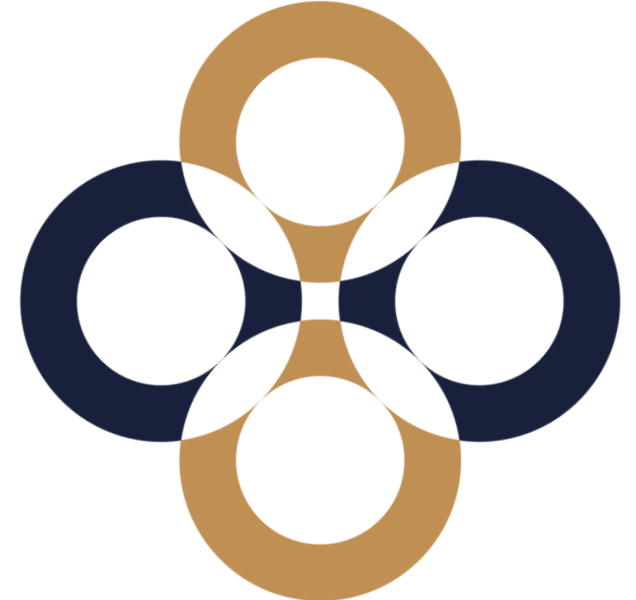


Sustainability Challenges for the Accounting profession

Corporate Sustainability
Reporting Directive as a response

Prof Maria Csutora. Jakarta March 7, 2024

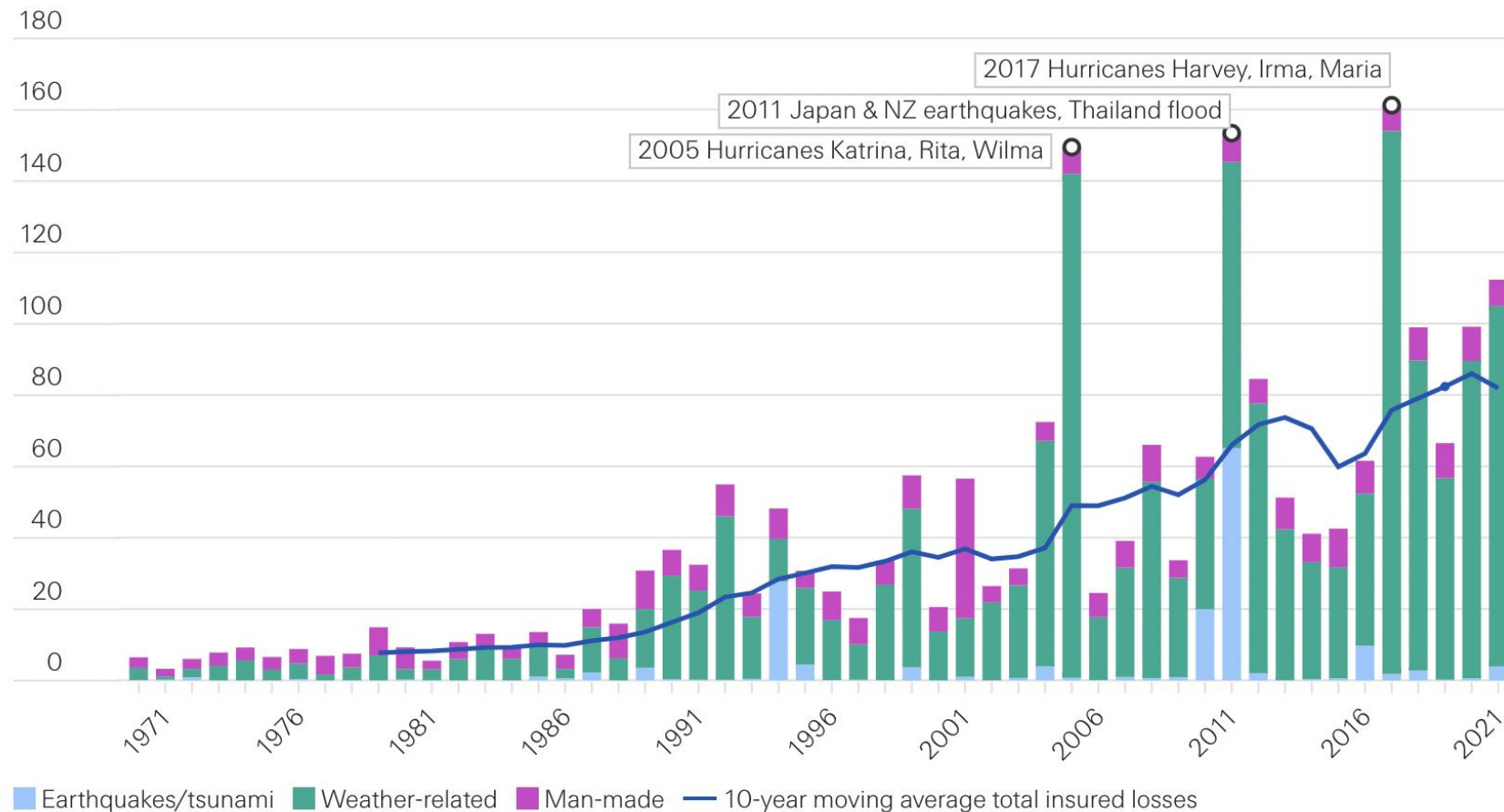


Financial impacts of climate change

Figure 1: Insured losses since 1970

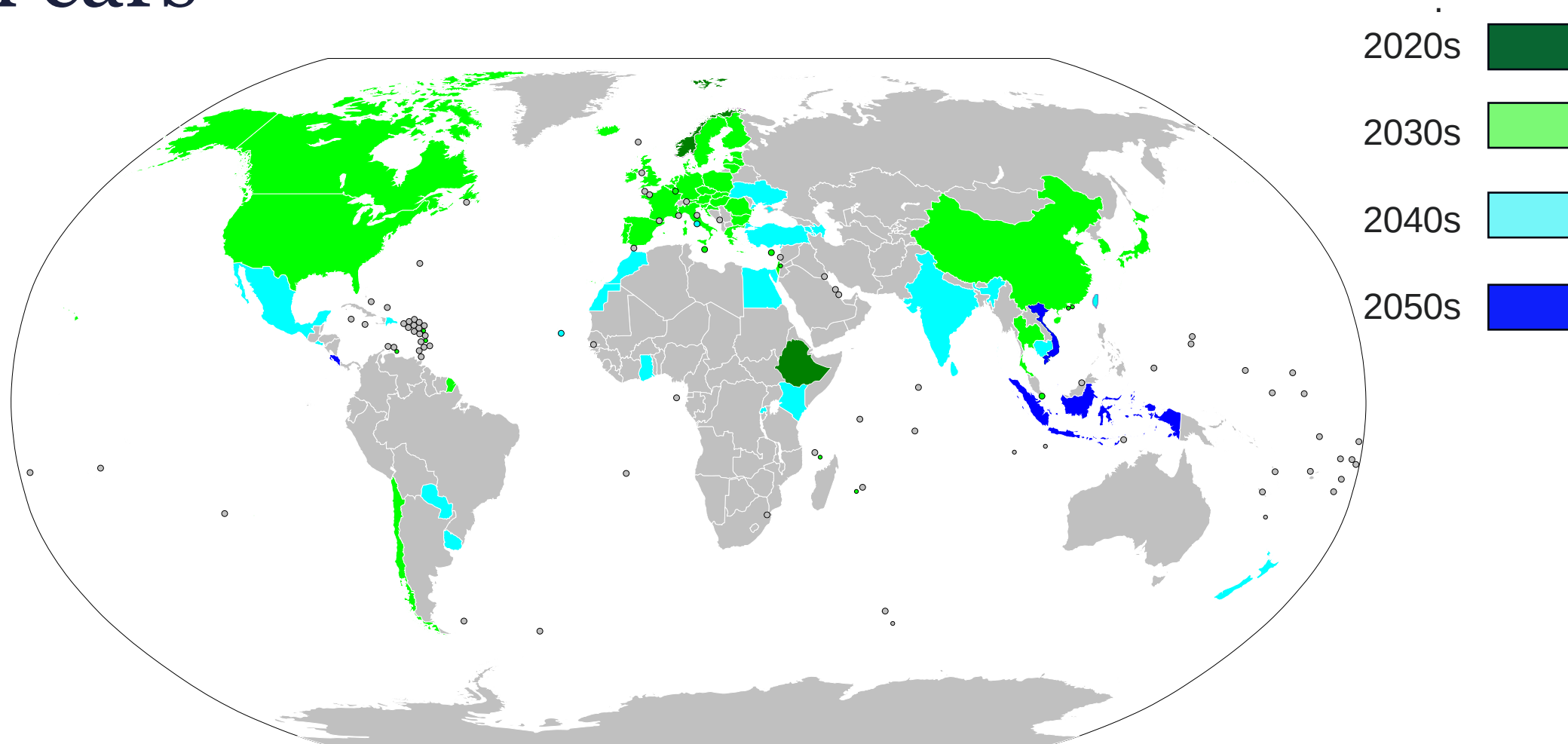
USD billion (in 2021 prices)

Rollover/touch chart for details



Source: Swiss Re Institute

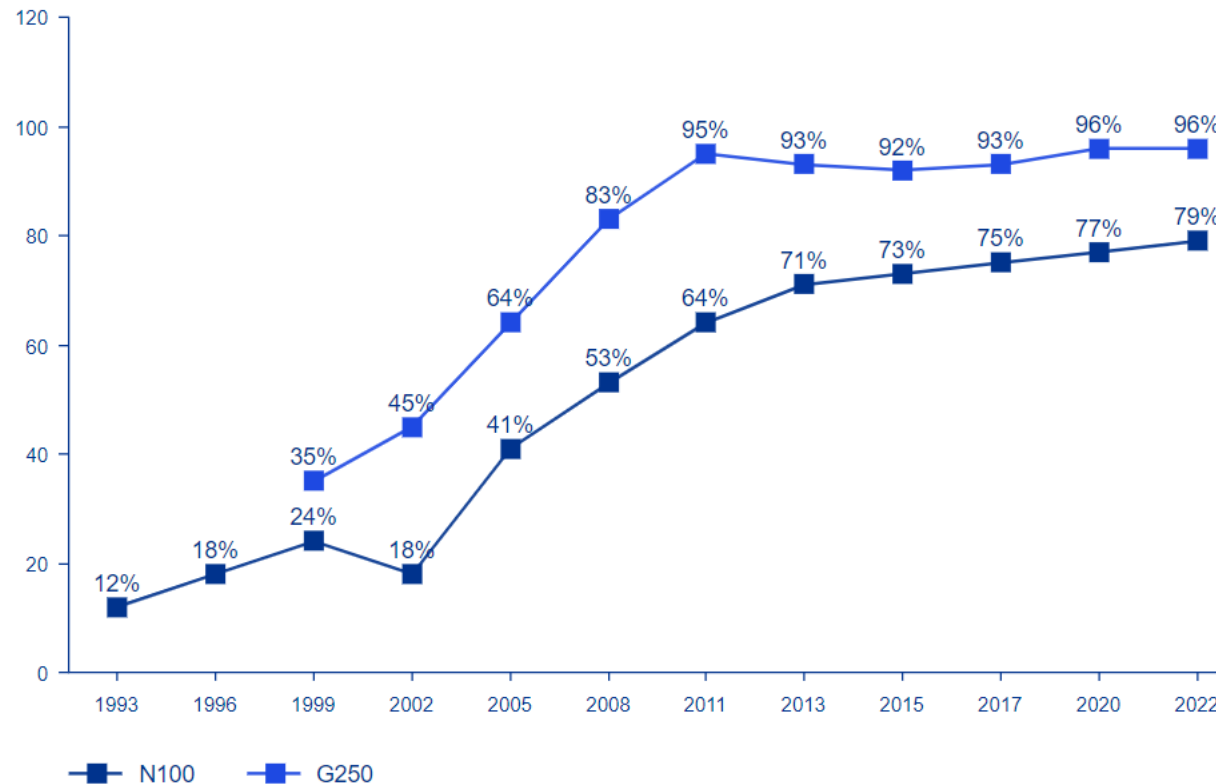
Impacts of regulation:phase out of fossil fuel cars



Industrial disasters



Trend in sustainability reporting amongst the biggest companies



Base: 5,800 N100 companies and 250 G250 companies

Source: KPMG Survey of Sustainability Reporting 2022, KPMG International, September 2022

Major challenges related to sustainability reporting

Trust deficit towards companies - greenwashing, misleading sustainability information

There is no reliable information on the risks that sustainability challenges pose to companies.

Investors and banks are not able to take these risks into account, or only partially, when investing capital.

Bad business and sustainability decisions can be made.

Different reporting structures per framework, different ESG indicators.

Lack of generally accepted sustainability metrics and methodologies, immaturity.

Limited ability to hold companies accountable for their impact on people and the environment based on sustainability reports.



Reporting frameworks for Sustainability

- Global Reporting Initiative (GRI): most widespread standard for reporting sustainability issues. 800 pages including sectoral standards
- Carbon Disclosure Project
- NFRD: non financial reporting standards of the European Union
- IFRS. International Sustainability Standards Board.
- **What is still missing?**
 - - reliability
 - - outside-in-financial perspective for investors
 - - financial auditing. No accountants are involved in the process.

Shortcomings in the current reporting practice

Trust deficit towards companies - greenwashing, misleading sustainability information

Companies that have received sustainability or CSR awards could also be on the list of the most irresponsible companies a few years later (Public Eyes).

Limited ability to hold companies accountable for their impact on people and the environment based on sustainability reports.



Impact materiality (non financial reporting)

IMPACT*

Inside-out non-financial perspective

* on **people** and the **environment**



Financial materiality
RISKS & OPPORTUNITIES**

Outside-in financial perspective

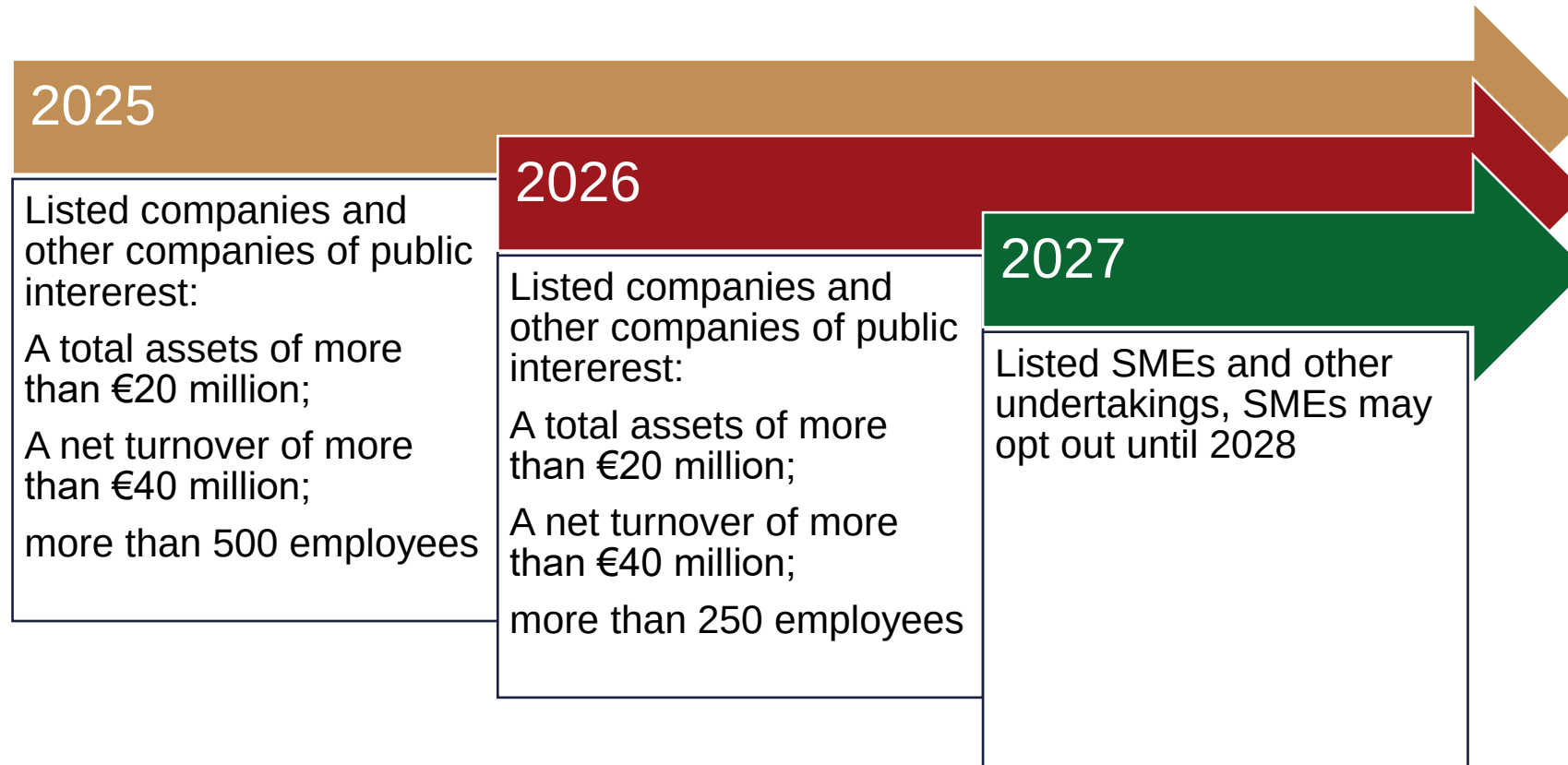
**that affect (or could affect) the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital

CSRD: Corporate Social Reporting Directive in the EU

- 2023 July
- 50 thousand companies/EU 2,500/Mo + 10,000 non-eu companies
- Detailed requirements - standards (ESRS)
- Audited data
- As part of the management report
- Digital, machine readable format
- EU-wide digital platform - ESAP (European Single Access Point from 2027)



The rules of CSRD will start applying between 2024 and 2028



CSRD builds on and integrates standards like

- Global Reporting Initiative (GRI) 2000-
- Task Force on Climate-Related Financial Disclosures | TCFD
- International Sustainability Standards Board
- Sustainability Accounting Standards Board (SASB)
- Carbon Disclosure Project (CDP)

ESRS (European Sustainability Reporting Standards)

- ❑ It was adopted July 31, 2023.
- ❑ (ESG Act in Hungary, December 31, 2023)

- ❑ Applies for
 - listed companies
 - banks
 - insurance companies
 - other companies designated by national authorities as public-interest entities

- From 2025 on: limited assurance
- From 2030 on: reasonable assurance



European Sustainability Reporting Standards

Cross-cutting standards	Topical standards		
	Environment	Social	Governance
ESRS 1 General Requirements	ESRS E1 Climate	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS 2 General Disclosures	ESRS E2 Pollution	ESRS S2 Workers in the value chain	
	ESRS E3 Water and marine resources	ESRS S3 Affected communities	
	ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end users	
	ESRS E5 Resource use and circular economy		

Examples of datapoints for Climate (E1)

ESRS	Name	Data type
E1-3	Achieved GHG emission reductions	ghgEmissions
E-1	Significant Capital Expenditure for coal-related economic activities	monetary
E1-5	Net revenue from activities in high climate impact sectors	Monetary (voluntary)
E1-9	Disclosure of risk factors for net revenue from business activities at material physical risk	narrative

Examples of datapoints for workers in the data chain (S2)

ESRS	Name	Data type
S2	Description of types of value chain workers subject to material impacts	narrative
S2	Description of activities that result in positive impacts and types of value chain workers that are positively affected or could be positively affected	narrative
S2-5	Disclosure of how value chain workers , their legitimate representatives or credible proxies were engaged directly in tracking performance against targets	narrative
S2-5	Disclosure of how value chain workers , their legitimate representatives or credible proxies were engaged directly in setting targets	narrative

Examples of data points for Governance

ESRS	Name	Data type
G1-1	Description of policy to prevent late payments, especially to SMEs	narrative
G1-4	Amount of fines for violation of anti-corruption and anti- bribery laws Examples for workers in the data chain	monetary
G1-5	Financial political contributions made	monetary
G1-6	Number of outstanding legal proceedings for late payments	integer



1600 data points not including sectoral standards. Many datapoints require narrative reporting. How can you keep your report brief and readable?

Expertise is missing.

Capacity and resources problem.

Who will be entitled to audit the reports? The role of accountants is not clear yet.

Climate accounting is well developed, biodiversity and social impact reporting not so much.



**Thank you for
your attention!**



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