Ensuring the transparency of ESG reporting based on the development of its standardization

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Abstract. The purpose of the study was to consider the priority areas of development, the main innovations and the prospects for standardizing ESG reporting as a tool to ensure its informative and analytical value. The article highlights the prerequisites for promoting sustainability reporting and its standardization in the context of modern challenges associated with the need to consolidate efforts at all levels to implement the ESG agenda and spread responsible business practices. The content of the current changes in the GRI Standards related to updating Universal and Topic standards, developing Sector standards and, in general, improving the quality and consistency of ESG reporting standards is disclosed. The prospects for standardization of ESG reporting in connection with the implementation of the IFRS Foundation Project on the development of international standards for the disclosure of information on sustainable development, focused on the needs of investors and financial markets, are shown. New horizons for ESG reporting have been defined in the context of the development by EFRAG of new European sustainability reporting standards. The results obtained are aimed at expanding and improving the use of ESG reporting standards by organizations when disclosing information on the impact on the economy, the environment and the social sphere, and will contribute to further ESG business transformation.

1 Introduction

In connection with the consistent implementation of the sustainable development agenda at the international level, the issues of transparency and quality of ESG data, assessing the ESG performance of companies and making ESG-oriented decisions by organizations and their stakeholders are becoming highly relevant.

For more than two decades, there has been a steadily growing demand for information in the field of sustainable development from various stakeholders, primarily investors and financial markets. The demand for ESG reporting data, their integration into the process of substantiating investment decisions within the framework of responsible investment is discussed in the works of Cort, Esty [1], Jonsdottir et al. [2], Harymawan et al. [3], Wen et al. [4].

The correlation between ESG risks and ESG reporting indicators reflecting them, on

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the one hand, and financial business metrics, on the other hand, has been demonstrated in the results of studies by a number of authors, such as Bauer, Hann [5], Goss, Roberts [6], Attig et al. [7], Chava [8], Giraporn et al. [9], Zenkina [10].

The issues of disclosure of information about sustainable development in corporate reporting, ensuring its quality and the impact of digitalization on ESG reporting are highlighted by researchers such as Darnall et al. [11], Arnold et al. [12], Arvidsson, Dumay [13], Yu et al. [14], Wu et al. [15].

The issues of further promotion of sustainability reporting should be considered in conjunction with the sustainability agenda and trends in the standardization of ESG reporting.

The currently noted significant complication of the geopolitical situation in the world, which has exacerbated a set of economic, environmental and social problems, not only does not reduce the importance of the ESG agenda at the global and microeconomic levels, but also causes its actualization and requires consideration in the context of new challenges and threats. This is due to the fact that the flurry of politically motivated economic sanctions that hit the Russian Federation was in fact opposed to a number of global UN sustainable development goals adopted until 2030, and boomeranged the economies of many countries involved in the sanctions pressure. Thus, initially promoted under the guise of a transition to a "green" economy and reducing carbon emissions and intensified against the backdrop of Russophobic sentiments, the refusal of many European states to import Russian hydrocarbons actually turned into the need for them to use much less environmentally friendly fuels and clearly conflicts with such a goal of sustainable development as providing universal access to affordable, reliable, sustainable and modern energy sources. In turn, limited access to energy has given rise to a wide range of issues that are at odds with the goals of sustainable development, in particular those related to the promotion of inclusive and sustainable economic growth, full and productive employment and decent work for all. In modern conditions, there is also an increase in the importance of other sustainable development goals, dictated, in particular, by the aggravation of the problems of eliminating hunger and ensuring food security in the world, strengthening the means of implementation and intensifying work within the framework of the global partnership for sustainable development, etc. [16]. A serious danger not only to the goals of sustainable development, but also to the very fact of the continued existence of the planet Earth is climate problems and, especially, the clear-sounding rhetoric about nuclear threats against the backdrop of the desire of individual countries to dominate.

In the context of increasing global challenges associated with the existing practice of making decisions at the international level, dictated by political motives to the detriment of ESG-efficiency, the implementation of the concept of sustainable development requires appropriate tools at the level of countries, macroregions and corporations. Consolidation of efforts to achieve sustainable development goals at all levels, from global to corporate, is a guarantee that meeting the needs of the present will not call into question the ability of future generations to meet their needs. This definition of sustainable development was given by the International Commission on Environment and Development in 1987 and it is urgent at the moment.

In this regard, at the present stage, the accountability of countries on the implementation of global sustainable development goals, the development of a methodological apparatus and the introduction of the practice of assessing the contribution of individual states to the implementation of the concept of sustainable development on a global scale seems to be an important vector for the foreseeable future. To do this, within the framework of the methodology of macroeconomic analysis, it is advisable to develop key indicators of the ESG performance of countries as tools for analyzing, evaluating and monitoring the sustainability of their development. The use of such a system of indicators, depending on

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the level of aggregation and disaggregation of information, would make it possible to determine the impact of countries and macroregions on global sustainability, the contribution of individual regions to the sustainable development of the country, and the impact of the corporate sector on the sustainable development of territories.

At the microeconomic level, such a tool is corporate ESG reporting, which ensures the transparency of economic entities regarding the achievement of sustainable development goals and stimulates responsible business practices. With regard to this tool, which is widespread and well-established in corporate practice, standardization is currently required to further improve its application. The importance of standardizing sustainable development reporting makes it possible to harmonize approaches to preparing and presenting reports, develop reliable approaches to reporting verification, achieve comparability of organizations' reporting and, on this basis, create opportunities for a full-fledged analysis and reasonable conclusions based on the results of the evaluation of ESG reporting.

2 Materials and Methods

This study is aimed at a comprehensive review of the prerequisites and directions for the development of sustainable development reporting standardization, the content of the current changes made to ESG reporting standards, the impact of innovations on the informative and analytical value of ESG reporting, as well as the prospects for improving ESG reporting standards.

Within the framework of the study, methods of analysis and synthesis, detailing and generalization, comparison, abstraction, analogy, as well as systematic, strategic and risk-oriented approaches were applied.

The study is based on an analysis of the development and evaluation of the content of ESG reporting standards as a methodological basis for disclosing ESG data, evaluating the ESG performance of companies and making ESG-oriented decisions by organizations and their stakeholders. The conclusions and results of the study are based on a generalization of foreign and Russian practice of reflecting ESG data in corporate reporting.

3 Results

Currently, most corporations are preparing sustainability reports based on the standards of the Global Reporting Initiative (GRI). They are rightfully considered the most comprehensive, high-quality and, therefore, the most popular sustainability reporting standards. This is confirmed by the fact that the dominant part of public non-financial reports in the world practice is compiled on their basis.

Since the release of the first Sustainability Reporting Guidelines (GRI Guidelines) by the Global Sustainability Standards Board (GSSB) in 1997, the GRI Standards have been constantly improved, taking into account the critical evaluation of previous versions, summarizing the practice of applying standards and feedback from stakeholders [17]. In this way, the GRI Standards favorably differ from other guidelines in the field of non-financial reporting, in particular from the International Integrated Reporting Framework (IIRF), which, since its adoption in 2013, have been updated only once in 2021 until now.

GRI Standards implement a flexible approach to the formation of sustainability reporting, giving organizations the opportunity to choose the option of its preparation in accordance with the basic principles (Core option) or in accordance with the expanded principles (Comprehensive option).

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The content of the GRI Standards has a direct impact on the disclosures and boundaries of sustainability reporting. The GRI Standards include:

− Universal standards, intended for use by all economic entities that generate reports in accordance with GRI Standards;

− Topic standards, which organizations may choose at their discretion in the context of the most significant areas of impact; and

− Sector standards applied by organizations taking into account their sectoral affiliation and specifics due to the type of activity.

The main groups of GRI Standards are schematically presented in Figure 1.

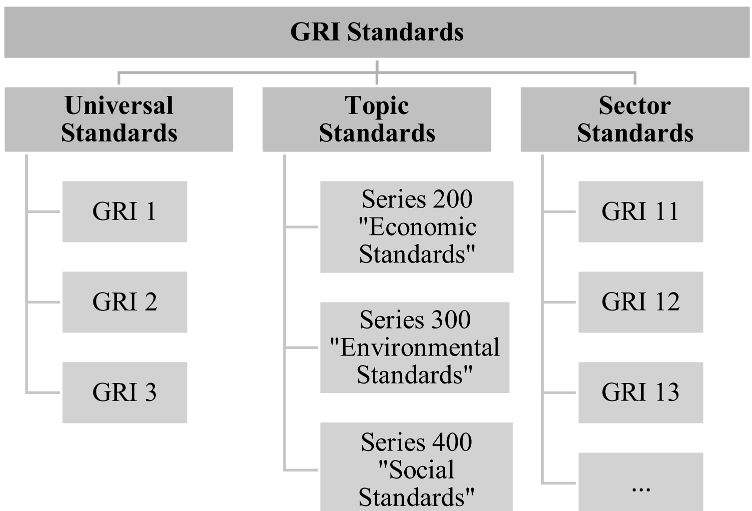

Fig. 1. Structure of GRI Standards.

In 2021, the Global Sustainability Standards Board carried out another significant update of the GRI Standards.

The updated Universal standards include:

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

The enhancements undertaken were intended to improve the quality and consistency of the standards, and to increase the use of standards by organizations in the context of economic, environmental and social impact disclosure. The new version of the Universal standards comes into force for reporting starting in 2023, with the possibility of early application.

According to D. Kuszewski, "the revised Universal standards, which have made the most significant change since the launch of the GRI Standards, set a new global benchmark for corporate transparency" [18].

Topic standards are differentiated according to the key topics of sustainable development into three series:

- Series 200 - Economic standards;
- Series 300 - Environmental standards;
- Series 400 - Social Standards.

An assessment of the structure of the GRI Topic standards demonstrates that most of them are social standards, which reflects the priority given to the disclosure of corporate social responsibility in sustainability reporting.

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With regard to the Topic standards, it should be noted that from January 1, 2021, if the relevant topic is recognized as material, the following standards are mandatory for application [19]:

GRI 207: Tax 2019 is the first international reporting standard on tax transparency, designed to help organizations better understand and publicly present information about their tax practices and transparency in the field of taxation;

GRI 303: Water and Effluents 2018 - an updated standard that specifies the requirements for the disclosure of quantitative data in relation to water withdrawal, increases the requirements for reporting data on wastewater, and generally emphasizes a responsible approach to managing water as a common resource;

GRI 403: Occupational Health and Safety 2018 is a revised standard that introduces an additional focus on health, updated injury and morbidity rates, and disclosure requirements for both employees and non-employees, but work and /or whose workplace is controlled by the organization.

From January 1, 2022, if the relevant topic is recognized as material, it is mandatory to apply GRI 306: Waste 2020.

The new edition of this standard provides an overview of the basic disclosure requirements for waste management issues.

It is hard to disagree with L. Harijanti, GRI Program Manager at ASEAN, who notes that "in a changing and uncertain environment, it is more important than ever to have experience in assessing the various sustainability risks that businesses face" [20].

In this regard, it should be noted that the GRI Standards contribute to the transparency of reporting information not only on environmental responsibility, social responsibility and governance efficiency of organizations, but also in relation to sustainability risks, as well as the impact of ESG risks on financial performance, corresponding to the interests of investors and other stakeholders.

In order to solve the problem of insufficient consideration of the industry specifics of organizations in the preparation of sustainability reports, the GSSB approved the GRI Sector Program. The result of its implementation should be the development of specialized standards for 40 key sectors of the economy, which are characterized by a high level of impact on sustainable development.

The priority group of sectors includes industries that provide basic needs (food industry, textile industry, energy) or produce basic materials needed for other industries (metallurgy, chemical industry, woodworking industry, production of building materials). The banking sector and insurance are also identified as priority sectors of the economy.

GRI Sector standards require a description of the industry and the context of the organization's activities, should include a list of topics that are potentially significant for the organization of this sector, and contain proposals for reporting elements disclosed on potentially significant topics.

To date, as part of a pilot project of the GRI Sector Program, the following Sector standards have been developed:

− GRI 11: Oil and Gas Sector 2021 (effective for reporting from January 1, 2023);

− GRI 12: Coal Sector 2022 (effective for reporting on January 1, 2024);

− GRI 13: Agriculture, Aquaculture and Fishing Sectors 2022 (effective for reporting from January 1, 2024).

The Mining Sector standard is under development.

With regard to the prospects for improving Sector standards for ESG reporting, it should be noted that based on the evaluation of the pilot project, the GSSB will select additional projects of the GRI Sector Program from the list of priority sectors.

Along with the above, it should also be noted that modern realities have led to the emergence of previously unknown aspects of information disclosure and led to the emergence of new significant topics for sustainability reporting, in particular: ESG risk management system, including those related to climate, biodiversity, taxes, etc.; reliability and continuity of the supply chain, the impact of the pandemic and related restrictions on corporate strategy and its implementation, the use of digitalization opportunities within the framework of sustainability analytics.

This determines the directions for further enhancing the information content and analytical value of ESG reporting.

At the same time, it should be emphasized that the standards for reporting on sustainable development, taking into account the provisions of the thematic standards of the Carbon Disclosure Project (CDP) and the CDSB (Climate Dislosure Standards Board), the provisions of international conventions, foreign legislation, and in terms of disclosure of financial information - the provisions of IFRS standards, dominated for a long time and had no significant alternatives.

In this regard, when determining trends in the standardization of sustainability reporting, we should first of all note the implementation of the IFRS Foundation project launched in 2021. Recognizing the value of including sustainability considerations in financial disclosures, the IFRS Foundation intends to incorporate the value creation impact of sustainability issues into its standards. To do this, on the basis of the Climate Dislosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), in turn created on the basis of the Sustainable Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC), the International Sustainability Standards Board (ISSB) was established.

As part of its work, in collaboration with the Global Reporting Initiative, international standards are expected to be developed to provide a global framework for sustainable development information disclosure, focused on the needs of investors and financial markets.

Based on the feedback received, draft standards IFRS S1 "General requirements for disclosure of financial information related to sustainable development" and IFRS S2 "Disclosure of information related to climate" are currently prepared and are being revised. At the same time, it can be expected that interaction within the IFRS Foundation between ISSB and IASB will ensure compatibility of international financial reporting standards and sustainability disclosure standards, which in the future will lead to the development of a single standard covering the principles of financial and non-financial reporting.

Another serious alternative to the GRI SRS are the new European Sustainability Reporting Standards (ESRS), developed by the European Financial Reporting Advisory Group (EFRAG).

The ESRS standards architecture covers:

- Cross-cutting standards;
- Topical sector-agnostic standards, including environmental, social and governance performance standards;
- Sector specific standards;
- CSMEs proportionate standards.

So far, 13 of the announced 28 ESRS standards have been prepared and discussed in public consultations, including 2 cross-cutting ones: ESRS 1 "General principles", ESRS 2 "General, strategy, governance and materiality assessment", and 11 general standards, the rest are in development process.

ESRS standards will be mandatory in the EU for large and medium-sized companies. The European Commission estimates that the requirements of the new Corporate Sustainability Reporting Directive (CSRD), which comes into force on January 1, 2024 for 2023 reporting, will apply to 49,000 European companies that provide 75% of EU turnover. With this in mind, it can be assumed that these standards have very favorable prospects.

4 Discussion

Improving ESG reporting standards, and being clear about the disclosures they imply, is critical for both organizations that prepare sustainability reports and companies that intend or will need to do so in connection with a further increase in corporate accountability. The development and harmonization of ESG reporting standards at the international level are designed to promote the expansion and improvement of the practice of its preparation in the interests of a wide range of stakeholders, and in turn are a driver for the development of business audit and sustainability analytics. In general, this will allow business to achieve high results and bring the achievement of sustainable development goals at the global level.

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