Sustainable Finance Disclosure Regulations as a Tool for Change of City Environment

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Abstract. The sustainability paradigm, already central at the international level with the 2030 Agenda and at the EU level with the new policies of the European Union, has acquired increasing importance in the business choices of companies, which also consider the social and environmental dimensions in the definition of corporate strategies. By investigating the dimensions constituting ESG factors (Environment, Social, Governance) and considering the national and international regulatory framework on sustainability-related issues, the main benefits deriving from the integration of the three ESG components into business logic are highlighted. To understand how the factors of the acronym have guided the socio-economic activities of companies, it is necessary to frame the innovations introduced by the legislation in the field of CSR (Corporate Social Responsibility), which lead to new challenges and objectives in terms of sustainability reporting. Outlining the state of the art of international and national legislation in this regard, allows us to define the degree of diffusion and progress of non-financial disclosure in the context of corporate strategies as well as the main related reporting standards. This work aims to analyze, from a theoretical-conceptual point of view, ESG criteria, underlining their interconnection with the new nonfinancial disclosure system, considering the expansion of the set of information to be reported established by the Corporate Sustainability Reporting Directive with the introduction of new ad hoc sustainability reporting standards such as the ESRS (European Sustainability Reporting Standards).

Keyword: Non-financial disclosure · ESG · sustainability standards · city environment

1 Introduction

In recent years, sustainability has become increasingly important both at an international level, due to the global dimension of some phenomena, and at a regional and local level, due to the urgency of identifying managerial models capable of reconciling economic development and protection of natural heritage. Environment in different socio-cultural and institutional contexts. In this regard, business organizations can proactively contribute to sustainable development through management oriented towards economic growth and strengthening competitiveness, environmental protection, and the

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exercise of social responsibility. This is even more true if we consider the diffusion of ESG criteria, the implementation of which requires the involvement of the organization as a whole [1]. The numerous initiatives promoted at the European and international levels, such as the European Green Deal [2], the Paris Agreement [3] on the climate, and the Sustainable Development Goals of the 2030 Agenda [4], require organizations to identify in detail virtuous practices that become an integral part of their business [5]. To communicate to stakeholders the commitment of organizations towards ESG dimensions, the new sustainability standards that incorporate environmental and social as well as economic information are useful [6]. Therefore, asset managers who know how to correctly analyze non-financial information and develop greater know-how in the management and analysis of ESG factors will be able to obtain a series of benefits also from an economic-financial point of view [7]. The work therefore aims to define, through a theoretical-conceptual approach, the state of diffusion of ESG criteria, framing the evolutionary dynamics of the European regulation of sustainability, as well as on the topic of non-financial reporting. Conduct a critical analysis of the characteristics of the very recent European Directive on Corporate Sustainability Reporting and the ESRS sustainability standards introduced by it, is useful to guide organizations in non-financial reporting. The work is divided into two sections. The first section on ESG Criteria investigates in particular the existing literature, the meaning of the components of the acronym, and their impact on non-financial reporting. The second section, however, frames national and international legislation on sustainability, paying attention to the CSRD directive and the new ESRS sustainability standards.

2 Methods and Materials

2.1 An Overview of ESG

The term ESG has relatively recent roots, dating back to the 1970s, characterized by different approaches to the role that the company assumes within society. In particular, the scholar Friedman introduces a radical theory [8], according to which a company must be profit-oriented and shareholder-satisfied, regardless of responsibility towards the public, in the exercise of business activity [9]. In fact, in the work called "The Social Responsibility of Business is to Increase its Profit", he advances the thesis that social responsibilities are not the responsibility of companies, but of individuals [10]. The underlying logic is based on the belief that, if the company were to focus on social issues, it would lead to lower returns for shareholders, leading to considerable outlays. At the antipodes of Friedman's vision, awareness is developed on social issues such as the protection of minorities, workers' rights, and environmental protection. The first big step towards a greater focus on Corporate Social Responsibility and the sustainability paradigm came with the publication of the Brundtland Report in 1987[11] which contains the first definition, still shared today, of sustainable development and the main suggestions for implementing a radical change in lifestyles [12]. Another step in the evolution of Corporate Social Responsibility (CSR) towards the consideration of ESG criteria in business logic was made possible through the contribution of the scholar Elkington, who in 1999 published the volume "Cannibal with Forks: the Triple Bottom Line of 21st Century Business", which underlines [13] the importance of considering

not only economic-financial but also environmental sustainability [14]. 2005 is to be considered the year in which the diffusion of the ESG structure began, within the International Finance Corporation, aimed at promoting economic development and improving people's lives [15]. On this occasion, the report "Who Cares Win" was produced, to integrate environmental, social, and governance issues into assets and management services, securities brokerage, and associated research functions [16]. The dissemination of the contents of this Report has helped to improve the integration of criteria into investment decisions [17], aiming to define the roles of each counterparty to enhance and consolidate the issues under consideration [18]. Another significant step in the evolution of ESG can be found in the Freshfield Report [19], which highlights the importance of including ESG factors in the process of choosing institutional investments. This document can be considered the basis for the dissemination of the Principles for Responsible Investments (PRI), to improve sustainable and responsible investment among institutions [20]. Finally, the Sustainable Development Goals of the 2030 Agenda themselves have contributed to the definition of ESG criteria. In line with the decisive role played by the European Union in defining the 2030 Agenda for Sustainable Development, it has also undertaken to guide its implementation phase, through the integration of the Sustainable Development Goals (SDGs) into European policies [21]. In the same year, the European Commission, by signing the Paris Agreement, agreed with the Paris Climate Conference, 195 participating countries adopted the first universal and legally binding agreements on the global climate, to avoid dangerous climate change by limiting global warming [22]. The increase in demand for ESG investments has required the implementation of uniform criteria to ensure transparency regarding the disclosure to end investors on the development of environmental and/or social characteristics, in decision-making and advisory activities [23]. The impact of the advent of ESG criteria can be considered disruptive, they make it possible to bring the analysis of environmental, social, and governance aspects back to objective and shared measurement criteria [24]. National legislators have started to introduce non-financial reporting obligations for companies [25]. The theme of sustainability, therefore, despite having landed relatively recently, has become inestimably valuable, in response to a universal need for change.

2.2 The Main Characteristics of Environmental, Social, and Governance Factors

The adoption of ESG criteria in business logic is a useful tool for quantifying the environmental, social, and governance impact of companies, which are increasingly oriented towards sustainability initiatives [26]. The acronym ESG refers to the three components that the company, in its operation as an economic player, cannot fail to consider. These are aimed at quantifying the impact it has on the environment, and social and internal administration [27]. The environmental factor refers to the set of objectives and actions aimed at protecting the environment, concerning carbon dioxide emissions released into the atmosphere, the amount of waste produced, and more generally, how a company behaves as a steward concerning the natural environment [28]. The environmental criterion is closely linked to the direct and indirect impacts that the company causes on the environment (air and water pollution, deforestation, etc.) and the consequences that climate change may have on the life of the company itself (floods, hurricanes, desertification, etc.). The integration of the "E" factor, within business strategies, fosters a

significant contribution to the development of a sustainable environment and, at the same time, prevents external diseconomies [29]. Therefore, if correctly integrated into one's vision, attention to the environment can be a competitive lever with considerable results, preserving the company from strong negative repercussions [30]. The Social factor is linked to the impact that the company has on its stakeholders, all corporate decisions and initiatives that have a social impact, on customers, suppliers, collaborators, local community. Considering this factor means sharing universal values such as ethics, respect for human rights, inclusion, equality, and gender equality. Issues such as diversity, working conditions, including child labor and slavery, and the funding of projects to subsidize poor and disadvantaged communities globally [31]. Social aspects are certainly the most easily observed even by members outside the organization, their respect facilitates the development of a positive image of the company by improving its reputation for stakeholders and society [32] The Governance factor refers to how the company is directed, controlled, and administered. This component includes, for example, the quality and diversity of supervisory bodies, the fair remuneration of managers, the rights of shareholders, and transparency within the organization, as well as the fight against all forms of corruption. Governance makes it possible to define whether the sustainable actions and initiatives adopted by the company are also accompanied by organizational forms in the workplace that are equally close to ESG principles [33]. It is essential to emphasize that the S and G factors are strongly connected. In addition, a greater ethical awareness of one's work takes on fundamental importance within the company's core business, becoming a real intangible resource that does not oppose economic interest to that of the community but, on the contrary, allows for collaboration [34]. The integration of the three factors into business logic makes it possible to effectively measure, and based on common and shared parameters, the environmental, social, and governance performance of a company [35]. This has a positive impact on the opinion of stakeholders, also having a significant impact on consumers' purchasing choices [36]. Choices and investments designed for the environment and society have become the focal point of companies' activities, supporting, and completing the sole profitable purpose [37]. Therefore, it the important to integrate the economic and financial elements contained in the financial statements with environmental, social, and governance information, which can be an expression of the economic sustainability of a company [38]. Reporting on these aspects makes it possible to quantify the ability of companies to pursue environmental and social standards, which are more necessary than ever for the sustainable and ethical development of the entire community.

2.3 The Impact of ESG on Reporting

The interest in issues related to sustainability at the national and international level has considerably concerned the spread of the concept of Corporate Social Responsibility on a large scale, radically changing the path traced by organizations, towards a more sustainable and conscious one [39]. Above all, they have understood the need to implement a process of change, which has been underway for some time for many realities, by setting new information objectives and developing voluntary communication practices, in which to place new sets of information [40]. Companies have adopted, in response to new information and regulatory requirements, new non-financial reporting models [41].

The phenomenon of non-financial reporting, as it includes different aspects compared to traditional ones of a purely economic nature, has progressively seen companies introduce information content relating to the social and environmental impacts generated by their activities. The increase in disclosure levels by companies is substantiated by a progressive evolution of information in qualitative and quantitative terms, becoming increasingly detailed and extensive [42]. The creation of these documents, initially the result of initiatives developed independently, was carried out by many companies with the declared intention of making available information and data relating to the actions undertaken and the repercussions due to them in the perspective that the process of value creation brings social, environmental, and economic benefits and that these elements must be considered interdependent [43]. The forms of non-financial disclosure, therefore, take on a precise connotation in the field of reporting, as a useful tool to give expression and measure the company's process of accountability towards Stakeholders, from which the enhancement of its relational qualities derives. Considering this, the purpose of the voluntary reporting system is not to represent the social and environmental impacts of organizations but rather to represent the continuous and intense communication process between the company and its stakeholders [44]. In this context, the progressive development by the company of reputational capital passes through the effective communication of the positive effects related to the implementation of sustainability strategies. These benefits, in turn, are linked to the company's ability to integrate information regarding the social and environmental effects of its activities into its decision-making processes, which are mainly economic [45]. The widening of disclosure levels is not only a concrete factor in overcoming traditional corporate reporting models but above all an opportunity to detect the interdependence between economic and financial performance and socio-environmental and governance issues, capable of also decisively influencing the current and future value creation process. The most "innovative" companies, i.e., more able to combine and integrate innovation in the business model with the ESG perspective, will be able to achieve a virtuous path of development, achieving greater financial performance more easily [46]. The assessment of ESG practices allows for better identification of the risks and opportunities that companies face, thus favoring advanced technologies, risk management processes, and the conditions in which business results are formed, triggering virtuous processes for the entire organization [47].

3 Data Analysis: Impacts and Innovations

3.1 National and International Regulation

The growing awareness of issues related to sustainability has made it necessary to create and implement an organic regulatory framework, capable of clearly regulating the fields of action of ESG criteria. The latter, generally related to ethical and socially responsible investing [48], provide incentives for the corporate sector to engage in social and environmental, as well as economic, issues. Since 2001, the European Union, with the publication of the "European Union Strategy for Sustainable Development" [49], has actively put in place a series of regulations that could provide precise regulation on the subject, taking on a leading role in the transition to a more conscious economy. The intervention produced the European Green Deal [50], a system of investments aimed at tackling the

threats of climate change and environmental degradation, pursuing objectives such as eliminating net greenhouse gas emissions by 2050, decoupling economic growth from resource use, and leaving no person or place behind. These are long-term goals, based on the assumption that business performance will depend on balancing financial, social, and environmental considerations in business strategy. To prevent greenwashing, the European Union, with the adoption of Directive 2014/95/EU "NonFinancial Reporting Directive" (NFRD) [51], has detailed the rules on non-financial disclosure, obliging major European companies to disclose information about environmental issues, those relating to relations with employees, respect for human rights, the management of corruption and diversity, the influence that ESG factors also exert on performance reporting. With the publication of Directive 2014/95, sustainability reporting became mandatory by law, although limited to certain types of companies based on requirements, especially size [52]. The objective of the Directive, in line with the Commission's recommendations, was to improve the uniformity and comparability of non-financial information reported in the Union, through the preparation of a non-financial statement containing social and environmental information relating to personnel, respect for human rights and the fight against bribery and corruption. Thus, providing useful information about the information content that non-financial statements (NFS) should have had [53]. This Directive was also implemented into Italian law with Legislative Decree No. 254 of 30 December 2016 [54], representing an important step forward in the regulation of non-financial reporting in Italy. The Decree required companies that meet certain criteria to draw up and publish, starting from 2018, a non-financial communication on environmental, social, personnel management, human rights, and anti-corruption matters. The measure provided for the obligation to submit an individual non-financial declaration for relevant public-interest companies, i.e. Italian companies issuing transferable securities listed on Italian or European Union regulated markets such as banks, insurance companies, and reinsurance companies, as well as companies issuing financial instruments, which, although not listed on regulated markets, Entities[1] that have had an average number of employees over 500 during the financial year and, at the balance sheet date have exceeded or balance sheet total of €20,000,000 or total net revenues from sales and services of €40,000,000 [55]. In addition, all other companies not subject to the obligation can also submit a nonfinancial declaration voluntarily in the areas indicated in Article 3, providing, in a context of proportionality, for SMEs, simplified forms [56]. The Decree defines the minimum areas on which it is required to report on its activities and performance[2], leaving the freedom to individual companies or groups of companies to choose the reporting standard to refer to, to identify the key performance indicated by the most suitable to describe the activities concerning the issues considered. Individual organizations are left free to choose the reporting standard among those issued by authoritative supranational, international, or national bodies, of a public or private nature that are nevertheless suitable for fulfilling the reporting obligations provided for by the decree itself [57]. In 2018, the Commission intervened again on the issue of the integration of non-financial aspects among those

[1] For the complete identification of the subjects required to make the declaration, the Legislative Decree refers to paragraph 1 of Article 16 of Legislative Decree 39/2010, a decree implementing the EU directive on the statutory audit of annual and consolidated accounts.

[2] The minimum specific contents are described in the first two paragraphs of art. 3 of DL 254/16.

to be reported, with specific reference to the disclosure of climate impacts, within the Sustainable Finance Action Plan, accepting the suggestions of the task force on financial disclosure relating to climate aspects. The Action Plan for Sustainable Finance outlines the strategy and measures to be taken to create a financial system capable of promoting truly sustainable development, from an economic, social, and environmental point of view, contributing to the implementation of the Paris Agreement on climate change and the United Nations 2030 Agenda for Sustainable Development [58]. Another important step, that accompanies the regulatory framework launched by the European Union, is Regulation 2020/852, or Taxonomy Regulation, to classify economic activities that can be defined as environmentally sustainable. The primary objectives that the EU pursues through this instrument are to create security for investors, eliminate greenwashing, and mitigate market fragmentation. Another no less important purpose is to help companies become more climate-friendly and direct investments towards sustainable projects and activities, thus more likely to achieve global climate and energy goals [59].

3.2 The Corporate Sustainability Reporting Directive (CSRD)

The diffusion of CSR within companies is undergoing important evolutions and changes, not only in the managerial field but above all in the cultural field. By promoting the integration of sustainability within economic realities, progressively all company functions are involved in a process of profound transformation and search for opportunities for improvement, also through the identification of specific sustainability referents in the various structures and the organization of inter-functional task forces with a view to mutual collaboration [60]. Alongside regulatory obligations, there is the increasingly widespread practice of voluntarily drawing up a sustainability or social report, to represent the integration of CSR into the company's business in an in-depth and structured way [61]. With the introduction of the new Corporate Sustainability Reporting Directive (CSRD), the reporting of Corporate Social Responsibility is no longer a strictly voluntary decision but an information obligation for an increasingly large group of companies, leaving the degree of integration of non-financial factors into their business to the discretion of individual companies. On 21 April 2021, the European Commission adopted EU Directive no. 2464/2022 on Corporate Sustainability Reporting, published on 14 December 2022 and entered into force on 5 January 2023, aimed at revising the previous Directive 2014/95/EU. The proposal in question is part of an ambitious European project, aimed at promoting the pursuit of sustainability objectives in finance and, more generally, in the exercise of business activities, in line with the growth strategy promoted by the Green Deal at the European level and with the 2030 Agenda for sustainable growth set by the United Nations [62]. The European regulation is mainly based on transparency obligations to incentivize responsible conduct and virtuous behavior to trigger sustainable development processes [63]. As part of the objectives of the Directive, the intent to improve the quality, comparability, and manageability, especially digital, of information for the benefit of investors and their investment choices emerges [64]. The reporting of non-financial aspects was born voluntarily, but with the new CSRD, it becomes a legal obligation in Italy for a greater number of subjects the new subjective requirements outlined significantly expand the number of companies affected by the reporting obligation [65]. The new rules introduced by the CSRD update what was previously

established by the NFRD. Under the latter, large companies were required to disclose information on environmental and social issues, the treatment of employees, respect for human rights, the fight against corruption and fraud, as well as diversity on boards of directors in terms of age, gender, educational and professional background. These reporting rules applied to large public-interest companies with more than 500 employees, involving approximately 11,700 large companies and groups that included listed companies, banks, insurance companies, and other companies designated by national authorities as public interest entities [66]. With the introduction of the CSRD, which must be transposed into national legislation by 6 July 2024, and the adoption of ESRS, the number of companies subject to reporting requirements has been further expanded, according to a defined time roadmap. The first companies will have to apply the new rules for the first time regarding the 2024 financial year, for reports published in 2025. The deadlines identified by the CSRD and the types of companies involved are listed below [67]. From 1 January 2025 (regarding the 2024 financial year), large companies already subject to the NFRD (Public Interest Entities) will have to comply with the new reporting obligations if they exceed certain size criteria [68].[3] From 1 January 2026 (about the 2025 financial year), large unlisted companies will have to comply if they exceed specific size criteria[4]. From 1 January 2027 (regarding the 2026 financial year), listed small and medium-sized enterprises (SMEs) will have to comply if they meet certain size criteria[5]. The Corporate Sustainability Reporting Directive and the Non-Financial Reporting Directive, fall within the scope of European regulations governing sustainability reporting but differ significantly in their objectives and scopes of application as explained in Table 1.

In summary, while both directives aim to promote sustainability reporting by companies, the CSRD is designed to be more detailed and inclusive than the NFRD, to ensure greater consistency and reliability of sustainability information provided by companies [69]. Among the unpublished information provided by the CSRD, in addition to that already provided for by the previous legislation on the subject, for example, a description of the business model and strategy about the sustainability objectives, the sustainability targets, and objectives set by the company and the progress made towards achieving them, administrative, operational and control governance related to ESG issues, corporate policies and practices about sustainability factors, the main positive and negative impacts of the company related to the value chain [70]. Based on what has been presented so far, it emerges that the CSRD achieves an expansion of the informative scope of non-financial reporting, both in terms of content and in terms of the reliability and comparability of information, also providing for an expansion of the companies required to prepare the sustainability report [71]. Concerning sustainability reporting requirements, the new discipline therefore provides for extending the scope of reporting requirements to additional companies, including all large companies and listed companies, even if they are medium

[3] Average number of 500 employees; and at least one of the following limits: Total assets on the balance sheet > € 20 mln; Net revenues > € 40 mln.

[4] Average number of 250 employees. Total assets on the balance sheet > € 20 mln; Net revenues > € 40 mln.

[5] Average number of employees between 10 and 250. Total assets on the balance sheet: € 350,000-20 mln; Net revenues: € 700,000-40 mln.

Table 1. CSRD and NFRD: similarities and differences.

	Similarities
Sustainability Reporting	Both directives focus on the need for companies to report sustainability-related information, including environmental, social, and governance aspects
Objective of transparency	Both the CSRD and the NFRD aim to improve the transparency of information provided by companies regarding their sustainability impact
Involvement of large companies	Both directives apply primarily to large companies, with specific criteria for determining which companies are subject to reporting requirements
	Differences
Scope of application	The main difference between the two Directives is in their scope. The NFRD only applies to public-interest companies with more than 500 employees, while the CSRD extends to a larger number of companies, including large unlisted companies
Content and details of the information	The CSRD aims to define more detailed common standards for sustainability reporting than the NFRD, which has only provided general guidelines. The CSRD is designed to ensure greater consistency and comparability of sustainability information
Audit Requirements	The CSRD introduces an obligation to subject sustainability information to an external review or audit, while the NFRD does not explicitly require such a requirement

Source: Own processing data on CSRD,2022, and NFRD, 2014

and small (excluding microenterprises, even if listed) in a context of proportionality and specify in more detail the information that companies should report and require them to report in line with the mandatory EU sustainability reporting standards that will be drafted [72]. It is also guaranteed that all information is published as an integral part of the Annual Report of companies and that it is published in a digital format that can be processed and identified automatically and make any relevant information easily accessible. In addition, new information requirements on strategy, objectives, the role of the Board of Directors and management, main negative impacts related to the company and its value chain, and how to identify such information are introduced, compared to the existing legislation. The adoption of forms of non-financial reporting brings with it a wide range of appreciable advantages and benefits. It guarantees greater transparency towards stakeholders regarding social activities and environmental initiatives and investors are increasingly attentive to issues related to ESG opportunities, facilitating access to substantial amounts of capital. Furthermore, virtuous practices generate an increase in staff motivation as well as a better reputation, contributing to the management of corporate

responsibility from a strategic perspective through non-financial reporting. This triggers an orientation towards continuous improvement, considering that the drafting of a sustainability report leads the company to continuously set qualitative and quantitative performance objectives that allow it to improve over time [73]. The main objective of the CSRD is to provide corporate stakeholders with more comprehensive, detailed, and standardized access to sustainability information [74]. This involves ensuring that undertakings disclose non-financial information in a relevant, comparable, reliable, and easily accessible manner to stakeholders, thus reducing the additional costs of preparing such information [75]. This approach is expected to benefit the financial market by improving the completeness, transparency, and comparability of data, allowing investors to better assess the risks related to the sustainability and impact of investments [76]. In addition, the Directive should facilitate investors' access to comparable non-financial information provided by investee companies across the EU, thus contributing to the completion of the Capital Markets Union. In general, these new provisions are expected to strengthen the social relationship between society and businesses, making the latter more aware of and responsible for their socio-economic and environmental impact.

3.3 The Introduction of New Sustainability Standards: The ESRS

The new CSRD includes the obligation to report according to EU sustainability standards. In this regard, the European Commission has entrusted the European Financial Reporting Advisory Group (EFRAG) with the development of these standards, with the request that they be consistent with the ambition of the European Green Deal and with the existing legal framework in Europe. The need to establish a robust and accessible framework for non-financial reporting to ensure data reliability, and avoid *greenwashing* and double accounting [77]. The oversight of the reporting rules is entrusted to the various authorities including ESMA. The guidelines for non-financial disclosure establish a set of information to be disclosed, in detail they report on [78]. The information that companies are required to keep about environmental factors like climate change, such as greenhouse gas emissions, adaptation to climate change, the use of resources and the circular economy, pollution, biodiversity, and ecosystems. The information that companies keep regarding social factors and human rights such as equal treatment, including gender equality, equal pay, training, skills development, and inclusion of persons with disabilities, collective bargaining, workers' rights to information, consultation and participation, work-life balance, health and safety; respect for human rights. The information that undertakings are required to disclose about governance factors like the role of the company's administrative, management, and control bodies about sustainability issues and their competencies and capabilities; the main features of the company's internal control and risk management systems, regarding sustainability reporting; business ethics, including anti-corruption and animal welfare. The new European Sustainability Reporting Standards (ESRS) were adopted on 31 July 2023 and intended to become the guidelines for all companies that must draw up sustainability reports according to the CSRD. ESRS are divided into two categories [79], general ESRS and sectoral ESRS, which will be published in June 2024, together with standards for SMEs. The General ESRS is divided as follows in Table 2.

Table 2. ESRS structure.

Cross-cutting standards	Environmental Thematic Standards	Social Thematic Standards	Thematic Governance Standards
ESRS 1 General principles *ESRS 2* General Information Requirements	*ESRS E1* Climate Change *ESRS E2* Pollution *ESRS E3* Water and Marine Resources *ESRS E4* Biodiversity and Ecosystems *ESRS E5*	*ESRS S1* In-house workforce *ESRS S2* Workersin the value chain *ESRS S3* Communities Concerned *ESRS S4* Consumers and End Users	*ESRS G1* Business Conduct
	Resource Use and Circular Economy		

Source: Own processing data on ESRS, 2023

ESRS are used for sustainability reporting, starting from the financial year 2024, with the first sustainability statement published in 2025, by companies already subject to the NFRD. Starting from the 2025 financial year, other large companies (with 250 employees and/or €40 million in turnover and/or €20 million in total assets) will have to be aligned, with the publication of the first sustainability statement in 2026 [80]. Listed SMEs, on the other hand, are required to adopt ESRS from the 2026 financial year, with the first sustainability statement published in 2027. However, listed SMEs may decide to extend their reporting requirements for a further two years. In addition, simplified and proportionate reporting is provided for SMEs. The main innovations of the new ESRS standards are the complete integration of ESG aspects into the business model and the assessment of companies' risks and opportunities. This follows the introduction of new and fundamental concepts indicated below [81].

Double materiality. Organizations must consider both the impacts of their activities on the environment and society (impact materiality) and the impacts of these issues on their economic and financial performance (financial materiality).

Value chain. Companies must identify and report on material impacts, risks, and opportunities (IROs) related to direct and indirect business relationships in the upstream and/or downstream value chain.

Due diligence. Attestation of compliance with sustainability reporting by an independent auditor becomes mandatory before filing with the competent authority.

The aim of using ESRS is to gradually align all large EU companies with the disclosure of the impact of their activities and any sustainability risks to which they are exposed. This would strengthen the Union's social market economy and lay the groundwork for sustainability reporting standards globally [82]. In execution of the obligation to provide the information necessary for the preparation of the sustainability statement, which is included in the management report, EFRAG has developed the ESRS I and

ESRS 2 reporting standards. The ESRS 1 standard, divided into 10 chapters[6], identifies and classifies the "general requirements" for adequate sustainability reporting [83]. The ESRS 2 standard, identifies the mandatory general ESG information that is not subject to the materiality assessment. It is structured on 4 pillars and aligned with international regulatory frameworks, they are Governance, Strategy, Impact, Risk and Opportunity Management (IRO), and Results and objectives [84]. Through the adoption of the CSRD and ESRS, European companies will be required to integrate sustainability into their decision-making processes and communicate their environmental, social, and governmental impacts [85]. This will foster greater confidence among investors, consumers, and other stakeholders, and help drive the transition to a more sustainable and responsible economy [86]. However, organizations need to recognize the opportunity that sustainability represents for innovation and long-term value creation, and for there to be adequate support from regulators, businesses, and other stakeholders, so that the CSRD and ESRS can have a meaningful impact [87]. ESRS are therefore fundamental tools to promote corporate sustainability and guide companies towards greater social and environmental responsibility, thus contributing to building a more sustainable future for all [88].

4 Conclusion

In recent years, the attention linked to the environmental and social component, considering its influence on the economic system, has assumed considerable importance. This increased sensitivity and the urgent need for action are demonstrated by the numerous initiatives implemented by the international community, which in recent years has made a growing commitment to tackle climate change. From these national and international experiences that call the economy to a growing and more conscious social responsibility of their work, the analysis of non-financial factors has entered forcefully into the evaluation of the performance of companies. The need not only of investors and stakeholders but above all Civil Society to have adequate elements for assessing companies' exposure to sustainability opportunities, has long highlighted the need for the reporting prepared by companies not only to be limited to financial information but also to non-financial information. This is evident in the new CSRD, the most recent EU legislation on ESG reporting, and due diligence for the disclosure of non-financial information relating to the individual and consolidated financial statements of companies established in the context of the European Union. For this Directive, the Commission has carried out coordinated work with the main organizations developing reporting standards at the international level to conduct a harmonization process by establishing ESRS as sustainability reporting standards. For the benefit of all stakeholders, a defined transparent and accountable public disclosure and reporting framework has been established to identify and quantify ESG risks and opportunities and to integrate these risks and opportunities

[6] Categories of standards and information in the ESRS; qualitative characteristics of the information; double materiality; due diligence; value chain; time horizon; preparation and presentation of sustainability information; structure of sustainability reporting; links to other sections of the business report; transitional provisions.

into their strategies. The establishment of a more unitary and coherent reporting framework has also brought benefits to all companies, ensuring that they operate in a system of common sustainability standards with obvious advantages in terms of comparability but also in terms of reducing implementation costs. Fair and correct reporting of ESG impacts on corporate activities through forms of non-financial disclosure is a way to achieve greenwashing and inefficient financial capital allocations to companies that are not sufficiently green. Making the transition to a fairer and more circular economy a reality, starting with reporting, is certainly an ambitious goal. The adoption of an adequate performance metric of ESG dimensions with the use of the new ESRS, and the attention to sustainable development issues, as a reversal of the degrowth process, can represent concrete actions to mitigate the impacts of human activities on the climate and the environment. In the light of what has been briefly illustrated so far, the breadth, articulation, and complexity of the information required by the European legislator is evident. To comply with the CSRD, a rapid and profound organizational and cultural evolution of companies is necessary. Now, enterprises must widely and quickly adopt risk-oriented management processes and tools. This approach, consequent to the regulations issued in the field of sustainability, will consequently and by osmosis, transversally and widely, involve all business processes. This induced and widespread cultural evolution will be able to strengthen the governance and management processes of companies, even more so in smaller ones. The challenge will be to measure the progressivity and proportionality with which SMEs will have to evolve to comply. Excessive regulation and compliance costs could boomerang if they undermine the dynamism and agility of smaller companies. The orientation of the European legislator towards the progressive and staggered implementation of the rules appears to be consistent but, in the absence of adequate effective and substantial controls and sanctions, if the cost of non-compliance with the standard is not adequate and significant, the effectiveness and effectiveness of the regulatory framework could prove to be weak and greatly decreased. Regarding the correct implementation of the sustainability framework, the company's top management and governance play a fundamental role, which must have adequate skills, and strategic clarity and make effective and measurable commitments. There is still a long way to go for the adoption of models that can be defined as sustainable, but the direction traced seems to be oriented towards increasingly stringent rules, aimed at increasing companies' awareness of their negative externalities, to introduce virtuosity in business processes in a long-term perspective. The future goal is not only related to harmonizing reporting processes and ensuring a reporting system that provides clear, transparent, reliable, and verifiable information but above all to recognize the value of sustainability reporting as financial, marking awareness of the relevance of environmental, social, and governance issues.

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