

Learning Objectives

In contrast to previous learning paths that deal with financial reporting, this learning path deals with non-financial reporting, in particular sustainability reporting. In this learning path, you will learn

- to explain the basic concept of corporate sustainability,
- about current EU regulations regarding sustainability reporting, and
- different frameworks of sustainability reporting.

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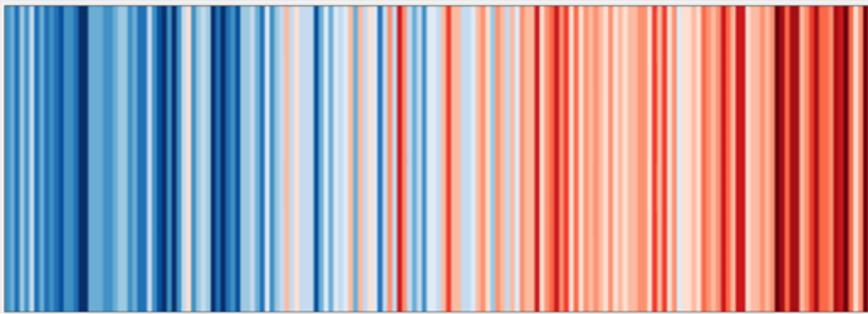
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Sustainability Challenges

In the last weeks, you have learned about financial accounting, financial statement analysis, bookkeeping, etc. In contrast, in this class, you will discuss non-financial reporting in terms of sustainability reporting. Before doing so, we should clarify which sustainability challenges we are currently facing.

Below you can see a graph. Please think about what this graph might show before you continue reading.



This graph shows the average global temperature per year between 1850 and 2018. Blue stripes indicate colder years and red stripes indicate warmer years. As you see, the average global temperature increased significantly in the last decade. One of the primary sources of global warming and climate change are greenhouse gases (GHG) such as CO₂ or methane. Therefore, to mitigate global warming, it is necessary to reduce the emission of GHG drastically. We can already see the effects of rising temperatures. Heatwaves, floods, and droughts become more frequent with catastrophic consequences.

Another sustainability challenge is the loss of biodiversity and healthy ecosystems. Nature plays a critical role for humanity, especially when it comes to the supply of food, energy, medicines, and materials. For example, more than 2 billion people rely on wood fuel to meet their primary energy needs. And approximately 4 billion people rely primarily on natural medicines. Around 70% of drugs used for cancer treatment are natural or are inspired by nature. These are just some examples of why it is essential to protect nature, biodiversity, and ecosystems.

A further sustainability challenge is the increasing amount of waste (e.g. plastics put nature and wildlife under stress). Moreover, we are polluting our environment with further types of waste like toxic industrial waste or nuclear waste.

Besides these environmental issues, social sustainability challenges arise as well. Besides hunger, poverty, and access to health care, which are social sustainability challenges on global level, there are topics like on-the-job safety and child-labor, falling under the umbrella of social sustainability challenges on corporate level. To further understand the concept of corporate sustainability, please go to the next page.

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What is Corporate Sustainability?

Before you learn more about sustainability reporting, we need to clarify what corporate sustainability actually is. In the following video, Prof. Stich will give you further explanations. Prof. Stich is a professor for financial accounting at TUM in Heilbronn and you will hear his voice in some videos of this learning path.



So far you learned about the sustainability challenges we face, what sustainability and especially corporate sustainability is and how it distinguishes itself from sustainability on a country level. However, corporate sustainability and sustainability on a country level are not separated, but are closely connected. A great example of this is the European Green Deal. Please go to the next page to learn more about the European Green Deal.

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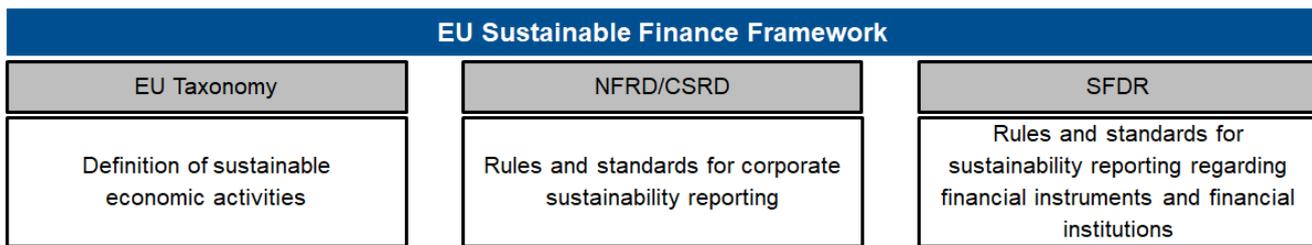
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The European Green Deal, Corporate Sustainability and Sustainability Reporting

As part of the European Green Deal, the EU developed the EU Sustainable Finance Framework, which consists of three main pillars: the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), which replaced the former Non-Financial Reporting Directive (NFRD), and the Sustainable Finance Disclosure Regulation (SFDR).



EU Taxonomy

The EU Taxonomy is a classification system that establishes a list of environmentally sustainable economic activities. Its objectives include preventing greenwashing, increasing transparency for investors, and supporting the transition towards a more sustainable economy.

Since 2022 for climate-related objectives, and since 2023 for the remaining environmental objectives (such as pollution prevention and the protection of ecosystems), companies that are subject to the CSRD (formerly the NFRD) are required to disclose the share of their turnover, capital expenditure (CapEx; investments in long-term assets used in business operations) and operating expenditure (OpEx; operating costs related to day-to-day business activities) that is aligned with the EU Taxonomy.

Further details regarding the EU Taxonomy are not part of this course.

NFRD/CSRD

The Corporate Sustainability Reporting Directive (CSRD) is the main regulation governing sustainability reporting in the European Union, replacing the former Non-Financial Reporting Directive (NFRD).

The NFRD

The NFRD (Directive 2014/95/EU) applies to large public-interest entities with an average number of more than 500 employees, including listed companies, credit institutions, and insurance undertakings. The Directive applies to financial years starting on or after 1 January 2017 and consequently resulted in the first non-financial disclosures in 2018. Overall, approximately 6,000 undertakings and groups within the European Union fall within the scope of the NFRD.

Pursuant to the NFRD, in-scope undertakings are required to companies have to disclose information related to:

- environmental matters,
- social and employee-related matters,
- respect for human rights,
- anti-corruption and bribery matters, and
- diversity policies applied to the undertaking's administrative, management, and supervisory bodies.

For the purpose of complying with the reporting obligations set out in the NFRD, undertakings may rely on recognized frameworks (you will learn more about these reporting frameworks later in this learning path). The non-financial statement may be included in the management report or published as a separate report. The Directive does not require statutory auditors to provide assurance (=auditing of sustainability reports) on the content of the non-financial statement; auditors are solely required to verify whether such a statement has been provided.

The CSRD

The CSRD (Directive (EU) 2022/2464) repeals and substantially expands both the scope and the reporting requirements of the NFRD. Undertakings that were already subject to the NFRD (wave 1) are required to apply the CSRD for financial years beginning on or after 1 January 2024, with the first sustainability reports published in 2025.

In addition, the CSRD extends its scope in a phased manner to further categories of undertakings. Large undertakings not previously subject to the NFRD (wave 2) are required to comply with the CSRD for financial years beginning on or after 1 January 2025, with first reporting in 2026. Listed small and medium-sized undertakings (SMEs) (wave 3) fall within the scope of the CSRD for financial years beginning on or after 1 January 2026, with first reporting in 2027.

Compared to the NFRD, the CSRD establishes a significantly more comprehensive and prescriptive sustainability reporting framework. In particular, it introduces:

- a substantial increase in the level of detail and granularity of disclosed sustainability information, including scope 1, 2, and 3 emissions; pollution, water management, waste, etc.;
- mandatory limited assurance (audit) of reported sustainability information;
- mandatory reporting in accordance with the European Sustainability Reporting Standards (ESRS); and
- the obligation to digitally tag reported sustainability information in order to ensure machine-readability.

The ESRS are developed by the European Financial Reporting Advisory Group (EFRAG). The standards are intended to contribute to international sustainability reporting convergence while remaining aligned with the policy objectives and regulatory framework of the European Union.

However, besides the EU, there are several more sustainability reporting standard setters around the world. Learn more about these standard setters on the next pages of this learning path.

Although the CSRD has been in force at the EU level since January 2023, it has not yet been transposed into German law. As a result, firms that were previously subject to the NFRD continue to apply the existing German non-financial reporting regime set out in Sections 289b et seq. of the HGB (NFRD), while at the same time being expected to prepare for the future application of the ESRS.

The Omnibus

The Omnibus sustainability rules simplification package comprises a set of EU legislative initiatives introduced in early 2025 to simplify the application of the CSRD and related sustainability legislation. It responds to concerns regarding the complexity and administrative burden of the original CSRD framework.

A key element of the package is the "Stop-the-Clock" Directive (Directive (EU) 2025/794), which postpones the application of certain CSRD reporting obligations by two years for undertakings in the second and third waves of application. Consequently, large undertakings not previously subject to the NFRD (Wave 2) are required to apply the CSRD from financial years beginning on or after 1 January 2027, while listed SMEs (Wave 3) will apply it from financial years beginning on or after 1 January 2028. Reporting obligations for Wave 1 undertakings remain unchanged.

In addition, a "quick-fix" Delegated Act adopted in July 2025 provides temporary relief for Wave 1 undertakings by deferring selected phased-in disclosure requirements under the ESRS for the 2025 and 2026 financial years.

Following the entry into force of the "Stop-the-Clock" Directive and the ESRS quick-fix measures in early to mid-2025, further developments occurred in December 2025 with the announcement of additional elements of the Omnibus sustainability rules simplification package. This broader package aims to substantially reduce the administrative and reporting burden associated with the CSRD through targeted amendments to both scope and reporting requirements. In particular, the political agreement reached in December 2025 provides for a significant narrowing of the CSRD's scope by increasing the employee threshold to 1,000 employees, introducing an additional net turnover threshold of more than EUR 450 million, and removing listed small and medium-sized undertakings from the scope of the Directive. Moreover, certain categories of undertakings, such as financial holding companies, are explicitly excluded, while transitional exemptions are granted to undertakings that were initially required to report for financial year 2024 but fall outside the revised scope for the years 2025 and 2026. As of the end of 2025, however, these measures reflect a political agreement and have not yet been formally adopted into EU law.

The SFDR

The Sustainable Finance Disclosure Regulation (SFDR) sets out sustainability-related disclosure requirements for financial market participants and financial advisers. Disclosures are required at the entity level, explaining how sustainability risks and principal adverse impacts are integrated into investment decisions, and at the financial product level, describing how sustainability risks may affect a product's performance. For ESG financial products that promote environmental or social characteristics or pursue sustainable investment objectives, additional disclosures on ESG characteristics or sustainability objectives are required. Since the SFDR applies to financial market participants and financial advisers rather than to non-financial companies, it is not discussed further in this course.

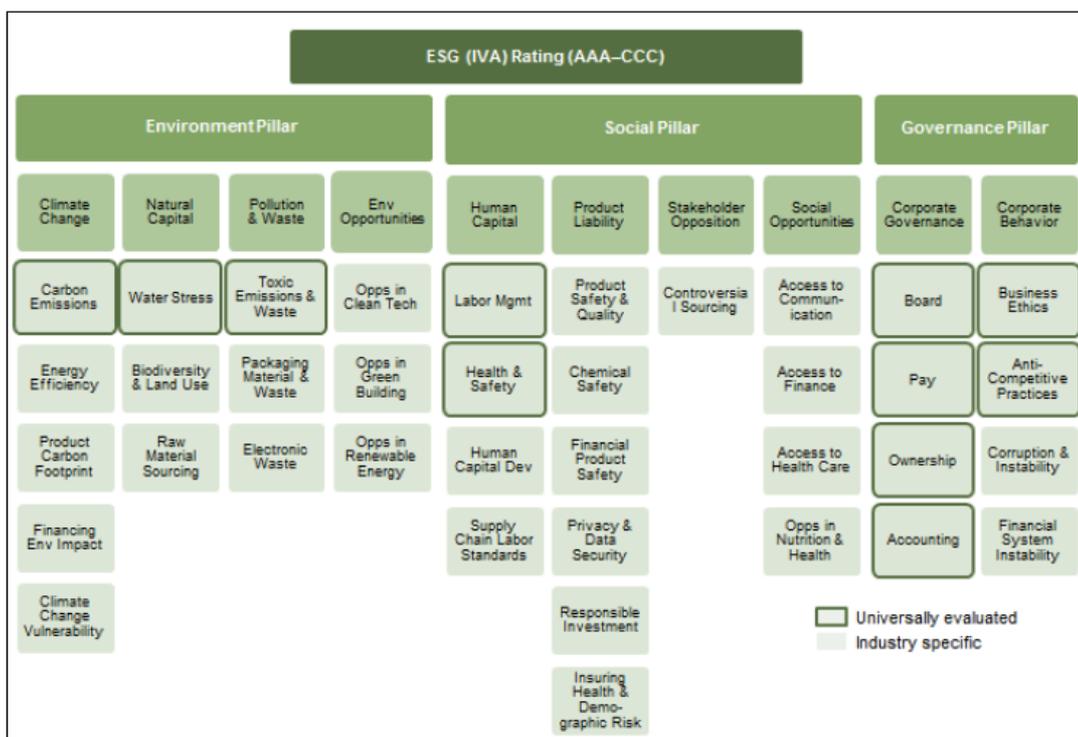
The Sustainability Reporting Landscape

On the previous page, you learned about the most important EU requirements regarding sustainability reporting. However, EFRAG (and indirectly EU through EFRAG) is not the only one that sets standards and rules for sustainability reporting. Below you can find a graph that gives you a good overview of the current sustainability reporting landscape.



In the right lower corner you can find the EU legal requirements we already discussed before. However, there are three major other categories that affect sustainability reporting:

ESG Ratings and Agencies rely on a variety of information sources, including sustainability reports published by companies. For example, the Dow Jones Sustainability Index uses data disclosed in sustainability reports, together with additional information such as questionnaires, publicly available data and controversy analyses, to assess a company's sustainability performance. Other ESG rating agencies similarly combine information from sustainability reporting with external data sources to construct their ESG ratings. As illustrated in the example below, each ESG dimension comprises several sub-dimensions, for which relevant information can often, but not exclusively, be found in companies' sustainability reports.



Global Goals and Principles play an important role at both the country and the company level. For example, the Greenhouse Gas (GHG) Protocol has published the Corporate Accounting and Reporting Standard, which provides a widely used, high-level and principle-based framework for corporate greenhouse gas accounting and reporting. This framework is complemented by additional guidance, such as the Scope 2 Guidance and the Scope 3 Standard.

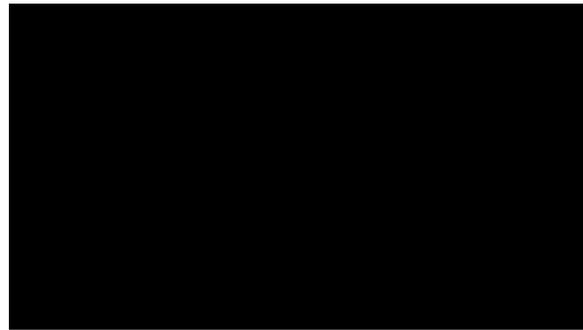
One of the most well-known sets of global goals is the Sustainable Development Goals (SDGs) of the United Nations (UN). The SDGs consist of 17 goals (e.g. zero hunger and quality education) and 169 targets aimed at creating a more sustainable world by 2030. At first sight, the SDGs do not appear to be directly related to corporate reporting. However, the Global Reporting Initiative (GRI; you will learn more about it later in this learning path) provides guidance on how corporate reporting can be linked to the SDGs, and many companies report on their impacts on the SDGs (e.g. Siemens Healthineers).

Number	Topic	GRI Standards	Sustainability Development Goals	Chapter page
3	Environment			
3.1	Combat climate change by reducing emissions	GRI 103-1, GRI 103-2, GRI 103-3; GRI 306-2a, GRI 308-1, GRI 403-1	SDG 7, SDG 8, SDG 9, SDG 11, SDG 12, SDG 13	52
3.2	Transform towards a circular economy	GRI 103-1, GRI 103-2, GRI 103-3, GRI 306-2a	SDG 8, SDG 12	60
4	Social			
4.1	Invest into our people	GRI 103-1, GRI 103-2, GRI 103-3		68
4.1.1	Jobs and job creation in a dynamic environment	GRI 401, GRI 404	SDG 8, SDG 9	68
4.1.2	Attracting and retaining talent	GRI 103-1, GRI 103-2, GRI 103-3, GRI 404, GRI 405,	SDG 8	69
4.2	Expand diversity and inclusion	GRI 103-1, GRI 103-2, GRI 103-3, GRI 405-1	SDG 5, SDG 10	72
4.3	Employee engagement	GRI 103-1, GRI 103-2, GRI 103-3		74
4.4	Respect human rights	GRI 102-41, GRI 103-1, GRI 103-2, GRI 103-3, GRI 412-2, GRI 412-3	SDG 8, SDG 16	77
4.5	Occupational health and safety	GRI 403-9, GRI 403-10	SDG 8	81

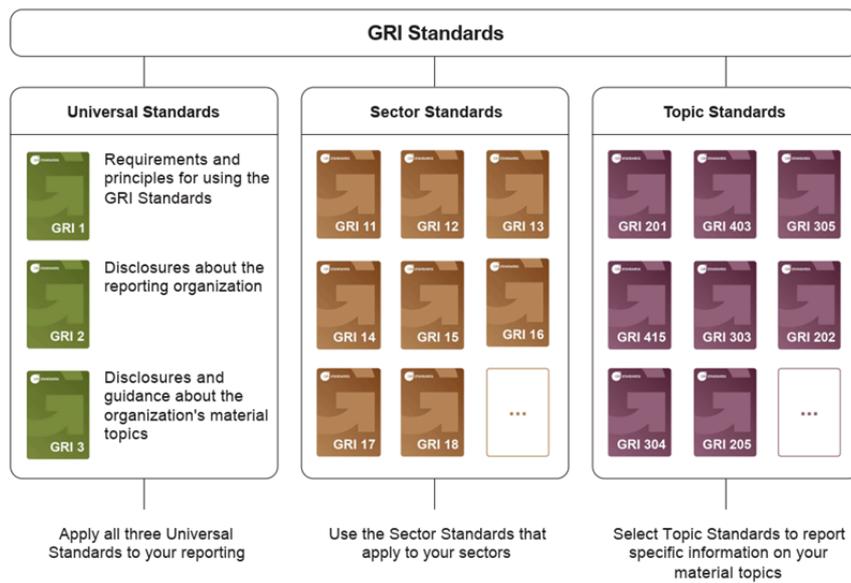
Reporting Standards and Frameworks provide structured guidance for sustainability reporting and are more concrete than high-level global goals. There are many different standard setters in the field of sustainability reporting. In the following, we focus on three of them: the Global Reporting Initiative (GRI), the European Financial Reporting Advisory Group (EFRAG), and the International Sustainability Standards Board (ISSB).

Global Reporting Initiative

In the following video, Prof. Stich will tell you more about a global active sustainability standard setter - the Global Reporting Initiative (GRI).



The GRI publishes standards that define what companies shall disclose regarding sustainability topics. There are three different types of standards in the GRI System (see graph below).



The Universal Standards form the foundation of the GRI reporting system. GRI 1 defines the structure of the GRI system, including the relationship between universal, sector and topic standards, as well as key concepts and reporting principles. GRI 2 requires organizations to disclose general information about the reporting entity, such as its activities, workers, governance, strategy and stakeholder engagement. GRI 3 provides guidance and disclosure requirements related to the identification and reporting of material topics.

Since this class should give you only a short overview, we will focus on two important aspects of GRI: Impact and Material Topic

One of the key concepts of GRI is the term "**Impact**", which is further defined in the following excerpt of GRI 1:

2.1 Impact

In the GRI Standards, impact refers to the effect an organization has or could have on the economy, environment, and people, including effects on their human rights, as a result of the organization's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. These impacts indicate the organization's contribution, negative or positive, to sustainable development.

The organization's impacts on the economy refer to the impacts on economic systems at local, national, and global levels. An organization can have an impact on the economy through, for example, its competition practices, its procurement practices, and its taxes and payments to governments.

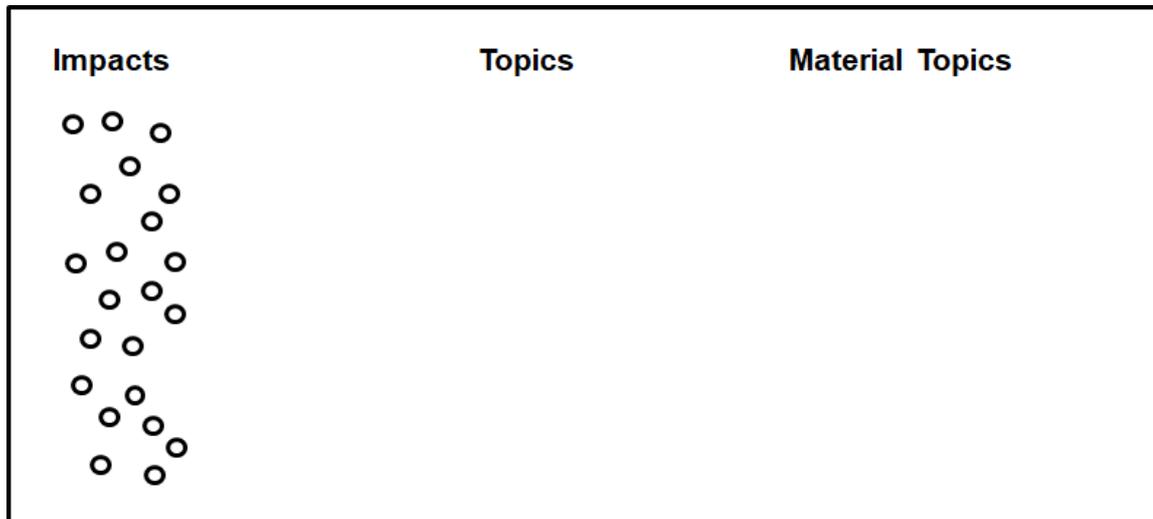
The organization's impacts on the environment refer to the impacts on living organisms and non-living elements, including air, land, water, and ecosystems. An organization can have an impact on the environment through, for example, its use of energy, land, water, and other natural resources.

The organization's impacts on people refer to the impacts on individuals and groups, such as communities, vulnerable groups, or society. This includes the impacts the organization has on people's human rights. An organization can have an impact on people through, for example, its employment practices (e.g., the wages it pays to employees), its supply chain (e.g., the working conditions of workers of suppliers), and its products and services (e.g., their safety or accessibility). Individuals or groups that have interests that are affected or could be affected by the organization's activities are referred to as stakeholders (see [section 2.4](#) in this Standard for more information).

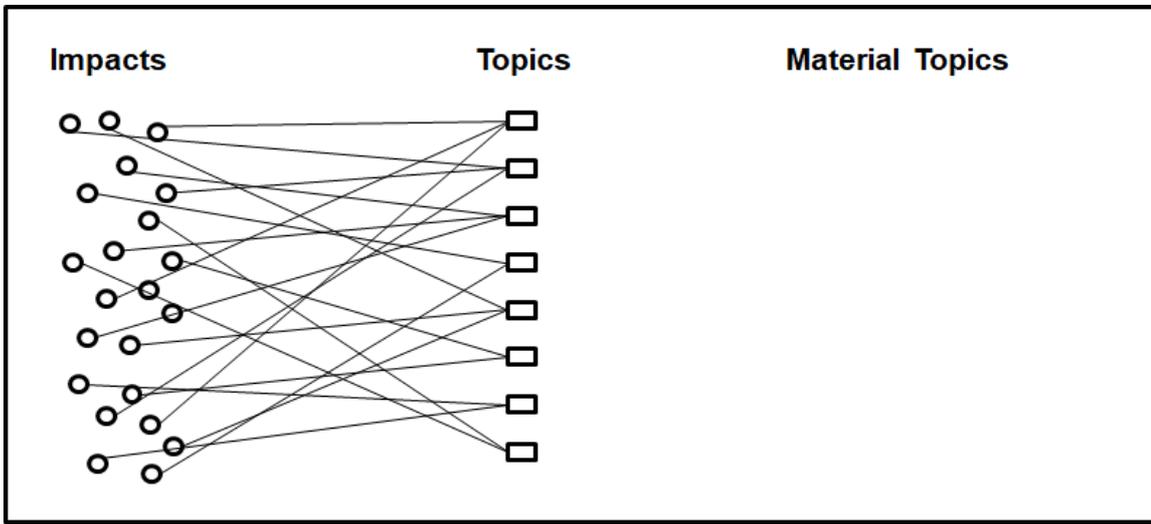
The impacts on the economy, environment, and people are interrelated. For example, an organization's impacts on the economy and environment can result in impacts on people and their human rights. Similarly, an organization's positive impacts can result in negative impacts and vice versa. For example, an organization's positive impacts on the environment can lead to negative impacts on people and their human rights.

GRI applies a broad definition of the key concept of impact, which needs to be considered across the three dimensions of economy, environment and people. This is important to understand, as traditional financial reporting focuses on the financial position and performance of an entity and does not explicitly address an organization's impacts on society and the environment, except where these impacts have financial consequences.

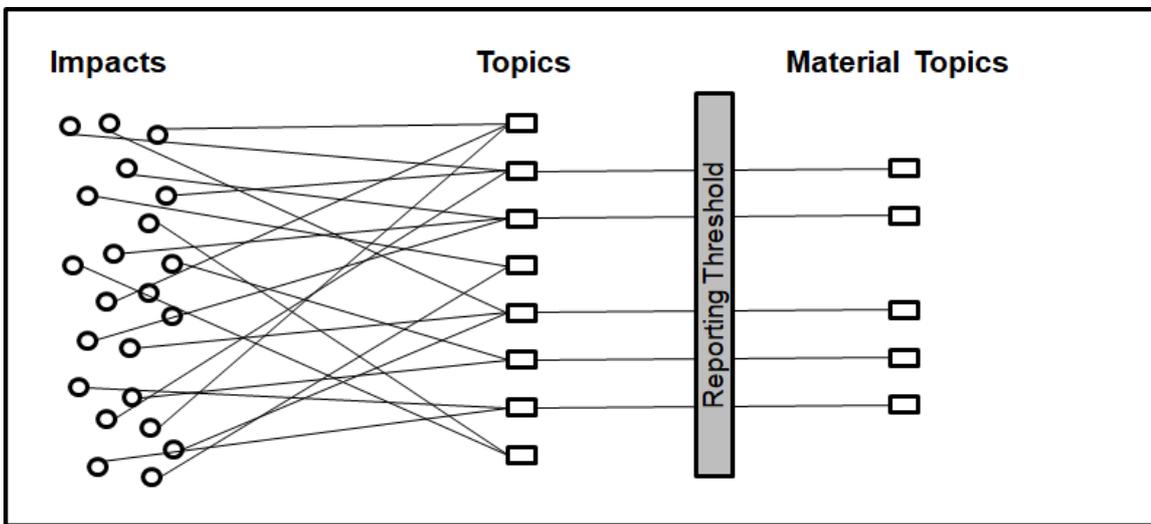
The term "**Material Topic**" is also very important to fully understand the GRI System. Please imagine a manufacturing company. Due to its activities (buying raw materials, production processes,...) it has impacts on the economy, environment and people. In the first step, a company has to be aware of all of its impacts.



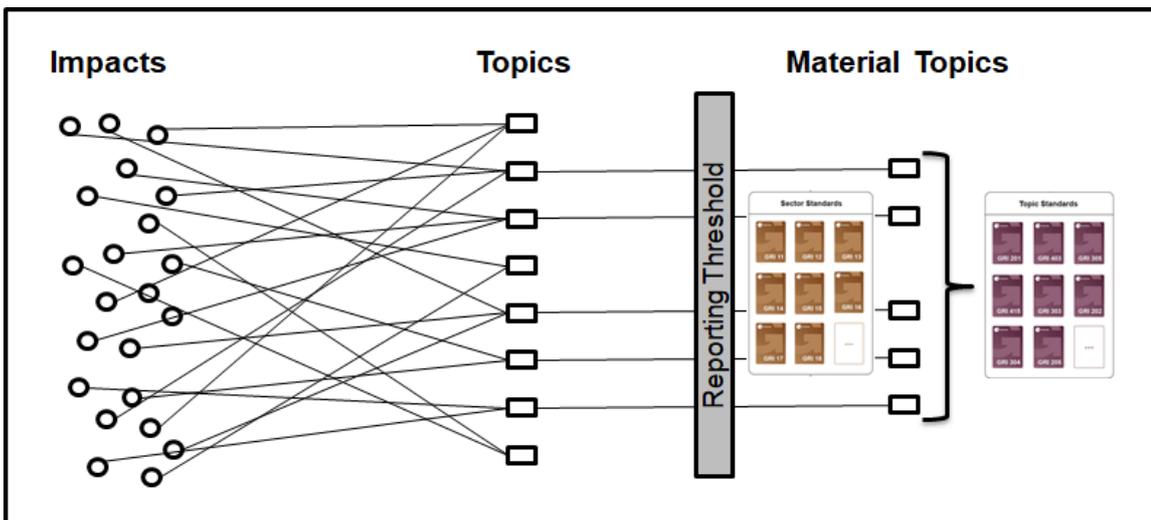
Next, it is necessary to group these impacts into topics.



Next, a company ranks its topics based on their significance of impacts and defines a reporting threshold, i.e. only topics above this threshold will be reported as material topics.



In the process of determining material topics, companies are supported by the GRI Sector Standards, which provide a list of likely material topics for a specific sector. In contrast, the Topic Standards specify the disclosure requirements to be applied when a topic is identified as material.



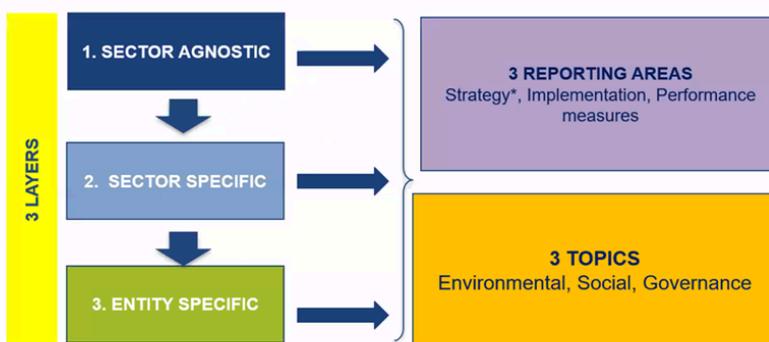
EFRAG

In the learning path "Basics of IFRS" you already learned about EFRAG. EFRAG has two main areas of activity: financial reporting and sustainability reporting. In the area of financial reporting, EFRAG plays a key advisory role in the EU endorsement process of IFRS standards. In sustainability reporting, EFRAG develops the European Sustainability Reporting Standards (ESRS) on behalf of the European Commission.

The ESRS are built on a 3-layer architecture:

- Sector-agnostic standards that apply to all sectors.
- Sector-specific standards that define additional disclosure requirements for specific sectors.
- Entity-specific disclosures that best illustrate a unique situation of an entity in case such a situation is not properly covered by sector-agnostic and sector-specific standards.

The 'rules of three' approach for the architecture of a mandatory sustainability reporting regime



The ESRS consist of two sets of standards. The first set includes the so-called cross-cutting standards and topical standards (see [figure](#) below). The cross-cutting standards provide an overarching framework and define key concepts and principles, including the application of the **double materiality concept**, which requires companies to assess both their impacts on the environment and society (impact materiality) and the financial effects of sustainability matters on the company (financial materiality). In addition, they specify disclosure requirements related to strategy and business model, governance and organisation, and the materiality assessment process.

In contrast, topical standards define detailed disclosure requirements for specific environmental, social and governance topics. For example, ESRS E1 Climate Change specifies disclosure requirements related to a company's impacts, risks and opportunities in relation to climate change. ESRS E1-1, for instance, requires companies to disclose their plans to ensure that their business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement.

The second set comprises sector-specific standards and standards developed specifically for small and medium-sized undertakings (SMEs). Sector-specific standards are currently under development and have not yet been published. With regard to SMEs, recent political agreements at EU level within the framework of the Omnibus sustainability simplification package indicate an intention to remove listed SMEs from the mandatory scope of the CSRD. If these proposals are implemented, the mandatory ESRS originally intended for listed SMEs would lose much of their practical relevance. At the same time, the Voluntary ESRS for SMEs (VSME) are expected to remain available as a proportionate and standardised reporting option, particularly for non-reporting SMEs that form part of the value chains of CSRD-reporting companies or that are subject to sustainability information requests from investors or financial institutions.



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ISSB

From the lectures of the past weeks, you should be familiar with IFRS as standards for financial reporting. In addition to the IASB, the IFRS Foundation, which oversees the IASB, has established the International Sustainability Standards Board (ISSB). The ISSB develops the IFRS Sustainability Disclosure Standards. The figure below provides a brief overview of the structure of the IFRS Foundation.



To date, the ISSB has issued two standards: IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures.

IFRS S1 sets out overarching disclosure requirements and key principles, structured around governance, strategy, risk management, and metrics and targets. It provides the general foundation for sustainability-related financial disclosures and is supplemented by topic-specific standards.

IFRS S2 builds on IFRS S1 and specifies detailed disclosure requirements for climate-related risks and opportunities, following the same four-pillar structure. For example, entities are required to disclose their greenhouse gas emissions, including Scope 1, Scope 2 and Scope 3 emissions.

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GRI vs. EFRAG vs. ISSB

So far, you have learned about GRI, EFRAG, and ISSB. Now we want to get a brief overview of the differences and similarities between these reporting standards.

GRI vs. EFRAG vs. ISSB

	GRI	EFRAG	ISSB
Application	Most widely used voluntary sustainability reporting framework worldwide	Mandatory sustainability reporting standards under the CSRD for in-scope EU companies; first set of ESRS adopted, further standards under development	Global sustainability disclosure standards issued by the IFRS Foundation, primarily for capital market participants
Covered Topics	Broad range of sustainability topics across environmental, social and economic dimensions (e.g. emissions, biodiversity, water, human rights, labour practices)	Broad coverage of environmental, social and governance topics through ESRS E, S and G standards	Sustainability-related risks and opportunities relevant to enterprise value; currently one topic-specific standard on climate (IFRS S2)
Architecture	Universal Standards (framework) Sector Standards Topic Standards	Cross-cutting standards Topical standards Sector-specific standards (planned).	One general standard (IFRS S1) and one topic-specific standard (IFRS S2); no sector-specific standards
Materiality	Impact materiality (focus on a company's impacts on the environment, society and the economy)	Double materiality (impact materiality and financial materiality)	Financial materiality (focus on sustainability-related risks and opportunities that affect enterprise value; impacts are relevant only if they translate into financial effects)

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Recap

Here is a short video recap by Prof. Ernstberger. You should be familiar with all expressions in this video, if not, please go back and re-read the parts you do not feel familiar with.



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