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Review Paper

MANDATORY SUSTAINABILITY REPORTING – EVOLUTION OF REGULATION IN THE EUROPEAN UNION

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Abstract. *In times of climate changes, social inequality and resource scarcity, responsible corporate governance is essential for sustainable global economic development. The importance of sustainability reporting lies in the fact that companies present their ecological, social, and economic impacts transparently to stakeholders and take responsibility for their actions. Through such reports, companies can show how they integrate sustainability aspects into their business strategy, implement them in their business activities and what progress they are making. Until the 2008 financial crisis, corporate sustainability reporting in the EU was based on voluntary reporting, but this was replaced by mandatory sustainability reporting because of the lessons learned from the financial crisis. The reasons for this included the fact that the voluntary principle of sustainability reporting only provided the hoped-for impetus for corporate management geared towards sustainability aspects to a limited extent and that the EU's political will to transform the economy and society into a sustainable one is intended to channel capital flows into sustainable companies and business activities by means of increased transparency. The aim of this paper is to show the current development of the EU Regulation on the road to mandatory sustainability reporting.*

Key words: *NFRD, CSRD, double materiality*

JEL Classification: M48

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1. INTERNATIONAL EFFORTS FOR SUSTAINABLE DEVELOPMENT IN THE SENSE OF THE SUSTAINABLE DEVELOPMENT GOALS

Climate change, loss of biodiversity, poverty, hunger, social inequalities, and economic activities that are often associated with high resource consumption show that a global rethink towards sustainable development is necessary. The cornerstone of this change is the Brundtland Report, which describes sustainability or sustainable development as an approach that meets the needs of the present without compromising the ability of future generations to meet their own needs (Brundtland, 1987).

The Brundtland Report triggered a global debate on sustainability and sustainable development and led, among other things, to the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992, at which the Brundtland definition was recognized as an international guiding principle and translated into a programme of action through various initiatives, such as Agenda 21, the Convention on Biological Diversity and the Framework Convention on Climate Change (Holzbaur, 2020).

In September 2000, representatives from 189 countries signed the Millennium Declaration at the United Nations Millennium Conference in New York. Eight international development goals were derived from this, the Millennium Development Goals (MDGs), which were to be achieved by 2015. Building on this, the 2030 Agenda for Sustainable Development was adopted in September 2015 with a historic consensus between the 193 member states of the United Nations. It takes a holistic approach to working towards transforming the world in favor of global sustainable development and defining a comprehensive framework for aligning national and international policies with the principles of sustainability. For the first time, the 2030 Agenda covers all three dimensions of sustainability: social, economic, and environmental. At the heart of the 2030 Agenda are the 17 Sustainable Development Goals (SDGs) (United Nations, 2015).

The aim of the 2030 Agenda is to make global development socially, ecologically, and economically sustainable and thus drive forward the long overdue transformation of national economies towards significantly more sustainable and inclusive development. The above-mentioned goals are not only relevant for politicians and governments in the implementation of suitable sustainability strategies and measures, but also offer companies the opportunity to align their strategies and business models with them and to communicate their contribution to sustainable development and their perceived social responsibility in a sustainability report. In its current form, the 2030 Agenda is a voluntary commitment by the UN member states, which are responsible for defining concrete framework conditions for companies (Holzbaur, 2020).

The following chapters trace the path of initiatives and regulatory requirements in the European Union (EU) regarding corporate sustainability reporting and begin by looking at different reporting concepts.

2. INFLUENCES ON THE CHANGES IN CORPORATE REPORTING

On the one hand, corporate activity has evolved over the last few decades due to the transformation from an industrial society to a service and high-tech society combined with an information and knowledge society. On the other hand, corporate reporting is also subject to further changes, among other things due to the increased internationalization and capital market orientation of companies (Haller, 2006; Durchschein, 2017), but also due to a series of accounting scandals around the turn of the millennium (e.g. Enron, WorldCom, Parmalat), which have highlighted the need to strengthen the transparency and credibility of reporting through additional regulation (Yongvanich & Guthrie 2006; Fink & Kajüter 2021).

One of the main objectives of corporate reporting is to provide decision-relevant information based on which the performance and value of a company can be assessed (Coenenberg et al., 2024). As a sub-area, traditional financial reporting, with its system-inherent focus on the past and necessary objectivity, basically only shows financial information on the net assets, financial position, and results of operations, which primarily satisfies the information needs of investors, lenders and other creditors and determines the financial value of the company. The accounting regulations lead to differences between the balance sheet equity, the stock market capitalization and the "intrinsic value" of the company based on a future success-oriented valuation, which can only be explained by providing more information (Durchschein, 2017; Coenenberg et al., 2024), e.g. due to valuation regulations or accounting prohibitions for certain intangible assets.

Similarly, non-financial information on topics such as management quality, customer satisfaction and the company's social and environmental performance can also enable recipients to better understand the links between economic transactions, financial reports and factors that ensure long-term and sustainable growth and the development of corporate value (Fasan, 2013).

The changing assessment of which information is relevant for determining the value of a company can be explained by the three following reporting concepts, which have developed largely chronologically (Coenenberg et al., 2024).

2.1. Business reporting

Business reporting developed as an extended reporting model to improve the usability of corporate reporting when evaluating companies from the perspective of the shareholder value concept and to facilitate investment decisions. This is achieved by ensuring information asymmetry between company management and investors by providing additional information that goes beyond the legal requirements and that was the basis for management decisions or is future oriented (Ruhwedel & Schultze 2002; Coenenberg et al., 2024). Business reporting is essentially based on the study on investor-oriented corporate disclosure published in 1994 by a working group of the American Institute of Certified Public Accountants (Coenenberg et al., 2024). The results of the study revealed a lack of suitability of financial reporting for rational investor decisions (Haskins et al., 1997; Noll & Weygandt 1997) and the necessary provision of prospective, non-financial information relating to corporate management (Coenenberg et al., 2024).

2.2. Corporate Social Responsibility Reporting

With the beginnings of social reporting in the 1970s and environmental reporting in the 1980s (Müller & Stawinoga, 2015; Durchschein, 2017), the understanding of sustainability as the interlinking and equal treatment of financial, environmental, and social aspects also developed under the influence of the Rio Conference in 1992. This had an impact on society's system of norms and values, changed the behavior and mindset of members of society and the expectations of stakeholders regarding corporate social responsibility. This includes aspects such as the use of finite natural resources, environmental and climate protection, working conditions and consumer protection (Durchschein, 2017; Coenenberg et al., 2024). For this reason, companies are increasingly adapting their strategies and business practices by incorporating environmental and social aspects into their corporate objectives alongside the traditionally predominant financial perspective. As a result, corporate management not only focuses on maximizing shareholder value, but also tries to optimize social and environmental performance (triple bottom line performance or sustainability performance) to fulfill its social responsibility (Coenenberg et al., 2024).

Corporate social responsibility reporting (CSR or sustainability reporting) on the triple bottom line performance of corporate activities, which developed in the 1990s, is a way for companies to measure their commitment to socially responsible business activities and communicate this transparently to the public. With this reporting model, not only financial, but also environmental and social aspects of corporate activity are published, so that it represents an extension of corporate accountability beyond traditional financial reporting for investors (Gray et. al., 1996).

To meet the objective of sustainability reporting, to avoid the misuse of sustainability reports as a public relations tool and to make these reports and the information presented in them internationally applicable and comparable, uniform regulations are required. In 1997, the Global Reporting Initiative (GRI) was founded in Boston on the initiative of the US non-profit organization Coalition for Environmentally Responsible Economies (CERES), the Tellus Institute and the United Nations Environment Programme (UNEP) (Simon-Heckroth, 2014). The GRI has had independent legal status as an international non-profit organization since 2002 and moved its headquarters to Amsterdam in the same year. The objectives of the GRI include the development of internationally applicable and high-quality standards for the harmonization of sustainability reporting to achieve comparability of the information presented and harmonization on this topic (GRI, 2024a).

In 2000, only reporting principles were initially published in the form of the GRI Guidelines (G1) as the first global framework for sustainability reporting at the time and revised in subsequent versions. When developing the guidelines, the GRI uses global multi-stakeholder engagement to involve experts and representatives from various sectors such as business, labor, civil society, financial markets, and auditing, and is then in close dialog with national and international regulatory and government institutions. In 2016, the GRI published the first global standards for sustainability reporting in the form of the GRI Standards and updated them in 2021. They are a modular system of three interlinked standard types: the three GRI Universal Standards (GRI 1, GRI 2 and GRI 3), which apply to all organizations, the three GRI Sector Standards to date (GRI 11, GRI 12 and GRI 13), which apply to specific sectors, and 32 GRI Topic Standards, which are subdivided into the Economy (200), Ecology (300) and Society (400) series according to the triple bottom line principle (GRI, 2024b; for the development of the GRI Standards, see Stojanović-Blab & Blab, 2017). The GRI Standards only deal with the inside-out perspective, i.e. the actual and potential, positive, or negative effects (impacts) of corporate activities and strategy on the ecological and social corporate environment (Coenenberg et al., 2024). To date, the GRI Standards are the most widely observed set of rules for sustainability reporting, meaning that they are applied by more than two thirds of the top 100 companies by revenue in 52 countries and by more than three quarters of the world's 250 largest companies by revenue (KPMG, 2022).

2.3. Integrated Reporting

Sustainability cannot only be assessed from the perspective of the company with its impact on the corporate environment (inside-out perspective), but also includes company-relevant sustainability aspects from the outside-in perspective, which can influence business performance, earnings, cash flows or the situation of the company and thus shareholder value as opportunities and risks (Coenenberg et al., 2024). An interdependence of these two perspectives arises from the fact that in a longer-term assessment, the effects (impacts) of the company's activities and strategy can determinate the financial situation of the company and thus the company value and are therefore often referred to as "pre-financials", which also shows the relevance of sustainability-related information for investors (Haller, 2021; Coenenberg et al., 2024).

The concept of integrated reporting <IR> has been developed to better illustrate the connection between these two dimensions for the value creation of a company. This is not just about a mere combination of financial and sustainability reports, "but the realistic and appropriate integration of the information should enable a better assessment of the sustainable current and future value creation and value retention of the company" (Coenenberg et al., 2024). The International Integrated Reporting Council (IIRC) was founded in 2010 by a group of international organizations (including GRI and The Prince's Accounting for Sustainability Project) to promote the concept of integrated reporting and create the framework for the preparation of integrated reports. In 2020, the IIRC merged with the US Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation, which was merged into the IFRS Foundation just two years later as the International Sustainability Standards Board (ISSB) was established (IFRS Foundation, 2022; Coenenberg et al., 2024). To apply integrated reporting, the IIRC published a principles-based framework (Integrated Reporting Framework) in December 2013 and updated it in 2021. This contains basic concepts and guidelines for integrated reporting as well as the elements and form of presentation of an integrated report. The process of integrated reporting ultimately leads to the preparation of an integrated report by taking integrated thinking into account. The Integrated Report is intended to provide key information about the company's strategy, management, performance, and outlook in conjunction with the external corporate environment to show how this can be used to create, maintain, or reduce value in the short, medium, and long term. Integrated thin-king is the awareness and consideration of the interdependencies of the central value-creating factors and resources in management decisions. The resources affected by the company's activities (so-called types of capital) represent a store of value and are seen as both input and output factors. They can be divided into financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital (IFRS Foundation, 2022; Coenenberg et al., 2024). The value concept underlying integrated reporting thus combines the concepts of shareholder value and stakeholder value. The dimensions of sustainability-related reporting can be summarized in two phases, as shown in Figure 1.

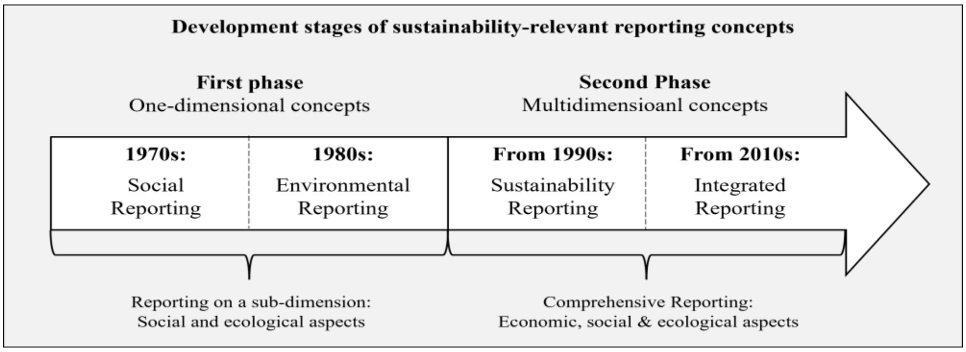

Fig. 1 Dimensions of sustainability-related reporting
Source: According to Müller & Stawinoga, 2015

3. Initiatives and Regulatory Requirements in the EU with Regard to Sustainability Reporting

It is not only reporting on sustainable and non-financial information that has undergone change in recent years, but also the initiatives and regulatory requirements in the EU. They can be divided into two periods: the period up to the 2008 financial crisis and the subsequent period.

3.1. Developments in the EU and EEC: 1990s to the financial crisis 2008

3.1.1. EMAS and environmental declaration

The sustainability-related corporate reporting initiatives described above were purely voluntary in nature and had no regulatory basis. Already in the 1970s and 1980s there were decisions and action programs for environmental policy and environmental protection of the European Communities (Council of the European Communities1973, 1977, 1983 and Kommission der Europäischen Gemeinschaften, 1987). The aim of environmental policy is "to put economic expansion at the service of man by creating an environment in which he can live in the best possible conditions and by reconciling this expansion with the increasingly urgent need to preserve the natural environment" (Council of the European Communities, 1973).

As a result of the action plan "Towards sustainability" published on March 27, 1992 (Council of the European Communities, 1992; Bebbington, 1993) and as a consequence and obligation of the Rio Conference 1992 and the implementation of Agenda 21, an implementation strategy is developed in the action program "Towards sustainability" (Council of the European Communities, 1993a) presented by the Commission and Council on February 1, 1993, in which the role and responsibility of companies is emphasized both for strengthening the economy and for protecting the environment in the Community. This led to the first legislative initiative for European sustainability reporting in the form of Regulation (EWG) No. 1836/93 (EWG-VO, 1993) issued on June 29, 1993. This is intended to introduce a voluntary but joint system for the implementation of environmental management and environmental audits for commercial enterprises at European level, which is known as the Eco Management and Audit Scheme (EMAS) and is constantly being further developed (European Commission, 2024). EMAS helps companies to continuously improve their environmental performance by identifying environmental impacts, taking measures to reduce these impacts, and reporting transparently on their environmental performance. In accordance with the regulation, participating companies prepare an environmental statement (Art. 3 letter f in conjunction with Art. 5), which should include information on the amount of pollutant emissions and waste, the consumption of raw materials, energy and water and noise pollution (Art. 5 para. 3 letter c). The environmental statement is made public and checked by accredited environmental auditors. As EMAS is like a seal of approval for environmental management, the benefits for companies reporting under EMAS include a reduction in fees and charges, an increase in energy and material efficiency and improved self-monitoring (Umweltbundesamt, 2024).

The political awareness at European level of the increased importance of environmental policy and environmental protection is also reflected in the amendments to Article 2 of the Treaty establishing the European Community regarding the Community's remit. The Maastricht Treaty of February 7, 1992, introduced the aspect of "environmentally sustainable growth". The Treaty of Amsterdam of October 2, 1997, includes the aspects of "sustainable economic development", "high level of environmental protection" and "improvement of the quality of the environment".

3.1.2. Integration of sustainability aspects into the annual financial statements and management report

To promote this sustainable development from the Amsterdam Treaty, it is essential to integrate environmental protection into other policy areas. For this reason, in a communication on the internal market and the environment of June 8, 1999, the Commission wishes to contribute to the mutual support of environmental and internal market policies, thereby creating synergies between the two policy areas, and recommends the integration of environmental aspects into accounting (Council of the European Communities, 1993). This is in line with the suggestions already formulated in the 1992 "Towards sustainability" action plan that companies should disclose information on their environmental policies, measures, and risks, including related expenditure and provisions, in their annual accounts to meet their accountability requirements (Council of the European Communities, 1992; Bebbington 1993). Despite this early insight, there is still no legal regulation and numerous companies have voluntarily published environmental reports (e.g. EMAS environmental statements), but separately from the annual financial statements or management report. In its Recommendation 2001/453/EG of May 30, 2001, the Commission states that the lack of a regulatory framework limits the comparability and reliability of environmental information and makes concrete suggestions as to where in the annual financial statements or management report and what environmental information should be reported and disclosed (Council of the European Communities, 2001a).

These views on the need to integrate environmental disclosures into financial reporting go hand in hand with the development of corporate social responsibility reporting described above and the consideration of the three dimensions of sustainability. At the political level, it has been recognized that in a strategy to achieve sustainable development, "economic, social and environmental policies should be designed in such a way that they reinforce each other" (European Council, 2001). For this reason, on June 15 and 16, 2001 in Gothenburg, the European Council added an environmental dimension to the so-called Lisbon Strategy of March 2000, according to which the EU is to become the most competitive and dynamic knowledge-based economic area in the world by 2010 (European Council, 2001). In addition to economic and ecological pressure, the change in social values is also leading more and more companies to assume their social/societal responsibility in terms of CSR and to comply with legal and contractual requirements over and above those that must be met anyway. In line with this, the "Green Paper: European framework for corporate social responsibility" of July 18, 2001, defines CSR "as a concept that serves as a basis for companies to integrate social and environmental concerns in their business activities and in their interactions with stakeholders on a voluntary basis" (Council of the European Communities, 2001b). The European Union is concerned about the social responsibility of companies, as CSR can contribute to achieving the objectives of the Lisbon Strategy and establish a common understanding of values in line with the European Charter of Fundamental Rights (Council of the European Communities, 2001b). The Green Paper calls on all relevant players to form a partnership to develop new framework conditions for the promotion of corporate social responsibility. The Commission proposed a possible framework for this on July 2, 2002, with the so-called EU Stakeholder Forum on CSR. Through this forum, under the leadership of the Commission, around 40 European organizations, professional associations and business networks are to exchange knowledge and good practice in order to increase the transparency and uniformity of methods and instruments in the field of CSR, but also to promote the exchange of approaches and common guidelines not only for the EU, but also for third countries and international forums (Council of the European Communities, 2002).

In a communication dated March 22, 2006, the Commission evaluated the success of the EU Stakeholder Forum on CSR and stated that a uniform European concept of corporate social responsibility has developed (Council of the European Communities, 2006). Furthermore, the Commission supports the creation of the European CSR Alliance, as this will create new partnerships with initiatives and stakeholders, increase the resources of European companies by promoting CSR more intensively and increase the transparency and legitimacy of CSR practices. These efforts are based on the Lisbon Strategy and the Sustainable Development Strategy. The alliance should therefore be seen as a further step "to make Europe a leader in the field of corporate social responsibility" (Council of the European Communities, 2006).

In addition to the increasing importance of sustainability reporting, accounting is being shaped by globalization and the international capital market orientation of companies in Europe. In July 2002, the European Union adopted the so-called IAS Regulation (EG Verordnung No. 1606/2002) to increase the efficient functioning of the capital and internal market by means of comparable and harmonized accounting. It obliges capital market-oriented companies that are subject to the law of an EU member state to prepare their consolidated financial statements in accordance with International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) for financial years beginning on or after January 1, 2005; in addition, simplifications and member state options apply (EG-VO, 2002; Coenenberg et al., 2024). This requires a reconciliation of European accounting directives with international accounting standards, which is carried out with Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 (so-called Modernization Directive) (EG-RL, 2003). This directive is also a first step towards regulating the integration of CSR and non-financial information in financial reporting. Directive 2003/51/EG substantiates the proposal of Recommendation 2001/453/EG to voluntarily integrate environmental information in companies' annual financial statements and management reports. In accordance with Art. 1 No. 14 letter a of the Directive 2003/51/EG Modernization Directive, Art. 46 of the EU Accounting Directive 78/660/EWG is amended regarding the required content of annual reports and management reports. According to the new wording in para. 1 of Art. 46 of the EU Accounting Directive, the management report must, in addition to the course of business and the business results, present the situation of the company in such a way as to give a true and fair view. This must also include an analysis of the most important financial and – where appropriate – non-financial performance indicators that are relevant to the business activity in question, including information relating to environmental and employee matters.

3.2. Developments in the EU: Financial crisis 2008 to date

3.2.1. Non-financial Reporting Directive

The global financial crisis of 2008 was a decisive turning point for the EU, which highlighted the need for the new strategy "Europe 2020 - A strategy for smart, sustainable and inclusive growth" published on March 3, 2010 (European Commission, 2010). In this strategy, the Commission calls for a reform of the financial system, including stricter regulation, greater transparency, and uniform European accounting. Strengthening the internal market is also essential for the desired growth, including employment, as illustrated by the Single Market Act published on April 13, 2011. It contains the Commission's announcement to develop a cross-industry draft law in the spirit of corporate social responsibility to ensure uniform corporate reporting regarding social and environmental information (European Commission, 2011a). This is also in line with the publication of "A new EU strategy (2011-2014) for corporate social responsibility (CSR)" on October 25, 2011 (European Commission, 2011b). If a company does not provide information in relation to the above-mentioned matters, it must in future explain why it is not doing so (so-called comply-or-explain approach). This is intended to achieve a certain minimum legal requirement regarding the scope of the information. The required disclosures can also be shown in a separate report (e.g. sustainability report). The auditor does not review the content, but only the presence of the non-financial statement in the management report or separate report. The NFRD is to be applied for financial years beginning on or after January 1, 2017, considering the member state options exercised. Around 11,600 companies in the EU were affected (Lanfermann & Baumüller, 2022), and around 500 in Germany.

The NFRD shows the change in the EU's approach, as non-financial reporting, which was previously voluntary, is being replaced by legally binding requirements for the first time. However, the NFRD is merely a political compromise due to the differing ideas of the Commission, Parliament, and Council, which leads to a high degree of flexibility in the application and interpretation of the regulations (Lanfermann & Baumüller, 2022). There are no fixed or separate standards for the preparation of the non-financial statement; instead, companies are free to choose frameworks such as GRI, ISO 26000 or the UN Global Compact, which limits comparability, standardization, and detailed specifications (Coenenberg et al., 2024). There is also no mandatory review of the content of the non-financial statement, which limits reliability and increases the risk of greenwashing. The wide scope for interpretation in the NFRD became very clear with the materiality concept, which considers the influences of sustainability-related aspects on the company's situation (outside-in perspective) and the effects of the company's activities on the environment and society (inside-out perspective). Contrary to the intention of the EU and due to the lack of an adequate definition of materiality, the users largely interpreted the explanations in such a way that both perspectives must be fulfilled cumulatively, so that only a few reportable disclosures had to be made. As a result, the hoped-for impetus for increased and comprehensive sustainability reporting did not materialize (Coenenberg et al., 2024). Empirical results suggest that the "flexibility embedded in and lack of enforcement of the Directive renders it ineffective in promoting non-financial transparency among firms with weak incentives to disclose meaningful information" (Breijer, 2024, p. 1). Although there is evidence that companies under the Directive respond by increasing their CSR activities and that they start doing so before the Directive enters into force (Fiechter et al., 2022), the quantity and quality of disclosure has slightly increased, from low to medium level (Lippai-Makra et al., 2022). Nevertheless, there is research showing that after the adoption of the Directive, companies that adopted CSR reporting were exposed to lower systematic risk and cost of capital (Breijer et al., 2024; Cuomo et al., 2022; Jackson et al, 2020). Certainly, there are obstacles that make it difficult to achieve more qualitative non-financial reporting under the NFRD. One of them, as we have already mentioned, is the application of the concept of double materiality. In their study Fiandrino et al. (2022) highlight “the need to enhance a double-materiality perspective, to provide specific contents on sustainability issues, to clarify the relevance of NFI, and to embed NFI into the management report in an integrated manner” (p. 274). Although the NFRD is the first mandatory EU directive for sustainability reporting, it still requires considerable concretization and further development, meaning that it only represents an intermediate step on the way to the desired European pioneering position in the regulation of sustainability reporting.

3.2.2. Further EU initiatives under the Non-financial Reporting Directive

The UN Climate Change Conference in Paris in December 2015 is a historic breakthrough and important milestone in global climate protection. The Paris Climate Protection Agreement pursues three goals (BMWK, 2024):

- Limiting global warming to well below two degrees Celsius compared to pre-industrial levels, if possible, even to 1.5 degrees Celsius,
- Strengthening the ability to adapt to climate change as an equally important goal alongside reducing greenhouse gas emissions,
- Harmonization of financial flows with climate targets.

In response to this conference and the 2030 Agenda, on March 8, 2018, the European Commission published the "Action Plan: Financing Sustainable Growth" (European Commission, 2018a). This aims to transform the financial system into a sustainable one by, among other things, redirecting funds into more sustainable investments and increasing the transparency of the European economy. As a result of the action plan, the so-called Disclosure Regulation (Regulation (EU) 2019/2088) was adopted on November 27, 2019, to channel capital flows into sustainable investments and economic activities. The regulation is intended to give investors more transparency in financial products regarding the consideration of sustainability risks and negative sustainability impacts (EU-VO, 2019a). One step resulting from this was Regulation (EU) 2020/852, also known as the Taxonomy Regulation, which was adopted on June 18, 2020. It establishes a classification scheme to clarify what type of business activity can be declared as green or sustainable (EU-VO, 2020). Another measure based on the action plan is the development of sustainability benchmarks as part of Regulation (EU) 2019/2089 of November 27, 2019 (EU-VO, 2019b). This involves the introduction of EU benchmarks linked to CO2 emissions that focus on climate change and are based on the Paris Agreement to increase transparency on the sustainability of investment portfolios and prevent greenwashing (EU-VO, 2019b).

The Commission has set itself an ambitious target with the European Green Deal published on December 11, 2019, as the amount of net greenhouse gas emissions in the EU is to be set at zero by 2050 and Europe's economy and society is to be transformed for inclusive and sustainable growth (European Commission, 2019). This transition must be financed, so one of the objectives pursued is to encourage investment in measures to combat climate change and protect the environment, which requires a high level of transparency about the sustainability impact of an investment. The importance of the Taxonomy Regulation becomes clear in this context. In parallel to the developments described above, the Commission has undertaken a comprehensive analysis of the existing regulation of European sustainability reporting and announced a suitability test and revision of the NFRD.

3.2.3. Corporate Sustainability Reporting Directive

The NFRD was already reviewed in 2018 as part of the Fit-ness Check on the EU Framework for Public Reporting by Companies (European Commission, 2018b). The result of the comments received was that the information published based on the NFRD did not meet the information needs of stakeholders, was insufficiently comparable due to a lack of reporting standards and the impacts of the company's activities were inadequately reported due to the imprecise definition of materiality (European Commission, 2018b; Coenenberg et al., 2024). Following a public consultation in 2020 and a draft publication in 2021, followed by extensive political discussions and negotiations, the Corporate Sustainability Reporting Directive (CSRD) was adopted on November 10, 2022 (Directive (EU) 2022/2464) and, like the NFRD, amends the Accounting Directive 2013/34/EU. The CSRD must be implemented by the member states by July 6, 2024 (EU-RL 2022).

Compared to the NFRD, the CSRD extends the group of users to around 50,000 companies in the EU (Wirtschaftsprüferkammer, 2024). According to the new version of Art. 19a of the Accounting Directive, users are obliged to make their sustainability-related disclosures in the management report; an alternative presentation in a separate report is no longer permitted (EU-RL, 2022). This expands traditional financial reporting to include the sustainability dimension in the management report, which is intended to steer management behavior towards a sustainable corporate strategy and activities (Coenenberg et al., 2024). The CSRD pursues a staggered first-time application, so that companies that already fall within the scope of the NFRD must first implement the CSRD for financial years beginning on or after January 1, 2024. According to Art. 5 (2) (b) of the CSRD, all large limited liability companies that are added must prepare their sustainability reporting in accordance with the CSRD from January 1, 2025; capital market-oriented small and medium-sized enterprises from January 1, 2026; and, under certain circumstances, also so-called Third-country companies outside the EU that have large subsidiaries or small and medium-sized capital market-oriented subsidiaries in a member state from January 1, 2028. Indirect reporting obligations will arise for suppliers and business partners in the upstream and downstream value chain, as information in this regard must be included in sustainability reporting.

The content of the sustainability report to be prepared as part of the management report is divided into the three ESG dimensions of "environmental", "social" and "governance". In contrast to CSR with its moral connotation due to social responsibility, ESG as a management tool for sustainable forms of investment originates from the capital market side and is more compliance oriented. The amended Art. 34 (1) of the Accounting Directive stipulates a mandatory external audit, initially with limited assurance and prospectively from 2028 with reasonable assurance. The extensive disclosure requirements are based on the so-called double materiality: the impact of the company's activities on sustainability aspects (impact materiality; inside-out perspective) and the impact of sustainability aspects on the company's business performance, business results and position (financial materiality; outside-in perspective). The sustainability report must be prepared in accordance with the European Sustainability Reporting Standards (ESRS). The ESRS are issued by the European Commission as delegated acts and then apply directly to the reporting companies, just like the Taxonomy Regulation. The CSRD is thus intended to contribute to standardized, decision-relevant and reliable sustainability reporting that is equivalent to financial reporting (Coenenberg et al., 2024).

The ESRS are based on existing frameworks (e.g. GRI) and contain twelve industry-independent standards as well as industry-specific and company-specific standards yet to be developed for capital market-oriented small and medium-sized enterprises and non-EU companies. As shown in Figure 2, the twelve independent ESRS adopted in July 2023 are divided into two overarching standards and ten topic-specific standards in the three ESG dimensions (Coenenberg et al., 2024).

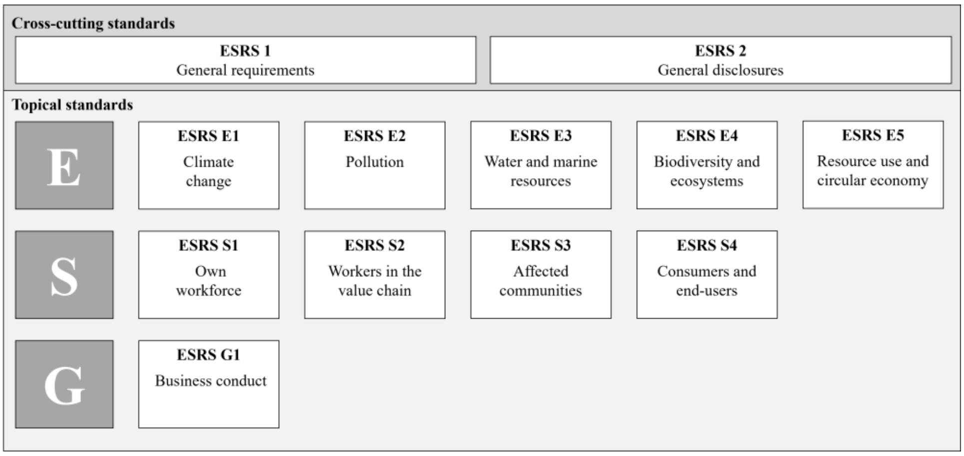

Fig. 2 European Sustainability Reporting Standards
Source: Based on Wirtschaftsprüferkammer*, 2024*

4. Summary and Prospects (Outlook)

The development of sustainability reporting regulation in the EU can be divided into two phases. Until the global financial crisis in 2008, companies were able to voluntarily prepare sustainability reports and disclose non-financial information to demonstrate their perceived social responsibility. After the financial crisis, numerous EU directives obliged companies to disclose sustainability-related information. Regarding regulation around sustainability reporting, the EU has always strived to play a pioneering role. However, the EU has not always lived up to this goal, as timely revisions, and compromises between the EU institutions regarding the implementation of sustainability reporting at the regulatory level were necessary. The CSRD has an impact on third-country companies outside the EU and indirectly on companies in the global value chains subject to reporting under the CSRD, but global application of the ESRS is doubtful (Haller & Wagenhofer, 2024).

Regarding efforts to standardize sustainability reporting internationally, the International Sustainability Standards Board (ISSB), which is entrusted within the IFRS Foundation with the development of sustainability standards analogous to IFRS for financial reporting, is becoming increasingly important (Haller & Wagenhofer, 2024). Two standards – IFRS S1: General requirements for the disclosure of sustainability-related financial information and IFRS S2: Climate-related disclosures – were already published in mid-2023. Although the ISSB cooperates with international institutions and builds on other sustainability initiatives, their acceptance is not foreseeable currently. It is unclear how soon other topics will be covered in new ISSB standards and whether and, if so, how quickly the ISSB standards will become established worldwide and to what extent they will contribute to achieving global sustainability goals (Haller & Wagenhofer, 2024).

This paper significantly contributes to the academic literature be delineating the evolutionary trajectory of sustainability reporting regulations in the EU. It highlights the transformation from voluntary disclosure pre-2008 to mandatory reporting post the global financial crisis, providing valuable historical context. The findings suggest a need for timelier and coordinated revisions to the EU's regulatory frameworks to maintain its pioneering role. There should be increased efforts to harmonize sustainability reporting standards globally, learning from the EU's experiences and the evolving role of the ISSB. For the future research several topics may be interesting: investigate the long-term impacts of the CSRD on third-country companies and global value chains, examine the factors influencing the adoption and integration of ISSB standards worldwide and examine the factors influencing the adoption and integration of ISSB standards worldwide. However, this paper has also some limitations because the paper primarily focuses on the EU Regulation, potentially overlooking parallel developments in other regions which might provide additional context. Findings related to the EU may not be directly applicable to other regulatory environments due to differing political, economic, and social contexts.

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OBAVEZNO IZVEŠTAVANJE O ODRŽIVOM RAZVOJU - RAZVOJ REGULATIVE U EVROPSKOJ UNIJI

U vremenima klimatskih promena, društvene nejednakosti i oskudice resursa, odgovorno korporativno upravljanje je od suštinskog značaja za održiv globalni ekonomski razvoj. Važnost izveštavanja o održivom razvoju leži u činjenici da kompanije transparentno predstavljaju svoje ekološke, socijalne i ekonomske uticaje zainteresovanim stranama, odnosno stejkholderima, i preuzimaju odgovornost za svoje postupke. Kroz ovakve izveštaje kompanije mogu da pokažu kako integrišu aspekte održivog ravoja u svoju poslovnu strategiju, kako implementiraju te aspekte u svojim poslovnim aktivnostima i kakav napredak time ostvaruju. Do finansijske krize 2008. godine, izveštavanje o održivom razvoju u EU se zasnivalo na dobrovoljnom izveštavanju, koje je zamenjeno obaveznim izveštavanjem o održivom razvoju kao posledica lekcija naučenih iz finansijske krize. Razlozi za to uključuju činjenicu da je dobrovoljno izvještavanje o održivom ravoju samo pružilo podsticaj za korporativno upravljanje usmereno ka aspektima održivog razvoja u ograničenoj mjeri, i da politika na nivou EU nastoji da transformiše ekonomiju i društvo u pravcu održivog razvoja, da kanališe tokove kapitala u kompanije koje posluju u skladu sa principima održivog razvoja i da podstiče takve poslovne aktivnosti kroz povećanu transparentnost.

Ključne reči: *Direktiva o nefinansijskom izveštavanju, Direktiva o izveštavanju o održivom razvoju od strane kompanija, dvostruka materijalnost/značajnost*