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**The Corporate Sustainability Reporting Directive: Transforming Corporate Reporting Landscapes**

Comparative analysis on the Corporate Sustainability Reporting Directive assessing its impact and role in the international reporting landscape

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## **Abstract**

The degradation of the environment represents one of the greatest impacts on society and simultaneously harbors one of its greatest challenges. It would be reasonable to address this issue by targeting the largest contributors to the problem, namely the economy and the activities of economic undertakings. Be it overfishing the oceans, destroying habitats and carbon sinks by deforestation, or the general emissions of greenhouse gases. To protect the environment, it is essential to hold corporations accountable and regulate their actions. A prerequisite for this accountability is transparency regarding their actual impacts and actions. Without it, monitoring and enforcement are impossible. Corporate sustainability reporting is a key instrument in achieving this transparency. However, the evolution of this concept and the related frameworks has been fragmented, resulting in varied reporting practices worldwide. This diversity hinders uniformity, comparability, and ultimately the desired transparency. Recently the European Union has introduced a new reporting framework, the Corporate Sustainability Reporting Directive, which may represent the most comprehensive approach to date. But how does it fare in the international reporting landscape? In light of this background, this thesis compares the CSRD with two other globally dominant reporting instruments, the GRI and the ISSB IFRS. The comparative analysis is based on three elements relevant for a reporting framework capable of providing transparency to the environmental impacts of corporations: materiality, coverage of sustainability issues, and the detail and depth of reporting requirements. This juxtaposition aims to assess the CSRD's impact on the sustainability reporting landscape and evaluate its potential as a new leading standard in this field.

# 1 Introduction

Driven by the urgent need to address environmental degradation and climate change, the significance of sustainability reporting has grown exponentially in recent decades. As businesses are major contributors to these global challenges, transparency in their sustainability practices has become a matter of grave importance. Sustainability reporting provides a mechanism for companies to disclose their impacts on the environment and society, thus promoting accountability and enabling stakeholders to make informed decisions. This transparency not only helps in mitigating adverse environmental effects but also facilitates necessary business practices that align with global sustainability goals.

The Corporate Sustainability Reporting Directive (CSRD) represents a significant advancement in the realm of sustainability reporting. Introduced as a new legal framework within the European Union, the CSRD aims to set new standards for corporate transparency and accountability. This directive builds on the existing Non-Financial Reporting Directive (NFRD) but goes further in its requirements, encompassing a broader range of companies and introducing more detailed reporting obligations. By mandating comprehensive disclosures on a variety of environmental, social, and governance (ESG) factors, the CSRD aspires to be the most advanced and fit-for-purpose instrument in sustainability reporting to date.

Despite the promising features of the CSRD, the question of its suitability as a comprehensive reporting framework remains critical. Given the multitude of existing frameworks like the Global Reporting Initiative (GRI) and the International Sustainability Standards Board (ISSB) IFRS Sustainability Disclosure Standards (IFRS SDS), it is imperative to evaluate how the CSRD compares in terms of coverage, detail, and effectiveness. This thesis seeks to explore the potential of the CSRD to meet the growing demand for robust and reliable sustainability reporting. By conducting a comparative analysis with other established frameworks, the aim is to determine whether the CSRD can indeed set new benchmarks in sustainability reporting or if it requires further refinement to address contemporary challenges effectively.

The primary objective of this research is therefore to critically evaluate the new CSRD to ascertain its suitability and effectiveness compared to other established standards. This involves identifying its strengths and weaknesses and suggesting potential improvements to enhance its impact on sustainability reporting.

Primary Research Question:

“Is the Corporate Sustainability Reporting Directive the leading reporting standard? How does the CSRD compare with other key international sustainable reporting instruments, and what are its relative strengths and weaknesses?”

Sub-Questions:

1. How did sustainability reporting develop over time and where does it stand now, particularly in the EU?
2. What is the CSRD's scope and the specific legal requirements for reporting?
3. How does the CSRD compare to its predecessor?
4. How does the CSRD compare to other international standards, namely the Global Reporting Initiative and the IFRS Sustainability Disclosure Standards of the International Sustainability Standards Board?
5. What are the current limitations and shortcomings in Corporate Sustainability Reporting and what is the potential for improvement?

This investigation will be grounded in a legal doctrinal approach, supplemented by a comparative analysis that incorporates perspectives from environmental law and environmental economics.

The first step involves a deep dive into the history of Corporate Social Responsibility (CSR) and Corporate Sustainability Reporting based on expert academic literature. This foundational exploration aims to contextualize the current state of the reporting landscape and identify the challenges that need addressing. Furthermore, it will provide a smooth transition into the examination of the CSRD's predecessor, the NFRD, based on its legal text and contextual literature like European Union (EU) Commission communications.

Following this, the focus will shift to the CSRD, dissecting its legal texts to understand the directive's foundational principles and reporting obligations. This process will be informed by an extensive review of academic literature, as well as the CSRD itself. The objective is to delineate the directive's scope and assess its capacity to enhance corporate accountability in environmental reporting. The basis for a comparative evaluation will include an analysis of materiality, coverage of sustainability issues, and the detail and depth of the different standards.

Building on this legal analysis, a comparative approach will be applied to juxtapose the CSRD against the NFRD and the other two prominent sustainability reporting standards, the GRI and the IFRS SDS set by the ISSB. This comparative lens is significant for identifying the unique attributes of the CSRD and understanding how it either diverges from or aligns with established international practices in sustainability reporting. Furthermore, the thesis will address the strengths and weaknesses of the different frameworks and assess potential improvements for the CSRD.

In summary, the methodology combines a detailed legal examination of the CSRD with a broader comparative and interdisciplinary analysis. This approach aims to provide a thorough understanding of the CSRD's legal framework, its comparative positioning within the global landscape of sustainability reporting, and to assess elements of a potential future leading reporting standard. Through this comprehensive methodological framework, the thesis seeks to contribute valuable insights into the efficacy of the CSRD and propose recommendations for its enhancement and broader integration into global sustainability reporting initiatives.

Regarding the scope and limitations, The primary focus will be directed towards the environmental components of sustainability reporting, excluding considerations related to social responsibilities and corporate governance aspects which are also encompassed in the CSRD. The examination will predominantly evaluate the CSRD's suitability in addressing environmental concerns and its overall impact on ecological sustainability, rather than exploring the financial accounting perspective. This concentrated approach will allow for a thorough analysis of environmental reporting.

However, it is important to acknowledge the limitations of this scope. By not considering the full spectrum of sustainability reporting, the thesis may not provide a comprehensive overview of the diverse nature of corporate sustainability practices. Consequently, while the thesis will provide detailed insights into environmental reporting mechanisms, it will not entail the analysis of corporate strategies concerning social responsibilities or governance frameworks essential to the broader discussion on sustainability.

## **2 Corporate Sustainability Reporting: Rationale and Evolution**

Evaluating the Corporate Sustainability Reporting Directive within the present landscape of Sustainability Reporting requires a deeper understanding of the evolution and theoretical foundations that have shaped this field. Therefore, this chapter aims to provide a detailed background from which the CSRD arose. With this objective, the historical development of Corporate Social Responsibility and Sustainability Reporting will be traced, showcasing how these concepts have evolved from early philosophical discussions to become essential elements of strategic business planning. Additionally, there will be a specific focus on the developments of the Non-Financial Reporting Directive as a precursor to the CSRD, marking a significant shift from voluntary to mandatory sustainability disclosures in the European Union.

In this respect, the first subchapter is dedicated to the origins and development of CSR and Sustainability Reporting. It will highlight the key milestones and theoretical contributions that have played influential roles in shaping the understanding and practice of CSR, transitioning it from a concept of corporate responsibility barely going beyond mere business-as-usual for profit, towards a duty to contribute positively to society and the environment. Next, it will extend to the evolution of Sustainability Reporting, outlining its origins from initial environmental concerns to the multiple comprehensive frameworks potentially standing in competition with the CSRD today.

The second part of the chapter aims to examine the developments surrounding the CSRDs forerunner, the NFRD. It discusses the EU's response to the rising trend of CSR and its efforts to navigate the disparate reporting landscape towards a harmonized state. The scope, objective, and requirements of the NFRD are inspected, followed by a review of areas identified as needing improvement. Through this overview, the chapter sets the stage for a deeper investigation into the CSRD and its impact on the reporting landscape.

### **2.1 The Evolutionary Path: Origins and Development of CSR and Sustainability Reporting**

The recognition of the need for economic organizations to extend their considerations beyond mere profit and loss calculations has its roots in history. The concept of sustainability, for instance, was present as early as the 18th century, exemplified through forestry practices aimed



at ensuring a balanced utilization of resources for future sustainability.<sup>1</sup> Following examples include employee welfare and housing projects in the first half of the 20th century.<sup>2</sup> Influential thinkers such as Weber and Clark began to explore the broader role of companies, questioning how they could reconcile economic progress with societal contributions.<sup>3</sup> A survey from the 1940s revealed that over 90% of business owners felt accountable for the broader social impacts of their business activities<sup>4</sup>, hinting for the emergence of formal concepts for such responsibility in the 1950s.

It is important to note that the early focus of corporate responsibility beyond profit generation predominantly centered on benefits for human society. Environmental considerations were not yet seen as essential for societal well-being, leading to a delayed acknowledgment of environmental aspects, for instance in the form of Corporate Sustainability Reporting. However, the foundation of Corporate Sustainability Reporting can be traced back to the concept of CSR. Although the terms CSR and Sustainability as in Corporate Sustainability Reporting are often used interchangeably<sup>5</sup>, they are actually not the same. Sustainability encompasses environmental, economic, and social dimensions in relation to society as a whole, while CSR concentrates to a greater extent on the social aspects of sustainability, in particular connected to its own stakeholders.<sup>6</sup> However, these terms and concepts are dynamic and evolving, as is the relationship between them<sup>7</sup>, and while a detailed discussion is beyond the scope of this thesis, it is essential to acknowledge that CSR stands as a pillar of companies' journeys beyond financial objectives, warranting a review of its evolution.

### **2.1.1 Corporate Social Responsibility**

In formalizing the concept of CSR, Howard R. Bowen is often recognized as a pioneer with his 1953 book "Social Responsibilities of the Businessman".<sup>8</sup> Bowen defined CSR, at this time called Social Responsibilities, as the obligation of businessmen to adopt policies, make decisions, and follow actions that align with the objectives and values of society.<sup>9</sup> This concept

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<sup>1</sup> Panta 2018, p. 87.

<sup>2</sup> Laine et al. 2022, p. 87.

<sup>3</sup> Panta 2018, p. 85.

<sup>4</sup> Carroll 1999, p. 270.

<sup>5</sup> Brockett and Zabihollah 2012, p. 31.

<sup>6</sup> Panta 2018, p. 90.

<sup>7</sup> Laine et al. 2022, p. 84.

<sup>8</sup> Carroll 1999, p. 269.

<sup>9</sup> Bowen 1953, p. 6.

underlined the duty to meet societal expectations.<sup>10</sup> Following Bowen, other scholars such as Keith Davies advocated for CSR to extend beyond a company's own interests, suggesting that its consideration could provide long-term benefits for compliant companies.<sup>11</sup> Peter Drucker also emphasized the importance of incorporating public opinion into decision-making.<sup>12</sup>

The 1960s developed the concept further by putting an even greater emphasis on defining CSR, with significant contributions of inspiration based on civil movements of the time.<sup>13</sup> Davis and Blomstrom, for instance, defined Social Responsibility as considering the impact of decisions on the social system and prioritizing the needs and interests of those affected by business actions.<sup>14</sup> Generally, from the 1950s to the 1970s, CSR was viewed as a tool for businesses to align with stakeholders and society, leading to diversification in the term's usage thereafter.<sup>15</sup>

The 1970s marked an increase in companies reporting on social issues, particularly in the USA, with a focus on ethical business practices, community involvement, and human resources.<sup>16</sup> Meanwhile in the UK, the concept of value-added statements surfaced, highlighting a growing interest in stakeholder concerns beyond investors.<sup>17</sup> The focus shifted from definitions to exploring related fields such as business ethics and environmentalism in the 1980s.<sup>18</sup> As environmental issues gained importance and international agreements were established, environmental concerns became central in societal and political discussions as well.<sup>19</sup>

In the 1990s, the Pyramid of CSR, proposed by Carroll, appeared as a notable conceptual development. This framework outlines that a CSR firm should simultaneously strive to make a profit, obey the law, be ethical, and be a good corporate citizen.<sup>20</sup> Despite its lasting relevance<sup>21</sup>, misunderstandings have arisen regarding the prioritization of its components, with some interpreting it as placing economic factors at the forefront. However, Carroll emphasized that all aspects should be given equal consideration and be aimed for at the same time.<sup>22</sup> In time,

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<sup>10</sup> Panta 2018, p. 85.

<sup>11</sup> Carroll 1999, p. 271; Davies 1960, p. 70.

<sup>12</sup> Panta 2018, p. 85.

<sup>13</sup> Carroll 1999, p. 270.

<sup>14</sup> Davis and Blomstrom 1966, p. 12; Carroll 1999, p. 272.

<sup>15</sup> Panta 2018, p. 85.

<sup>16</sup> Laine et al. 2022, p. 87.

<sup>17</sup> Laine et al. 2022, p. 87.

<sup>18</sup> Carroll 1999, p. 284.

<sup>19</sup> Laine et al. 2022, p. 87.

<sup>20</sup> Carroll 1991, p. 43.

<sup>21</sup> Panta 2018, p. 90.

<sup>22</sup> Carroll 1999, p. 289.

the nature of Carroll's Pyramid combining multiple aspects shall transition well into John Elkington's "Triple Bottom Line" concept, which advocated for evaluating business activities based on their impacts on planet, people, and profit. This framework implementing the environment, society, and the economy significantly influenced the development of Corporate Sustainability Reporting. Although Elkington later critiqued its present practical implementation as insufficient in addressing environmental protection and clarified that it was intended more as a philosophical guide than a mere accounting strategy<sup>23</sup>, it nonetheless served as a foundational element in incorporating non-financial concerns into business practices.<sup>24</sup>

Since the 2000s, sustainability has gained even more standing in CSR discussions.<sup>25</sup> The Triple Bottom Line concept, along with frameworks such as the Global Reporting Initiative, have facilitated the integration of sustainability into business operations, with companies increasingly adopting its principles.<sup>26</sup> The term "sustainability" has become more popular than "CSR," partly due to its clearer focus on environmental, social, and economic aspects.<sup>27</sup> This shift reflects a desire for a fresh, more polished label, especially in light of past uncertainties and dynamic developments in the field. Additionally, there has been a growing convergence between CSR and Corporate Sustainability Reporting, with the former increasingly aligning with the principles of the latter<sup>28</sup>, marking a significant evolution in the approach to corporate responsibility over the past five decades. Reporting plays a crucial role in enhancing corporate sustainability by functioning as a powerful transparency tool that exposes companies to stakeholder scrutiny. Through detailed and standardized reports, companies disclose their sustainability practices allowing for stakeholders to hold them accountable for their actions. Furthermore, the resulting transparency can lead to trust and reputation companies might want to uphold, which can lead to further implementation of sustainable practices, especially if the internal processes are already set. This can create a continuous loop of reporting and improvement aligning corporate governance with principles of CSR.

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<sup>23</sup> Elkington 2018, 25 Years Ago I Coined the Phrase "Triple Bottom Line." Here's Why It's Time to Rethink It.; <https://hbr.org/2018/06/25-years-ago-i-coined-the-phrase-triple-bottom-line-heres-why-im-giving-up-on-it>; accessed on 16.03.2024.

<sup>24</sup> Brocket and Zabihollah 2012, p. 32.

<sup>25</sup> Carroll 2021, p. 1266.

<sup>26</sup> Carroll 2021, p. 1267.

<sup>27</sup> Carroll 2021, p. 1267.

<sup>28</sup> Carroll 2021, p. 1273.

For the purpose of this thesis's comparative analysis of the EU's CSRD, it is also important to note the EU's most recent definition of CSR from 2011, describing it as "the responsibility of enterprises for their impacts on society,"<sup>29</sup>, abiding to applicable legislation and aiming to maximize value for stakeholders through "identifying, preventing and mitigating their possible adverse impacts".<sup>30</sup> Consequently, in the EU's definition CSR includes not only a duty to report but also to act to decrease negative effects. It's founding element of providing information and transparency stands nonetheless as one of the pillars of today's Corporate Sustainability Reporting, which development shall be inspected more in detail.

### **2.1.2 Corporate Sustainability Reporting**

After displaying the evolution of CSR, it is therefore adequate to shift the focus to the development of Corporate Sustainability Reporting. This will pave the way for a refined examination of the European Union's reporting frameworks, particularly the addressing of the NFRD in the following subchapter.

The origin of Sustainability Reporting can be traced back to the 1960s and 70s.<sup>31</sup> During the 1960s, concerns about environmental impact on society began to surge, as evidenced by impacts of influential works like Rachel Carson's "Silent Spring" in 1962, which played a significant role in the environmental movement. Attention started to be drawn on the interplay between the economy and the environment.<sup>32</sup> The early 1970s witnessed the release of the "Limits of Growth Report" by the Club of Rome, which examined global trends and their potential adverse effects, marking a crucial point in the dialogue between the economy and the environment.<sup>33</sup> This period also saw the Stockholm Convention, which inhibited first elements of the Sustainable Development principle<sup>34</sup>, as well as the establishment of the United Nations Environmental Program. Additionally, in countries like Germany, Austria, and Switzerland, experiments related to environmental disclosure began to surface, encouraged by the promotion of corporate social responsibilities in the Netherlands and France.<sup>35</sup>

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<sup>29</sup> COM (2011) 681 final, p. 6.

<sup>30</sup> COM (2011) 681 final, p. 6.

<sup>31</sup> Brocket and Zabihollah 2012, pp. 27-28.

<sup>32</sup> Gokten 2017, p. 103.

<sup>33</sup> Gray 2006, p. 799.

<sup>34</sup> Stockholm Declaration 1972, Principle 1-5, 8.

<sup>35</sup> Ioannou and Serafeim 2010, p. 8.

In the 1980s, the United States responded with its own developments, including the creation of the Environmental Protection Agency and the enactment of significant environmental laws that laid the groundwork for environmental disclosures.<sup>36</sup> Furthermore, the World Commission on Environment and Development was formed by the UN in 1983, leading to the publication of "Our Common Future" in 1987, also known as the Brundtland Report. While the report only briefly mentioned the need for accounting beyond financial measures, it significantly contributed to the standing of the principle of Sustainable Development.<sup>37</sup> This principle is especially relevant because it advocates for balancing environmental, social and economic aspects, key elements of future Corporate Sustainability Reporting. Additionally in 2015, the United Nations adopted the 17 Sustainable Development Goals, which many organizations used as a framework for identifying relevant Sustainability Reporting issues.<sup>38</sup>

The 1990s saw a significant acceleration in the development of Corporate Sustainability Reporting, driven by both previous advancements and increased stakeholder interest, such as investors concerned about the implications of environmental incidents like the Exxon Valdez oil spill in 1989.<sup>39</sup> Traditional financial accounting was being challenged as the significance of other types of information became noticeable.<sup>40</sup> This decade marked a rise in Sustainability Reporting practices, particularly among companies in environmentally impactful industries, although these practices were initially voluntary and diverse.<sup>41</sup> The diversity pointed out a need for standardization, which led to efforts such as the ACCA's Reporting Award Schemes in the UK in 1991, the requirement of environmental statements by EMAS for German-speaking regions in 1993, and the introduction of the Triple Bottom Line concept by John Elkington in 1993, which became a foundational methodological approach by incorporating environmental, social, and economic aspects based on the Sustainable Development principle.<sup>42</sup> Another significant development was the initiation of the further to be discussed Global Reporting Initiative in 1997. Additionally, Finland set a precedent in 1997 by introducing the first legal obligation for mandatory sustainability reports, providing inspiration to other countries.<sup>43</sup> By

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<sup>36</sup> Brocket and Zabihollah 2012, p. 28.

<sup>37</sup> Gokten 2017, p. 105; Brundtland Report 1983, p. 48; Panta 2018, p. 87.

<sup>38</sup> Laine et al. 2022, p. 97.

<sup>39</sup> Gokten 2017, pp. 107-108.

<sup>40</sup> Gokten 2017, pp. 107-108.

<sup>41</sup> Laine et al. 2022, p. 87.

<sup>42</sup> Gokten 2017, pp. 107-110; Laine et al. 2022, p. 87.

<sup>43</sup> Brocket and Zabihollah 2012, p. 28.

the end of the millennium, approximately 30% of the 250 largest global companies had begun publishing disclosures on their environmental performance.<sup>44</sup>

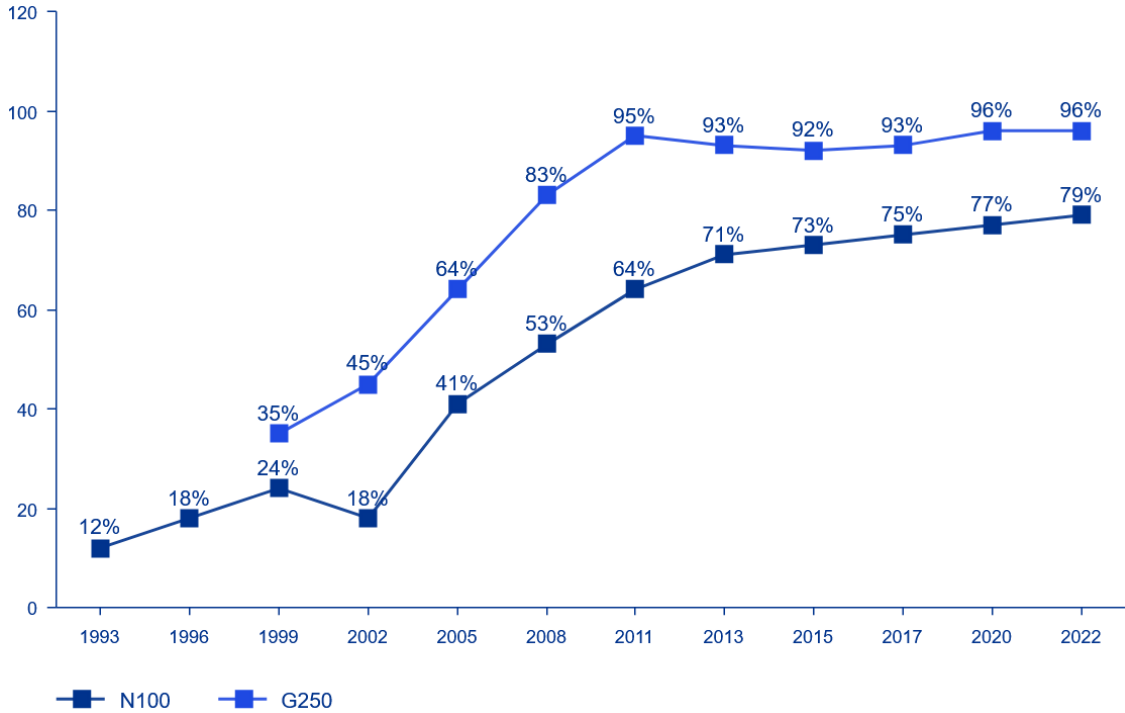


Figure 1: Global Sustainability Reporting rates (1993 – 2022)<sup>45</sup>

Building on the foundation established in previous decades, the 2000s witnessed a crucial shift towards Sustainability Reporting becoming a mainstream practice among larger companies. This trend was perceived as a reflection of the increasing emphasis on transparency in the economic sector concerning environmental impacts. A notable aspect of this period was the production of highly detailed and comprehensive reports by many companies, covering a wide array of issues and resulting in extensive documents.<sup>46</sup> This led to a natural progression towards a focus on key points of disclosures to prevent transparency from being obscured by an overload of information. Consequently, the principle of materiality emerged, steering the approach towards prioritizing issues that are most significant for the organization's actual impacts and for stakeholders. Alongside materiality, the concepts of accountability and reporting boundary

<sup>44</sup> Laine et al. 2022, p. 87.

<sup>45</sup> Big shifts, small steps - KPMG Survey of Sustainability Reporting 2022, p. 13.

<sup>46</sup> Laine et al. 2022, p. 88.

became central to Sustainability Reporting, ensuring that reports are relevant, significant, and adequately defined.<sup>47</sup>

During this period, the beforementioned development of the GRI reporting standards stands out as a particularly influential advancement in Sustainability Reporting and provided noteworthy structurization.<sup>48</sup> The GRI aimed to promote widespread standardization and consistency, regularly publishing updated Sustainability Reporting Guidelines for this purpose.<sup>49</sup> The first set of guidelines was published in 2000, offering standards for environmental, social, and economic issues, establishing the GRI as the leading framework at the time. The continuous updates to the guidelines culminated in the GRI Sustainability Reporting Standards in 2016.<sup>50</sup> The GRI's influence is evident in its growing adoption, with over 3,000 companies adhering to its standards by 2011<sup>51</sup>, and 68 percent of N100 companies and 78 percent of G250 companies implementing them by 2021.<sup>52</sup>

During the last two decades reporting rates surged even higher, influenced by additional legislation and the emergence of other reporting frameworks besides the GRI. For instance, following the BP oil spill in 2010, the United States Securities and Exchange Commission (SEC) issued guidance on reporting climate change-related risks<sup>53</sup>, which contributed to the establishment of the Sustainability Accounting Standards Board (SASB) in 2011. The SASB, a non-profit organization, aimed to guide companies in Sustainability Reporting by setting up a standard framework, which was integrated into the ISSB standards and saw approximately 2,400 companies aligning to it in 2023.<sup>54</sup> These and other frameworks, such as the NFRD and the succeeding CSRD of the European Union, along with national adoptions, legislation, and a greater demand for transparency from stakeholders, have regularized Sustainability Reporting to some extent.

However, the multitude of established frameworks also presents challenges. While the goal was to move towards standardization, the various instruments now find themselves in competition with each other. Despite sharing many key elements, the different frameworks are not identical

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<sup>47</sup> Laine et al. 2022, pp. 89-90.

<sup>48</sup> Laine et al. 2022, p. 92.

<sup>49</sup> Brocket and Zabihollah 2012, p. 29.

<sup>50</sup> Laine et al. 2022, p. 88; Gokten 2017, p. 112.

<sup>51</sup> Brocket and Zabihollah 2012, p. 31.

<sup>52</sup> Big shifts, small steps - KPMG Survey of Sustainability Reporting 2022, p. 24.

<sup>53</sup> Brocket and Zabihollah 2012, p. 29.

<sup>54</sup> Global Use of SASB Standards; <https://sasb.ifrs.org/about/global-use/>; last accessed on 19.03.2024.

and have their unique characteristics. This diversity can hinder comparability and may allow companies to choose the reporting practice that best suits their circumstances to hide risks, potentially undermining the goal of transparency in Sustainability Reporting. Additionally, there is competition among the frameworks as their institutions strive for greater influence. Calls for standardization or even unification are being made.<sup>55</sup> Nevertheless, the path to achieving this is complicated due to several factors, such as conflicting interests among organizations and differing priorities between states. Nonetheless, a well-designed and widely adopted framework could potentially serve as an inspiration or template for incorporation into national or regional legislation. Therefore, analyzing the EU's approach through the CSRD and its potential role as a model compared to other frameworks shall be explored.

## **2.2 CSR and Sustainability Reporting in the EU: Steppingstone NFRD**

Building on the path of CSR and Sustainability Reporting developments, the NFRD represents a crucial milestone preceding the CSRD within the EU framework. Initially, the EU perceived CSR as a voluntary concept<sup>56</sup>, but this perspective evolved, particularly after the appearance of the Triple Bottom Line concept and the resulting surge of diverse reporting frameworks.<sup>57</sup> Despite the increasing trend of Sustainability Reporting in the EU, the optional nature of such reports led to inconsistent practices among EU companies, oftentimes abusing the status quo by choosing a reporting practice highlighting their most favorable traits.<sup>58</sup>

The EU's earlier stance on CSR was supporting but not mandating, expecting it to emerge naturally from company behavior.<sup>59</sup> However, with global developments and a commitment to align its CSR policies with international standards, the EU shifted its approach. With tailwind of the growing trend on CSR<sup>60</sup>, the EU introduced the Non-Financial Reporting Directive 2014/95/EU. This directive, adopted in 2014, aligns with the UN on their emphasis on Sustainability Reporting in "The Future We Want" document from the Rio+20 conference<sup>61</sup>

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<sup>55</sup> Laine et al. 2022, p. 99.

<sup>56</sup> COM(2011) 681 final 5, p. 3.

<sup>57</sup> La Torre 2018, p. 9.

<sup>58</sup> Ahern 2016, p. 600.

<sup>59</sup> Ahern 2016, p. 599.

<sup>60</sup> Ahern 2016, p. 600.

<sup>61</sup> NFRD 2014/95/EU, para 11.



and amends the Accounting Directive 2013/34/EU to mandate CSR reporting statements. Member States were required to transpose the directive by the end of 2016, with companies expected to submit their first non-financial disclosures for the calendar year 2017.<sup>62</sup>

### **2.2.1 Objective, Scope & Reporting Requirements**

The NFRD aims to enhance the "relevance, consistency, and comparability" of information provided by larger entities.<sup>63</sup> It is part of a broader strategy to adapt CSR practices for the benefit of both Europe and the global community.<sup>64</sup> In the aftermath of economic crises, linking the economy to broader societal issues is perceived as essential for sustainable development.<sup>65</sup> The initiative concerning Sustainability Reporting is an essential component of this strategy<sup>66</sup>, emphasizing the role of companies in delivering information that identifies risks and promotes a basis for trust from investors.<sup>67</sup>

However, the reporting landscape prior to the NFRD was fragmented and in need of improvement. Only 15 EU Member States had policies promoting CSR, and the standards set by some Member States were not matching, creating challenges for businesses operating across multiple jurisdictions.<sup>68</sup> Additionally, the lack of comparability acted as a hindrance to potential investing activities. The introduction of the NFRD aimed to transition the EU to a state of uniformity and structured reporting. Its success in this endeavor shall be assessed next by examining its scope, requirements and critique.

The scope of the NFRD is limited to "large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year".<sup>69</sup> Initially, the directive was intended to have a broader scope, but it was narrowed down in its final form to apply exclusively to large entities with at least 500 employees or having a balance sheet total of at least 20 million euros or net revenues of 40

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<sup>62</sup> NFRD 2014/95/EU, Art. 4 (1).

<sup>63</sup> NFRD 2014/95/EU, para 21.

<sup>64</sup> COM(2011) 681 final 5, p. 14.

<sup>65</sup> COM(2011) 681 final 5, p. 3.

<sup>66</sup> Ahern 2016, p. 603.

<sup>67</sup> NFRD 2014/95/EU, para 3.

<sup>68</sup> COM(2011) 681 final 5, p. 11.

<sup>69</sup> NFRD 2014/95/EU, Article 19a (1).

million euros. The directive does not require subsidiaries of a company group to submit reports, focusing instead on parent companies.<sup>70</sup>

The minimum disclosure requirements set by the NFRD mandate that companies provide a non-financial statement containing information necessary for understanding the undertaking's development, performance, position, and impact of its activity. This includes, at a minimum, environmental, social, and employee matters, respect for human rights, and anti-corruption and bribery matters. The statement should describe the business model, policies, due diligence processes, outcomes, potential impacts, risks, and non-financial key performance indicators. Environmental matters might include health and safety, energy, emissions, water usage, or air pollution.<sup>71</sup> The directive also emphasizes the importance of highlighting risks related to the entire supply chain and business relationships, especially if they are potentially serious.<sup>72</sup> While the directive outlines a broad range of categories to be included, it provides companies with significant discretion in interpreting the depth of disclosure required.<sup>73</sup> Notably, there is no absolute obligation to have policies in place for the listed aspects, but rather a duty to explain why such policies are not in place.<sup>74</sup> This "comply or explain" approach, combined with a lack of standards for explanation, further increases companies' leeway.<sup>75</sup>

Regarding flexible reporting options, the EU believes that companies should be able to tailor their CSR management to their specific circumstances.<sup>76</sup> This reflects in beforementioned requirements, though also results in companies being allowed to choose which reporting framework they want to use for their NFRD statements, including national, EU, or international frameworks such as GRI.<sup>77</sup> This is intended to create a balance between providing flexibility to companies and harmonizing their approaches.<sup>78</sup> Consequently, the NFRD offers a wide range of frameworks for companies to choose from, with more than 30 global reporting frameworks

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<sup>70</sup> Linz 2016, p. 13.

<sup>71</sup> NFRD 2014/95/EU, para 7.

<sup>72</sup> NFRD 2014/95/EU, Article 19a (1)(d); NFRD 2014/95/EU, para 8.

<sup>73</sup> Ahern 2016, pp. 609-610.

<sup>74</sup> NFRD 2014/95/EU, Article 19a (1).

<sup>75</sup> Ahern 2016, p. 622.

<sup>76</sup> COM(2011) 681 final 5, p. 7.

<sup>77</sup> NFRD 2014/95/EU, Article 19a (1).

<sup>78</sup> NFRD 2014/95/EU, para 3.

available at the time, of which the Federation of European Accountants (FEE) categorized 9 as satisfying the directive's requirements, including GRI, SASB, and IIRC.<sup>79</sup>

### 2.2.2 Criticism

Since its implementation, the NFRD had to face multiple points of criticism. One widely recognized issue is its limited scope, which includes only large companies, leaving out small and medium-sized enterprises (SMEs).<sup>80</sup> It was intended for large companies to provide inspiration and insights into reporting practices to SMEs.<sup>81</sup> As a result, only about 11,600 entities were covered by the directive in 2021, representing just 20% of the number of companies falling under the CSRD.<sup>82</sup> The aim was to protect smaller companies from the burden of over-regulation.<sup>83</sup> However, it is uncertain whether non-obligated companies will adopt such practices by themselves, raising questions about the effectiveness of the directive in promoting Sustainability Reporting across the broader business landscape. Although recognizing its importance<sup>84</sup>, the NFRD leaves the fate of Sustainability Reporting quite open.

This general lack of directness and defined obligation is another point of critique. Due to diverse interests and differing circumstances of the different member states and companies in the EU, it can be difficult to create new regulations. The open-ended, partly non-obligatory nature of the directive was intended to promote organic development of reporting practices.<sup>85</sup> However, the lack of stricter guidance has led to a diversified reporting landscape conflicting with the EU's aim of consistency. The undetailed disclosure requirements, combined with the free choice of reporting frameworks, have not improved the desired comparability and harmonization, as the different frameworks inhibit too many discrepancies.<sup>86</sup>

Another issue is the low credibility of non-financial statements<sup>87</sup>, partly stemming from inadequate auditing requirements. The directive mandates auditors to check the provision of such reports but does not require them to be independent from the company. Lastly, there is

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<sup>79</sup> La Torre 2018, p. 9.

<sup>80</sup> Tenuta and Cambrea 2022, p. 51

<sup>81</sup> Ahern 2016, p. 608.

<sup>82</sup> COM(2021) 189 final, p. 10.

<sup>83</sup> NFRD 2014/95/EU, para 13.

<sup>84</sup> NFRD 2014/95/EU, para 11.

<sup>85</sup> Ahern 2016, p. 602.

<sup>86</sup> La Torre 2018, Page 11.

<sup>87</sup> Tenuta and Cambrea 2022, p. 51.

also a need for enforcement mechanisms, leaving such matters in the hand of member states or the companies themselves.<sup>88</sup>

While the NFRD has aspects to improve on, it is important to acknowledge its transformative impact on the CSR and Sustainability Reporting landscape within the EU. Even though quite open-ended, it moved mere voluntary initiatives to a more structured regulatory framework. Furthermore, the quantity of disclosures surged significantly as seen in Figure 2.

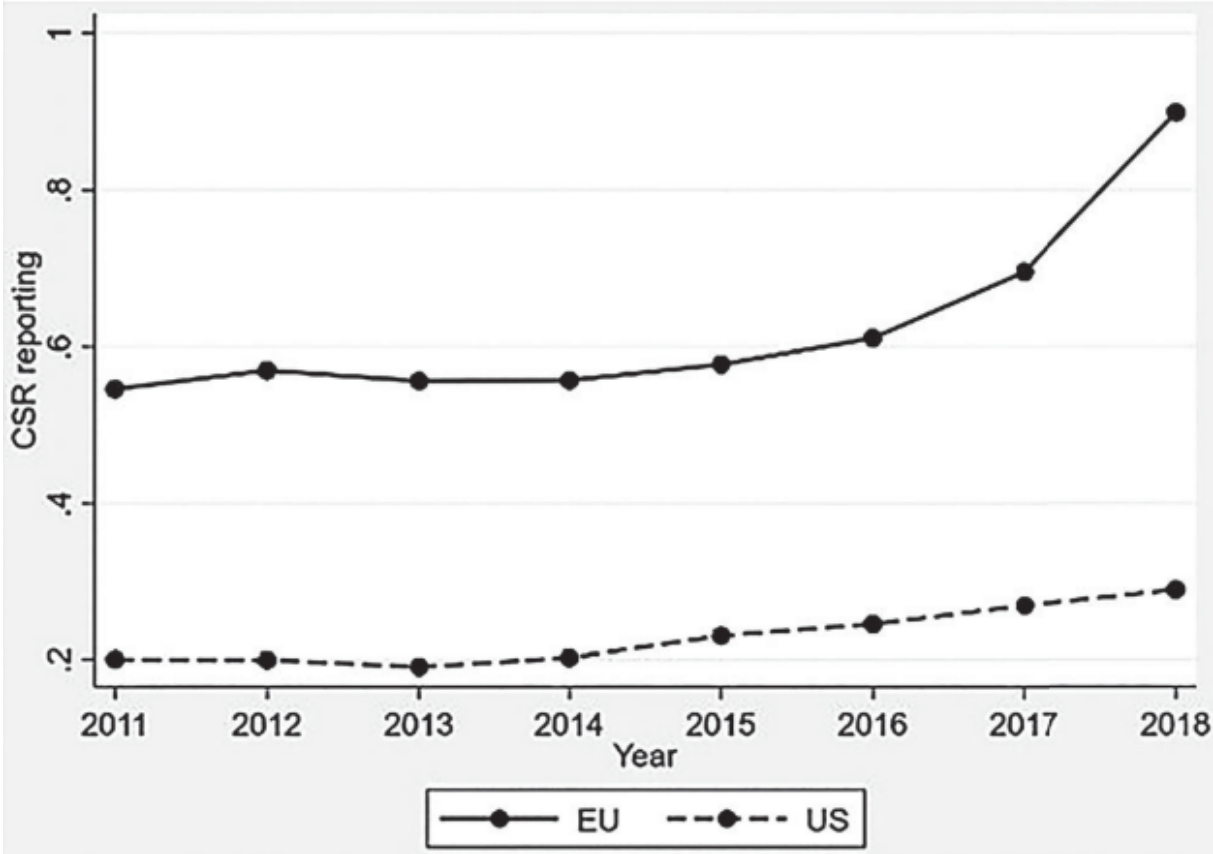


Figure 2: Parallel Trends for CSR Reporting<sup>89</sup>

The comparison with developments in the US signifies the rise to not just be an unrelated result of trends either, underscoring the directives contribution to Sustainability Reporting in the EU.

This chapter has traced the long and dynamic history of CSR and Sustainability Reporting, displaying that while there is not one single origin alone, the relation between evolving CSR concepts and the increasing importance of environmental concerns has shaped the current

<sup>88</sup> Ahern 2016, p. 623.  
<sup>89</sup> Cuomo et al. 2022, p. 17.

reporting landscape. The multitude of reporting frameworks, however, has led to a landscape characterized by non-uniformity and competition, leading to the EUs policy to harmonize and raise reporting standards in their own way.

The next chapter will be an analysis of the CSRD building on the foundations laid by the NFRD and aiming to further refine and enhance the European and potentially global Corporate Sustainability Reporting Landscape. This will set the stage for a deeper analysis of whether the CSRD can embody a regulatory framework truly fit for the pressing environmental and social challenges of our time.

### **3 The Corporate Sustainability Reporting Directive**

Having examined the history and development of CSR and the evolution of the NFRD, the next step is to delve deeper into the CSRD itself. For this purpose, this chapter is organized into two sections. The first one offers a foundational overview, beginning with the transition from the NFRD, going over the broader objectives of the European Green Deal and CSRD's role in it, to finally cover the structure of the CSRD and its notable elements. Such elements are for example audit requirements or the scope of undertakings falling under the directive. While these components are not directly used as a basis for the subsequent comparative analysis, they are essential for an overall understanding of the directive.

The second section focuses on specific elements used for comparison with other reporting standards, specifically the scope of companies falling under the CSRD, the coverage of sustainability issues, and the detail and depth of the mandated disclosures. This more detailed examination will highlight how the CSRD addresses these aspects, setting the stage for a comparative evaluation with the GRI and the ISSB standards in the following chapters.

The aim of this chapter is therefore to provide an informational base for establishing the CSRD's position within the current landscape of sustainability reporting standards, providing insights into its strengths and areas for improvement, and facilitating a deeper understanding of its impact on corporate sustainability practices.

## 3.1 Overview of the CSRD

As described, the following subchapter serves to provide a better picture of the CSRD. This includes the transition the CSRD made from the NFRD and what role it plays in the frame of the European Green Deal. Furthermore, some general information will be given about its structure and noteworthy elements.

### 3.1.1 From NFRD to CSRD

After the introduction of the NFRD, sustainability continued to keep a dynamic influence on the international stage. On December 25th, 2015, the United Nations General Assembly (UNGA) introduced the 2030 Agenda for Sustainable Development, which focuses on promoting economic, social, and environmental aspects through the Sustainable Development Goals. In response, the European Union aligned its policy framework with the SDGs through the communication “Next steps for a sustainable European future: European action for sustainability”.<sup>90</sup> Additionally, in 2018, the European Commission's communication titled “Action Plan: Financing Sustainable Growth” outlined measures to channel financial flows towards sustainable investments and promote transparency and long-term thinking in the economy. A key requirement for achieving these goals was found to be the comparability, consistency, and reliability of information.<sup>91</sup>

The NFRD was initially planned as a cornerstone of this strategy.<sup>92</sup> However, as discussed in the previous chapter, it became evident over time that the NFRD was inadequate in fulfilling its intended role.<sup>93</sup> Many companies failed to report sustainability information properly, and a substantial number did not report at all. The directive fell short in achieving the desired comparability, reliability, and consistency, and essential sustainability issues were often omitted. Furthermore, there was no effective audit requirement to prevent greenwashing and double counting.<sup>94</sup> This issue could also not be solved by non-binding guidelines issued by the European Commission, failing to lead to significant improvements.<sup>95</sup>

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<sup>90</sup> CSRD para 6.

<sup>91</sup> CSRD para 2.

<sup>92</sup> Baumüller & Grbenic 2021, p. 369.

<sup>93</sup> Odobasa & Marosevic 2023, p. 597.

<sup>94</sup> CSRD para 13.

<sup>95</sup> Odobasa & Marosevic 2023, p. 597.

Simultaneously, the demand for sustainability information grew due to increasing stakeholder expectations, whether related to investments or alignment with global targets such as the Paris Agreement climate goals.<sup>96</sup> On December 11th 2019, under the European Green Deal, the European Commission in response to these challenges committed to replace the NFRD with a new directive and to develop European Sustainability Reporting Standards (ESRS).<sup>97</sup>

Recognizing that the term “non-financial” was misleading, as many sustainability issues indeed have financial impacts<sup>98</sup>, the EU Commission released a draft of the new directive with a new name on April 21st, 2021. The final version was adopted on December 14th, 2022, and named the Corporate Sustainability Reporting Directive EU 2022/2464. The aim was to address the shortcomings of the NFRD and to ensure more comprehensive and reliable sustainability reporting across the EU.

### **3.1.2 Role in the European Green Deal**

To fully understand its impact, it is crucial to examine the CSRD’s role within the broader context of the European Green Deal, as they are closely interconnected. The European Green Deal is the EU's strategy to transition into a “modern, resource-efficient and competitive economy with no net emissions of greenhouse gases (GHG) by 2050.” It aims to “protect, conserve and enhance the Union's natural capital, and protect the health and well-being of Union citizens from environment-related risks and impacts,” while also promoting “stability, jobs, growth, and sustainable investment”.<sup>99</sup> Several legal instruments form components of this framework, with the most relevant to the CSRD being the EU Taxonomy Regulation 2020/852, the Sustainable Finance Disclosure Regulation (SFDR) 2019/2088, and the newly adopted Corporate Sustainability Due Diligence Directive (CSDDD). These instruments are designed to improve the comparability and transparency of corporate sustainability efforts while channeling investments towards green initiatives.<sup>100</sup>

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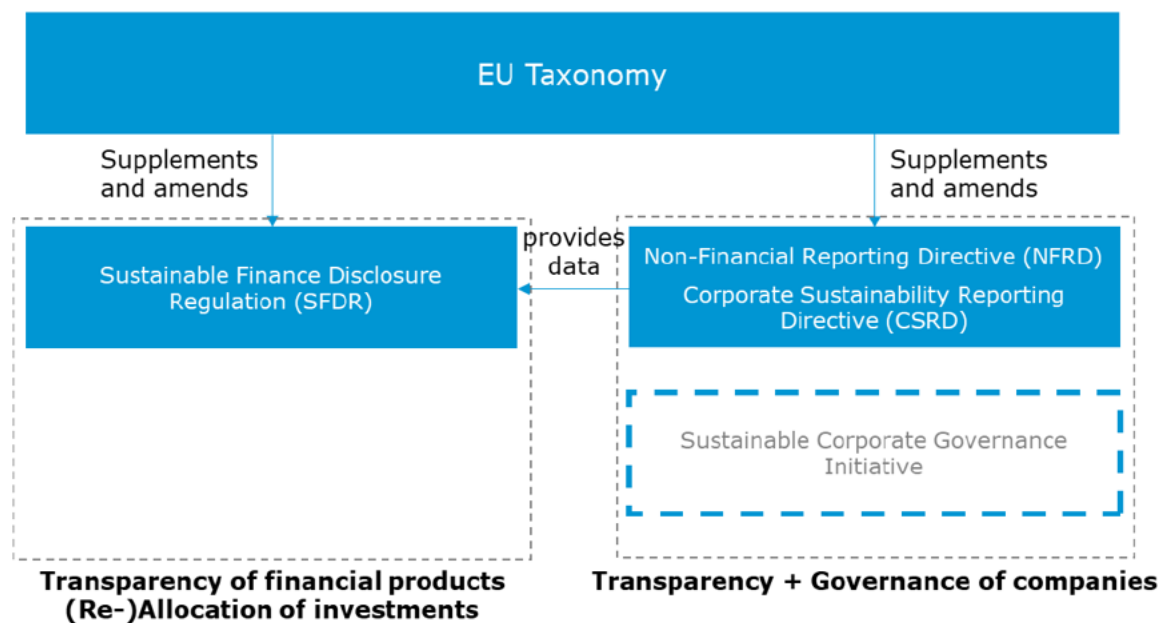
<sup>96</sup> CSRD para 11.

<sup>97</sup> Baumüller & Grbenic 2021, p. 369; CSRD para 1.

<sup>98</sup> CSRD para 8.

<sup>99</sup> CSRD para 1.

<sup>100</sup> Buchs et al. 2022, p. 377.



**Figure 3:** Regulations addressing the transparency of European companies<sup>101</sup>

The CSRD aims to provide the necessary information base for these instruments to function effectively.<sup>102</sup> The SFDR requires financial service companies to disclose the sustainability of their investments.<sup>103</sup> The EU Taxonomy, meanwhile, serves as a unified classification system that defines which investments or financial activities can be considered “green”.<sup>104</sup> It outlines six environmental objectives that significantly overlap with the main topics of the CSRD. Projects that meet the criteria set by the EU Taxonomy are more likely to qualify for subsidization. However, for this system of “Sustainable Finance” to be effective, comprehensive information about corporate activities and impacts is necessary, a gap the CSRD is intended to fill.<sup>105</sup>

Furthermore, there is a linkage to the CSDDD through the ESRS developed under the CSRD framework. These standards have been designed with the CSDDD in mind and provide guidance on the due diligence process.<sup>106</sup> This integrated approach ensures that companies can align their reporting and due diligence efforts.

<sup>101</sup> Baumüller and Grbenic 2021, p. 371

<sup>102</sup> Lanfermann & Baumüller 2023, p. 89.

<sup>103</sup> Baumüller and Grbenic 2021, p. 371.

<sup>104</sup> Buchs et al. 2022, p. 378.

<sup>105</sup> Lanfermann and Baumüller 2023, p. 89.

<sup>106</sup> Pasch & Stawinga 2023, p. 126.



### 3.1.3 General Information on the CSRD

Before delving into the analysis of elements particularly relevant for the comparative analysis, namely the scope of corporations, coverage of sustainability issues, and the detail and depth of standards, it is important to consider some general information about the CSRD that is also noteworthy.

The CSRD officially took effect on January 5th, 2023, replacing the NFRD and primarily updating the Accounting Directive 2013/34/EU.<sup>107</sup> One of the core elements of the CSRD is the inclusion of ESG aspects in sustainability matters.<sup>108</sup> While the NFRD already mandated ESG reporting, the CSRD significantly expands these requirements.<sup>109</sup> For the comparative analysis, the focus will be on the environment-related disclosures. Nevertheless, there shall also be a brief overview of the social and governance aspects, as well as a slightly more comprehensive introduction to the general requirements.

In regard to social matters to report on, companies have various requirements, including the involvement of social partners, collective bargaining, equality, non-discrimination, diversity and inclusion, and also human rights. These disclosures should encompass the impacts of the company on people, including workers, and on human health.<sup>110</sup> Disclosure requirements for governance include the involvement and contributions of the company's governance bodies in sustainability matters, their access to necessary expertise, the company's policies promoting sustainability among these members, and information on internal controls and risk management related to sustainability reporting.<sup>111</sup>

In a more general perspective, Articles 19a and 29a of the directive represent the main obligations for individual and consolidated reports of undertakings. These articles outline the scope for companies falling under the directive and specify what needs to be disclosed. The general aspects to be disclosed include details regarding sustainability-related risks and opportunities, investments, transition strategies to align with a sustainable economy, and the implementation of such strategies. Companies must also report on time-bound targets, such as

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<sup>107</sup> Waas 2023, p. 458.

<sup>108</sup> CSRD para 28.

<sup>109</sup> Waas 2023, p. 458.

<sup>110</sup> CSRD para 49.

<sup>111</sup> Odobasa & Marosevic 2023, p. 603.

GHG reduction targets, whether they are based on scientific evidence, and progress towards these targets. Additional obligations for disclosure are the suitability of administrative bodies for relevant tasks based on their expertise and skills, sustainability policies implemented by the company, processes in place for due diligence, and actual or potential adverse impacts related to the undertaking or its value chain, and how these impacts are identified and monitored. Companies are further required to disclose prevention, mitigation, and remediation measures against those impacts and their results, as well as the key risks of the undertaking that may result from sustainability issues.<sup>112</sup> The information should cover short-, medium-, and long-term horizons and ideally include the entire value chain of the undertaking, even beyond EU borders.<sup>113</sup> The aim of these disclosure requirements is to provide more harmonized, comparable, and scientifically based information that can offer adequate transparency and accountability. These requirements already surpass the complexity of the NFRD. Nevertheless, Article 29b CSRD mandates the adoption of the ESRS, further adding to its thoroughness by specifying the information to be disclosed and how it should be structured in the report.

If the CSRD can be seen as the frame of a painting, the ESRS would be the canvas, as they supply comprehensive details to the various conditions. Specific and mandatory standards are crucial for the harmonization of sustainability reporting. Therefore, because the EU did not find any existing frameworks satisfying its requirements<sup>114</sup>, it mandated the European Financial Reporting Advisory Group (EFRAG) to develop such desired standards, the ESRS.<sup>115</sup> The first published set of twelve standards includes the general and sector-independent requirements ESRS 1 and ESRS 2, as well as topical standards focusing on the environment (ESRS E1-5), social aspects (ESRS S1-4), and governance (ESRS G1).<sup>116</sup>

In its general requirements, the ESRS align with the EU's goals of improving comparability, consistency, and relevance in sustainability reporting, outlining five core qualitative characteristics that information should possess. The first being relevance, referring to the ability to influence decision-making by users through either the impact or financial aspect of the information. Secondly comparability, which means the information can be measured against past data from the company or data from other companies, particularly within the same industry,

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<sup>112</sup> Article 19a (2), 29a (2) CSRD.

<sup>113</sup> CSRD para 33.

<sup>114</sup> CSRD para 37-38; Odobasa & Marosevic 2023, p. 599.

<sup>115</sup> Waas 2023, p. 462.

<sup>116</sup> Waas 2023, p. 463; ESRS 1 para 4, p. 5.

and may involve comparisons to targets, baselines, industry benchmarks, or other recognized standards. Following, verifiability ensures that the information or its inputs can be independently validated, while understandability requires that the information is presented clearly and concisely, enabling any well-informed user to comprehend it without undue effort. Finally, faithful representation mandates that the information must be complete, neutral, and accurate, truly reflecting what it claims to be. These conceptual expectations aim to address the shortcomings identified in the NFRD, though the actual effectiveness will depend on the detailed design of the directive.

With few exceptions, most EU member states have implemented the NFRD's requirements on the scope of reporting entities very narrowly, resulting in a relatively small number of companies being subject to these reporting obligations, as for example about 500 companies or corporate groups in Germany.<sup>117</sup> Starting from the fiscal year 2024, every company falling within the scope of the CSRD will be mandated to create a sustainability report in accordance with its rules.<sup>118</sup> According to Article 19a (1), “Large undertakings, and small and medium-sized undertakings, except micro undertakings, which are public-interest entities” are included. This means all large trading companies and SMEs in Europe, except for micro-enterprises listed on regulated markets, must comply with the CSRD.<sup>119</sup> Furthermore, undertakings outside the scope may adopt the standards voluntarily.<sup>120</sup> However, SMEs may also opt out of submitting relevant information in their reports until January 1<sup>st</sup> 2028, provided they explain their reasoning.<sup>121</sup> Due to a lack of specification on the size category criteria in Article 19a, they are defined according to general criteria in the Accounting Directive, namely revenue, balance sheet total, and average number of employees throughout the year.<sup>122</sup>

Additionally, Article 29a requires large corporate groups to report on a consolidated basis. According to ESRS 1, this means consolidated financial and sustainability reports should include the parent company and its subsidiaries, further increasing the reach of the CSRD.<sup>123</sup> Another approach the directive widens its scope is by applying to non-European undertakings

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<sup>117</sup> Lanfermann & Baumüller 2023, p. 90.

<sup>118</sup> Odobasa & Marosevic 2023, p. 600.

<sup>119</sup> CSRD para 21.

<sup>120</sup> Odobasa & Marosevic 2023, p. 600.

<sup>121</sup> Article 19a (7) CSRD.

<sup>122</sup> Lanfermann & Baumüller 2023, p. 90.

<sup>123</sup> Lanfermann & Baumüller 2023, p. 91.

that have significant revenue within the EU.<sup>124</sup> Companies outside the EU must provide a sustainability report if they generate more than EUR 150 million in net sales in the EU and have at least one subsidiary or branch within the EU.<sup>125</sup> According to Article 40a, such reports for third-country undertakings should be provided under the standards of a consolidated report under Article 29b or in an equivalent way. Furthermore, the CSRD also has an indirect scope, as it requires integrating data concerning entities within the supply chain, including suppliers, customers, associated companies, or joint ventures.<sup>126</sup>

The result is that the number of entities required to publish sustainability reports is raised significantly. While about 11,000 companies fell under the obligations of the NFRD, it is estimated that about 50,000 companies will need to comply with the new standards under the CSRD.<sup>127</sup> Particularly noteworthy is the inclusion of third-country companies in the reporting obligations, extending the CSRD's global regulatory reach and representing a proactive approach to expanding influence and leading the field of sustainability reporting.

The auditing of sustainability reports is another important aspect. The lack of comparability and credibility in many companies' sustainability reports, which often omit crucial information, highlighted the need for a reporting framework supported by robust audit practices.<sup>128</sup> Strengthening sustainability reporting through statutory auditors or audit firms ensures consistency between financial and sustainability information, which is essential for users.<sup>129</sup> Consequently, the CSRD mandates the auditing of sustainability reports, ensuring they meet a basic threshold.<sup>130</sup> Reports can be audited by authorized auditors or firms that already handle financial audits, facilitating the integration of financial and sustainability data and preventing duplicative reporting and misleading environmental claims.<sup>131</sup> Company-intern auditing cannot continue unless it is certified adequately. For even better harmonization in this regard, the Commission will set uniform verification standards for sustainability reports across the Union by delegated acts by October 2026, with national standards applying in the interim.<sup>132</sup>

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<sup>124</sup> Odobasa & Marosevic 2023, p. 600.

<sup>125</sup> CSRD para 20.

<sup>126</sup> Lanfermann & Baumüller 2023, p. 95.

<sup>127</sup> Buchs et al. 2022, p. 378.

<sup>128</sup> Krasodomska et al. 2023, p. 8.

<sup>129</sup> CSRD para 61; Article 26a CSRD.

<sup>130</sup> Baranga & Ifrim 2023, p. 214.

<sup>131</sup> Odobasa & Marosevic 2023, p. 604.

<sup>132</sup> Odobasa & Marosevic 2023, p. 604.

Further EU policy context has been provided by this subchapter, complementing the historical and conceptual information presented in the previous chapter. Additionally, the listed elements provide valuable insight into the new directive and its changes. Besides the elements to be discussed in the following part, there are also additional ones worth including, but the scope of this section does not allow a more detailed exploration. Nevertheless, this foundation sets the stage for further assessment and analysis.

## **3.2 Closer Examination of the CSRD**

Next, the investigation will focus on the elements used for the comparison of the different reporting frameworks. It will start with the concept of materiality designed under the directive, then move to the breadth of coverage of sustainability issues, and finally, assess the detail and depth of the various standards, providing a foundation for the comparative evaluation in the following chapters.

### **3.2.1 Materiality**

When examining the materiality of the CSRD, the focus is on of the core elements of the framework, the concept of double materiality.<sup>133</sup> It requires companies to disclose information reflecting how their activities affect the environment and society, as well as how they themselves are affected by environmental and social impacts.<sup>134</sup> An essential reason for its importance is the resulting significant broadening of depth and complexity of the reporting requirements.<sup>135</sup> It could even be received as overburdening due to the potential load of demand. However, the burden can be eased through the, ironically capacity demanding process of materiality assessment, a function implemented to ensure requirements to adequately apply in consideration to the actual circumstances and impacts of an individual undertaking. Obligations for disclosure are only instigated if a specific matter is judged material. The process of materiality assessment is the initial step under CRSD sustainability reporting and the relevant provisions are provided by the ESRS.<sup>136</sup> In line with the double materiality concept, materiality is established if either impact or financial materiality is found, or both.<sup>137</sup> Financial materiality

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<sup>133</sup> Article 19a (1) CSRD.

<sup>134</sup> CSRD para 29; Odobasa & Marosevic 2023, p. 597.

<sup>135</sup> Odobasa & Marosevic 2023, p. 597.

<sup>136</sup> ESRS 1 para 26, p. 8.

<sup>137</sup> ESRS 1 para 28, p. 8.

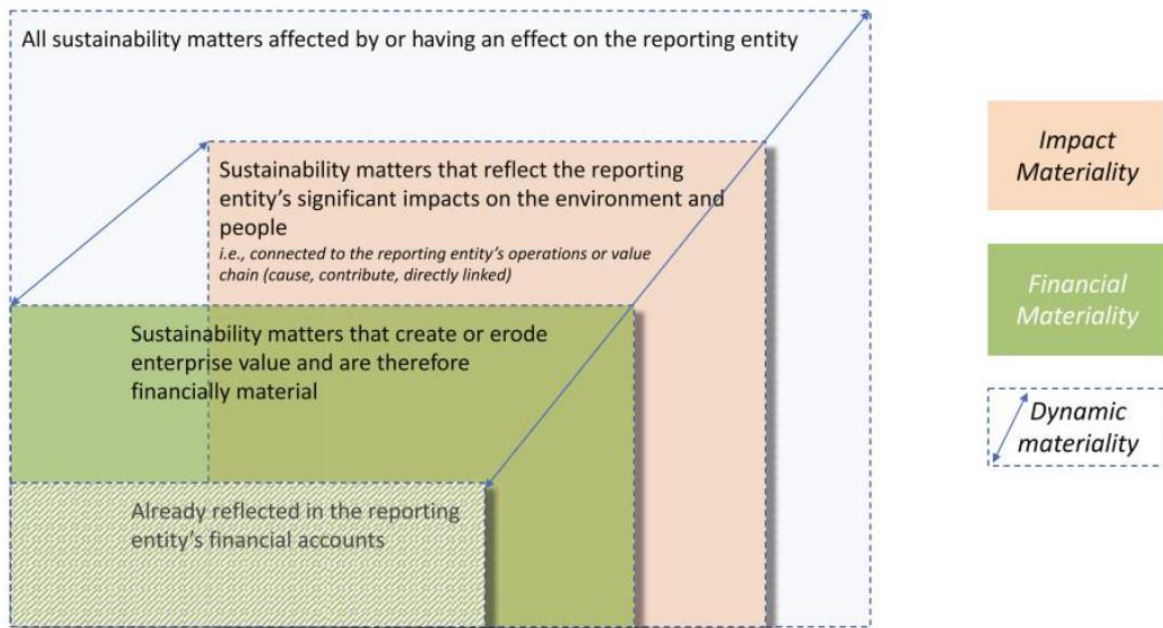
considers any short-, medium-, or long-term financial effects on the undertaking in the context of their likelihood and potential extent of impact.<sup>138</sup> For impact materiality, a three-step process is followed: understanding the context of the undertaking's activities, identifying actual or potential impacts, and adopting thresholds to determine materiality, including results from due diligence processes.<sup>139</sup> Additional guidance for this can be the ESRS definition for impact materiality as: “actual or potential, positive or negative impacts on people or the environment over short-, medium-, or long-term. Impacts include those connected with the undertaking’s own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships”.<sup>140</sup> When setting thresholds to determine materiality, there is no mandate to disclose the decision-making process. Influencing factors such as severity, including scale, scope, and irreversibility for impact materiality, or likelihood and extent of impact for financial materiality are mentioned, but undertakings have the autonomy to decide where these thresholds are set. This discretion allows companies to determine which issues are material without the obligation to explain their reasoning, thus limiting stakeholder transparency. However, it would be challenging to exclude impacts of significant magnitude, as it would be difficult to deny the need for inclusion as material issues.

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<sup>138</sup> Herold et al. 2023, p. 479.

<sup>139</sup> ESRS 1 AR 9, p. 25.

<sup>140</sup> ESRS 1 para 43, p. 10.



**Figure 4:** Illustration of double materiality coverage<sup>141</sup>

It is furthermore crucial to consider the interconnectedness of financial and impact materiality, as environmental impacts can have financial implications for the undertaking.<sup>142</sup> One example of this is a company exploiting a resource unsustainably, which hinders its ability to benefit from that resource in the long term as it becomes depleted. Despite this, the current practices for concluding the assessment process still allow for some discretion. Paradoxically, the specific ways the various dimensions of impact and financial materiality interact or are weighted, as well as the methodology for aggregating individual impacts, risks, and opportunities into the ESRS topics or subtopics, are not yet clearly defined.<sup>143</sup> However, double materiality coupled with the process of assessing materiality enables a wide but still selective range of issues to be reported on, ensuring relevance within the potentially vast pool of reporting possibilities.

### 3.2.2 Coverage of Sustainability Issues

The CSRD has also considerably expanded the scope of sustainability issues, which is comprehensively addressed in the ESRS. While general requirements for disclosures are effective across all sectors, more specific environmental requirements are outlined in Article 29b (2) (a) of the CSRD. The relevant main issues include climate change mitigation and

<sup>141</sup> EFRAG 2022, p. 27.

<sup>142</sup> ESRS 1 para 38, p. 9.

<sup>143</sup> Herold et al. 2023, p. 480.

adaptation, water and marine resources, resource use and the circular economy, pollution, and biodiversity and ecosystems. These factors are addressed in detail across the five topical ESRS standards, ESRS E1 to ESRS E5, providing specific sustainability disclosure requirements for each area. To assess the coverage of sustainability issues, these five topical ESRS and their sub-topics will be examined next.

### **Climate Change Mitigation and Adaptation (ESRS E1):**

The topical standard ESRS E1 is generally climate focused and inhibits three themes to be covered in a sustainability report. The first theme is climate change mitigation, which encompasses efforts to mitigate global warming and ideally keep it below the 1.5°C threshold in line with the Paris Agreement.<sup>144</sup> The second theme is climate change adaptation, which represents the company's efforts to adjust to expected changes due to climate change.<sup>145</sup> Lastly, disclosures related to energy, ranging from energy production to energy consumption, are required.<sup>146</sup> The main reporting elements resulting from these themes include:

- **GHG Emissions:** Statement of the amount of GHG emissions.<sup>147</sup>
- **GHG Emission Reductions:** Description of decarbonization levers and their contribution to emission reduction targets.<sup>148</sup>
- **GHG Removals and GHG mitigation projects financed through Carbon Credits:** Amount of GHG removals and storage inside and outside of the undertaking's value chain.<sup>149</sup>
- **Energy Consumption and Mix:** Disclosure on energy consumption and the total energy mix.<sup>150</sup>

### **Pollution (ESRS E2):**

The second topical ESRS standard comprehensively addresses the issue of pollution. It focuses on pollution of air, water, and soil, and the handling of substances of concern, including those

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<sup>144</sup> ESRS E1 para 4, p. 73.

<sup>145</sup> ESRS E1 para 5,6, p. 74.

<sup>146</sup> ESRS E1 para 7, p. 74.

<sup>147</sup> ESRS E1 para 44, p. 80.

<sup>148</sup> ESRS E1 para 34 (f), p. 78.

<sup>149</sup> ESRS E1 para 58 (a), (b), p. 82.

<sup>150</sup> ESRS E1 para 36, p. 79.



classified as substances of very high concern. Pollution of air, water, and soil refers to all emissions to these areas, including measures taken for mitigation, control, and prevention.<sup>151</sup> Substances of concern or very high concern are defined by the criteria of Article 57 and 59 (1) of Regulation (EC) No 1907/2006 (REACH) or classified in Part 3 of Annex VI to Regulation (EC) No 1272/2008 as certain hazard classes.<sup>152</sup>

- **Pollution of Air, Water and Soil:** Disclosures on the type of pollutants, quantities, and impacts.<sup>153</sup>
- **Substances of Concern or Very High Concern:** Information on production, use, distribution, commercialization, import, and export of relevant substances.<sup>154</sup>

### **Water and Marine Resources (ESRS E3):**

ESRS E3 outlines the Disclosure Requirements in respect to water and marine resources. For water it encompasses both surface water and groundwater.<sup>155</sup> Concerning marine resources, they are defined as “Biological and non-biological resources found in the seas and oceans.”<sup>156</sup> Examples include but are not limited to deep sea minerals, gravels, and seafood products.” In this case, one major focus lies on the non-biological aspects of water and marine resources, such as quality and quantity. While biological aspects are also included in relation to “marine resources,” it is notable that fish and other organisms are not explicitly and comprehensively addressed in this standard, beside a mention as seafood or an implicit inclusion as marine resources.

- **Water Consumption:** Disclosures on water consumption within the undertaking's activities, products, and services, as well as details on water withdrawals and discharges.<sup>157</sup>
- **Water Quality:** Relevance is given to the status of water, with reference to classification system of the Water Framework Directive 2000/60/EC.<sup>158</sup>

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<sup>151</sup> ESRS E2 para 2-6, p. 112.

<sup>152</sup> ESRS Annex II Table 2, p. 279.

<sup>153</sup> ESRS E2 para 28, p. 114.

<sup>154</sup> ESRS E2 para 32, p. 115.

<sup>155</sup> ESRS E3 para 2, p. 123.

<sup>156</sup> ESRS Annex II Table 2, p. 272.

<sup>157</sup> ESRS E3 para 26, p. 126.

<sup>158</sup> ESRS E3 para 23 (a), p. 126.

- **Marine Resources Extraction and Utilization:** Addresses the extraction and utilization of these resources as well as the related economic activities.<sup>159</sup>

#### **Biodiversity and Ecosystems (ESRS E4):**

This Standard inhibits the Disclosure Requirements connected to the undertaking’s interactions with terrestrial, freshwater, and marine habitats, ecosystems, and related populations of flora and fauna species. It includes biodiversity within species, among species, and across ecosystems, as well as their connections with indigenous peoples and other impacted communities.<sup>160</sup> It is further noted that it aims to show how the company is in line with “ecological sustainability goals” such as planetary limits related to biosphere integrity and land-system change, the Kunming-Montreal Global Biodiversity Framework, the EU Biodiversity Strategy for 2030 and the EU Birds and Habitats Directives 2009/147/EC & 92/43/EEC, as well as the Marine Strategy Framework Directive 2008/56/EC.<sup>161</sup>

- **Biodiversity:** Disclosers on the effect on biodiversity in terms of actual and potential impacts, including the extent of contribution to the drivers of biodiversity loss and degradation.<sup>162</sup>
- **Ecosystems:** Description of relationship to ecosystems and the impacts on them as well as actions taken to protect and restore ecosystems and the plans and capacity to adapt strategies in line with sustainable practices.<sup>163</sup>

#### **Resource Use and Circular Economy (ESRS E5):**

ESRS E5 focuses on the sustainability issues associated with resource use and the circular economy, laying out the requirements for disclosing an undertaking’s resource use. The main themes covered in it are resource use and circular economy, resource inflows and outflows, and waste management.<sup>164</sup>

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<sup>159</sup> ESRS E3 para 3, p. 123.

<sup>160</sup> ESRS E4 par 2, p. 134.

<sup>161</sup> ESRS E4 para 1 (c), p. 134.

<sup>162</sup> ESRS E4 para 1 (a), p. 133; ESRS E4 AR 4 (a), p. 143.

<sup>163</sup> ESRS E4 para 2, p. 134.

<sup>164</sup> ESRS E5 para 2, p. 153.

- **Resource Use and Circular Economy:** Addresses how an undertaking affects resource use, with an emphasis on resource efficiency, avoiding resource depletion, and the sustainable sourcing and use of renewable resources.<sup>165</sup>
- **Resource Inflows:** Materials and products entering an undertaking's operations.<sup>166</sup>
- **Resource Outflows:** Products, materials, and waste generated by the undertaking.<sup>167</sup>
- **Waste Management:** General reference to waste, for instance on types of waste, their quantity and how it is managed.<sup>168</sup>

Examining the coverage of sustainability issues in the ESRS standards reveals several key strengths and areas for improvement. A major strong point is the comprehensive scope of the standards, which ensures that a wide array of environmental aspects is addressed. The inclusion of climate change, pollution, water and marine resources, biodiversity and ecosystems, and resource use and circular economy ensures that no major sustainability issue is overlooked. Provided an issue is assessed as material, undertakings are to generally disclose any potential or actual impact as well as their planned actions for mitigation or prevention relevant to any theme of the ESRS. Consequently, most contemporary environmental issues appear to be addressed by the CSRD. However, this interpretation of coverage is somewhat limited by the detailed list of specific elements required in the sustainability disclosures. These elements, as far as applicable, can be viewed as minimum requirements which establish a framework for compliance while also defining a threshold of certain sufficiency in their guiding nature. In the following section, these detailed obligations will be examined further.

### 3.2.3 Detail and Depth of Reporting Requirements

Following the comprehensive examination of the coverage of sustainability issues addressed by the CSRD and the five topical ESRS standards<sup>169</sup>, it is crucial to delve deeper into the specifics of what these standards can require. While the previous section highlighted the broad themes and primary reporting elements, this section will focus on the granularity and detail of the disclosure requirements. By understanding the depth of information mandated by each

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<sup>165</sup> ESRS E5 para 12, p. 154.

<sup>166</sup> ESRS E5 para 28, p. 156.

<sup>167</sup> ESRS E5 para 33, p. 156.

<sup>168</sup> ESRS E5 para 37, p. 157.

<sup>169</sup> ESRS E1 – ESRS E5.

ESRS, it is easier to see the level of transparency and accountability expected from undertakings.

### **Climate Change (ESRS E1):**

The ESRS E1 standard requires extensive reporting details over its relevant sustainability issues. This is especially true for GHG emission disclosures, which need to cover Scope 1 for direct emissions, Scope 2 for indirect emissions from purchased energy, and Scope 3 other indirect emissions in the value chain, as well as the total GHG emissions. The emissions should be reported in accordance with the principles, requirements, and guidance provided by the GHG Protocol Corporate Standard and can also take into account Commission Recommendation (EU) 2021/2279 or EN ISO 14064-1:2018 standards.<sup>170</sup> The reporting should include a breakdown “by country, operating segments, economic activity, subsidiary, GHG category” such as CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub>, and NF<sub>3</sub>, and source type as in “stationary combustion, mobile combustion, process emissions and fugitive emissions”.<sup>171</sup> Additionally, the undertaking must disclose the proportion of emissions determined using primary data obtained from suppliers or other value chain partners<sup>172</sup> and provide a “list of included and excluded Scope 3 GHG emissions categories”, along with explanations for any exclusions.<sup>173</sup> It is noteworthy that GHG emissions have one of the most detailed disclosure requirements in the environmental ESRS, likely due to the long-standing focus on climate change and emissions as a major environmental issue.

Regarding emission reductions, it consequently also requires the disclosure of reduction targets for Scope 1, 2, and 3 emissions. These targets should include specific values for the years 2030 and 2050, with updates every five years starting from 2030.<sup>174</sup> The undertaking must describe the expected decarbonization levers and the total quantitative contributions to achieving reduction targets for GHG emissions. Such levers can include measures like energy efficiency improvements, electrification, fuel switching, increased use of renewable energy, product changes or supply chain decarbonization.<sup>175</sup>

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<sup>170</sup> ESRS E1 AR 39 (a), p. 97.

<sup>171</sup> ESRS E1 AR 41, p. 98.

<sup>172</sup> ESRS E1 AR 46 (g), p. 100.

<sup>173</sup> ESRS E1 AR 46 (i), p. 100.

<sup>174</sup> ESRS E1 para 34 (b), (d), p. 78.

<sup>175</sup> ESRS E1 para 34 (f), p. 78; ESRS E1 AR 19 (b), p. 91.

Concerning GHG removals and ghg mitigation projects financed through carbon credits, the undertaking is to disclose the total amount of GHG removals and storage, both within its own operations and its upstream and downstream value chain, separated into removal activities.<sup>176</sup>

Removals	Comparative	N	% N / N-1
GHG removal activity 1 (e.g., forest restoration)	-		
GHG removal activity 2 (e.g., direct air capture)	-		
...	-		
<b>Total GHG removals from own operations (tCO2eq)</b>			
GHG removal activity 1 (e.g., forest restoration)	-		
GHG removal activity 2 (e.g., direct air capture)	-		
...	-		
<b>Total GHG removals in the upstream and downstream value chain (tCO2eq)</b>			
<b>Reversals (tCO2eq)</b>			

**Figure 5:** Example presentation on quantitative information on GHG removals<sup>177</sup>

Additionally, the total amount of carbon credits purchased from outside the undertaking’s value chain, verified against recognized quality standards and cancelled during the reporting period must be disclosed.<sup>178</sup>

Finally, the detailed disclosure of energy consumption and mix demands information in respect to the undertaking’s total energy consumption, improvements in energy efficiency, involvement in coal, oil, and gas-related activities, and the proportion of renewable energy in the overall energy mix.<sup>179</sup> This includes disaggregated data on total energy consumption from fossil sources, nuclear sources, and renewable sources, such as biomass, biofuels, biogas, and renewable electricity, heat, steam, and cooling.<sup>180</sup> For activities within high climate impact

<sup>176</sup> ESRS E1 para 58 (a), p. 82.  
<sup>177</sup> ESRS E1 AR 60, p. 104.  
<sup>178</sup> ESRS E1 para 59 (a), p. 82.  
<sup>179</sup> ESRS E1 para 36, p. 79.  
<sup>180</sup> ESRS E1 para 37, p. 79.

sectors, companies must also report the energy intensity, calculated as total energy consumption per unit of net revenue.<sup>181</sup>

### **Pollution (ESRS E2):**

As stated, the ESRS E2 disclosures must include information on air pollutants, emissions to water, soil pollution, and substances of concern and very high concern.<sup>182</sup> To provide a clear understanding of the types and quantities of pollutants emitted to air, water, and soil by a company as well as their environmental impacts<sup>183</sup>, they are specifically required to disclose the amounts of each pollutant listed in Annex II of Regulation (EC) No 166/2006 of the European Parliament and of the Council (the European Pollutant Release and Transfer Register "E-PRTR Regulation"). However, this excludes GHG emissions, as they are already reported under ESRS E1.<sup>184</sup> To avoid redundancy but also to point out interconnection, the ESRS list material issues that are also covered in other topical standards.<sup>185</sup> Additionally, the disclosure should also include production and use of microplastics.<sup>186</sup> The approaches for quantifying pollutants should be prioritized in a certain order beginning with direct measurement through recognized continuous monitoring systems, over to periodic measurements, calculations based on site-specific data, calculations using published pollution factors, and finally estimations.<sup>187</sup> When setting targets for the prevention and control of pollution, undertakings can also choose to include ecological thresholds such as biosphere integrity, stratospheric ozone depletion, atmospheric aerosol loading, soil depletion, and ocean acidification.<sup>188</sup>

Regarding substances of concern or very high concern the ESRS E2 standard also requires disclosure information related to the “production, use, distribution, commercialisation and import/export of substances of concern and substances of very high concern, on their own, in mixtures or in articles”.<sup>189</sup> This includes disclosing the total quantities of these substances produced, used in production, procured, emitted from facilities, and those leaving the facilities

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<sup>181</sup> ESRS E1 para 40, p. 80.

<sup>182</sup> ESRS E2 para 23, p. 114.

<sup>183</sup> ESRS E2 para 27, p. 113.

<sup>184</sup> ESRS E2 para 28, p. 114.

<sup>185</sup> ESRS E2 para 7, p. 112.

<sup>186</sup> ESRS E2 para 28 (b), p. 115.

<sup>187</sup> ESRS E2 AR 26, p. 120.

<sup>188</sup> ESRS E2 para 24, p. 114.

<sup>189</sup> ESRS E2 para 32, p. 115.

as products or product components, categorized by their primary hazard classes.<sup>190</sup> Further than that, the standard does not give any more instructions for substances of concern.

### **Water and Marine Resources (ESRS E3):**

ESRS E3 offers a detailed and specific framework for reporting on water and marine resources, the key issues being water consumption, quality, and the management of marine resources. For water consumption, the standard mandates specifics about the undertaking's activities, products, and services, especially in relation to water withdrawals and discharges. Companies must disclose their general total water consumption, which is to be stated in cubic meters. Furthermore the total amounts of water recycled and reused need to be reported as well, just like the total water storage and any changes thereof.<sup>191</sup> Particular attention should be given to areas of high water stress, which the ESRS define as “Regions where the percentage of total water withdrawn is high (40-80%) or extremely high (greater than 80%)”.<sup>192</sup> Additionally, water consumption should be related to the company's financial performance by calculating the total water usage per million EUR net revenue to determine water intensity, similar to the energy intensity measure in ESRS E1.<sup>193</sup>

When disclosing information on water quality, ESRS E3 emphasizes the importance of water quality, referring to the classification system of the Water Framework Directive 2000/60/EC.<sup>194</sup> Undertakings may disclose whether their policies aim to prevent further deterioration, protect and enhance the status of water bodies and aquatic ecosystems, promote sustainable water use, enhance the protection and improvement of the aquatic environment, and promote a good environmental status of marine waters.<sup>195</sup> Special attention is given to areas at water risk, including efforts to improve water quality in these regions.<sup>196</sup> Areas at water risk are defined as water catchments where various physical aspects lead to water bodies being in less than good status, pointing to significant issues related to water availability, quality, and quantity.<sup>197</sup>

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<sup>190</sup> ESRS E2 para 32, p. 115.

<sup>191</sup> ESRS E3 para 26, p. 126; ESRS E3 para 28, p. 127.

<sup>192</sup> ESRS Annex II Table 2, p. 260.

<sup>193</sup> ESRS E3 para 29, p. 127.

<sup>194</sup> ESRS E3 AR 7, p. 128.

<sup>195</sup> ESRS E3 AR 17, p. 130.

<sup>196</sup> ESRS E3 para 23 (a), p. 126.

<sup>197</sup> ESRS Annex II Table 2, p. 260.

Furthermore, all contextual information that might be needed for any listed points is also required, including methodologies used for data compilation or even any assumptions made.<sup>198</sup>

Concerning marine resources, disclosure requirements include details on resource allocation aimed at avoiding or reducing the use of water and marine resources, enhancing efficiency measures, and supporting the restoration and regeneration of aquatic ecosystems and water bodies.<sup>199</sup>

**Biodiversity and Ecosystems (ESRS E4):**

Disclosures regarding biodiversity and ecosystems must detail the undertaking's impact on these areas, including both actual and potential impacts, and the extent to which the company contributes to drivers of biodiversity loss and degradation.<sup>200</sup> Companies must report whether they have sites in or near protected biodiversity areas and the negative impacts their activities may have on these areas.<sup>201</sup>

Site location	Threatened species, protected areas, key biodiversity areas	Actual or potential impacts			
		Frequency of occurrence	Speed of impact	Severity of impact	Potential for mitigation
...	...	High, medium or low	<1 year or 1-3 years or >3 years	High, medium or low	High, medium or low
...	...	...	...	...	...

**Figure 6: Example table for assessing site impact<sup>202</sup>**

Impact drivers can include direct exploitation, the introduction of invasive species, or pollution. For specific drivers, such as land-use change, freshwater-use change, or sea-use change, ESRS E4 outlines comprehensive elements to potentially include in the disclosure. These metrics encompass changes in land cover, ecosystem management, spatial configuration of landscapes, ecosystem structural connectivity, and functional connectivity.<sup>203</sup> The diverse possibilities make identifying impacts for any potential site quite challenging.<sup>204</sup> Companies must

<sup>198</sup> ESRS E3 para 28 (e), p. 127.  
<sup>199</sup> ESRS E3 para 18, p. 126.  
<sup>200</sup> ESRS E4 para 1(a), p. 133; ESRS E4 AR 4(a), p. 143.  
<sup>201</sup> ESRS E4 AR 10, p. 145.  
<sup>202</sup> ESRS E4 AR 10, p.145.  
<sup>203</sup> ESRS E4 para 38, p. 140.  
<sup>204</sup> Herold et al. 2023, p. 476.



furthermore provide information on whether ecological thresholds and allocations of impacts to the undertaking were applied when setting targets. This includes specifying the identified ecological thresholds, the methodology used, and how responsibility for respecting these thresholds is allocated within the company.<sup>205</sup> Additionally, companies should disclose if their targets are “informed by and/or aligned with the Kunming-Montreal Global Biodiversity Framework, the EU Biodiversity Strategy for 2030, and other biodiversity and ecosystem-related national policies and legislation”.<sup>206</sup> The targets must relate to the biodiversity and ecosystem impacts, dependencies, risks, and opportunities identified in the company's operations and value chain.<sup>207</sup> Moreover, companies must describe how they have incorporated local and indigenous knowledge and nature-based solutions into their biodiversity and ecosystems-related actions.<sup>208</sup>

Notably, the requirements are highly "site-centric," meaning the starting point for impacts is predominantly linked to specific regions of the undertaking's activity. This may be attributed to an alignment to the ecosystem approach which is a structural element of the listed instruments such as the Kunming-Montreal Global Biodiversity Framework. This requires a holistic management to assess the complexity of impacts on habitats and species and allows for an adaptable and thorough analysis. However, it may also prove challenging to implement for undertakings.

### **Resource Use and Circular Economy (ESRS E5):**

This standard examines an undertaking relation to the circular economy and how its principles are implemented. Resource use, resource efficiency, preventing of resource depletion, sustainable sourcing and use of renewable resources are some of the relevant aspects.<sup>209</sup> As described in the prior part about the coverage of sustainability issues, the specific requirements in ESRS E5 can be assigned to the resource inflows, resource outflows, and waste management. For resource inflows, companies must report on the materials and products entering their operations during the reporting period. This includes the total weight of products and materials

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<sup>205</sup> ESRS E4 para 32, p. 139.

<sup>206</sup> ESRS E4 para 32(b), p. 139.

<sup>207</sup> ESRS E4 para 32(c), p. 139.

<sup>208</sup> ESRS E4 para 19, p. 135; ESRS E4 para 28, p. 138.

<sup>209</sup> ESRS E5 para 15, p. 154.

used, measured in tons or kilograms, the percentage of sustainably sourced biological materials, and the amount and percentage of secondary reused or recycled components.<sup>210</sup>

Conversely, resource outflows encompass the products, materials, and waste generated by the undertaking. Companies need to disclose information on these outflows when significant, namely the durability of products compared to industry averages, reparability ratings, and the content rates of recyclable materials in products and packaging.<sup>211</sup>

In regard to waste management, what must be disclosed are the types of waste they generate, their quantities, and how they manage it. This includes information on the total waste generated, the weight of waste diverted from disposal, and the weight directed to disposal by type of waste treatment. Specific details, such as hazardous and non-hazardous waste, must be sorted by recovery operations, including reuse, recycling, and other recovery actions. Additionally, companies need to disclose the total and percentage of waste that is not recycled.<sup>212</sup>

### **3.3 Reflections on the CSRD / ESRS**

Assessing the detail and depth of the ESRS disclosure requirements highlights multiple key insights. To start with, one notable characteristic is the comprehensive and rigorous nature of the reporting guidelines. For example, ESRS E1's detailed obligations for the aspects of GHG emissions, their reductions, as well as CCS and energy management provide an extensive framework of information disclosure that promotes a proper transparency of an undertakings impact on climate change. Another point worth to be noted is the emphasis on both current performance and future targets as for example seen in the GHG reduction goals of ESRS E1 and resource use targets in ESRS E5, is another point worth to be noted. This forward-looking approach aligns with global sustainability goals and encourages long-term strategic commitments. Additionally, incorporating qualitative aspects, such as local and indigenous knowledge in ESRS E4, improves the disclosures and ensures a broader spectrum of impacts and stakeholder perspectives. It is a way to enable public participation while also connecting undertakings with insights that may not be conceived by usual assessment strategies. Furthermore significant is the standards interconnectedness. While each ESRS targets specific

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<sup>210</sup> ESRS E5 para 31, p. 156.

<sup>211</sup> ESRS E5 para 36, p. 157.

<sup>212</sup> ESRS E5 para 37, p. 157.

environmental aspects, there is considerable overlap, for instance in areas like pollution, climate change and biodiversity. Environmental issues stand in an extraordinarily complex and interrelated relationship to each other, and the inclusion of an obligation to consider implications they can have on each other is a crucial element for providing a realistic view of the actual impacts of corporate behavior. This integration therefore ensures a holistic reporting framework that reflects the complexity of environmental issues.

Nevertheless, the high level of detail and complexity can be challenging, particularly for smaller companies or those with limited resources. An illustrating example can be the nuanced issue of local impact reporting within broader organizational context. The site-centric focus in standards like ESRS E4 may provide significant localized impact insights. However, this can be demanding for global enterprises with diverse operations and even more so for smaller enterprises without prior sustainability structures. While SMEs can opt out of disclosures in the early transition phase, the long-term requirements will apply to them as well. Whether guidance from larger companies will suffice remains to be seen. Another potential issue is that, while there is detailed guidance on what to report, not all elements are mandatory. Often, there are lists of optional disclosures. This is an approach of keeping a balance between flexibility allowing for adaptability and universal applicability and the rule of law which sets a stricter frame to enable comparability and that sufficient quantity of information is provided. This approach seems sensible but risks companies choosing the path of least resistance, providing minimal information, especially in the face of the generally challenging comprehensiveness of the CSRD.

In this regard, while inhibiting some potential areas for improvements, together with the ESRS, the CSRD is setting a high bar for environmental disclosure. While the comprehensiveness and depth are strong elements supporting the framework as suitable for enhancing sustainability, the complexity and resource demands simultaneously present a challenge for its implementation. Furthermore, other aspects mentioned prior such as the drastic increase of scope of companies the directive applies to, the utilization of a double materiality approach, as well as the strengthening of auditing requirements position the CSRD well as a reporting standard fit for the international reporting landscape. The next chapter will be about examining the GRI as well as the ISSB reporting standards, so as to allow a following comparison and more accurate estimation on the CSRD's exact positioning.

## **4 Global Reporting Initiative & International Sustainability Standards Board IFRS Standards**

Following the comprehensive evaluation of the CSRD and its key elements, the next step is to position the CSRD within the broader landscape of sustainability reporting. To assess its suitability as a leading standard and determine its position relative to other frameworks, it is essential to establish a basis for comparison. This comparison will be facilitated by examining two prominent reporting frameworks, namely the Global Reporting Initiative and the International Sustainability Standards Board IFRS standards.

This chapter will be structured into two main sections, each dedicated to one of these frameworks. Each section will begin with a brief introduction and contextualization of the respective framework, providing relevant background information. Following this, the assessment will focus on three established elements of materiality assessment, coverage of environmental issues, and the depth and detail of the reporting requirements.

Through this structured approach, the chapter aims to provide a thorough base for comparison on which the strengths and weaknesses of the CSRD can be highlighted, as well as its position and influence in relation to the current reporting landscape. By examining the GRI and ISSB standards in detail, we can better understand the comparative strengths of the CSRD and conclusively identify in the final chapter which areas may be excelling or which ones may require improvement. This analysis will ultimately contribute to a more informed evaluation of the CSRD's impact on corporate sustainability practices and its potential as a benchmark for future reporting standards.

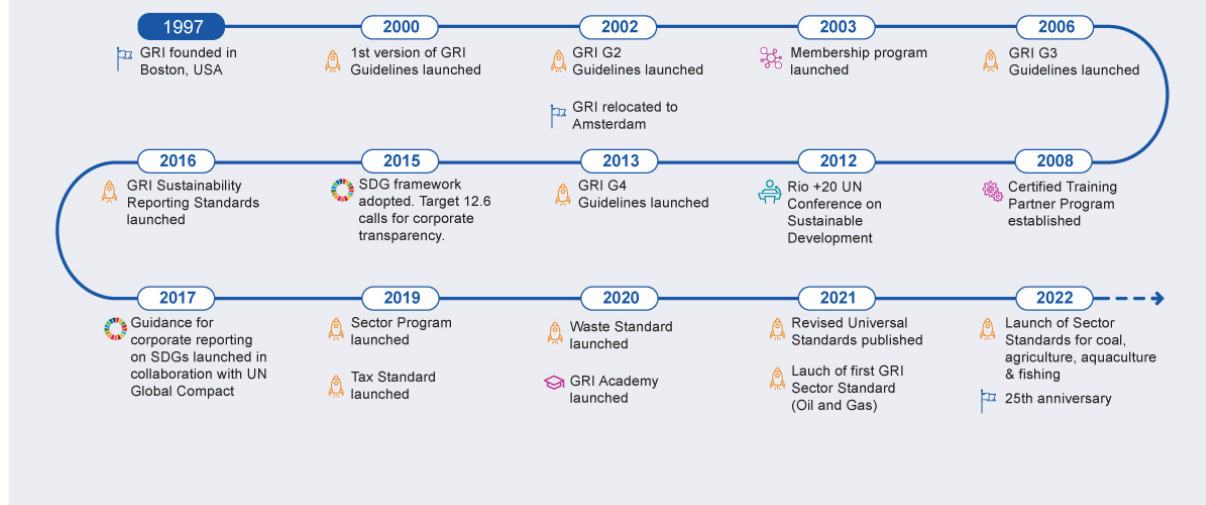
### **4.1 Global Reporting Initiative**

The Global Reporting Initiative was established in 1997 under the patronage of the UNEP, involving multiple stakeholders, including environmental organizations and investors.<sup>213</sup> Initially launched as a set of guidelines, the GRI evolved into formal sustainability reporting standards in 2016. These standards continue to be regularly extended, improved, and updated to this day.

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<sup>213</sup> Tenuta and Cambrea 2022, p. 43.

# Timeline of GRI's history



**Figure 7:** Timeline of GRI's history<sup>214</sup>

Today, the GRI framework comprises a multitude of standards, divided into general disclosure requirements, topic-specific standards which are further categorized into environmental, social, or governance fields<sup>215</sup>, as well as sector specific standards that provide especially detailed guidance for undertakings belonging to certain sectors like the oil and gas or coal sector. The structure for using the GRI reporting system starts with the general disclosures of GRI 2, moves on to assessing material topics and reporting them according to GRI 3, and concludes with reporting the topic-specific standards that were assessed as material. Information regarding materiality can thus be found in GRI 3, while the coverage of environmental issues, as well as the detail and depth of their requirements, are contained in the topical standards.

The primary aim of GRI is to assist companies in being transparent and accountable concerning their sustainability impacts and this objective is pursued by providing a universal language for reporting, intended for global use.<sup>216</sup> The approach the GRI chose has proven effective, as it currently stands as the most widely used reporting standard globally, with adoption rates

<sup>214</sup> GRI „Our Mission and History”; <https://www.globalreporting.org/about-gri/mission-history/>, accessed 02.06.2024.

<sup>215</sup> de Villiers et al 2022, p. 731.

<sup>216</sup> GRI "Our Mission and History"; <https://www.globalreporting.org/about-gri/mission-history/>, accessed 02.06.2024.

steadily increasing since its inception in 1997. To illustrate, in 2022, approximately 68% of N100 companies and 78% of G250 companies employed the GRI standard for their sustainability reporting. This represents a 5% increase for G250 companies compared to 2020.<sup>217</sup>

The mission of GRI is articulated as follows: “GRI envisions a sustainable future enabled by transparency and open dialogue about impacts. This is a future in which reporting on impacts is common practice by all organizations around the world. As the provider of the world’s most widely used sustainability disclosure standards, we are a catalyst for that change”.<sup>218</sup> Alongside this mission, GRI's claim to be the "global standard setter for impact reporting" underscores its ambition to maintain its leading role in sustainability reporting standards.

Whether GRI truly deserves this title is a question to be explored. This chapter will delve into the comparative elements to better understand how GRI fares against other standards, setting the stage for a thorough assessment of its position and influence in the current reporting landscape.

#### **4.1.1 Materiality**

The first thing to note for the examination of materiality of the GRI is that it only includes effects resulting from the company's actions impacting the environment or society. This approach differs from the double materiality concept of the CSRD, as it focuses on impact materiality and not the financial impacts that the changing environment might have in relation to the undertaking.<sup>219</sup> The requirement is furthermore quite open, allowing significant discretion in the actual design of the materiality assessment.

Similar to the CSRD, conducting a materiality assessment is one of the initial steps in the reporting process for the GRI. GRI 3 sets the requirements for organizations regarding what to disclose about their material topics and the assessment process itself. These requirements include a description of how material topics were determined, and which stakeholders were considered for their knowledge. Additionally, organizations must list the material topics and

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<sup>217</sup> KPMG 2022, p. 24.

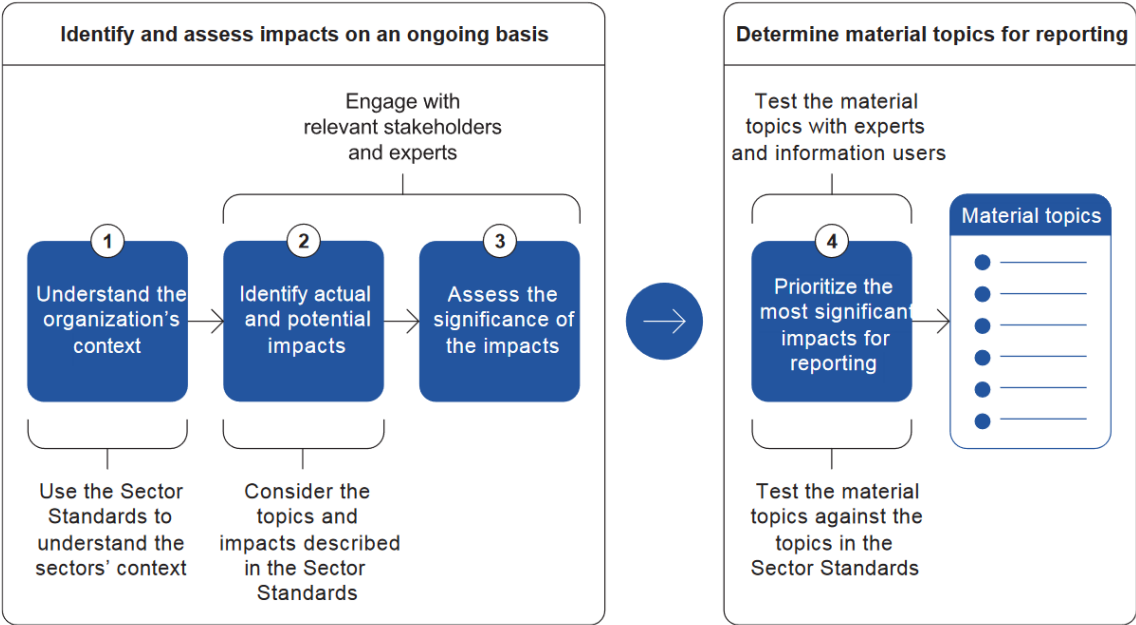
<sup>218</sup> GRI "Our Mission and History"; <https://www.globalreporting.org/about-gri/mission-history/>, accessed 02.06.2024

<sup>219</sup> Herold et al 2023, p. 476.

note any changes from previous reporting periods. Finally, all information on the management of the material topics, including impacts, strategies, actions, and results, must be provided.

Relevant to the materiality assessment is the first part of GRI 3. While it lacks specificity, it offers a brief instruction on what should be included in the determination process. GRI 3-1 a. states that an organization should describe "how it has identified actual and potential, negative and positive impacts on the economy, environment, and people, including impacts on their human rights, across its activities and business relationships" and explain the process of assessing the significance of these impacts relative to each other. Thus, the strict requirement is to publish the approach to identifying any potential, actual, positive, or negative impacts on the external environment, resulting in materiality.

While the guidance in GRI 3 is not strictly binding, it does showcase the expectations of the GRI regarding what the materiality assessment may encompass.<sup>220</sup> This guidance consists of a four-step structure that bears similarities to the materiality assessment described in the ESRS.



**Figure 8:** Process to determine material topics<sup>221</sup>

The first step involves assessing the organization’s context, gaining a comprehensive overview of its activities and relationships with other entities, and identifying where these interactions

<sup>220</sup> GRI 3, p. 7.  
<sup>221</sup> GRI 3, p. 7.

touch upon the environment. The goal is to gather relevant information on potential impacts.<sup>222</sup> The second step is to determine where these potential impacts are occurring or could occur and identify their nature. These impacts can be "negative and positive, short-term and long-term, intended and unintended, and reversible and irreversible".<sup>223</sup>

Next, if it is not feasible for a company to report on all material topics, their significance should be measured. The significance of actual impacts is measured by severity, like scale, scope, and irreversibility, while potential impacts are measured by both severity and likelihood.<sup>224</sup> Finally, the material topics should be prioritized based on significance, and a threshold should be set to determine which impacts will be reported.

To determine its material topics for reporting, an organization prioritizes its impacts based on their significance, arranges them from most to least significant, and defines a cut-off point or threshold to decide which impacts to focus on in its reporting. However, as mentioned earlier, this guidance is not mandatory, and companies technically have the discretion to be less thorough or transparent in their materiality assessment. Despite this, it is likely that a voluntary instrument like the GRI expects its users to adhere to these guidelines in good faith.

#### **4.1.2 Coverage of Sustainability Issues**

The comprehensive range of sustainability issues covered by the framework is another similarity held with the CSRD. The GRI inhibits six different material topics, each with its own subtopics, ensuring organizations can address and report on the sustainability impacts relevant to their operations. To start with, GRI 301 focuses on the use of materials, encouraging organizations to disclose detailed information about their material consumption. This includes materials used by weight or volume, recycled input materials used, and reclaimed products and their packaging materials.<sup>225</sup> This list of disclosures aims for transparency in how organizations utilize resources, highlighting efforts to reduce material usage and increase recycling.

Energy consumption and efficiency are critical components of sustainability, and the GRI 302 standard addresses these aspects with several disclosure requirements. Organizations must

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<sup>222</sup> GRI 3, p. 8.

<sup>223</sup> GRI 3, p. 9.

<sup>224</sup> GRI 3, p. 12.

<sup>225</sup> GRI 301-1 – GRI 301-3, pp. 8-10.



report their energy consumption within and outside of their operations, energy intensity, and reductions in energy consumption. This also includes reductions in energy requirements of products and services, promoting energy efficiency and highlighting efforts to mitigate energy use impacts.<sup>226</sup>

Another area covered by the GRI standards is the management of water, for which GRI 303 requires disclosures on water withdrawal, discharge, and consumption. This provides a clear picture of an organization's water use, including information on water sources, water-stressed areas, and efforts to improve water efficiency.<sup>227</sup>

Another significant focus of the GRI standards is directed on emissions through GRI 305, which covers various types of emissions in detail. On the one hand, organizations are to disclose their Scope 1, 2, 3, as well as their total GHG emissions. On the other, disclosures requirements include emissions of ozone-depleting substances and other significant air emissions such as nitrogen oxides and sulfur oxides. Additionally, emissions intensity and emission reductions must be reported.<sup>228</sup>

Waste management is also received as essential for sustainability, and GRI 306 therefore requires disclosures on various aspects of waste generation and disposal. Disclosures are mandated on total waste generated, waste diverted from disposal, and waste directed to disposal, including information on hazardous and non-hazardous waste.<sup>229</sup>

Finally, the critical aspect of biodiversity is covered by GRI 101, addressing the relevant impact of organizational activities. Undertakings must disclose information on the identification of biodiversity impacts, locations with biodiversity impacts, direct drivers of biodiversity loss, changes to the state of biodiversity, and ecosystem services.<sup>230</sup> The topical standard GRI 101 is a newly designed biodiversity standard, replacing GRI 304 starting from the year 2026. It is considerably more comprehensive, particularly in detail and guidance, indicating an ambition of the GRI to further adapt its framework to keep up with dynamic developments in the sustainability reporting Landscape.

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<sup>226</sup> GRI 302-1 – GRI 301-5, pp. 8-15.

<sup>227</sup> GRI 303-3 – GRI 303-5, pp. 11-16.

<sup>228</sup> GRI 305-1 – GRI 305-7, pp. 9-21.

<sup>229</sup> GRI 306-3 – GRI 306-5, pp. 12-15.

<sup>230</sup> GRI 101-4 – GRI 101-8, pp. 16-31.

### 4.1.3 Detail and Depth of Reporting Requirements

As examined, the range of sustainability issues that are addressed encompasses a significant amount of potential impact points on the environment. To further assess the effectiveness of the coverage of the GRI, the next part is going to examine the detail and depth of reporting requirements the GRI implemented in regard to impacts on the environment and potential effects of measures against them. The framework has several notable categories of reporting characteristics, each aiming to enhance the quality and usefulness of the reported data. Such categories include quantitative measurements and percentages, calculation formulas and methodologies, differentiation between renewable and non-renewable resources, the up- and downstream scope of reporting beyond the undertaking, types of resources, exclusion of non-intentional result, use of publicly available tools, location-focused perspectives, changes over time, as well as results of actions and their type.

To begin with, a significant feature of the GRI standards is the emphasis on quantitative data, often expressed as percentages or specific amounts. For instance, GRI 301-1 requires organizations to report materials used by weight or volume, with a clear separation between renewable and non-renewable sources.<sup>231</sup> Similarly, GRI 301-2 and GRI 301-3 focus on the percentage of recycled input materials used and reclaimed products and their packaging materials.<sup>232</sup> These quantitative measurements aim to provide a clear picture of resource use and recycling efforts, which can be crucial for stakeholders assessing an organization's environmental impact. Being prevalent, quantitative data are also required for other topics, such as water management or waste.<sup>233</sup> However, there is a risk that the focus on percentages may not fully capture the broader context of resource use, such as the overall sustainability of sourcing practices.

To ensure consistency and comparability in reporting, the GRI standards require the use of standardized calculation formulas. An example for this is in GRI 302-1, which provides a formula to be used for assessing the total energy consumption within an undertaking.<sup>234</sup> However, while standardization can be beneficial, there is a potential downside if the chosen

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<sup>231</sup> GRI 301-1 a., p. 8.

<sup>232</sup> GRI 301-2 a., p. 9; GRI 301-3 a., p. 10.

<sup>233</sup> GRI 303-3 b., p. 11; GRI 306-4 a., p. 13.

<sup>234</sup> GRI 302-1 2.14, pp. 8-9.

methodologies do not keep up with evolving best practices. Nevertheless, the GRI often allows flexibility in the choice of standards, methodologies, or assumptions used, even though it frequently requires clear explanations of these choices to enhance the credibility of the data and enable stakeholders to understand the basis of the reported information.<sup>235</sup>

Energy reporting is detailed and multifaceted within the GRI standards. GRI 302-1 requires disclosures on various types of energy consumption, including electricity, heating, cooling, and steam.<sup>236</sup> GRI 302-3 mandates the calculation of energy intensity, allowing organizations to report energy consumption relative to specific metrics such as units of product or number of employees.<sup>237</sup> This can promote assessing energy efficiency and identifying areas for improvement.

Another aspect is the differentiation between renewable and non-renewable resources. GRI 301-1 mandates organizations to distinguish between these types of materials<sup>238</sup>, while GRI 302-1 requires similar reporting for energy consumption.<sup>239</sup> This distinction helps highlight efforts to reduce reliance on non-renewable resources and promotes the use of sustainable alternatives. Yet, this approach also brings to light the challenge organizations may face in accurately classifying materials and energy sources, especially in complex supply chains.

This is relevant as the GRI standards extend reporting requirements beyond an organization's direct operations. For example, GRI 302-1 focuses on internal energy consumption<sup>240</sup>, whereas GRI 302-2 includes energy consumption outside the organization, covering upstream and downstream activities.<sup>241</sup> GRI 101-4 and GRI 101-5 similarly address biodiversity impacts throughout the value chain.<sup>242</sup> Finally, GRI 305 demands disclosures for scope 2 and 3 emissions.<sup>243</sup> This comprehensive scope ensures that all significant impacts, including those in the value chain, are considered, which is critical for a full understanding of an organization's

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<sup>235</sup> GRI 302-1 f., p.8; GRI 303-3 d., p. 11; GRI 101-6 f., p.23.

<sup>236</sup> GRI 302-1 c., p.8.

<sup>237</sup> GRI 302-3 a., p.13.

<sup>238</sup> GRI 301-1 a., p. 8.

<sup>239</sup> GRI 302-1 c., p. 8.

<sup>240</sup> GRI 302-1, p. 8.

<sup>241</sup> GRI 302-2 a, p. 11.

<sup>242</sup> GRI 101-4 a, p. 16; GRI 101-5 d., p. 20.

<sup>243</sup> GRI 305-2 a., p.11; 305-3 a., p. 13.

environmental footprint. Nonetheless, this broad scope can act as a challenge in data collection and accuracy, particularly for smaller organizations with limited resources.

Another noteworthy requirement is in relation to detailed reporting on specific areas impacted by organizational activities. Especially GRI 101 on biodiversity contains such characteristics as it is designed quite site-centric, addressing locations with biodiversity impacts, including proximity to sensitive areas.<sup>244</sup> Additionally, the topical standard on water management mandates the disclosure of water sources for utilization and more specifically whether such sources are in areas of water stress.<sup>245</sup>

FACILITIES IN AREAS WITH WATER STRESS	FACILITY A	FACILITY B	[FACILITY X]
<b>Water withdrawal (clause 2.2.1)</b>			
Surface water	ML	ML	ML
Groundwater	ML	ML	ML
Seawater	ML	ML	ML
Produced water	ML	ML	ML
Third-party water	ML	ML	ML
<b>Water consumption (clause 2.5.1)</b>			
Total water consumption	ML	ML	ML

**Figure 9:** Disclosure template for facilities in areas with water stress<sup>246</sup>

This helps stakeholders understand the localized impacts of corporation’s activities and promotes targeted mitigation efforts. However, the detailed reporting requirements can be challenging to meet, particularly for organizations operating in multiple locations.

Tracking changes in impacts over time is another detailed requirement. While this may be self-explanatory in relation to energy consumption- and emission reduction efforts, the framework also requires disclosures on changes to the state of biodiversity, including ecosystem type, size, and condition.<sup>247</sup> Such information is vital for monitoring long-term impacts and assessing the effectiveness of sustainability initiatives, while challenges lie in ensuring consistent and accurate data collection over extended periods.

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<sup>244</sup> GRI 101-5 b., p. 20.  
<sup>245</sup> GRI 303-3 b., p. 11.  
<sup>246</sup> GRI 303, p. 19.  
<sup>247</sup> GRI 101-7 a., p. 28.

Furthermore, the results of actions taken to reduce impacts are also a focus of the standards. Along with the base year and scope, does GRI 305-5 require disclosure of the amount and type of GHG emissions reduction achieved.<sup>248</sup> Meanwhile, GRI 306 details waste management actions, such as waste diverted from disposal or directed to disposal and their outcomes.<sup>249</sup> This helps in assessing the effectiveness of sustainability initiatives and encourages continuous improvement. However, the detailed documentation required can be burdensome, especially for smaller entities.

Finally, certain GRI standards mandate the exclusion of results that are not due to intentional efforts, such as reductions resulting from outsourcing or decreased capacity. For instance, GRI 302-4 on energy consumption reduction and GRI 305-5 emphasize excluding such non-intentional results.<sup>250</sup> This ensures that reported improvements reflect deliberate sustainability efforts rather than incidental changes. However, it requires careful monitoring and documentation to distinguish between intentional and non-intentional outcomes accurately. To further enhance the reliability of reported data, the GRI standards encourage the use of publicly available and credible tools and methodologies. To illustrate, GRI 303-3 emphasizes using reliable tools for reporting water withdrawal<sup>251</sup>, aiming to support transparency and allow stakeholders to trust the reported information.

In conclusion, the GRI standards provide a comprehensive and detailed framework for sustainability reporting, covering a broad range of issues. Through quantitative measurements, standardized methodologies, and other detailed requirements, a high level of transparency and accountability can be sustained in reporting. While it offers flexibility the detailed requirements can still pose challenges, particularly for smaller organizations. However, through the process of materiality assessment, disclosures going beyond the capacity of undertakings can be deprioritized. The GRI remains a globally recognized and widely adopted standard, but after moving forward to examine the ISSB IFRS standards, the standards will stand in direct comparison to the CSRD, highlighting its relative strengths and weaknesses to assess its influence on the sustainability reporting landscape.

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<sup>248</sup> GRI 305-5 a., p. 17.

<sup>249</sup> GRI 306, pp. 12-15.

<sup>250</sup> GRI 302-4 2.7.1, p. 14; GRI 305-5 2.9.2, p. 17.

<sup>251</sup> GRI 303-3 2.1, p. 11.

## 4.2 International Sustainability Standards Board IFRS

The International Sustainability Standards Board was established in 2021 under the umbrella of the International Financial Reporting Standards Foundation. This new institution is consolidated to a major part through the SASB and the Task Force on Climate-related Financial Disclosures (TCFD).<sup>252</sup> Its primary purpose is to create a new international standard for sustainability reporting, known as the IFRS Sustainability Disclosure Standards.

Building on the SASB and TCFD, the ISSB leverages a solid foundation. The SASB standards developed since 2011 and were designed to provide relevant sustainability-related insights for investors.<sup>253</sup> In 2022, around 50% of G250 companies and 33% of N100 companies globally used the SASB standards. Having the SASB consolidate the ISSB IFRS grants the new standards significant credibility from the outset.<sup>254</sup>

In June 2023, the ISSB released the final versions of its first standards. According to IFRS S1, the objective is to "require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity".<sup>255</sup> In other words, the aim is to aid financial decision-making by informing stakeholders about the risks and opportunities that environmental degradation and its interrelated implications like stricter regulations pose to an undertaking.<sup>256</sup>

The current structure of the framework is that IFRS S1 establishes general requirements for disclosing sustainability-related information useful to financial reporting users. Meanwhile, IFRS S2 defines specific requirements for the identification, assessment, and management of climate-related risks and opportunities.<sup>257</sup> The disclosure values to be promoted include usefulness, relevance, faithfulness, comparability, and verifiability, aligning closely with the principles of the CSRD.<sup>258</sup>

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<sup>252</sup> Borchering and Engels 2023, p. 526.

<sup>253</sup> KPMG 2022, p. 29.

<sup>254</sup> KPMG 2022, p. 29.

<sup>255</sup> IFRS S1 para 1, p. 7.

<sup>256</sup> Vogt et al 2023, p. 297.

<sup>257</sup> Borchering and Engels 2023, p. 525.

<sup>258</sup> IFRS S1 para 10, p. 7.

The IFRS foundation already represents a leading role in international accounting. Now the ISSB aims to address the global sustainability reporting landscape, potentially establishing the IFRS as the leading standard across all categories of corporate reporting.<sup>259</sup> However, how well it compares to other standards like the CSRD and GRI needs closer examination, which shall be done next in terms of its materiality, coverage of sustainability issues, and the detail and depth of its requirements.

#### **4.2.1 Materiality**

Materiality is a very defining characteristic of the ISSB IFRS framework. While the GRI aligns with the impact side of the CSRD's double materiality concept, focusing on the inside-out effects of an undertaking on the environment, the ISSB IFRS narrows its focus exclusively to financial materiality.<sup>260</sup> This means the ISSB IFRS requires companies to disclose information that influence or could potentially influence their financial situation in the present or future, in particular their cash flow.<sup>261</sup>

As a result, the ISSB IFRS is structured around the principle of financial materiality. If sustainability aspects must only be reported if they are expected to affect the company's value, then the natural flipside is the exclusion of an obligation to consider potential significant consequences for the environment and society.<sup>262</sup> To be more detailed, information is deemed material if "omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general-purpose financial reports make on the basis of those reports".<sup>263</sup> Such decisions encompass actions like buying, selling, or holding equity, and providing or selling loans.<sup>264</sup> Potentially, negative impacts on the environment could influence decision-making of stakeholders, as this is an indicator for impact materiality under the CSRD. However, as IFRS S1 limits disclosures to only include sustainability related information having an outside-in effect on the entity<sup>265</sup>, this path gets closed by the ISSB. It could be arguably whether severe environmental impacts may qualify as sustainability related

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<sup>259</sup> de Villiers et al 2022, p. 743.

<sup>260</sup> Borchering and Engels 2023, p. 529.

<sup>261</sup> IFRS S1 para 3, p. 6.

<sup>262</sup> Sellhorn and Wagner 2022, p. 7.

<sup>263</sup> IFRS S1 para 18, p. 8.

<sup>264</sup> IFRS S1 para B14, p. 29.

<sup>265</sup> IFRS S1 para 17, p. 8.

risks affecting the undertakings prospects, as it may lead to a worse position for attracting investments under certain circumstances. Nevertheless, the major lack of addressing impacts signals the intention of the ISSB IFRS quite clearly to not categorize such considerations as material under its framework.

A similarity to the CSRD and GRI is the significance of information under the ISSB IFRS being evaluated based on factors like potential or actual severity and the likelihood of a risk.<sup>266</sup> A distinction within the ISSB IFRS framework on the other hand is the stronger emphasis on the clarity and comprehensibility of the disclosed information for stakeholders. For example, it mandates that material information should not be obscured by mixing it with non-material information.<sup>267</sup> Moreover, while non-material information may be included if legally required, it should not obscure any material information.<sup>268</sup> Aligning with the general objective of providing information to investors, this indicates that the priority given to investor interests is quite high.

On a final important note, the ISSB IFRS acknowledges that materiality depends on the stakeholders it addresses. It furthermore states that primary users have varying interests and needs, which can also evolve over time.<sup>269</sup> Consequently, there is no objective threshold for materiality. Instead, it is a subjective and fluid concept. This could imply a need for a comprehensive materiality assessment, considering a wide range of possibilities. Conversely, it might be interpreted as limiting materiality to a narrow range of issues, tailored to the specific circumstances of the undertaking. As a voluntary standard, this discretion is not as impactful since undertakings that adopt the standards by their own will have an inherent interest in presenting thorough disclosures. However, if adopted into a mandatory form, this flexibility might be used to decrease the burden of reporting or to shape reports in a way that highlights the organization's strengths while downplaying areas needing improvement, although the latter is also not unlikely in case of voluntary application.

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<sup>266</sup> IFRS S1 B23, p. 30.

<sup>267</sup> IFRS S1 para B29, p. 31.

<sup>268</sup> IFRS S1 para B31, p. 32.

<sup>269</sup> Sellhorn and Wagner 2022, p. 4; IFRS S1 para B18, p. 29.



### 4.2.2 Coverage of Sustainability Issues

When it comes to the breadth of sustainability issues currently addressed, the ISSB IFRS standards fall significantly short. IFRS S1 mandates the disclosure of any sustainability-related risks and opportunities<sup>270</sup>, signaling the aim to have a comprehensive framework including all potential sustainability issues that may affect an entity. At present time though, the coverage of such issues is very limited.

To be specific, IFRS S1 is designed as a general requirements standard, and the only topical standard currently available is IFRS S2, which focuses on climate-related risks.<sup>271</sup> Furthermore, the disclosure requirements under IFRS S2 actually related to the undertaking's environmental impact are primarily centered on the disclosure of GHG emissions. The reasoning for the inclusion of GHG emissions is based on their potential financial implications, such as those arising from carbon pricing mechanisms like an emission trading scheme or carbon taxes.<sup>272</sup>

The ISSB IFRS do have some guidance on how to integrate other issues, but they consist of references to the use of other instruments like CDSB Framework Application Guidance for Biodiversity- and Water-related Disclosures and the SASB industry specific disclosures.<sup>273</sup> The ISSB IFRS standards themselves however are not yet comprehensive enough to encompass the wide range of sustainability issues effectively.

While the ISSB has expressed its ambition to develop a comprehensive set of standards capable of setting a global baseline for providing sustainability information relevant to investors<sup>274</sup>, it still has a long way to go. Additionally, the sole focus on issues with financial materiality presents a significant obstacle in developing an instrument that can genuinely offer transparency into all potentially relevant sustainability issues.

### 4.2.3 Detail and Depth of Reporting Requirements

One more time, the detail and depth of the reporting requirements will be assessed. While the ISSB IFRS are quite detailed in essence, a larger part of that depths is of financial nature.

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<sup>270</sup> IFRS S1 para 30, p. 12.

<sup>271</sup> IFRS S2 para 1, p. 6.

<sup>272</sup> IFRS S2 para 29, p. 15.

<sup>273</sup> IFRS S1 para 55 (a), pp. 16-17.

<sup>274</sup> Tenuta and Cambrea 2022, p. 52.

Nevertheless, there is a number of provisions showcasing the standard including notable elements relevant to providing transparency to a more comprehensive understanding related to sustainability.

For instance, one significant aspect of such depth in the ISSB IFRS standards is the requirement for entities to disclose information beyond their own operations and through their whole value chain. This also includes identifying and describing the locations of relevant geographical areas, facilities, or even assets.<sup>275</sup> Particularly for GHG emissions, entities must provide information on Scope 1, Scope 2, and Scope 3 emissions, aiming to offer a comprehensive view of their emissions profile across the value chain.<sup>276</sup>

Furthermore, undertakings are mandated to adhere to the GHG Protocol for measuring their emissions, establishing a standardized methodology.<sup>277</sup> This also involves explaining the approach taken, including the inputs and assumptions used, the reasons for choosing specific methodologies, and any changes in the approach over time.<sup>278</sup> The use of a recognized standard like the GHG Protocol can be an effective measure to enhance comparability and reliability across reports, which can be beneficial for investors assessing different companies. Additionally, it eases the process for companies already familiar with the GHG Protocol.

More depth is further drawn from the importance given to considering a wide time horizon, resulting in requirements to include information relevant to short, medium, and long-term impacts.<sup>279</sup> This universal temporal scope aims to provide understanding of both immediate and future risks and opportunities. Generally, all available information should be considered provided it is within reasonable cost and effort<sup>280</sup>, facilitating balance between thoroughness and feasibility, potentially improving the quality of the reported information without imposing excessive burdens.

Regarding climate change-related targets, they must be clearly described, including whether they are aimed at mitigation or adaptation. This includes specifying the metrics used, relevant timeframes, and whether the targets are quantitative, such as reductions in energy intensity.<sup>281</sup>

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<sup>275</sup> IFRS S2 para 13, p. 9.

<sup>276</sup> IFRS S2 para 29 (a) (i), p. 15.

<sup>277</sup> IFRS S2 para 29 (a) (ii), p. 15.

<sup>278</sup> IFRS S2 para 29 (a) (iii), p. 15.

<sup>279</sup> IFRS S2 para 10 (c), p. 8.

<sup>280</sup> IFRS S2 para 11, p. 9.

<sup>281</sup> IFRS S2 para 33, p. 17.

Importantly, undertakings must disclose whether and how these targets are informed by international agreements, linking them to global targets such as the 1.5°C target of the Paris Agreement. Such target-setting might facilitate companies being held more accountable for their actions, although it could also present challenges if targets are set too ambitiously, vaguely, or simply quite low. Either way, undertakings must report on their advancements, offering transparency on their journey towards achieving set goals.<sup>282</sup>

Finally, the ISSB IFRS standards require a description of whether and how climate-related considerations have influenced executive remuneration.<sup>283</sup> This obligation to disclose a linkage between climate-related performance and executive pay is noteworthy as it can be a functional indicator of an entities intention to conduct practices favorable for the environment. As management interests has a considerable influence on companies' activities and impacts, connecting payment to reaching environmental objectives can have a significant effect, even if just aimed at adapting a company to potential sustainability risks. However, this requirement could be very dependent on the transparency and actual effectiveness of relevant targets, potentially leading to questions about such remuneration policies.

In summary, the ISSB IFRS standards require a detailed and structured approach to climate-related financial disclosures, focusing on the financial materiality of sustainability issues. By mandating comprehensive reporting on GHG emissions, risk assessments, strategic targets, and progress, these standards aim to provide stakeholders with a clear and informative view of an entity's climate-related performance. That being said, the sole focus on financial materiality and the current limited scope of covered sustainability issues present grave hurdles for representing a framework fit to meet the demand for comprehensive transparency regarding the interplay of corporations and their environment.

## **5 Comparative Analysis**

Corporate sustainability reporting has gone through a long period of development, leading to the present landscape of modern sustainability reporting frameworks. Within the EU, the CSRD is the newest instrument representing a substantial improvement in comparison to its

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<sup>282</sup> IFRS S2 para 27, p. 15.

<sup>283</sup> IFRS S2 para 29 (g), p. 15.

predecessor. It addressed the NFRD's major faults by expanding the scope of reporting, providing detailed and specific disclosure requirements, implementing robust auditing practices, and ensuring more comprehensive and reliable sustainability reporting.

With the CSRD established as present-day standard in the international reporting landscape, it is crucial to examine how it stands against the other two predominant frameworks, the Global Reporting Initiative and the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards. This comparative analysis will focus on the three key elements that have been examined in the prior chapters, that is to say materiality, coverage of sustainability issues, and the depth and detail of the reporting requirements.

By evaluating these aspects, this chapter aims to showcase the strengths and weaknesses of the CSRD in relation to global standards. It will highlight the areas where the CSRD excels and identify potential areas for improvement, drawing inspiration from the approaches used by the GRI and ISSB IFRS.

## **5.1 Materiality**

When examining the approaches to materiality in the different frameworks, a significant distinction arises from the concepts they utilize, namely financial materiality, impact materiality, and double materiality. These concepts fundamentally define the frameworks and their suitability in addressing the modern challenges of sustainability reporting. That being said, when asking the question which concept is most adept to address the modern challenges of sustainability reporting, the answer will be the CSRD's comprehensive concept of double materiality. This is due to the following reasoning.

The ISSB IFRS framework's perspective of financial materiality contributes significantly to creating transparency regarding the interrelation between economic activity and environmental impacts. This perspective not only supports financial stakeholders in making informed decisions aimed at better economic results but also highlights the financial risks associated with negative environmental changes like global warming. Consequently, undertakings are confronted with these risks and encouraged to adopt sustainable business practices to enhance resilience. This also includes practices such as emission reductions for companies to avoid penalties due to environmental regulations. Moreover, investor behavior can be influenced to divert financial flows towards resilient entities with sustainable business practices, aiming to

reduce investment risks. However, the exclusion of information on actual or potential impacts of an undertaking on the environment represents a significant gap, as it leaves out a major part of the information necessary for a comprehensive understanding of sustainability impacts. This approach strays from the path CSR and corporate sustainability reporting have taken, which is to increasingly incorporate environmental and social impacts in alignment with the triple bottom line concept. Cutting out most environmental and social information from disclosures would represent a large step back, or at least in a new direction.

In contrast, the GRI focuses on impact materiality, classifying all impacts originating from an undertaking's activities or business relationships as material. This approach addresses the gap left by the ISSB IFRS by ensuring that environmental and social impacts are disclosed. However, it lacks the inclusion of financial materiality, which is also important for the reasons mentioned earlier. The GRI's flexible approach caters to a diverse group of stakeholders interested in corporate accountability for environmental and social impacts, while the ISSB IFRS assists financial investors in decision-making processes.<sup>284</sup> Both perspectives are valid and justified, but a more holistic approach would address all these concerns simultaneously.

As a solution, the EE aimed to eliminate any ambiguity and introduced the double materiality concept in the CSRD, which encompasses both impact and financial materiality.<sup>285</sup> This comprehensive approach makes the CSRD well suited for its purpose, though it also presents a significant burden by significantly increasing the volume of information that may need to be disclosed.

In that regard, it is also important to compare the process of materiality assessment of the frameworks, as it determines which potential issues will actually end up being reported. One noteworthy difference lies in the ISSB IFRS framework, which despite its detailed approach, becomes vague and open due to its dependency on the perspective of the stakeholders it addresses. This subjectivity can lead to confusion, exploitation, and diminished transparency and comparability. In contrast, the CSRD defines financial materiality as any information affecting the undertaking's financial performance relevant to any primary user of general-purpose financial reports, thereby avoiding such subjectivity.<sup>286</sup>

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<sup>284</sup> Breijer and Orij 2022, p. 335.

<sup>285</sup> European Commission, 2021, p. 13.

<sup>286</sup> ESRS 1 para 48, p. 11.

In terms of differences between the GRI and the CSRD assessment process, two things are to be highlighted. The first is that the actual provisions of the GRI in this regard are very brief, general, and open. They mandate the disclosure of "identified actual and potential, negative and positive impacts on the economy, environment, and people, including impacts on their human rights, across its activities and business relationships"<sup>287</sup>, but the guidance and the exact process are merely voluntary, providing much leeway in the approach. However, as the GRI is a voluntary instrument as of now, it can be expected that entities applying adopting the standards will take on the voluntary guidance as well. In that case, the process of materiality assessment aligns closely with the CSRD, involving context understanding, impact identification, significance classification, and threshold setting. However, the GRI sets thresholds based on the capabilities of the undertaking, unlike the CSRD, which bases thresholds on the level of significance of impacts, independent of the undertaking's capacity.<sup>288</sup>

The second difference to note is while the GRI mandates the disclosure of the decision-making process for threshold setting, the CSRD does not, leaving room for potential ambiguity. Despite the CSRD's detailed approach to materiality assessment, significant discretion remains in practical implementation. To further enhance transparency, the CSRD could implement more provisions requiring descriptions of decision-making processes, especially those determining whether issues are included in the reporting process.

In summary, the CSRD stands as a leading example in its approach to materiality. Its simultaneous focus on impact and financial materiality makes it uniquely comprehensive, though it also presents significant challenges in terms of complexity and implementation.

## **5.2 Coverage of Sustainability Issues**

When evaluating the coverage of sustainability issues, it is evident that the ISSB IFRS, in their current state, do not set an international benchmark. With climate change being the only topical standard currently addressed, there is a significant gap in covering various environmental issues. However, the ISSB has declared its intention to expand the number of topical standards to provide a comprehensive set of guidelines encompassing a wide range of issues. At present however, the focus should be directed towards comparing the CSRD with the GRI, as both

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<sup>287</sup> GRI 3-1 a. i., p. 16.

<sup>288</sup> ESRS 1 AR 9, p. 25.

frameworks offer an extensive range of topical standards for sustainability issues and the related disclosure requirements.

To begin with, both frameworks address the issue of climate change. The CSRD dedicates its first topical standard, ESRS E1, to climate change, while the GRI covers this through two topical standards, GRI 302 for emissions and GRI 305 for energy. These standards encompass relevant issues such as emission amounts, reduction and storage, as well as energy usage, which is a key driver of emissions.

In terms of water resource management, both frameworks have one standard dedicated. They both address water withdrawal, consumption, and discharge. However, the ESRS thoroughly include water quality, whereas the GRI only have an appendix mention as a measurement indicator for the condition of ecosystem condition in GRI 101 for biodiversity.<sup>289</sup> Similarly, the use of marine resources is covered more comprehensively by the ESRS, while the GRI addresses this under natural resources in GRI 101. A direct mention of marine resources is only made in relation to sustainable management actions in areas beyond national jurisdictions.<sup>290</sup>

For biodiversity and ecosystems, the two frameworks use the updated GRI standard on biodiversity, GRI 101, and the ESRS standard, ESRS E4, "Biodiversity and Ecosystems." Both standards address these issues comprehensively, focusing on ecosystems and their interrelationships with species and other resources, mandating an adaptive, location-based approach.

The CSRD's ESRS E5 is dedicated to the circular economy, encompassing multiple environmental issues such as resource use and waste management. These issues are similarly addressed by the GRI through two standards, GRI 301 for materials and GRI 306 for waste. Both frameworks cover material inflows, outflows, and waste management comprehensively.

Finally, the critical environmental issue of pollution is addressed differently by the two frameworks. The CSRD informs pollution issues under ESRS E2, covering air-, water-, and land pollution, as well as substances of (high) concern. In contrast, the GRI addresses pollution through several standards, namely GRI 302 for air emissions, GRI 303 for water pollution, and GRI 101 for pollution impacts on biodiversity. Besides substances of (high) concern, which is only addressed in relation to water discharge, the issue of pollution is rather comprehensively

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<sup>289</sup> GRI 101, p. 45.

<sup>290</sup> GRI 101, p. 10.

addressed by the GRI as well. However, its fragmented approach may cause the risks of the issue being addressed in a disaggregated manner leading to an obscurement of transparency of related impacts. Similar applies to the earlier discussed circular economy.

In conclusion, regarding the coverage of sustainability issues, the GRI standards can be judged as relatively inferior to the modern ESRS standards of the CSRD. However, this may be attributed to the age of some GRI standards. While older standards like GRI 301 for materials are rather narrow in scope, the newer updated ones like GRI 101 for biodiversity are rather up to the contemporary level of quality and comprehensiveness. In that regard, it is likely that the GRI will continue to update and improve its standards, potentially drawing inspiration from the CSRD. Similar applies to the ISSB IFRS standards, which are also expected to expand and improve over time and are not unlikely to implement approaches of the CSRD.

### **5.3 Detail and Depth of Reporting Requirements**

Regarding the detail and depth implemented in the reporting requirements of the three different frameworks, the GRI, ISSB, and CSRD, there are notable alignments as well as differences.

The GRI, while technically more flexible, provides a considerable amount of detailed requirements within its provisions, even outside its voluntary guidance. Such requirements, as assessed before, include quantitative measurements and percentages, calculation formulas and methodologies, differentiation between renewable and non-renewable resources, the up- and downstream scope of reporting beyond the undertaking, types of resources, exclusion of non-intentional results, use of publicly available tools, location-focused perspectives, changes over time, as well as results of actions and their type.

Similarly, the ISSB also provides a variety of detailed requirements. While most are aimed at financial insights due to the focus on financial materiality, there are nevertheless several obligations relevant to environmental impacts. Such disclosures include reporting beyond the corporation's own operations in the form of emission Scope 2 and 3 disclosures, references to international standard instruments like the GHG Protocol, considerations of short-, medium-, and long-term time horizons, as well as detailed descriptions of targets, including information regarding alignment with targets set by international agreements like the Paris Agreement.

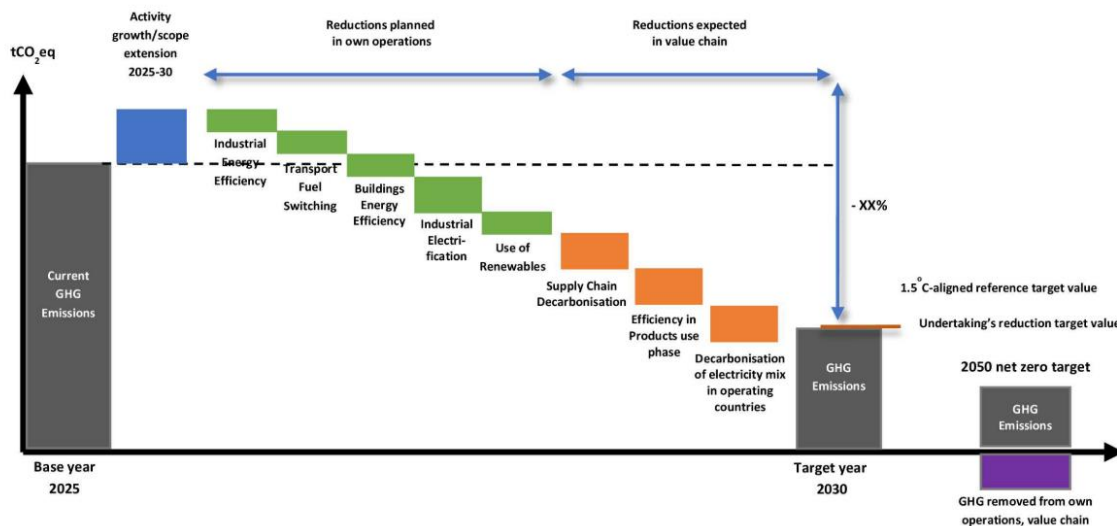
However, in terms of the detail and depth implemented into the reporting requirements, the CSRD again distinguishes itself due to its comprehensive ESRS disclosure obligations. Most



of the before listed details are incorporated to either a similar degree of depth or one that goes even beyond. For instance, in respect to reports that disclose information beyond the undertaking's own operations, specifically on emission reporting, the CSRD does not only require reports on Scope 2 and 3 emissions but also demands breakdowns by country, operating segments, and more. Additionally, the obligation to report on impacts caused anywhere in the value chain does not just apply to emissions. While the ISSB IFRS disclosures are limited to emissions and the GRI does not go beyond energy consumption, emissions, and biodiversity impact, the CSRD extends this obligation to all the sustainability issues covered in its ESRS. As a result, it significantly extends the comprehensiveness of the required information, increasing transparency and extending its influence to entities that would not usually fall under its jurisdiction.

Furthermore, the CSRD includes requirements to consider international instruments like the GHG Protocol but goes beyond this by listing a multitude other international agreements for aligning actions and strategies, such as the CBD, Birds and Habitats Directive, and climate change instruments like the Paris Agreement. This way, the CSRD integrates global targets as well as practices and structures into the governance of undertakings.

Other aspects such as dividing by types of affected resources and the way they are managed in operations, location-focused perspectives with inclusions of ecosystem approach management practices, reports on changes over time, and others are similarly covered by the CSRD. However, there are many aspects where the CSRD goes beyond the level of depth required by the GRI and ISSB IFRS. One particular illustration is how CSRD demands exact descriptions of decarbonization levers such as energy efficiency, electrification, fuel switching, use of renewable energy, product changes, and supply-chain decarbonization, and their overall contribution to reach planned emission reduction targets. While the ISSB requires a description of actions planned for reductions, it does not mandate what the description should include. Furthermore, the GRI only requires information on their amount, but not reductions are planned and implemented.



**Figure 10:** Illustration of GHG reduction targets combined with reduction measures<sup>291</sup>

Generally, the CSRD demands information on a more thorough level in categorizations. This includes categorizing energy consumption into energy sources from specific fossil fuels like natural gas, coal, or petroleum, or waste handling into a detailed level of disclosing the type of disposal and breaking down hazardous and non-hazardous waste.

It would go beyond the scope of this thesis to assess every detailed requirement of the CSRD. The point is, it is a general characteristic that the detail and depth of the CSRD are on a level beyond the GRI and ISSB. This is for better or worse. As mentioned before, the comprehensiveness can increase the amount of information that could be provided, consequently enhancing transparency, but it could also go the other way and overburden the relevant entities, potentially leading to inadequate disclosures, or even to public pressure against mandatory reporting requirements.

## 5.4 Conclusive Remarks

The fragmented landscape of sustainability reporting has long hindered transparency and comparability, making it challenging for stakeholders to evaluate corporate sustainability practices effectively. Among the three frameworks examined, the EU CSRD stands out as the most suitable instrument to address these challenges. However, it is not without faults.

<sup>291</sup> ESRS E1 AR 31, p. 93.

The ISSB IFRS standards serve a crucial role in complementing traditional accounting by providing investors with additional insights into entities financial circumstances concerning environmental effects. While the materiality assessment in ISSB IFRS is not as solidly defined, the standards are detailed and well suited for investor information. As the ISSB expands its topical standards to cover all relevant sustainability issues beyond climate change, such as biodiversity and resource use, it could offer a comprehensive framework for investor-focused reporting. However, ISSB IFRS standards alone cannot meet the broader demand for comprehensive sustainability reporting that has emerged over the past century. The need for transparency into companies relationships with their environment, extending beyond financial matters, is undeniable. If the ISSB does not adjust its strategy to address this broader scope, it will be difficult to qualify as the leading sustainability reporting standard it aspires to be.

On the other hand, the GRI aligns in many ways with the CSRD but maintains its flexibility and voluntary nature. It provides a broad range of detailed requirements, facilitating transparency and accountability. However, the voluntary nature and the discretion allowed in assessments may lead to variability in reporting quality and potential greenwashing. The GRI's influence and adoption rates globally provide it with consequential legitimacy, but its requirements are largely exceeded by the ESRS under the CSRD, particularly within the EU.

The CSRD's comprehensive disclosure obligations cover a wide array of environmental, social, and governance issues, extending its influence beyond traditional boundaries. Its integration of global targets and alignment with international agreements, together with detailed categorizations and site-centric focus position the CSRD as a robust framework for sustainability reporting. However, the comprehensiveness of the CSRD may also be burdensome and overwhelming for reporting entities. The complexity of its requirements might complicate monitoring and enforcement, and uniformity may be difficult to achieve. Nevertheless, the CSRD's detailed and mandatory nature enhances transparency and accountability considerably more than its counterparts.

That being said, the CSRD emerges as the most comprehensive standard suitable for a leading role based on the breadth of issues it covers, the detail and depth of its requirements, and its double materiality concept. However, its mandatory application is confined to the EU jurisdiction. Within the EU, the influence of the voluntary GRI is likely to decrease significantly as the more rigorous CSRD takes precedence. Outside the EU, the GRI will still hold relevance

and integrating elements of the CSRD into the GRI could enhance its global applicability and influence.

Moreover, the CSRD could serve as an inspiration for other national legislators. Potentially, it could lead to a more uniform approach to sustainability reporting worldwide. Companies familiar with the CSRD through its indirect scope may facilitate broader adoption. While national adoptions may include individual changes to accommodate specific circumstances and interests, the core similarities could ease the transition and promote global comparability.

In conclusion, the CSRD sets a high bar for sustainability reporting. However, its implementation must be carefully managed to balance thoroughness with practicality, ensuring it does not overwhelm reporting entities. As the sustainability reporting landscape continues to evolve, the CSRD's approach is likely to serve as inspiration and promote more transparency, accountability, and comparability in corporate sustainability practices globally.

## **6 Conclusion**

Corporate Social Responsibility has evolved significantly, standing as a crucial pillar in companies' journeys beyond mere financial objectives. Furthermore, its core element of providing information and transparency has been fundamental for the development of today's Corporate Sustainability Reporting. Initially, sustainability reporting had a minimal presence, limited to conceptual discussions. Over time however, it transformed into a fragmented landscape with diverse concepts and numerous competing instruments and institutions.

In response to this fragmentation and to direct the issue in favor of its own interests, the European Union started the mission to create its own instrument aimed at achieving uniformity and mandatory transparency. The first step was the introduction of the NFRD, which mandated sustainability reporting for the first time on EU-level. However, as it faced significant issues regarding its limited scope and vague, open-ended requirements, the EU further addressed these shortcomings and in alignment with the ambitious goals of the European Green Deal. As a result the CSRD was developed, which expanded the scope of reporting, enhanced assurance, and introduced much more comprehensive disclosure requirements. Importantly, it pioneered the concept of double materiality and covered a wide range of sustainability issues with a significant level of detail and depth.

As examined the CSRD fares exceptionally well in comparison to other frameworks, specifically the ISSB and GRI. It encompasses both impact materiality and financial materiality, whereas the ISSB focuses solely on financial materiality and the GRI primarily on impact materiality. The CSRD covers the widest range of sustainability issues, surpassing the currently incomplete ISSB IFRS SDS and the GRI. Additionally, it mandates interconnected considerations and maintains a higher level of detail. While the ISSB offers detailed financial insights, it lacks the impact materiality dimension. The GRI, although detailed, leaves more freedom, particularly because many details are found in its voluntary guidance. Balancing the comprehensive nature of the CSRD's detailed disclosures without overburdening undertakings remains a challenge.

Looking forward, it is expected that the CSRD will significantly impact the reporting landscape, taking the quantity and quality of sustainability disclosures a level higher. Many frameworks may need to adapt to remain relevant. Within the EU, the adoption of frameworks like the GRI and ISSB is likely to decline as they become less essential for entities with limited interactions outside Europe. In that regard, as the CSRD's direct influence is confined to the EU jurisdiction, frameworks like the GRI may align themselves with the CSRD, adopting beneficial aspects of the framework. For the ISSB IFRS to achieve its goal of being a globally leading institution for all types of reporting, it will most likely have to adopt the concept double materiality.

As final remark, while sustainability reporting concepts continue to develop, greater alignment among frameworks can be anticipated due to larger players making smaller ones obsolete while adapting to each other. However, predicting the exact future is challenging due to various influences of for instance political and economic nature. What can be said though is that the CSRD is having a large impact on the sustainability reporting landscape and stands as one, if not the leading sustainability reporting frameworks of today.

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