

THE IMPACT OF CORPORATE SUSTAINABILITY REPORTING DIRECTIVE ON FINANCIAL REPORTING

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Abstract

The current concern about moving towards a sustainable environment and facilitating the green transition has led to the development of a new legislative framework, comprising as many companies as possible in the area of applicability, which will take steps to apply the new reporting requirements.

The new legislative framework referred to in this article is called Corporate Sustainability Reporting Directive (CSRD) and will replace the Non-Financial Reporting Directive (NFRD).

Thus, the article follows the impact of CSRD on financial reporting, comprising a market study on the companies listed on the Bucharest Stock Exchange and on the way in which the new legislative framework impacts the financial statements elaborated by them.

Keywords

CSRD, ESG, sustainability, financial reporting, climate change

JEL Classification

G30, M14, M40, Q50, Q53, Q54, Q56

Introduction

The CSRD entered into force on 5 January 2023, and will apply from 2025 for the reports for the financial year 2024.

The Directive extends the scope to all large companies and to all listed companies, with the exception of micro-enterprises, for the purpose of presenting in the financial reporting the threats and opportunities arising from social issues, environmental and governance.

The ultimate goal of reporting is to ensure comparability of information in order to support stakeholders to assess companies' performance from a sustainable point of view.

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Therefore, this paper is based on an analysis of the annual reports of the companies listed on the Bucharest Stock Exchange, aiming at capitalizing on climate change and its effects reflected in financial reporting and focusing on the adoption of the CSRD.

1. Review of the scientific literature

Report from the European Commission, on the review clauses in Directives 2013/34/EU, 2014/95/EU and 2013/50/EU, issued on 21 April 2021, highlighted some issues regarding the reporting framework defined by the NFRD, such as not presenting significant information on sustainability, climate, greenhouse gas emissions and biodiversity, reliability and comparability of information on sustainability, significant volume of information, unstructured.

Thus, CSRD, published on December 14, 2022, aims to make the transition from *non-financial information* to *sustainability information* to emphasize their financial relevance and ensure increased comparability of data. In addition, sustainability reporting can facilitate companies' access to financial capital and create a better reputation for companies that present clear, sustainable information.

The Directive also refers to the need to audit sustainability reporting, providing a limited level of assurance. In this regard, IIGCC (2020) created a report on investors' expectations regarding what auditors should consider in the audit engagement. The tests conducted by the auditors need to include material climatic risks and the verification of accounting estimates or related reasoning.

Indyk M. (2023) states in its article that the impact of environmental, social and governance factors (ESG) on financial statements is difficult to quantify and capitalize in reporting. Key issues to consider by auditors include the depreciation of fixed assets, the valuation of biological assets, the assessment and completeness of provisions for damage caused by mining and other environmental risks, revenues from the sale of copper, silver, gold, petrochemicals and electricity etc., evaluation of photovoltaic plants, provisions for the benefit of employees, etc.

Baumüller J. et al (2021) states that CSRD includes excessive reporting requirements and tasks, which raise questions about how it must be implemented. For example, information about intangible assets must now materialize through social, human and intellectual capital. The directive is vague in how these things should be reported.

2. Research methodology

Van der Tas L. et al. (2022) conducted a study on the effects of climate change on the financial statements of entities listed on the Dutch Stock Exchange. Following the study, it was concluded that the number of terms in the financial statements referring to climate change has increased significantly: from 9% in 2020 to 39% in 2021. Auditors' reports also include references to climate change in an increased number in 2021 (70%) compared to 2020 (2%).

Thus, based on the study carried out on the entities listed on the Dutch Stock Exchange, the annual reports of the premium companies listed on the Bucharest Stock Exchange were considered, having as reference the period 2020-2022 and the frequency of the occurrence of the terms related to sustainability was analyzed. The annual reports refer to the activity carried out in Romania.

The originality of the authors' personal contribution consists in approaching some aspects that have not been considered before in terms of transposing the effects of CSRD in the financial reporting of Romanian companies.

2. Results and discussions

The methodology used in the research on the impact of CSRD on financial reporting is based on the quantitative method (for collecting data on the frequency of sustainable terms in the annual reports) and it targeted 25 premium companies listed on the Bucharest Stock Exchange, whose annual reports have been published and analyzed for the period 2020-2022. These companies were selected because they are the only ones that have annual reports published throughout the analyzed period and are part of the premium category, being entities of financial interest. The companies analyzed are detailed in table no. 1:

Table no. 1. Entities analyzed and listed on the Bucharest Stock Exchange

No.	Symbol	Entity	Sector
1	ALR	ALRO SA	Production
2	ATB	ANTIBIOTICE SA	Pharmaceutical and medical industry
3	BIO	BIOFARM SA	Pharmaceutical and medical industry
4	BRD	BRD - GROUPE SOCIETE GENERALE SA	Banking
5	BRK	SSIF BRK FINANCIAL GROUP SA	Capital market
6	BVB	BURSA DE VALORI BUCURESTI SA	Capital market
7	COTE	CONPET SA	Crude oil and derivatives
8	ELMA	ELECTROMAGNETICA SA	Natural gas and electricity
9	EL	SOCIETATEA ENERGETICA ELECTRICA SA	Natural gas and electricity
10	EVER	EVERGENT INVESTMENTS SA	Capital market
11	FP	FONDUL PROPRIETATEA	Capital market
12	IMP	IMPACT DEVELOPER & CONTRACTOR SA	Real estate
13	LION	LION CAPITAL SA	Capital market
14	M	Med Life SA	Pharmaceutical and medical industry

No.	Symbol	Entity	Sector
15	PBK	PATRIA BANK SA	Banking
16	SFG	SPHERA FRANCHISE GROUP	Hospitality industry
17	SIF4	SIF MUNTENIA SA	Capital market
18	SIF5	INFINITY CAPITAL INVESTMENTS SA	Capital market
19	SNG	S.N.G.N. ROMGAZ SA	Natural gas and electricity
20	SNN	S.N. NUCLEARELECTRICA SA	Natural gas and electricity
21	SNP	OMV PETROM SA	Natural gas and electricity
22	TEL	C.N.T.E.E. TRANSELECTRICA	Natural gas and electricity
23	TGN	S.N.T.G.N. TRANSGAZ SA	Natural gas and electricity
24	TLV	BANCA TRANSILVANIA SA	Banking
25	TRANSI	TRANSILVANIA INVESTMENTS ALLIANCE SA	Capital market

Source: Own elaboration

In the annual reports, it was examined how often specific terms in the sustainability field were used, such as ESG, sustainability, environment, social, governance, employees, biodiversity, climate, and recycling. The terms were selected based on the fact that ESG is a key word in the field of sustainability, and the other terms were taken from EU Taxonomy. The frequency of the terms was quantified according to the number of words in the annual reports published for the period 2020-2022, according to the table below:

Table no. 2. Centralization of results

No.	Symbol	Entity	Annual report	Annual report	Variation 2020-2021	Annual report	Variation 2021-2022
			2020	2021		2022	
1	ALR	ALRO SA	468	394	-16%	518	31%
2	ATB	ANTIBIOTICE SA	186	169	-9%	244	44%
3	BIO	BIOFARM SA	139	152	9%	120	-21%
4	BRD	BRD - GROUPE SOCIETE GENERALE SA	414	830	100%	470	-43%
5	BRK	SSIF BRK FINANCIAL GROUP SA	87	57	-34%	90	58%
6	BVB	BURSA DE VALORI BUCURESTI SA	185	204	10%	249	22%

No.	Symbol	Entity	Annual report	Annual report	Variation 2020-2021	Annual report	Variation 2021-2022
			2020	2021		2022	
7	COTE	CONPET SA	498	515	3%	548	6%
8	ELMA	ELECTROMAGNETICA SA	188	199	6%	144	-28%
9	EL	SOCIETATEA ENERGETICA ELECTRICA SA	440	457	4%	556	22%
10	EVER	EVERGENT INVESTMENTS SA	154	191	24%	465	143%
11	FP	FONDUL PROPRIETATEA	115	241	110%	215	-11%
12	IMP	IMPACT DEVELOPER & CONTRACTOR SA	94	129	37%	127	-2%
13	LION	LION CAPITAL SA	175	231	32%	384	66%
14	M	Med Life SA	202	155	-23%	148	-5%
15	PBK	PATRIA BANK SA	578	425	-26%	551	30%
16	SFG	SPHERA FRANCHISE GROUP	207	178	-14%	142	-20%
17	SIF4	SIF MUNTENIA SA	103	169	64%	224	33%
18	SIF5	INFINITY CAPITAL INVESTMENTS SA	231	267	16%	267	0%
19	SNG	S.N.G.N. ROMGAZ SA	159	226	42%	230	2%
20	SNN	S.N. NUCLEARELECTRICA SA	666	948	42%	1.446	53%
21	SNP	OMV PETROM SA	525	566	8%	609	8%
22	TEL	C.N.T.E.E. TRANSELECTRICA	463	452	-2%	457	1%
23	TGN	S.N.T.G.N. TRANSGAZ SA	506	305	-40%	330	8%
24	TLV	BANCA TRANSILVANIA SA	415	650	57%	751	16%
25	TRANSI	TRANSILVANIA INVESTMENTS ALLIANCE SA	125	149	19%	161	8%
TOTAL			7.323	8.259	13%	9.446	14%

Source: Own elaboration

Following the analysis, it is found that, at a cumulative level, the premium companies listed on the Bucharest Stock Exchange have been focusing on sustainability in the annual reports, which is in line with the new requirements according to CSRD. Thus, in 2021, the frequency of us of terms specific to sustainability increased by 13% compared

to 2020, and in 2022, the emergence of specific terms increased by 14% compared to 2021.

It is noted that there have been increases from one period to another at companies that have activities such as: energy supply, investments, crude oil transport and derivatives.

On the other hand, there were decreases from one period to another for companies Med Life S.A. and Sphera Franchise Group S.A.

In addition, the company that most addresses the ESG side in the annual reports is S.N. Nuclearelectrica S.A., and the company that addresses the least this field is SSIF BRK Financial Group S.A.

Conclusions

The results of this paper are beneficial to companies that are going to apply CSRD and confirm that CSRD presents interest to the premium companies listed on the Bucharest Stock Exchange, their reports being oriented towards the presentation of the activity from a sustainable point of view. The sustainable side is mainly addressed by energy and investment companies. The research can be extended for the following years to the other companies listed on the Bucharest Stock Exchange, as the actual analysis regards only the premium listed companies. Also, a future research of the authors that would deepen the topic addressed could concern the impact assessment in the financial reporting in the case of the companies analyzed in this study after the final implementation of the CSRD.

Moreover, the impact of CSRD on financial reporting is reflected in the development of a new audit standard – (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*, that will be published by the end of 2024, to create the legislative framework for addressing audit missions for the new sustainable report.

In addition, CSRD reporting requires considering material and temporal efforts, human resource development through the training of sustainability specialists and the implementation of new software. In order to adopt the CSRD and align the financial reporting with the requirements imposed by the new legislative framework, it is necessary to develop the relevant professional skills by participating in conferences, trainings, courses, encouraging the exchange of good practices in this field. Companies also need to implement new reporting software and checks in order to integrate sustainability risks into previous ones, fact that might have a significant financial impact. At present, we do not consider that there are fiscal aspects involved in the implementation of CSRD.

In our opinion, at a financial reporting level, the impact of CSRD will be able to materialize in the balance sheet by assessing and depreciating assets considering climate change, by illustrating renewable materials in inventory, by distinct presentation of financial investments targeting green instruments (green bonds, for example) and debts resulting from sustainable activities (green loans, for example). Cash-flow can be presented separately for environmental receipts and payments, and in the disclosure

notes, information on carbon emissions can be mentioned separately next to analyzes to verify the degree of adaptation to the green policies of customers and major suppliers.

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