

NATIONAL ECONOMY'S MARKET MECHANISMS OF ACCOUNTING, ANALYSIS AND AUDIT

UDC 657.471:334.722(477):061.1EC(083.74)

DOI <https://doi.org/10.26661/2414-0287-2024-3-63-06>

UKRAINE ON THE WAY TO THE EU: NON-FINANCIAL BUSINESS REPORTING FROM NFRD TO CSRD

Seysebayeva N.G., Kulik I.V.

Zaporizhzhia National University

Ukraine, 69600, Zaporizhzhia, 66 Zhukovskoho St.

ngs19570104@gmail.com, alexial@i.ua

ORCID: 0000-0002-6496-2554

Key words:

sustainable development,
European Union directives, non-
financial reporting, NFRD, CSRD,
adaptation, harmonization.

Reporting on sustainable development, based on the Sustainable Development Goals, becomes a revolutionary tool in transforming the modern world. It allows for assessing the impact of human activities on the environment and socio-economic processes, as well as developing strategies and measures to ensure a balance between present needs and the opportunities of future generations. At the core of this approach lies the understanding of the necessity to ensure economic growth, social justice, and environmental protection simultaneously to ensure the sustainable development of society. This requires active participation from governments, businesses, and citizens in implementing sustainable development policies, as well as responsibility for their outcomes. Sustainable development reporting is a key instrument that helps track progress towards achieving the Sustainable Development Goals, identify issues, and develop effective strategies for their resolution. This process demands openness, transparency, and collaboration from all stakeholders at various levels, from local to global.

Experts from the Organisation for Economic Co-operation and Development (OECD) believe that mandatory reporting on sustainable development should be required for all companies to improve decision-making processes in financial markets. However, despite the widespread adoption of sustainable development reporting worldwide, significant disparities exist in the formats, scope of information, and approaches to forming indicators of corporate social responsibility. This makes sustainability reporting challenging for comparison and analysis.

Key issues remain the quality, comparability, and independent verification of sustainability reporting by third parties. Therefore, standardization of sustainability reporting and mandatory disclosure of information according to sustainable development dimensions are critically important.

Unlike Ukraine, there are already established approaches to regulating, standardizing, and mandating disclosure of sustainable development reporting worldwide. Increasing concerns about the impact of business on the environment, society, and the economy, the necessity for clear, comparable, and reliable sustainable development information for informed decision-making by investors, clients, and other stakeholders, coupled with the fragmentation and ambiguity in sustainability reporting that complicates comparison and analysis, all lead to the necessity of standardizing clear and transparent information on sustainable development [1].

It is important to have laws that establish environmental and social boundaries for investment and entrepreneurial activities. This is the only way to make significant progress towards a sustainable future – an economy built on healthy relationships with each other and the environment, rather than one that strains or depletes these relationships [2].

УКРАЇНА НА ШЛЯХУ ДО ЄС: НЕФІНАНСОВА ЗВІТНІСТЬ БІЗНЕСУ ВІД NFRD ДО CSRD

Сейсебаєва Н.Г., Кулик І.В.

Запорізький національний університет

Україна, 69600, м. Запоріжжя, вул. Жуковського, 66

Ключові слова:

сталий розвиток, директиви Європейського Союзу, нефінансова звітність, NFRD, CSRD, адаптація, гармонізація.

Звітність зі сталого розвитку, ґрунтуючись на Цілі сталого розвитку, стає революційним інструментом у перетворенні сучасного світу. Вона дозволяє оцінювати вплив людської діяльності на навколишнє середовище та соціально-економічні процеси, а також розробляти стратегії та заходи для забезпечення балансу між потребами сьогодення та можливостями майбутніх поколінь. В основі цього підходу лежить усвідомлення необхідності забезпечення економічного зростання, соціальної справедливості та охорони довкілля одночасно, щоб забезпечити стійкий розвиток суспільства. Це вимагає від урядів, бізнесу та громадян активної участі у впровадженні політики сталого розвитку, а також відповідальності за її результати. Звітність зі сталого розвитку є ключовим інструментом, який допомагає відстежувати прогрес у досягненні Цілей сталого розвитку, виявляти проблемні питання та розробляти ефективні стратегії для їх вирішення. Цей процес вимагає відкритості, прозорості та співпраці всіх зацікавлених сторін на різних рівнях – від місцевого до глобального.

Експерти Організації економічного співробітництва та розвитку (ОЕСР) вважають, що для покращення процесу прийняття рішень на фінансових ринках звітність зі сталого розвитку має бути обов'язковою для всіх компаній. Але не зважаючи на значне поширення звітності зі сталого розвитку у світі, існують значні розбіжності у форматах, обсязі інформації та підходах до формування індикаторів корпоративної соціальної відповідальності. Це робить звітність складною для порівняння та аналізу.

Ключовими питаннями залишаються якість, зіставність та незалежне підтвердження звітності зі сталого розвитку третіми сторонами. Саме тому стандартизація звітності зі сталого розвитку та обов'язкове розкриття інформації за вимірами сталого розвитку є критично важливими.

На відміну від України, у світі вже існують напрацьовані підходи до регулювання, стандартизації та обов'язкового розкриття звітності зі сталого розвитку. Зростаюча стурбованість впливом бізнесу на довкілля, суспільство та економіку, необхідність чіткої, порівнянної та надійної інформації про сталий розвиток для прийняття обґрунтованих рішень інвесторами, клієнтами та іншими зацікавленими сторонами, присутня фрагментарність та неоднозначність у звітності про сталий розвиток, що ускладнює порівняння та аналіз – все це призводить до необхідності стандартизації чіткої та прозорої інформації про сталий розвиток [1].

Важливо мати закони, які встановлюють екологічні та соціальні межі інвестиційної та підприємницької діяльності. Це єдиний спосіб досягти суттєвого прогресу в напрямку сталого майбутнього – тобто економіки, побудованої на здорових відносинах одна з одною та навколишнім середовищем, а не економіки, яка напружує або виснажує ці відносини [2].

Problem statement

As a country aspiring to join the European Union (EU), Ukraine must adapt its legislation and standards in accordance with European norms. One of the key aspects of this adaptation is the reform of the business non-financial reporting system.

According to the EU Directive on Non-Financial Reporting (NFRD), companies with significant impact must report on their social, environmental, and corporate responsibility. However, this directive has been revised, and as a result, the EU has adopted a new

standard – the Corporate Sustainability Reporting Directive (CSRD) [5].

One of the problems for Ukraine is the necessity of implementing CSRD and making corresponding changes to national legislation regarding non-financial reporting. This requires significant efforts to harmonize reporting standards and ensure compliance with European norms.

Another issue may be the insufficient preparation of businesses for the new requirements regarding non-financial reporting and the lack of necessary resources to implement these changes.

Thus, an important task for Ukraine is the effective implementation of CSRD and ensuring compliance with European non-financial reporting standards to support its path towards EU membership.

Analysis of recent research and publications

A significant portion of the researched academic works consists of studies by foreign scholars directly addressing issues, development prospects, and the necessity of standardizing sustainable development reporting [4]: Hahn and Kühnen, Eccles and Serafeim, Ioannou and Serafeim, Gray and Milne, Hahn and Lülf, and others. In Ukrainian academic circles, the issue of standardizing sustainable development reporting is insufficiently covered, which is due to the emergence of this research direction in Ukraine and the limited dissemination of sustainable development reporting among most Ukrainian companies, except for large and transnational ones. Additionally, it is possible to mention scholars who have researched sustainable development issues at the global, national, regional, and local levels: G. Azzoni, L. Braat, G.H. Brundtland, L. van Wassenhove, R. Welford, L. Hryniw, B. Danylyshyna, J. Elkington, L. Kvyatkovska, P. Kleinberger, L. Melnyk, V. Trehobchuk, R. Freeman, K. Fussler, R. Haynes, M. Hvesyk, T. Holmes. Contemporary research directions relate to optimizing stakeholder relationships to ensure sustainability throughout all stages of the enterprise value chain.

Key aspects that can be the subject of research include:

- comparative analysis of Ukrainian national legislation with CSRD standards and identification of necessary changes and adaptations,
- assessment of how changes in non-financial reporting will impact the business environment in Ukraine, particularly on large companies with significant influence,
- analysis of the readiness of Ukrainian companies to implement new non-financial reporting standards and identification of potential obstacles,
- evaluation of how the adaptation of Ukrainian businesses to CSRD standards can affect consumer trust, investors, and other stakeholders.

Considering the importance of this issue for the future economic development of Ukraine, it is crucial to encourage such research and the implementation of recommendations they may provide.

Objectives Formulation:

This study examined the NFRD directive, the CSRD regulation, the potential impact on businesses transitioning to CSRD, possible challenges for businesses transitioning from NFRD to CSRD, and potential benefits for Ukraine.

The article aims to analyze and describe the current situation on Ukraine's path to the EU. The research goals for the adaptation of Ukrainian legislation and the business environment to CSRD standards and non-financial reporting are as follows: evaluate the degree of compliance of Ukrainian national legislation with European CSRD standards and identify deficiencies or gaps, analyze the impact, assess the readiness level of Ukrainian companies to implement new non-financial reporting standards, and identify constraints or obstacles to their implementation,

identify potential risks associated with inadequate adaptation to CSRD standards and develop strategies for their prevention, develop tools and practices aimed at increasing trust among consumers, investors, and other stakeholders in the non-financial reporting of Ukrainian companies, ultimately, develop recommendations and strategies to enhance the competitiveness of Ukrainian companies in light of new requirements for non-financial reporting.

Researching these aspects will help understand how Ukraine can effectively adapt its legislation and business practices to European CSRD standards, thereby contributing to its path to European integration and increasing trust levels both domestically and internationally.

Outline of the main material of the research

The Non-Financial Reporting Directive (NFRD) [5] serves as a crucial instrument for ensuring transparency and openness in the activities of enterprises within the European Union. Adopted by the EU in 2014, its primary goal is to implement standardized requirements for reporting on non-financial aspects of business, such as social responsibility, environmental activities, governance, gender equality, and other socio-economic indicators.

This directive mandates that enterprises meeting certain criteria include information on these aspects in their annual reports. The main objectives of the NFRD are to enhance transparency and openness in the activities of enterprises, promote sustainable development, and increase the level of trust among stakeholders. Key criteria for enterprises that need to be considered include (Fig. 1).

The NFRD directive helps businesses systematically consider their impact on the environment and society when making strategic decisions. It also fosters increased awareness of social responsibility within the business community and encourages companies to make positive changes in their operations to achieve social and environmental goals.

Ukraine is also actively incorporating the principles of the NFRD directive into its legislative framework to harmonize with European standards and enhance transparency and accountability of enterprises. This creates favorable conditions for the integration of Ukrainian companies into the international market and attracting investments, thereby contributing to the development of the economy and increasing the country's competitiveness.

In November 2022, the Non-Financial Reporting Directive (NFRD) was replaced by the Corporate Sustainability Reporting Directive (CSRD) due to its limitations [6], as the EU recognized the need for stricter reporting requirements and the expansion of the scope of companies covered by the legislation.

The CSRD regulation [7] is a new legislative act of the European Union aimed at improving the standards of non-financial reporting of enterprises.

Key aspects of the CSRD regulation are aimed at improving the standards of non – financial reporting of enterprises and include (Fig. 3).

The CSRD regulation represents a significant step forward in enhancing non-financial reporting standards and contributes to strengthening sustainable development and corporate responsibility within the European Union.

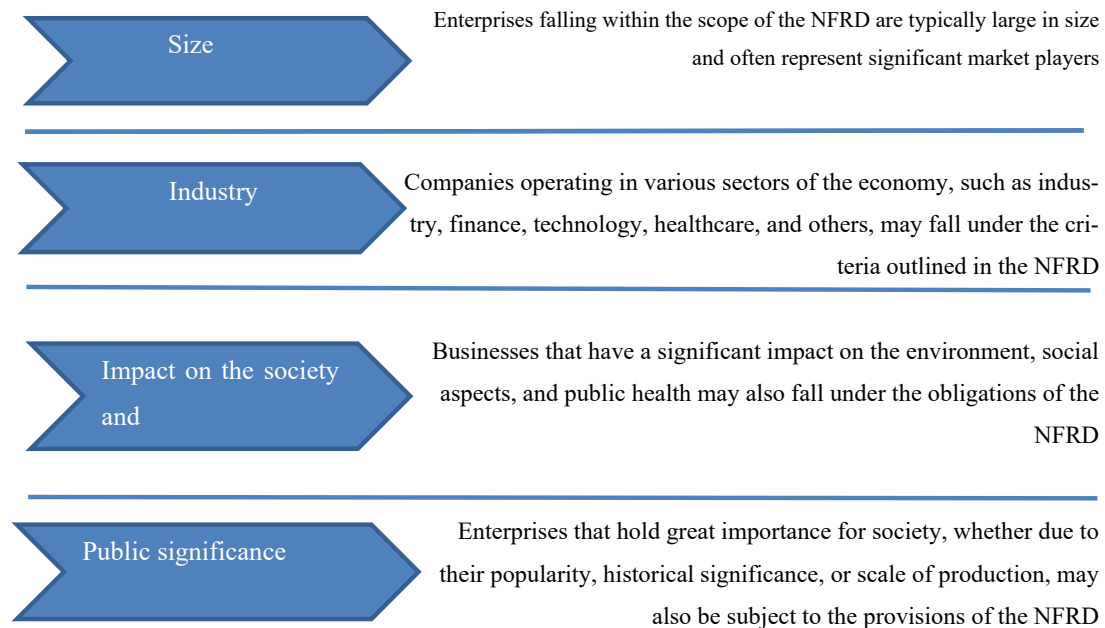


Figure 1



Figure 2 – Chronology of the CSRD Regulation and Possible Changes

Source: compiled based on [6]

For Ukraine, joining the CSRD Regulation or developing its own standards aligned with CSRD principles can have several key advantages and consequences [8] (Fig. 4).

Transitioning to Corporate Sustainability Reporting Directive (CSRD) may result in various changes in companies' business practices.

Potential impacts on business due to transitioning to CSRD include (Fig. 5).

The transition from the Non-Financial Reporting Directive (NFRD) to the Corporate Sustainability Reporting Directive (CSRD) [9] may pose several problems and challenges for businesses. Enterprises may face a multitude of requirements and obligations during the transition, as CSRD entails stricter reporting requirements, including an expanded scope of responsibility and more detailed reporting on non-financial indicators, which may lead to increased administrative costs

and the need for additional resources to comply with the new requirements. With the expansion of non-financial reporting scope and the implementation of new standards, there may be inconsistency in the interpretation of CSRD requirements, leading to inconsistency in reporting among different enterprises and complicating result comparisons. Compliance with the new CSRD requirements may require more qualified staff or skills in non-financial reporting, necessitating investments in training and staff development. Some companies may become less competitive due to increased compliance costs with the new standards, particularly smaller enterprises or those already facing financial difficulties. Finally, transitioning to CSRD may require the review and modernization of current business processes and data collection systems. This can be a complex process, especially for companies with large data volumes or outdated systems.

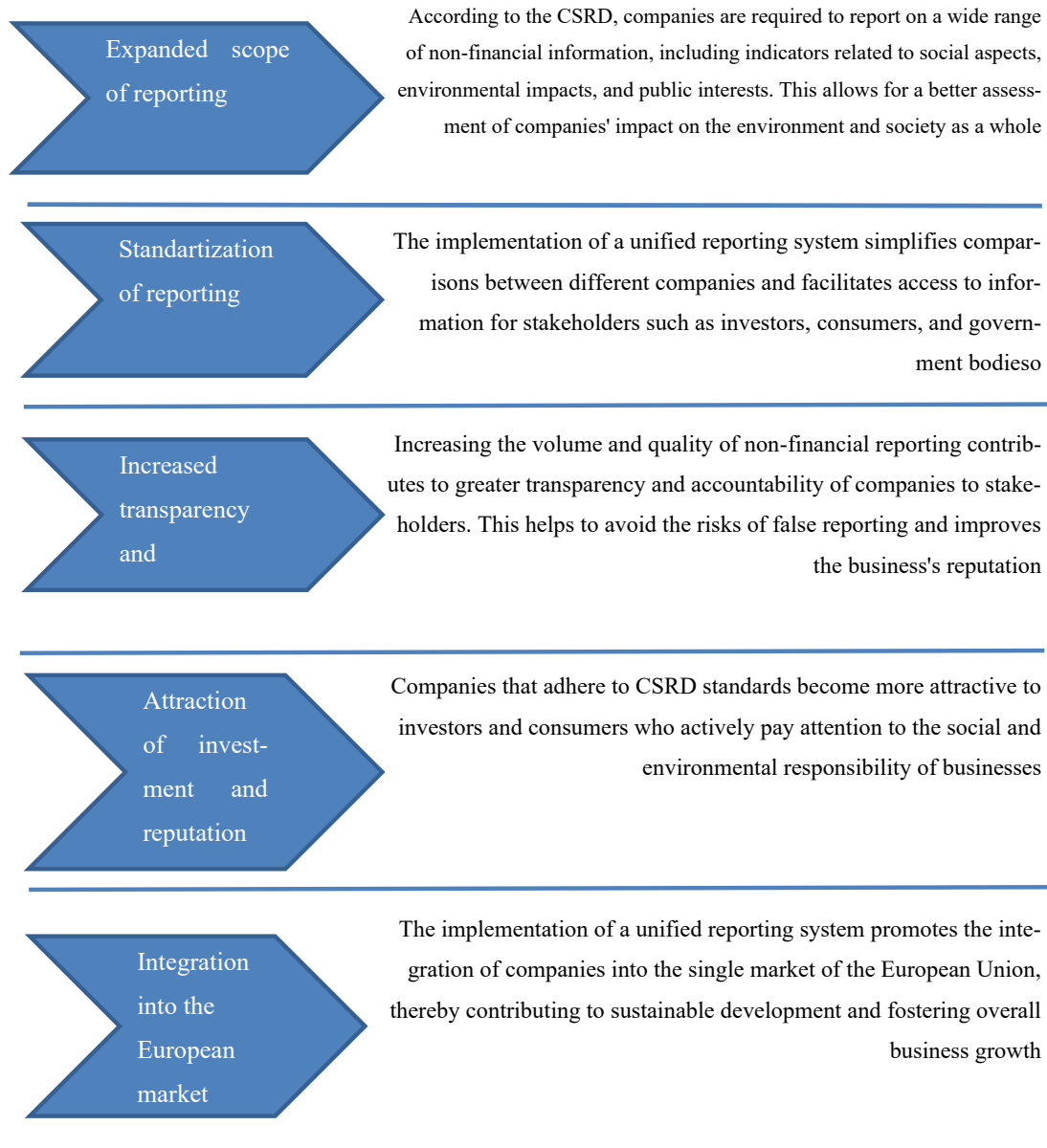


Figure 3

However, if companies fail to meet the new non-financial reporting requirements, it may result in loss of investor and other stakeholders' trust, negatively impacting the company's reputation and financial position.

Conclusions from the conducted research

The implementation of standards has significant potential to stimulate sustainable development and enhance corporate responsibility [10, 11, 12]. This trend is particularly important in the modern world, where companies are challenged to balance their commercial interests with societal needs and environmental preservation.

Firstly, standardized non-financial reporting incentivizes companies to develop and adopt strategies aimed at sustainable development. Special attention is given to the impact of activities on social, environmental, and economic aspects, as well as the development of specific measures to reduce negative impacts and support sustainable

development. For example, companies may implement programs to reduce emissions, optimize resource utilization, and support social programs for local communities.

Secondly, the implementation of CSRD encourages companies to take greater responsibility for their actions. Companies recognize their role in society and the natural environment and take more proactive steps to reduce negative impacts and promote sustainable development. This may include implementing environmental initiatives, social programs, and measures to support transparency and ethical conduct.

Thirdly, companies actively implementing CSRD standards have a better reputation among consumers, investors, and the public. This can lead to increased trust in the brand and enhanced competitiveness in the market. Companies may gain an advantage in the competitive environment due to their commitments to sustainable development and social responsibility.

Table 1 – The main differences between the NFRD and the CSRD [5, 6]

The main differences	Non-Financial Reporting Directive (NFRD)	Corporate Sustainability Reporting Directive (CSRD)
Scope of application	Extends the scope of reporting requirements from approx 12,000 subjects	Extends the scope of reporting requirements from approx 50,000 subjects
Chronology	Currently valid but will be replaced by CSRD	It will be applied from January 1, 2023
Goals	Increasing the transparency and comparability of companies' reporting on sustainable development	Improving the quality and consistency of companies' reporting on sustainable development
Reporting requirements	Mandatory reporting on environmental protection, social responsibility, employee relations, board diversity and human rights	Introduces more comprehensive reporting obligations, including the concept of dual materiality, long-term ESG goals, due diligence of operations and supply chains, disclosure of intangible information, alignment with sustainable finance rules and mandatory external validation.
Harmonized reporting standards	Allowed companies to choose from different reporting systems, resulting in a lack of unified standards.	Aligns with the European Sustainability Reporting Standards (ESRS), providing a common set of guidelines and reporting requirements under this framework.
External support	External support was optional	External confirmation is mandatory.
Digital reporting	There are no special requirements for standardized digital reporting.	Requires companies to format and publish their sustainability reports in a standardized digital format, promoting accessibility and comparability.
Sanction for non-compliance	Companies that do not comply can face fines or legal action from stakeholders	Companies that do not comply can face fines or legal action from stakeholders

Source: compiled based on [5, 6]

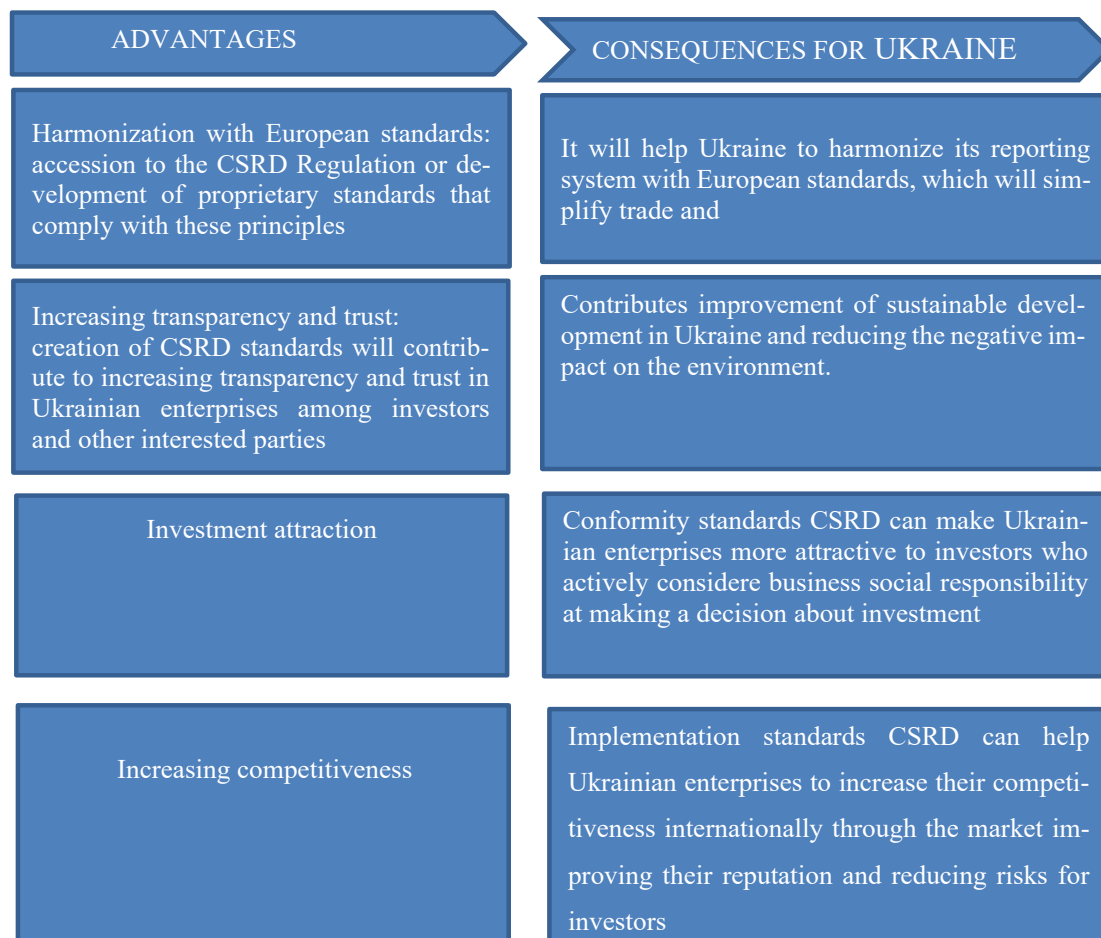


Figure 4



Figure 5

References

1. Official website of the Parliament of Ukraine. «Про Цілі сталого розвитку України на період до 2030 року.» URL: <https://zakon.rada.gov.ua/laws/show/722/2019#Text> (Accessed: 01.05.2024).
2. Government portal of Ukraine. “Питання збору даних для моніторингу.” ShieldSquare Captcha. URL: <https://www.kmu.gov.ua/npas/pitannya-zboru-danih-dlya-monitorin-686r> (Accessed: 01.05.2024).
3. State Statistics Service of Ukraine. URL: <https://www.ukrstat.gov.ua/> (Accessed: 01.05.2024).
4. Sustainability Leaders United. “John Elkington, Founder of SustainAbility and Volans | Sustainability Leaders United.” URL: <https://sustainability-leaders.com/interview-john-elkington/> (Accessed: 03.05.2024).
5. NFRD | MATERIALITY. *Raportowanie informacji niefinansowych*. URL: <https://en.materiality.pl/tag/nfrd/> (Accessed: 03.05.2024).
6. The Carbon Trust. “Corporate Sustainability Reporting Directive (CSRD) explained.” URL: <https://www.carbontrust.com/news-and-insights/insights/corporate-sustainability-reporting-directive-csrd-explained> (Accessed: 03.05.2024).
7. European Commission – Finance. “Corporate sustainability reporting.” URL: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en (Accessed: 05.05.2024).
8. EUROSIF. “Publications.” URL: <https://www.eurosif.org/publications/> (Accessed: 05.05.2024).
9. Deloitte Deutschland. URL: <https://www2.deloitte.com/content/dam/Deloitte/nl/Documents/deloitte-nl/sustainability-eu-tax-csrd-timeline-june-2022.pdf> (Accessed: 05.05.2024).
10. The Harvard Law School Forum on Corporate Governance. “EU’s New ESG Reporting Rules Will Apply to Many US Issuers.” URL: <https://corpgov.law.harvard.edu/2022/11/23/eus-new-esg-reporting-rules-will-apply-to-many-us-issuers/> (Accessed: 05.05.2024).
11. Indicators For The Sustainable Development Goals. «Індикатори цілей сталого розвитку.» URL: <https://sdg.ukrstat.gov.ua/uk/> (Accessed: 05.05.2024).
12. UNSD – Welcome to UNSD. “SDG Indicators.” URL: <https://unstats.un.org/sdgs/indicators/indicators-list/> (Accessed: 05.05.2024).