability Disclosure Standard, General Requirements for Disclosure of Sustainability-Related Financial Information*. June 2023.

International Sustainability Standards Board. *IFRS S2 IFRS® Sustainability Disclosure Standard Climate-Related Disclosures*. June 2023.

Kamiński, Ryszard. *Polityka bilansowa a ocena działalności przedsiębiorstwa*. Ars boni et aequi, 2003.

Kompa, Krysztof. "Budowa mierników agregatowych do oceny poziomu społeczno-gospodarczego." *Zeszyty Naukowe SGGW – Ekonomika i organizacja gospodarki żywnościowej*, no. 74(2009): 5–26. https://doi.org/10.22630/EIOGZ.2009.74.14.

Posłuszny, Krzysztof. "Metody oceny zrównoważonej działalności przedsiębiorstw przemysłowych." *Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, no. 491(2017): 332–39. https://doi.org/10.15611/pn.2017.491.31.

Toplensky, Raxhelle. "Pro Take: Forget the SEC, International Climate Reporting Standards Could Become the Global Baseline." *Wall Street Journal Pro Sustainable Business*. Updated June 26, 2023. https://www.wsj.com/articles/pro-take-forget-the-sec-international-climate-reporting-standards-could-become-the-global-baseline-ea01d05a.

SASB. "SASB: Your Pathway to ISSB." Accessed February 11, 2024. https://sasb.ifrs.org/sasb-your-pathway-to-issb/.

United Nations. *Transforming Our World: The 2030 Agenda for Sustainable Development*. gov.pl. Accessed October 22, 2020. https://www.gov.pl/web/rozwoj-technologia/agenda-2030.

World Business Council for Sustainable Development, and World Resources Institute. *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard*. World Business Council for Sustainable Development and World Resources Institute, 2004. Accessed February 11, 2024. https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf.

Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council with regard to sustainability reporting standards, C(2023) 5303 final (OJ L, 2023/2772, 22.12.2023).

Communication from the Commission - Guidelines on reporting non-financial information: Supplement on reporting climate-related information (2019/C 209/01).

Directive 2014/95/EU of the European Parliament and of the Council of October 22, 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (OJ EU 2014 L 330/1).

Directive 2022/2464/EU of the European Parliament and of the Council of December 14, 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU as regards corporate sustainability reporting (Text with EEA relevance), PE/35/2022/REV/1 (OJ L 322, 16.12.2022).