Master in Management

FINANCIAL AND ESG REPORTING
Class 2

Fall, 2026

ISEG Lisbon School of Economics & Management
Universidade de Lisboa

Objective of this class:

Sustainability and sustainability reporting

Sustainability reporting frameworks

European sustainability reporting standards (ESRSs) and updates

Reading:

Main reading:

Rankin, M., Ferlauto, K., McGowan, S., & Stanton, P., 2022. *Contemporary Issues in Accounting*. 3rd ed. Australia: Cengage. ISBN 978-0-730-39782-3.

- Chapter 10

Supplementary reading:

Christensen, H. B., Hail, L., & Leuz, C. (2021). Mandatory CSR and sustainability reporting: Economic analysis and literature review. *Review of accounting studies*, *26*(3), 1176-1248.

Sustainability and sustainability reporting

From profitability toward sustainability

- From a reductionist focus on profit, toward a holistic perspective and a balance between economic, social and ecological aspects of company's business accountability.

- **Business sustainability** is often defined as the triple bottom line management, a process in which companies manage their **financial**, **social**, and **environmental** risks, threats and opportunities. These three impacts are often called "Profit, People, and the Planet" or **3P** (Elkington, 1994).

What is sustainability?

- **Sustainable development:**
  - ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’.
  - This definition relates to three main areas:
    - economic development
    - environmental development and
    - social development.

Similar terms

- Sustainability: emphasizes the long-term horizon
- Environmental, social and governance (ESG): explicitly incorporates governance factors, often covering a wider scope
- Corporate social responsibility (CSR): tends to be defined slightly more broadly and normatively
- Triple bottom line: people, planet and profit.

An open discussion:
Why do we need ESG?
How to achieve it?

An example: nuclear energy

Corporate report

Nuclear Decommissioning Authority: Business Plan 2023 to 2026

Published 20 April 2023

Sites

Outcome number	Activity	End date
44	All land delicensed or relicensed	2135
45	All land in End State - all planned physical work complete	2134
46	All land delicensed or relicensed	2135
47	All land in End State - all planned physical work complete	2333

From: https://www.gov.uk/government/publications/nuclear-decommissioning-authority-business-plan-2023-to-2026/nuclear-decommissioning-authority-business-plan-2023-to-2026#preface

Sustainability reporting

- A **sustainability report:**
  - presents information about the economic value of an entity, and
  - information upon which stakeholders can judge the environmental and social value of an entity.

- Sustainability reports are presented by a large range of organisations from most sectors, including not-for-profit entities and the government sector.

https://www.iseg.ulisboa.pt/sustentabilidade/wp-content/uploads/sites/20/2025/12/RELATORIO-DE-SUSTENTABILIDADE-2024.pdf

Sustainability reporting

"Sustainability reporting helps organizations to set goals, measure performance, and manage change in order to make their operations more sustainable. A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy. In doing so, sustainability reporting makes abstract issues tangible and concrete, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy."

-- Global Reporting Initiative (GRI 2015)

Sustainability reporting

"…we refer to CSR and sustainability reporting as the measurement, disclosure, and communication of information about CSR or ESG topics, activities, risks, and policies..."

-- Christensen *et al.*, 2021, RAST

Characteristics of sustainability reporting

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Compare to traditional financial reporting…

- Diversity of users and uses
- Diversity of topics
- Diversity of objective functions
- Diversity in measurement
- Voluntary nature of CSR activities
- Long-term horizon
- Central role of externalities

Why to develop a ESG Report?

Financial reporting is not enough!

- They do not reflect the entire business activity of a company.
- Reflects only short-term monetary aspects of business, but does not provide insight into environmental, social, and managerial aspects of business, which are, in the long term, much more important.
- Nonfinancial reporting is a ‘must’ in the modern economy as it reflects the responsibility of a company to conduct business activities in a sustainable way.
- This helps investors, consumers, policy makers and other stakeholders to evaluate the **non-financial performance** of large companies and encourages these companies to develop a responsible approach to business

ESG/Sustainability reporting

- **Benefits:**
  - Embedding sound corporate governance and ethics systems throughout all levels of an organisation.
  - Improved management of risk through enhanced management systems and performance monitoring.
  - Formalising and enhancing communication with key stakeholders such as the finance sector, suppliers, community and customers.

ESG/Sustainability reporting

- **Benefits:**
  - Attracting and retaining competent staff by demonstrating an organisation is focused on values and its long-term existence.
  - Ability to benchmark performance both within industries and across industries.

Motivation for ESG disclosure

- ❑Reduction in information asymmetry
- ❑Signalling future performance
- ❑Reputation insurance
- ❑Managers’ agency issues
- ❑Information demand
- ❑Costs of CSR disclosure

Determinants of ESG disclosure-Research evidence (Christensen et al., 2021)

❑Generic firm and manager characteristics

- Firm size:
- Greater public scrutiny, which incentivizes larger firms to engage in CSR activities and reporting
- Less costly for larger firms

- Ownership structure:
- Dispersed private-sector ownership (+), concentrated ownership (-), foreign ownership (+)
- CSR reporting is more prevalent when information asymmetry is high or when firms need to communicate with a larger set of shareholders

Determinants of ESG disclosure-Research evidence (Christensen et al., 2021)

❑Generic firm and manager characteristics

- Corporate governance:
- Robust corporate governance mechanism (long-term incentives schemes, number of board meetings) (+), stakeholder orientation in corporate governance policies (+)

- Managerial characteristics:
- Educational levels and training (MBA + vs. law degree -)
- Compensation (+)
- Career concerns (+) and power (-)
- Whether the CEO has a daughter (?)
- CEO fixed effects explain 59% of the variation in CSR scores, whereas firm fixed effects only explain 23%

Determinants of ESG disclosure-Research evidence (Christensen et al., 2021)

❑Firms' economic activities

- Sin and polluting industries (+)
- CSR performance (+/-)

❑External stakeholder and societal pressure

- Institutional investor
- Government and policymakers
- NGOs, customers, employees…

The different types of sustainability-related report

- **Stand-alone reports** that focus on social and environmental issues
- **Combined reports** that introduce social and environmental issues into the existing financial annual report
- **Integrated reports** that highlight linkages across financial and non-financial information

Sustainability reporting frameworks and standards

Sustainability reporting frameworks and standard

Why do we need sustainability reporting frameworks and standards?

- Standards and frameworks are often advertised as an opportunity to get more **regularity, consistency and comparability** into the voluntary disclosures, but also with the claim to enhance the **materiality** of the disclosures. This implies that the standards and frameworks help organisations focus on the more important and relevant matters while leaving the less important issues with limited or no attention.

Sustainability reporting frameworks and standards

- Frameworks

  <IR>, CDP, TCFD…

- Most well-known global standards

  GRI, ISSB...

Integrated reporting

What is Integrated Reporting?

' A concise communication about how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term.'

Paul Druckman, CEO of IIRC, 2013

HOW VALUE IS CREATED?
Communicate the full range of factors that materially affect value

The International Integrated Reporting Council (IIRC) defines an integrated report as one that 'brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operate

Integrated reporting

10 YEARS OF INTEGRATED REPORTING <IR>

Concise communication on how organizational strategy and management lead to value creation:

www.youtube.com/watch?v=EFm0sKeBLh0

https:/://www.youtube.com/watch?v=Hx4dvrIunpw

Integrated reporting framework

2010: the Prince of Wales' Accounting for Sustainability Project (A4S) and Global Reporting Initiative (GRI) formed the International Integrated Reporting Council (IIRC)

2013: the IIRC developed its International Integrated Reporting Framework, known as the International <IR> Framework

- requires information about organisations' strategies, governance, impacts, performance and prospects and aims to 'secure the adoption of integrated reporting by report preparers and gain the support of regulators and investors'. It introduced important concepts such as the six capitals and emphasized the connectivity between financial and non-financial information.

2021: <IR> Framework revision

- simplify the required statement of responsibility for the integrated report, improved insight into the quality and integrity of the reporting process and create a clearer distinction between outputs and outcomes

June 2021: IIRC merged with the Sustainability Accounting Standards Board (SASB) to form the Value Reporting Foundation (VRF)

2022: The VRF was consolidated into the IFRS Foundation, alongside the work of the International Sustainability Standards Board (ISSB)

Integrated reporting framework

- Interrelates financial with non-financial reporting to provide an **integrative and comprehensive overview of the business** activities of a company, their results, and consequences for people and the environment.
- While sustainability reports and nonfinancial reports can be disclosed autonomously, an integrated report represents a **single report** that includes not only social and ecological but also economic aspects. In that sense, integrated reports are comprehensive, reflecting a **holistic perspective** on business activity.

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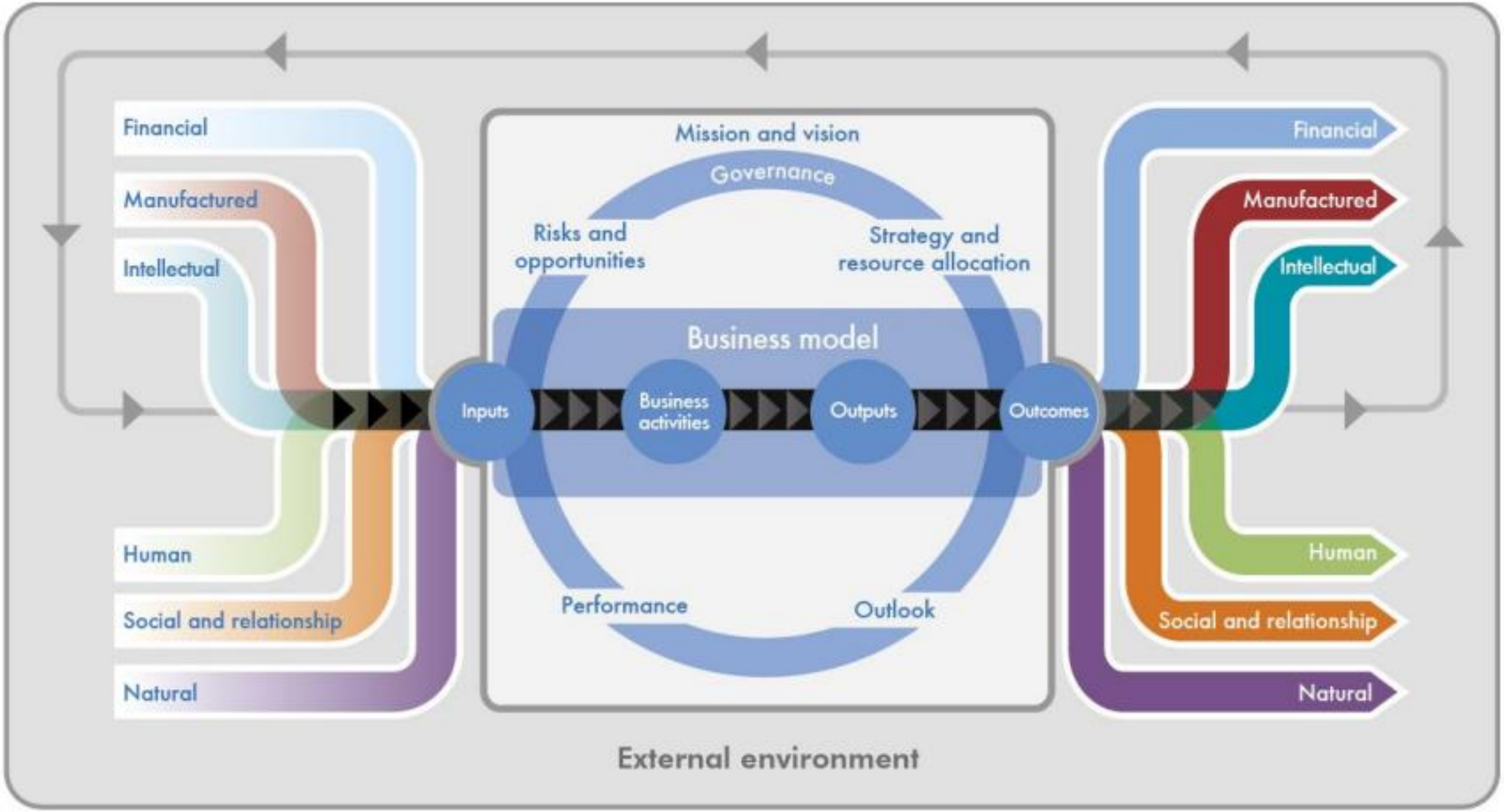
Integrated reporting should provide:



Holistic picture of dependencies between the factors that affect organization’s ability to create value over time.

CDP

- CDP is an investor-led initiative, originally founded under the name **Carbon Disclosure Project**, seeking to gather comparable information about corporate actions related to climate change.
- The CDP runs a large **dataset**, which has been collected through annual surveys of large corporations and other large organisations.
- The first Carbon Disclosure Project’s survey was launched in the year 2000 and focused on collecting climate-related information from corporations at a time when organisations seldom included such information in their sustainability reports. Since then, CDP has expanded its scope, and it now hosts a large database of corporate information around **climate, water, forests and supply chains, hence the name change**.

TCFD

- Task Force for Climate-Related Financial Disclosure (TCFD)
- Established in 2015.
- Focus on providing a framework for reporting the financial implications of **climate-related risks**, opportunities and dependencies.
- Underlying logic: Better information enables markets to better assess and price climate-related risks and opportunities, supporting more efficient capital allocation. Consistent, comparable and clear disclosures can reduce mispricing and help support the transition to a low-carbon economy.
- 2023 — TCFD disbanded, ISSB / IFRS S1 & S2 build on and incorporate TCFD recommendations.

The Global Reporting Initiative (GRI)

The GRI is the **most used** reporting framework.

- "Today, more than two-thirds of the N100 use the GRI(68 percent) — although this is only a slight increase of1 percentage point from 2020. The corresponding figure for the G250 is 78 percent — an increase of5 percentage points in the past 2 years" (KPMG, 2022)
- While in the early years, the GRI guidelines offered a list of indicators, now the standards prescribe more precisely how companies have to approach the reporting process.
- 2016- The GRI guidelines have been rebranded in 2016 and are now called the GRI standards.
- 2021 - GRI Standards 2021. Stronger focus on impacts, material topics and sector-specific reporting.

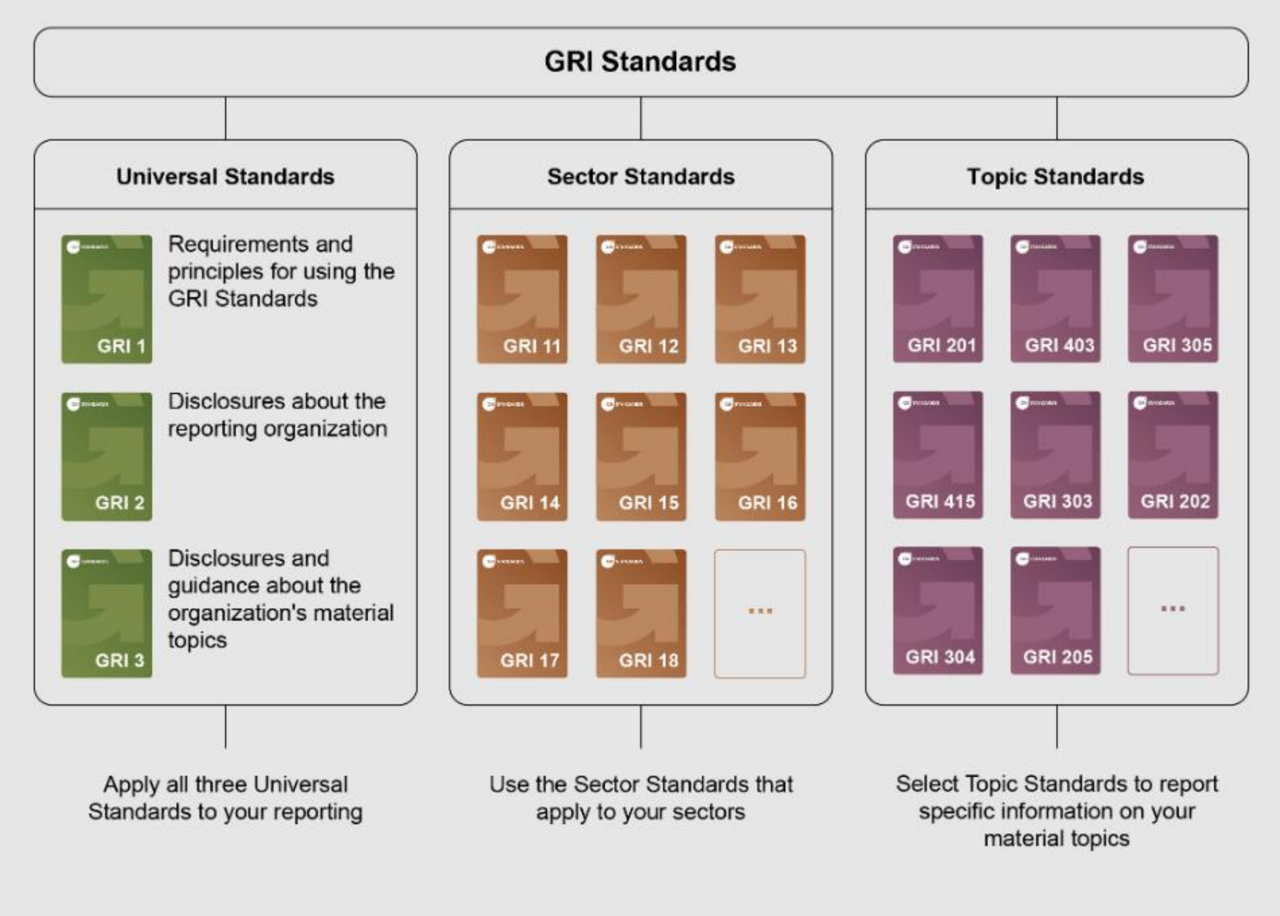
The Global Reporting Initiative (GRI)

- The underlying idea of the GRI approach has been to **enhance the quality** of sustainability disclosures by standardising the way different organisations report, thereby making the information **more consistent and comparable** both over time as well as across organisations.
- An organization identifies its **impacts** on the **<u>economy, environment and people</u>** and determines its material topics based on the significance of those impacts.

GRI-Global Sustainability Standards Board (GSSB)

- The GRI Standards are issued by the Global Sustainability Standards Board (GSSB), an independent multi-stakeholder standard setting body created by GRI.
- The role of the GSSB is to ensure that the GRI Standards are developed in the public interest, through a multi-stakeholder, transparent and independent process. The Standards are developed according to due process and all meetings are recorded and available on GRI's website.

What are the GRI standards about?



https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

1. Universal Standards

Applicable to all organizations

- **GRI 1: Foundation 2021**
- **GRI 2: General Disclosures 2021**
- **GRI 3: Material Topics 2021**

2. Sector Standards

Provide sector-specific guidance e.g.,

- GRI 11 — Oil and Gas
- GRI 12 — Coal
- GRI 13 — Agriculture, Aquaculture and Fishing
- …

3. Topic Standards

Provide detailed disclosures for specific sustainability topics

- GRI 201 — Economic Performance
- GRI 205 — Anti-corruption
- GRI 302 — Energy
- GRI 408 — Child Labor
- …

ISSB STANDARDS

- **International Sustainability Standards Board (ISSB)**
- Established by the **IFRS Foundation in 2021**
- Develops a global baseline for **investor-focused sustainability-related financial disclosures**
- Designed to provide consistent, comparable and decision-useful information for capital markets
- IFRS S1 — General Sustainability-related Disclosures
- IFRS S2 — Climate-related Disclosures
- Financial materiality: ISSB focuses on sustainability-related information that is relevant to **investors, lenders and other creditors.**

SASB STANDARDS (now part of the IFRS Foundation)

- SASB aims to create sustainability reporting standards that help organisations produce material information to **investors** in a cost-effective way.
- the SASB guidelines aim at simplifying the process, and define material aspects **on the level of the industry**.
- Purpose: help firms cost-effectively identify and manage a well-defined set of key sustainability performance indicators; provide investors with comparable and concise information to aid decision-making.
- SASB Standards enable organizations to provide industry-based sustainability disclosures about risks and opportunities that affect enterprise value.

SASB STANDARDS (now part of the IFRS Foundation)

- SASB Standards identify the subset of environmental, social and governance issues most relevant to financial performance and enterprise value for 77 industries.
- In August 2022, the IFRS Foundation assumed responsibility for SASB Standards when it merged with the Value Reporting Foundation, which previously maintained these Standards. After that, responsibility for maintaining the SASB Standards was transferred to the ISSB.

Sustainability reporting standard

Dimension	GRI Standards	SASB Standards	IFRS Sustainability Standards
Standard-setter	GSSB under GRI	Originally SASB; now under ISSB / IFRS Foundation stewardship	ISSB under IFRS Foundation
Main standards	GRI Standards	SASB Standards	IFRS S1 + IFRS S2
Primary perspective	Impact	Investor / financial	Investor / financial
Materiality	Impact materiality	Financially relevant sustainability information	Financial materiality
Main users	Broad stakeholders	Investors and capital markets	Investors, lenders and other creditors

Which one do you support?

Friedman vs Freeman

Friedman (1970s):

- The primary purpose of a business is to maximize its revenue along with its returns to its shareholders.
- All other factors, including social responsibilities, are not obligations of a company and are only done if the shareholders decide to do so.

Freeman (1984):

- Businesses do have moral responsibilities that are best served by considering all stakeholders, such as consumers, employees, and communities.
- While Freeman is not advocating for ignoring investors, he argues their disproportionate value to the rest of the stakeholders disrupts a company’s long-term success.

Source: https://www.texasulj.org/post/the-corporate-purpose-debate-friedman-vs-freeman

European sustainability reporting standards

(ESRSs)

Legal basis for applying ESRSs

CSRD:

- On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force.
- It is an EU Directive that establishes requirements for companies to report sustainability-related information.
- The new rules will ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment and for investors to assess financial risks and opportunities arising from climate change and other sustainability issues.

Legal basis for applying ESRSs

CSRD:

The first companies will have to apply the new rules **for the first time in the 2024 financial year, for reports published in 2025**.

Companies subject to the CSRD will have to report according to **European Sustainability Reporting Standards (ESRS)**.

The standards are developed in a draft form by the **EFRAG**, previously known as the European Financial Reporting Advisory Group, an independent body bringing together various different stakeholders.

Legal basis for applying ESRSs

CSRD (original)-some key points

Scope (Which companies are required to report and when to report)

- 2025 (FY 2024): Wave 1 – Listed large companies with > 500 employees
- 2026 (FY 2025): Wave 2 – Other large companies
- 2027 (FY 2026): Wave 3 – Listed SMEs
- 2029 (FY 2028): Wave 4 – Non-EU groups generating> EUR150 million revenue in the EU with at least one large subsidiary or, in the absence of a subsidiary, a branch with revenue > EUR40 million

Reporting standards

Companies are required to report according to the European Sustainability Reporting Standards (ESRS)

Double materiality (What type of sustainability information should be disclosed)

How sustainability issues affect their business and how their business impacts society and the environment.

Assurance requirements

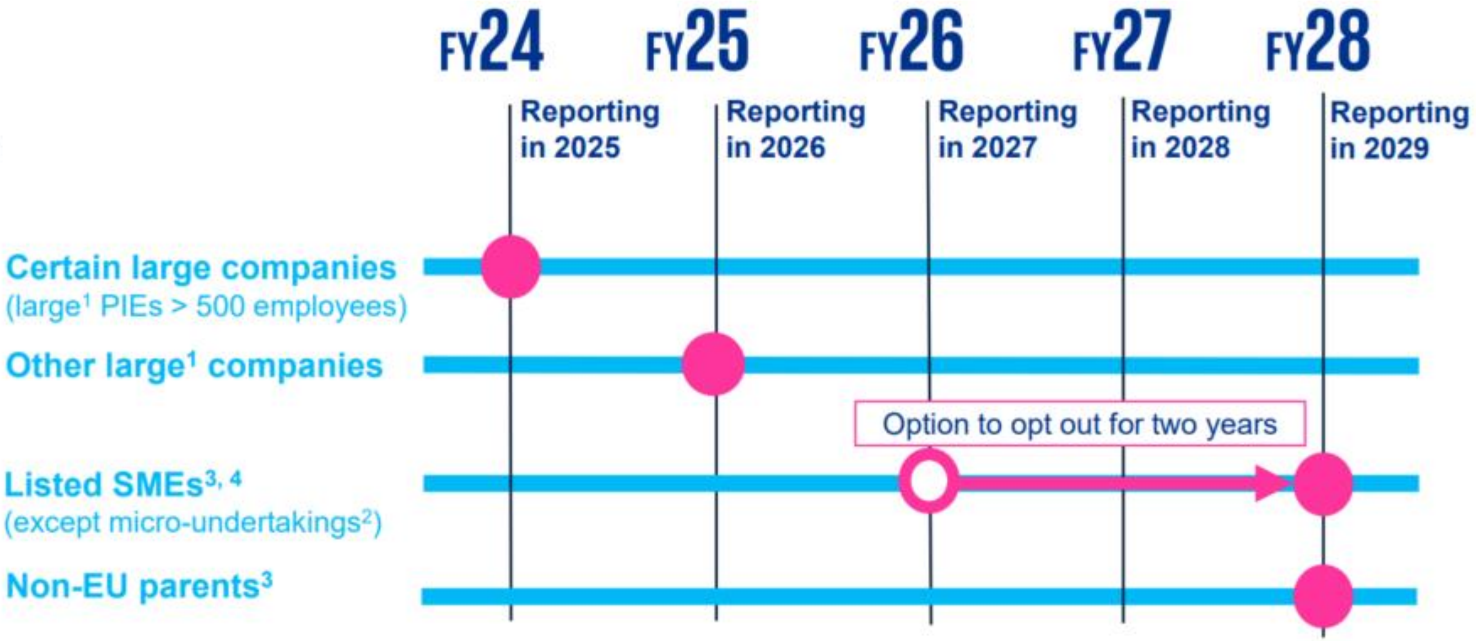
Limited Assurance → Reasonable Assurance

CSRD (2023-original)

When: ESRSs will apply for years beginning on or after 1 January 2024 (reporting in 2025). Phased introduction will start with Public Interest Entities (PIEs) and companies with listed securities on EU-regulated markets which are large and have more than 500 employees (e.g. those already subject to reporting requirements under the NFRD).

Who: Ultimately, ESRSs will be applied by (group exemptions may apply):

- large EU companies[1];
- most companies with listed securities on EU-regulated markets (irrespective of whether they are based in the EU or not[2]); and
- ultimate non-EU parent companies[4] with a combined group turnover in the EU of more than EUR 150 million.



[1] Large companies are those that, on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries): 250 employees, net revenue of EUR 50mn (formerly EUR 40m) or total assets of EUR 25m (formerly EUR 20m). The new thresholds take effect from FY 2024. EU member states can choose to adopt them early from FY 2023.

[2] Exemptions apply, for example, for micro-undertakings (companies that do not exceed two of the following three criteria (including EU and non-EU subsidiaries): 10 employees, net revenue of EUR 900,000 (formerly EUR 700,000) or total assets of EUR 450,000 (formerly EUR 350,000) and for certain debt listings. The new thresholds take effect from FY 2024. EU member states can choose to adopt them early from FY 2023.

[3] Separate standards will be developed for SMEs and non-EU parent companies.

[4] Small and non-complex institutions and captive insurers are treated like listed SMEs (the option to opt out until 2028 does not apply unless they also meet the definition of an SME).

EFRAG will develop and publish additional sets of ESRSs in due course. These will include sector-specific standards, standards for SMEs and a standard on non-EU parent companies.

Source: KPMG (2023)

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An open discussion:
What is your opinion on mandatory disclosure?

Clue: Christensen et al. (2021) Section 5.4

Simplification

Brussels under pressure to curb green agenda in response to Trump

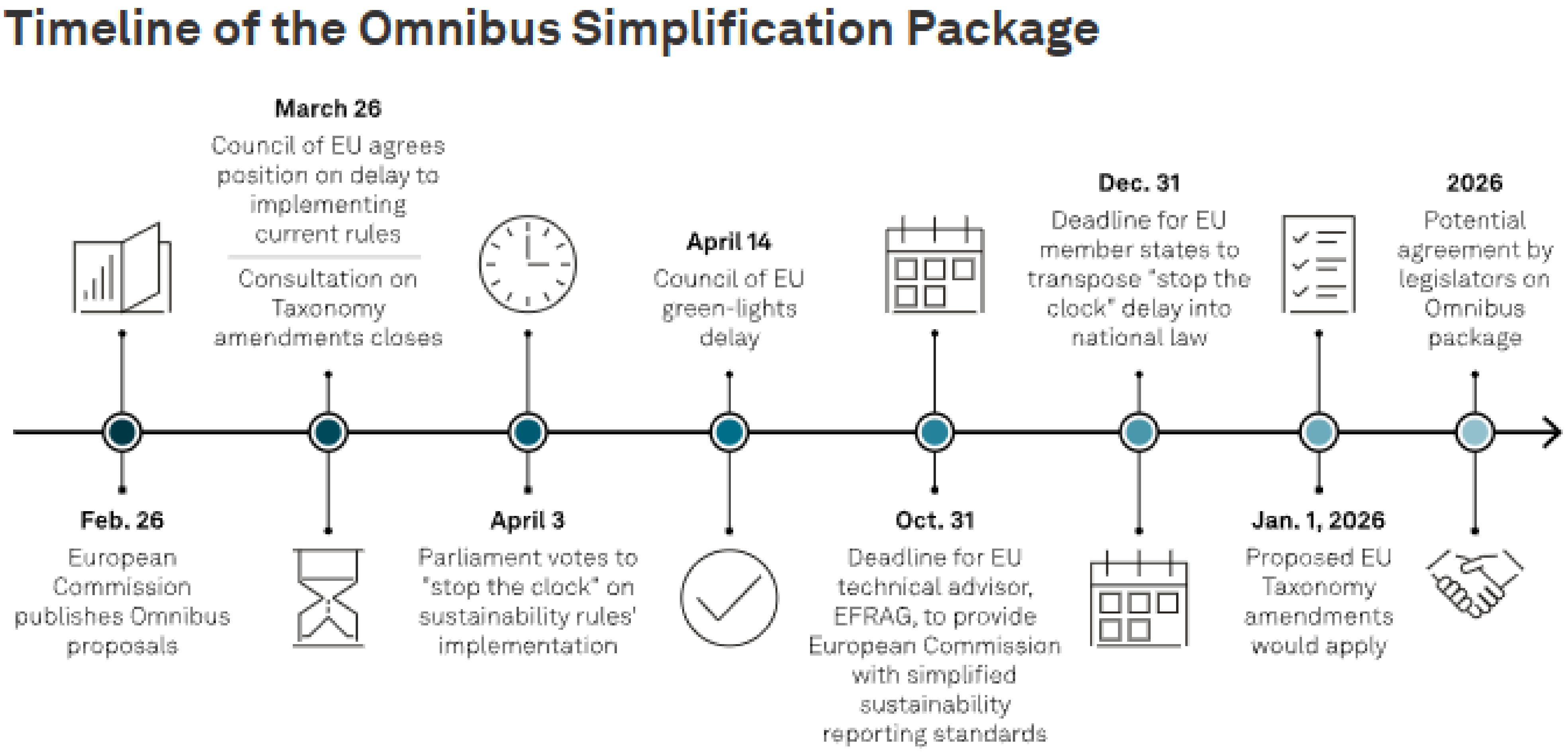
Industry and EU member states urge European Commission to wind back sustainability rules

"There are too many complex and generally vague definitions and terms, as well as unclear reporting scopes and disclosure requirements," it said.

European Commission president Ursula von der Leyen was urged by business leaders in Davos last week to swiftly ease the regulatory burden on companies. One European chief executive said Europe was "losing competitiveness every day". Another said it was imperative to change the perception of US financiers who considered Europe to be "uninvestable" at the moment.

April 2025: A pause in the implementation of CSRD was finalized

Simplification



Source: S&P Global Sustainable1.

Update in 2026: Omnibus I (EU simplification package)

Commission adopts revised sustainability reporting standards to reduce administrative burdens for EU businesses while maintaining high-quality disclosures

NEWS ARTICLE

3 July 2026 — Directorate-General for Financial Stability, Financial Services and Capital Markets Union — 2 min read

Source: World Economic Forum

CSRD (original)-some key points

Scope (Which companies are required to report and when to report)

- 2025 (FY 2024): Wave 1 – Listed large companies with > 500 employees
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Reporting standards

Companies are required to report according to the European Sustainability Reporting Standards (ESRS)

Double materiality (What type of sustainability information should be disclosed)

How sustainability issues affect their business and how their business impacts society and the environment.

Assurance requirements

Limited Assurance → Reasonable Assurance

Key impacts of the Omnibus Directive

Updates in 2026:

Narrow Scope (Which companies are required to report and when to report)

- Wave 1

– Large listed companies with ›1,000 employees and ›EUR450 million turnover (Continue to report against a "simplified" ESRS)

– Large listed companies with ›500 and ≤1,000 employees and ≤EUR450 million turnover (Out of scope for reporting following transposition Member States' option to exempt from reporting for FY 2025 and FY 2026)

- Wave 2

– Other large companies with ›1,000 employees and›EUR450 million turnover (Report from 2028 for financial years starting on or after 1 January 2027 against "simplified" ESRS)

– Large companies with ≤1,000 employees and/or ≤EUR450 million turnover (Out of scope for reporting following transposition)

- Wave 3 – Listed SMEs Out of scope for reporting following transposition
- Wave 4 – Now face a EUR 450 million EU turnover test plus a EUR 200 million EU subsidiary/branch threshold (reporting from 2029)

Key impacts of the Omnibus Directive

Reporting standards

- Simplified ESRS
- The revised ESRS are shorter and clearer, add new flexibilities, and streamline key processes.
- Reduce the number of mandatory data points by over 60% and the total number of data points by over 70%.
- Reduce reporting costs by more than 30% per company, in line with the Commission's target of reducing burdens associated with reporting requirements by 25%.

Double materiality (What type of sustainability information should be disclosed)

Unchanged.

Assurance requirements

Limited Assurance

Effective Date:

ESRS (2026) is applicable for financial years beginning on or after 1 January 2027.

An open discussion:

If ESG disclosure is no longer mandatory, will companies voluntarily continue to disclose?

Stakeholders' reactions?

Reuters

EU sustainability cutbacks make low-carbon leaders harder to spot

- Less reliable and comparable sustainability information makes it harder for investors to identify companies that are genuinely addressing emissions, climate risks, and ESG issues.
- Poorer-quality disclosures leave investors with less reliable information for decision-making.
- 55% believe the ESRS amendments will negatively affect information quality.
- This concern is even stronger among investors and financial institutions, with 67% expecting a negative impact.

Conclusion:

Sustainability and sustainability reporting

Sustainability reporting frameworks

European sustainability reporting standards (ESRSs) and updates