Non-Financial Information

Non-Financial Information:

Corporate Transparency and Sustainability

By

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ACRONYMS

AA1000: AccountAbility 1000
AASC: Accounting Standards Steering Committee.
CERES: Coalition for Environmentally Responsible Economies
CapEx: Capital Expenditure.
CEO: Chief Executive Officer.
COP: Conference on the Parties of the United Nations
CSR: corporate social responsibility.
CSRD: Corporate Sustainability Reporting Directive.
ESRS: European Sustainability Reporting Standards.
EU: European Union
FASB: Financial Accounting Standards Board.
GAR: Green Asset Ratio.
GDP: Gross Domestic Product.
GRI: Global Reporting Initiative.
GHG: Greenhouse Gas.
IAS: International Accounting Standard.
IASB: International Accounting Standards Board
IFRS-S1: International Financial Reporting Standard-Sustainability 1.
IFRS-S2: International Financial Reporting Standard-Sustainability 2.
IIRC: International Integrated Report Council.
IR: Integrated Report.
ISSB: International Sustainability Standard Board
KPI: Key Performance Indicators.
NFR: non-financial reporting.
NFI: non-financial information.
NFR: non-financial reporting.
NFRD: Non-Financial Reporting Directive.
NGO: Non-Government Organization.
OECD: Organization for the Economic Cooperation and Development.
OpEx: Operating Expenditure.
R&D: Research and Development.
ROA: Return On Assets.
ROE: Return On Equity.
SASB: Sustainability Accounting Standards Board.
SDG: Sustainable Development Goals
SME: small and medium entities.
UEC: Union des Experts Comptables.
UN: United Nations

INTRODUCTION

In recent years, traditional business information has increasingly given way to new types of information that were traditionally reserved for internal users. Since the 1970s, society has demanded greater responsibility from firms to preserve the environment and to provide explanations for their corporate behaviors.

This concern has also been significant in the academic world. Scholars from various parts of Europe, the USA, and other regions have expressed concerns about corporate misconduct. It was in the 1990s that the first significant pronouncements, sponsored by international organizations such as the United Nations, began to shed light on these issues.

Since then, several governments, Non-Government Organizations (NGOs), and other organizations have issued pronouncements and opinions aimed at advancing this field. A notable example is the European Union Directives on non-financial information and the frameworks provided by the Global Reporting Initiative (GRI).

This book aims to introduce readers to this type of information, which has traditionally been in the background of business courses. We start with theories that explain non-financial information, closely related to that underpinning accounting information. In Chapter 2, we examine the main features of regulatory initiatives, with a particular focus on European Directives. Chapter 3 is devoted to the most used frameworks in non-financial information, such as GRI, AccountAbility 1000 (AA1000), and Integrated Reporting (IR).

After reviewing the key features of Corporate Social Responsibility (CSR) information, we analyze the data provided by corporations. Chapter 4 examines examples of corporations that disclose sustainability information using the GRI framework. Chapter 5 analyzes additional examples within the European framework, specifically using information based on the European Directive 2014/95/EU. Finally, Chapter 6 examines several of the so-called best reports utilizing Integrated Reporting (IR).

Overall, our purpose is to highlight the growing importance of this information and to provide a useful tool for those who need to prepare statements or reports of this kind.

CHAPTER 1

FUNDAMENTALS OF NON-FINANCIAL INFORMATION

Introduction

The non-financial information is an essential component of business disclosures. Entities are required to communicate their achievements in both economic and non-economic spheres. Despite the historical association of business information with accounting and financial reports, the complexity of our modern world necessitates the provision of exhaustive disclosures.

In this chapter, we propose that the provision of financial and non-financial information can be understood as a combined result of offer and demand. This chapter starts with an analysis of the main theoretical concepts of accountability, with a particular focus on the role of financial information. It then proceeds to examine the evolution of corporate social responsibility (CSR), which plays a pivotal role in this book.

1.1 The theoretical approach

Our starting point is the concept of accountability as the duty by which one subject (firm, person, etc.) has to explain the actions which are responsible for. If someone has this duty, it is because some other(s) are interested in the actions of the issuer. Here, the concept of stakeholder arises, as those who are affected directly or indirectly by the actions of the former. Therefore, this relationship allows us to define the first theory that explains the social responsibility, the **theory of stakeholder.** This theory emphasizes the importance of firms fulfilling the expectations of diverse stakeholder groups (Freeman et al., 1984) to address their heterogeneous claims (Eccles & Krüz, 2015). Corporations can respond to these needs proactively or preventively (Wood, 1991). In this theory stakeholder engagement is essential to enhancing companies' non-financial strategies and sustainable development (García-Sanchez et al. 2013). It suggests that corporate survival depends on the successful management of relationship with stakeholders interested in financial and non-financial performance. Stakeholders need to know the impact of corporate non-financial activities on deciding whether to continue providing resources to companies or penalize inadequate performance (Garcia-Sanchez et al. 2013, Lockuwaduge and Heenetigala, 2017).

This theory claims that organizations should account to the stakeholders and that society is the main interested party in the actions of the company. In a more empirical viewpoint, organizations identify the stakeholders (not the entire society) and as the more important they are, the more effort the company will invest in manage this relationship properly.

It is relevant that society is composed of different constituents with diverse expectations and even contradictory. Then, the different ability to influence in the actions of an organization determines the content and quality of the information.

If we take a step forward, the following question is that the main stakeholder (namely society) allows the firms to operate only if they perceive that the value systems of a corporation is in accordance with those that society possess. We can say, then, that the firms only can continue with its activities if they are legitimate. This is the **legitimacy theory;** the legitimacy of the organizations is so important as the legitimacy of the system. This theory assumes that firms have implicit contracts with the societies in which they operate (Shocker & Sethi, 1973). Therefore, firms adopt sustainability structures and processes (Dowling & Pfeffer, 1975) to avoid a "legitimacy gap" (Fernando & Lawrence, 2014). Legitimacy theory points out that companies receive authorization to operate from society because of economic and social behavior (Lakuwaduge and Heenetigala, 2017). To promote corporate image and legitimacy, managers can influence stakeholders' perception through communication strategies via non-financial reporting (NFR) (Lai et al. 2016, Lokuwadge and Heentigala, 2017).

Interestingly, this theory does not specify how to get legitimacy and is not a synonym of economic success. It could be considered that the social contract allows the firm to exploit the community resources and provide products and services, as well as to deteriorate the environment, in exchange society expects that the social profit exceeds the cost for the community. For Lindblom (1994) this occurs when the objectives, outputs, and operating methods agree with the social rules and values, and the challenges that pose legitimacy are associated with the size of the organization and the social and political support.

A company pursuing a strategic approach could seek legitimacy by picturing a negative event as negligible, justifiable, explained and validated by legitimating authorities. A company applying the institutional approach could mention a negative event and provide ideas, intent or measures for tackling or avoiding it in the future (Hahn and Luifils, 2014). NFR practices have passed a "legitimacy test" and undertaken as "normativity process" (Chauvey et al., 2015). When normativity occurs, practices are widely adopted by companies and become part of the basic requirements for legitimacy.

The following theory is wider in the perspective as, instead of examining directly the social values system, it contemplates the patterns of the institutions as symbolic representation of the value systems. This is the reason why it is called the **institutional theory.** This theoretical framework examines the way organizational forms are constituted through encompassing institutional arrangements, societal norms, cultural belief systems, and regulatory frameworks (Scott, 2008; DiMaggio and Powell, 1991). Corporate entities frequently configure their structural arrangements, managerial practices, and stakeholder engagement mechanisms in accordance with prevailing cultural expectations (Meyer and Rowan, 1977; Suchman, 1995). The fundamental objective constitutes the acquisition of pragmatic, moral, and cognitive legitimacy, as articulated by Suchman (1995), whereby the disclosure of financial and non-financial information serves not merely as communication mechanisms, but as strategic legitimacy signals (Dowling and Pfeffer, 1975; Elsbach and Sutton, 1992) Accounting fits well in this theory, while the social and environmental reporting is more based on the legitimacy theory. Institutional theory assumes that social norms determine corporate structure, management style, stakeholder perceptions, and evaluation of corporate activities (Beck et al. 2017). Legitimacy results from the social norms of the context to which managers conformed (Hahn and Lulfs, 2014) and represent a shift towards achieving legitimacy, showing compliance with social norms (Beck et al., 2017). From a strategic perspective, the company could use and manipulate NFR as evocative symbols to enhance the company's legitimacy (Beck et al. 2017).

Other relevant theories have been the **resource-based theory** which suggests that firms perpetually strive for a competitive advantage (Russo & Fouts, 1997) to get resources. Broadening the concept of resources, this theory acknowledges reputation as one of the most valuable resources (Adams, 2008). Here, shareholder engagement plays a fundamental role. This theory is interesting because reputation (namely, behavior according to the standard rules) is a resource critical for a company and could be an argument in favor of social and environmentally friendly behaviors and the need for account them.

The **agency theory** addresses the separation of ownership and management, highlighting the delegation of decision-making authority to managers

(Donnellly & Mulcahy, 2008). Information asymmetry arises due to the differing objectives of shareholders (long-term value maximization) and managers (short-term value maximization) (Healey & Papelu, 2000). Three types of cost appear: monitoring cost (from the owners (principal) to the managers (agents)); boarding cost (warranties offered to the principal from the agents), and residual costs (conflict of interest that are unable to resolve by control). Expanding the definition of principal and agent from this last theory, we can consider that society and environment are the principal, and managers are the agents and should account for their management. Thus, integrated reports serve as a valuable tool for evaluating both financial and nonfinancial performance.

Regarding that our aim is to study corporate non-financial information, these theories can be linked and support the need for this information. Effectively, firms may produce high-quality nonfinancial reports to align with societal expectations for responsible corporate behavior (Legitimacy Theory). Additionally, this information caters to concerns of various stakeholders (Stakeholder Theory), not only shareholders. Furthermore, by demonstrating responsible conduct, companies can gain a competitive advantage and build a strong reputation (Resource-Based Theory). Finally, in today's complex capitalist environment, it serves to bridge the information gap between shareholders' need for information and managers' control over daily operations (Agency Theory).

Finally, the signaling theory (Mahoney et al., 2013) enhance stakeholders' awareness of their social and environmental initiatives. This theory offers a plausible explanation of the manipulation of non-financial information with the aim to present a the "best" view of the social and environmental responsibility of the firm. In this case, NFR practices are considered a tool for manipulating stakeholders' perceptions of companies' non-financial activities (Michelon et al, 2015). When greenwashing' drives NFR there is a discrepancy between the real and the reported non-financial performance (Mahoney et al. 2013). Users did not perceive quantity as the most significant element in determining NFR quality, as they required material information rather than a large amount of disclosure. A valid measurement of NFR quality should consider several aspects of reporting practices including a) the content of the reports, information, types, measures and themes; b) measures of credibility, represented by the adoption of reporting guidelines and assurance practices; and c) measures of communication, such as the use of visual tools (Helfaya et al. 2019, Helfaya and Whittington, 2019).

In general, large companies subject to stock market valuations, typically release NFR for signaling purposes. This is because these companies need high-quality reporting and active stakeholder engagement processes as a result of public scrutiny and pressure on their social and environmental practices (Michelon et al. 2015).

1.2 The Financial Information: A Case of Offer and Supply?

Nowadays, accounting and financial information are the most crucial elements for making investment decisions in an entity. In other words, "information is power." The provision of financial information does not solely originate from the entities or corporations themselves; rather, it is regulated by international organizations. The demand for such information has also broadened. Traditionally, investors and other economic and financial agents were considered to have exclusive interest in firms. However, today, the interested parties include not only investors but also customers, suppliers, and society at large.

The supply and demand for accounting and financial information are closely interrelated, both originating from the business environment, which significantly influences the supply. The size of a company—broadly defined by metrics such as turnover, number of employees, and assets—and the company's importance within strategic sectors of a country's economy, will determine and condition the quantity and quality of the accounting information provided.

The financial statements that a company disclose annually, depending on the size and the country, are:

- Balance Sheet
- Profit and Loss Account
- Notes
- Cash Flow Statement
- Statement of Changes in Equity
- Audit Report

This information is available for most companies. Small and medium-sized enterprises (SMEs) have similar requirements; however, depending on the country, the Cash Flow Statement, the Statement of Changes in Equity, and the Audit Report may not be compulsory. Furthermore, audits are generally reserved for larger firms. Companies listed on a stock exchange are also required to provide semi-annual or even quarterly reports.

In addition to this forward-looking function, the report complements the information provided in the annual accounts by supplementing the information that appears in the Notes.

It is essential to highlight the factors that influence the provision of information. The most straightforward answer is that the firms themselves determine the information they provide, and this is then taken for granted. However, this is not accurate as corporations are required to issue their particular information. Some international organizations, however, are responsible for the design of the principles and disclosure of the different parts of business reports.

Nowadays, the regulation of accounting emanates from an international organization called International Accounting Standards Board (IASB) and in the United States, the Financial Accounting Standards Board (FASB). In the former case, the IASB is the global regulating organization, especially from 2005 when the European Union (EU) adopted all the regulation (Standards, Interpretations, and so on) transposing it into the respective Directives.

The standards cover two key aspects: accounting methods (in many cases, regulations allow for two options) and the required disclosures. As it is expected, corporations can disclose voluntary information. In this case, disclosures stem from the capital market: where both the reputation of the firm and managers are involved, and the risk of legal penalties if some of these disclosures are unfaithful (Akerlof, 1970), as well as from the managerial labor market.

The costs associated with disclosure arise from:

i. Collecting and processing information (both in terms of human and computational resources and from third parties external to the company);
ii. Potential litigation over information that is untrue or omitted;
iii. Political costs (a controversial issue), from a more neoclassical perspective, financial statements represent the primary source of information for companies to pay taxes, therefore, they can also be considered essential here;
iv. Competitive disadvantage: arises when competitors use information provided for their own benefit and to erode the company's competitive position; costs associated with the disclosures themselves, especially in cases where the company forecasts a certain profit figure that is later not met.

1.3 Demand for financial information

It comes from society itself, and we should distinguish between two different users of accounting information: internal and external. The internal users are those that are implicated in the day-to-day of the company:

- managers or executives, as their remuneration may be linked to the achievement of certain profit objectives or business valuations;
- employees, the interest arises from both remuneration and the continuity of the company and their working conditions.

External users to the company:

- Shareholders, investors: the goal is to achieve a high valuation of shares, as well as an annual dividend. It is necessary to distinguish between companies listed on a stock market and those that are not, as the former are subject to greater informational transparency as well as greater controls in their management and share valuation; the latter, however, have less information available, lower transparency, and no reference to a financial market to evaluate them.
- Creditors, financial institutions, suppliers. The interest of this group is mainly to collect both the amount invested in the company through debt, as well as the interest (except in the case of suppliers if not agreed otherwise). Special consideration should be given to suppliers since they are considered in most cases as zero-cost financing or without remuneration.
- Governments: it is usually considered that what prevails is the tax collection drive, and although this is true, the other side of the coin must also be considered. If financial statements are the basis for calculating the tax burden, they are also important because they can reflect insolvency or deterioration that may be sufficient cause for public assistance at a given time (as was the case with the banking sector in Spain during the last crisis).
- Regulatory agencies or others: financial accounting information is essential for regulating the financial market, but also for corporations (including public administrations) to be rated to determine whether they can be solvent or not (credit ratings).
- Society in general. Nowadays, the company cannot be separated from society, the environment in which it operates. Society demands more information because it has become aware that there are certain issues that the market does not address, such as environmental issues, social problems in certain countries, or inequalities. To prevent

behaviors that only focus on profit maximization and could lead to disaster for the planet (both ecologically and socially), the UN launched the GRI reports (Global Reporting Initiative), which, although not mandatory, have become important. These are social-environmental reports on the company's performance. As with financial information, they are also subject to certification of veracity, which, unlike traditional auditing, is called assurance.

1.4 The CSR movement: the need for widening frontiers

We can consider three main stages in the evolution of CSR:

1. From Adam Smith to the 1950s: During this period, three main positions concerning CSR emerged: a) philanthropy, b) legal limitations, and c) moral behaviors. In Carnegie's words, "wealth compels."
2. From Browen (1948, 1953) to the 1980s: Browen is considered the father of modern CSR. In the 1970s, CSR became an important and controversial topic, particularly due to Friedman's (1970) argument denying any social responsibility of firms beyond generating profits. However, the 1973 oil crisis relegated CSR to a secondary role.
3. From the 1980s onward: A new trend of environmental concern spread globally, coinciding with employee demands for corporate responsibility during the conservative wave of that time. Natural disasters, most notably the Exxon Valdez oil spill in 1989, raised awareness about the need for environmental conservation.

The concept of CSR is highlighted in the European Commission's Green Paper (2001, p. 6) as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis," adding, "being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing 'more' into human capital, the environment, and relations with stakeholders."

From this definition, two main points should be emphasized: first, CSR is voluntary and does not replace rules or norms, nor is it a means to influence the creation of new rules. Second, the three fields of action are human capital, the environment, and stakeholders.

In 2001, Windsor outlined the main emerging currents of the CSR:

1. Responsibility economy: considering that owners are who have the right to enjoy the benefits of the investment, stakeholders should have a secondary right and subordinated to the ones that pertain to

the investors (Stenberg, 1994, 1996, 1999). From another perspective, according to the concept of value creation by Jensen (2000), the progress in the stakeholder theory is in accordance with the progress in the theory of value maximization. Mc.Williams and Siegel (2001) consider that investing in CSR is a mean to advertise. Golob et al. (2023) argue that contemporary sustainability communication requires a more holistic approach, expanding beyond the current environmental and green focus to include social and economic dimensions.

2. Global corporate citizen: this is the idea that a good multinational that operates in a worldwide economy should be a good citizen in every part of the world in which operates. This is fictional idea as corporations cannot vote (as the citizens do), but also it would mean that CSR is to fulfil with the same obligations that any individual has, which would give potential advantages in criminal and civil lawsuits.
3. The philanthropy role.
4. The stakeholder management. The idea here is given governments have a limited capacity to carry out social actions, the firms should do it. One problem in this line of though is the definition of stakeholder.

More than twenty years after the publication of this paper, we should outline that some of these emerging fields have been consolidated (the responsibility economy or the stakeholder's management).

Conclusions

The non-financial information is primarily intended to satisfy the need to disclose and inform stakeholders about the CSR of an entity. This process serves to legitimate the role of the firm in society and also comprises with the social and environmental values.

The demand for non-financial information (NFI) has increased significantly in recent times. The traditional users of financial information (shareholders and investors in general) remain the focus of attention for corporations. However, other actors, such as society, governments and even future generations, are becoming increasingly important in evaluating not only the financial performance of firms but also their social and environmental behavior.

The evolution of NFI demonstrates how the primary concerns of philanthropy or compliance with legal requirements have been superseded by others, such as the economics of CSR or the global corporate citizen.

CHAPTER 2

THE REGULATORY SCOPE

Introduction

This chapter presents an analysis of the regulatory scope of the NFI. The objective of this study is to conduct an exhaustive revision of the European Union (EU) Directives. The EU has been an active player in all aspects of CSR since the 1980s. In recent years, two directives have been enacted with the objective of requiring the disclosure of non-financial information.

The analysis will focus on the 2022/2464 Directive, the most recent and most ambitious of the two, as it will be applied to a wide range of entities and will require a significant amount of detailed information, which represents a significant breakthrough in social and environmental issues.

2.1 The European Directive 2022/2464 (NFRD)

In 2013, the European Union launched the first Directive on Non-Financial Reporting (NFRD), amended in 2014 (2014/95/EU) that required to include non-financial statements in the annual reports or in a separate filing from 2018 onwards.

This Directive applied to large-public interest entities with an average number of employees more than 500, and to public-interest entities that were parent companies of a large group with an average number of employees more than 500 on a consolidated basis and constitutes approximately 6,000 companies and groups (listed companies, banks, insurance companies, and other public-interest entities). It recommends the use of international standards such as the United Nations (UN) Global Compact, the Organization for the Economic Cooperation and Development (OECD) Guidelines, ISO 2600, or Global Reporting Initiative (GRI). This Directive amends the accounting directive 2013/34/EU.

Two perspectives were used, the “outside-in” which requires the companies to report on how sustainability issues affect their performance, position and development; and the “inside-out”, on their impact on people and environment.

The European Commission committed itself to proposing a revision of the NFRD in the European Green Deal in 2020 (European Commission, 2020). The European Green Deal aims to transform the EU into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases by 2050. It also aims to protect, conserve and enhance the EU's natural capital, and to protect the health and well-being of citizens from environment-related risks and impacts.

On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force in the EU. The term sustainability refers to environmental, social (human rights included) and governance factors (ESG). With respect of the previous Directive, the CSRD increases the number of companies that are within the scope of the ESG reporting and the detail and extent of disclosures.

The requirements are:

- An EU undertaking that exceeds at least two of the following three criteria on its balance sheet date:
    - Balance sheet total: €20 million;
    - Net turnover: €40 million
    - Average number of employees during the financial year: 250

- The "public interest undertakings" includes EU companies that are either:
    - Listed on a regulated EU stock market;
    - A specific form of financial services companies;
    - Have been specifically designated as such by their country of incorporation.

These public interest firms should fulfil the requirements, although they do not meet the size requirements to be considered as a large company.

Companies would be exempted from such requirement if they are included in sustainability reporting conducted on a group level by a parent company (EU or non-EU parent company).

The CSRD outlines the following calendar:

- Listed companies with over 500 employees (reports published in 2025) should fulfil the CSRD requirements for the fiscal year 2024.
- Large non-listed companies (2/3 above criteria) should fulfil the CSRD requirements for the fiscal year 2025.

- Listed SMEs are included through simplified reporting standards for the fiscal year 2026 (reports published in 2027).

The Directive also includes reporting requirements for the EU parent companies of large groups (those groups of parent and subsidiary companies that meet the above-mentioned size thresholds for large undertakings). The CSRD introduces a requirement for the EU-incorporated parent companies of such large groups to file consolidated CSR-aligned reports in relation to the whole EU group, in relation to subsidiaries that are included in such consolidated report.

There is an exemption if the EU parent company is included in the equivalent standards aligned sustainability reporting of their own parent company. In addition, one EU subsidiary of a non-EU parent company that has multiple EU subsidiaries are required to report on behalf of all such in-scope subsidiaries.

Corporations with their ultimate parent companies outside the EU, but with a significant presence in the EU, may be required to issue CSRD-aligned reports of the whole global group, including the non-EU group companies that themselves have no business in the EU.

The corporate group of the non-EU undertaking must have generated a net turnover within the EU of €150 million for two consecutive years, and either: have an EU subsidiary that meet the thresholds above mentioned or have a branch in the UE that generated €40 million net turnover in the preceding financial year. In the case, that entities are subjected to different reporting requirements under the CSRD, companies should specifically report requirements they will subject to.

The SMEs that are public interest undertaking that meet two out of three of the following criteria are excluded from the CSRD requirements (Figure 1):

- 10 or fewer employees;
- Total balance sheet no more than €0.35 million;
- Net turnover no more than €0.7 millions

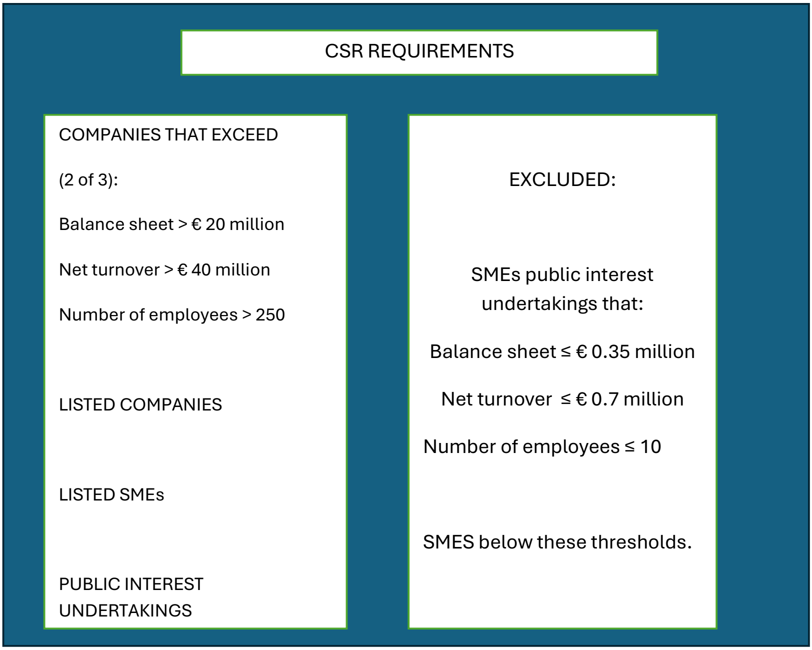

Fig. 2-1 Companies included and excluded of the CSRD Directive.

The EU issue what is so-called as ESRS (European Sustainability Reporting Standards) which cover the specific information that is to be reported. There are two categories: the cross-cutting ESRS (general) and sector-agnostic topical ESRS. The first ones set out general provisions and includes (i) how an entity complies with the ESRS; (ii) the way in which sustainability is embedded in an entity's business strategy and business model(s); and (iii) how an entity identifies and manages its principal sustainability impacts, risks, and opportunities.

Topical standards set out disclosure requirements relating to sustainability impacts, risks, and opportunities that are deemed to be material for all undertakings, regardless of the sectors they operate in. The list is:

a) Environmental:

- ESRS E1. Climate change: sets out dozens of specific data related to direct and indirect emissions, emission reduction targets, and mitigation activities.

- ESRS E2. Pollution: specific standard that outlines the information companies need to disclose regarding their impact on air, water, and soil production.
- ESRS E3. Water and marine resources: description of the processes to identify and assess material water and marine resources, related impacts, risks, and opportunities.
- ESRS E4. Biodiversity and ecosystems: how undertaking affects biodiversity and ecosystems and any actions taken and their effect.
- ESRS E5. Resource use and circular economy: Circular economy means an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimizing waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.

b) Social:

- ESRS S1. Own workforce: how the undertaking affects own workforce; (a) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts; (b) the nature, type and extent of the material risks and opportunities related to its impacts and dependencies; and (c) the effects of risks and opportunities.
- ESRS S2. Workers in the value chain: Identify and manage any material actual and potential impacts on value chain workers in relation to: working conditions; equal treatment and opportunities for all; other work-related rights.
- ESRS S3. Affected communities; how the undertaking affects communities, in areas where risks are most likely to be present and severe, in terms of material positive and negative actual or potential impacts. Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts. The nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on affected communities, and how the undertaking manages them. The financial effects on the undertaking over the short, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on affected communities.

- ESRS S4. Consumers and end-users: specify disclosure requirements for undertakings which will enable users of the sustainability statements to understand: (a) how affects the consumers and end-users of its products and/or services, in terms of material positive and negative actual or potential impacts; (b) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts; (c) the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on consumers and end-users, and how the undertaking manages them; and (d) the effects of risks and opportunities.

c) Governance:

- ESRS G1. Business conduct: In general, the actions of an undertaking cover a wide range of behaviors that support transparent and sustainable business practices to the benefit of all stakeholders. The focus is on the following practices; management of relationships with suppliers; avoiding corruption and bribery; engagement by the undertaking to exert its political influence including lobbying; protection of whistle-blowers; animal welfare; and payment practices, specifically with regard to late payment to SMEs.

One of the specific features of this Directive is the Double Materiality: ESR S1 defines it as the "two dimensions", namely: impact materiality and financial materiality. It supposes to extend the bounds of materiality past matters that will impact a company's bottom line in a material way (i.e. financial materiality) but also include those matters in which the company is having a material impact on society and environment.

Another notable aspect of CSRD reporting is the value chain. The companies should report not only in relation to every single entity in the value chain, but those that are considered material in the above sense. This will likely extend to entities in the value chain of in-scope entities that have no business operations within the EU at all. The EU give a period of three-year grace period within the CSRD for reporting these issues.

From 2025, it shall be compulsory that an independent third party must provide limited assurance carried out by the entity to identify the information reported according ESRS and it is to fulfil with the EU taxonomy[1],

[1] The EU Taxonomy regulation sets out to identify which economic activities are environmentally sustainable with six environmental objectives as criteria. These include: climate change mitigation, climate change adaption, sustainable use and