



Accounting for Sustainability,
Social and Environmental Transparency

TEACHING MODULE 1

Disclosing Business Value through Sustainability and ESG Reporting

OVERVIEW

TEACHING MODULE 1

Disclosing business value through sustainability and ESG Reporting

Context

In 2023, Europe experienced its hottest year on record, highlighting the growing impact of climate change through extreme weather events, biodiversity loss, and environmental degradation. These challenges not only threaten ecosystems but also affect supply chains, energy systems, and financial stability. In response, the European Union launched the European Green Deal, a long-term strategy for sustainable growth. Its main goals are to reach climate neutrality by 2050, promote a circular economy that separates growth from resource use, and ensure a fair transition that includes everyone.

Sustainability reporting plays a key role in this transition. Companies are expected to disclose information about their environmental, social, and governance (ESG) practices, the risks and opportunities they face, and their impact on people and the planet. Transparent reporting helps investors, stakeholders, and financial institutions make informed decisions.

The EU is developing an evolving regulatory framework to support this, including the Non-Financial Reporting Directive (NFRD), now replaced by the Corporate Sustainability Reporting Directive (CSRD), which expands the scope and introduces stricter standards. Additionally, the Voluntary SME Standard (VSME) supports smaller businesses that need to respond to ESG demands. Sustainable finance is now closely linked to sustainability data, meaning that companies must show clear ESG commitments to access funding.

Students' tasks

Task 1: Familiarizing with Sustainability Reporting Directives

This task involves understanding and comparing three key EU frameworks for sustainability reporting: the Non-Financial Reporting Directive (NFRD), the Corporate Sustainability Reporting Directive (CSRD), and the Voluntary SME Standard (VSME). The NFRD, introduced in 2014, required large public-interest companies to disclose non-financial information, but lacked detailed guidance and comparability. The CSRD, effective from 2023, expands the scope to all large companies, listed SMEs (phased in), and certain non-EU firms. It introduces the European Sustainability Reporting Standards (ESRS), the principle of double materiality, third-party assurance, and digital tagging. The VSME is a voluntary tool developed for non-listed SMEs facing increasing ESG data requests from banks, investors, and supply chain partners. It offers two modules: Basic and Comprehensive, helping SMEs align with sustainability expectations without being directly subject to CSRD. These directives aim to improve transparency, support informed decision-making by stakeholders, and encourage responsible business practices across all sectors.

Task 2: Evaluating and Using Sustainability Reports

In this task, students work in groups as part of a bank's corporate lending team. They analyze the sustainability reports of three companies and evaluate their alignment with CSRD/ESRS or VSME principles. Using updated bank guidelines, which integrate ESG performance into credit evaluations, students assess how each company's sustainability practices impact credit risk and financing eligibility. The activity concludes with a discussion on which company best meets EU sustainability standards and what improvements could be made to enhance ESG reporting and transparency.