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INTERNATIONAL STANDARDIZATION OF NON-FINANCIAL REPORTING

The lack of uniform approaches to the development of non-financial reporting, the presence of various international standards of non-financial reporting, makes it impossible to develop optimal ways of developing such reporting in Ukraine, which worsens the CSR information provision of domestic business entities. The purpose of this study is to determine ways of developing non-financial reporting based on international standards with the aim of implementing it in Ukraine. For this, general scientific and special research methods were used: synthesis, induction and deduction, system analysis, logical generalization; abstract and logical. On the basis of the analyzed international standards of non-financial reporting, we have identified ways of developing non-financial reporting in Ukraine, namely: implementation of international standards of non-financial reporting; establishment of mandatory requirements for non-financial reporting for companies of certain sizes and industries; development of tools for measuring non-financial indicators; strengthening control and reporting on non-financial indicators; raising the

МІЖНАРОДНА СТАНДАРТИЗАЦІЯ НЕФІНАНСОВОЇ ЗВІТНОСТІ

Відсутність єдиних підходів до розвитку нефінансової звітності, наявність різноманітних міжнародних стандартів нефінансового звітування унеможливує розроблення оптимальних шляхів розвитку такого звітування в Україні, що погіршує інформаційне забезпечення КСВ вітчизняних суб'єктів господарювання. Метою цього дослідження є визначення шляхів розвитку нефінансового звітування на основі міжнародних стандартів задля імплементації його в Україні. Для цього використано загальнонаукові та спеціальні методи дослідження: синтезу, індукції і дедукції, системного аналізу, логічного узагальнення; абстрактно-логічний. На основі проаналізованих міжнародних стандартів нефінансової звітності виділено шляхи розвитку нефінансового звітування в Україні, а саме: імплементацію міжнародних стандартів нефінансового звітування; встановлення обов'язкових вимог до нефінансової звітності для компаній певних розмірів і галузей; розвиток інструментів для вимірювання нефінансових показників; посилення контролю та звітності



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awareness of stakeholders regarding the importance of non-financial reporting and its impact on society. It was established that the development of non-financial reporting based on international standards requires wider attention and support from interested parties. Raising the awareness of these parties about the importance of non-financial reporting and its impact on society can be achieved through information campaigns, training programs, conferences and other events that contribute to their greater understanding. It is also important to consider feedback and suggestions from interested parties on how to develop non-financial reporting to address the needs of different groups and ensure the effectiveness of the process.

Keywords: non-financial reporting, standardization, CSR, concept.

за нефінансовими показниками; підвищення свідомості зацікавлених сторін стосовно значення нефінансової звітності та її впливу на суспільство. Встановлено, що розвиток нефінансового звітування на основі міжнародних стандартів потребує більшої уваги і підтримки від зацікавлених сторін. Підвищення свідомості цих сторін щодо значення нефінансової звітності та її впливу на суспільство може бути досягнуто через проведення інформаційних кампаній, освітніх програм, конференцій та інших подій, що сприяють більшому їх розумінню. Також важливо розглядати відгуки та пропозиції від зацікавлених сторін щодо того, як розвивати нефінансове звітування, щоб врахувати потреби різних груп та забезпечити ефективність цього процесу.

Ключові слова: нефінансова звітність, нефінансове звітування, стандартизація, КСВ, концепція.

JEL Classification: M14, M40, M41, M48.

Introduction

In recent years, there has been a significant shift in perceptions about what is considered important for a business and how it should function. In addition to the traditional financial reporting indicators that present the company's financial activities, there are new requirements for non-financial reporting that helps to explore the social, environmental, and other invisible factors of the company's activities.

Non-financial reporting standards are a fairly new theme and until recently were not considered mandatory for companies. Also, non-financial reporting standards help companies to better manage their risks, improve business processes, attract new investors, and increase their competitiveness.

Therefore, the relevance of the study of non-financial reporting standards lies in the fact that they are an important tool for ensuring the sustainable development of a business, reflecting its corporate social responsibility (hereinafter referred to as CSR), improving risk management and attracting new investors.

The study of problematic issues in terms of non-financial reporting standards is common among foreign researchers, but in recent years this issue has also become important among domestic scientists. Domestic researchers S. Korol, S. Semenova, M. Kurbet [1] analyze the trends and prospects for the implementation of corporate reporting in Ukraine and its consistency with the stated desire for sustainable development. The vast majority of domestic and foreign publications [2–10] are devoted to the consideration of the essence and purpose of non-financial indicators of a corporate report, integrated report, etc.

V. Panteleiev explores the specifics of preparing non-financial reports in management report [2]. C. de Villiers, R. Dimes analyze the future of Integrated Reporting (IR) according to sustainability disclosure standard

setting. The authors explain that the ISSB is fundamentally changing the landscape of sustainability disclosure standard setting [4]. G. Botchway, O. Bradley proposed a mixed-methods approach (both statistical analysis and interviews) to examine SDG disclosure and preparer perceptions [8]. B. Giner and M. Luque-Vílchez explore potential cooperation between the EC/EFRAG and IFRS Foundation. The authors demonstrate that EC/EFRAG takes a wider view on certain key reporting aspects, that is, target audience, materiality and reporting boundary [9].

However, the development of an algorithm for the completeness of the sustainability report in scientific publications is almost absent. The most complete information can be found in the publications of professional accounting and audit organizations, as well as other official institutions [11–21].

The aim of the study is to identify ways to develop non-financial reporting based on international standards in order to implement it in Ukrainian practice.

The following methods both general and special were used in the research process: theoretical generalization and grouping (to determine the international standards of non-financial reporting concept), induction and deduction, synthesis system and analysis (to substantiate methodological approaches to the implementation of non-financial international reporting standards to Ukrainian business reality), logical generalization of results and abstract-logical (formulation of conclusions and proposals).

1. Characteristics of international standards of non-financial reporting

The European integration path of Ukraine in particular and the world globalization trends in general require enterprises and organizations both domestic and foreign to take a responsible attitude to conduct their activities and ensure maximum business transparency to stakeholders. Increasingly, business is focused not only on taking profits and conquering the market, but also on fulfilling its social mission and developing and stimulating philanthropic tendencies. In our opinion, it is precisely such aspirations that as well as possible demonstrate the attitude of business to society and can be considered as one of the main indicators that demonstrates the real desire of management to ensure the concept of going concern.

In such a case, the concept of «Corporate Social Responsibility» (CSR) has been appeared in connection with the need to maintain the long-term sustainability of such non-economic factors, like the environment, labor relations, social responsibility and philanthropy. This concept has had an impact on customers, employees, shareholders, suppliers, partners, society shaping multiple stakeholder groups with different expectations from organizations.

In such circumstances, meeting the information needs of a wide range of stakeholders should not only be based on a standard financial accounting package, but also include specific CSR reports.

One of the most important tasks of CSR is to decide what information should be included in the report, because unlike financial reporting, CSR reporting standards do not exist. Different levels of legal regulation may require reporting of certain types of activities, for example, the impact on the environment, but, in general, the company itself decides what information to include in a CSR report. The report should include both positive and negative results; otherwise the report will appear one-sided and may not inspire confidence.

The company may prepare a separate CSR report or include it in the general annual report. Stakeholders can then use this report to decide on level of company involvement. Depending on the company itself and on the requirements of stakeholders, the report may need to be reviewed or audited. All this is necessary to ensure that this report can be trusted and not just viewed as marketing advertising.

This report should show how each individual company, by implementing best practices within its activities, increases welfare and improves conditions in society. Therefore, various institutions and professional organizations offer their own vision of such kind of reporting. Below, the authors demonstrate the approaches of various organizations according to reflecting non-financial indicators regarding sustainable development (*Table 1*).

Table 1

Characteristics of international standards of non-financial reporting

Name	Description	Who reports?	Release
The Global Reporting Initiative	GRI provides public and private companies with public guidance on sustainability reporting and identifies best practice in the field. Their policies take into account varying degrees of economic, social and environmental performance. The GRI Standard is one of the most widely used environmental reporting frameworks for organizations	Various organizations use GRI, but most users are larger industry groups. GRI is now used in over 23,000 reports worldwide and is used by most major companies. EcoAct's 2018 Sustainability Report states that 38% of FTSE 100, 100% of IBEX 35 and 90% of CAC 40 use GRI	2000 – GRI Guidelines (G1) published 2002 – the first update to the guidelines (G2) launched 2006 – G3 2013 – G4 2016 – the GRI Standards 2019-2020 – new Standards on Tax (2019) and Waste (2020) 2021 – a major update to the Universal Standards
The Global Sustainability Standards Board (GSSB)	It is entirely in the public interest to develop globally accepted sustainability reporting standards (GRI Standards) according to properly established processes. GRI Board authorizes GSSB to develop GRI standards under revised charter	Various organizations use GRI, but most users are larger industry groups. GRI is now used in over 23,000 reports worldwide and is used by most major companies. EcoAct's 2018 Sustainability Report states that 38% of FTSE 100, 100% of IBEX 35 and 90% of CAC 40 use GRI	In 2015, the GRI Board approved changes to make the governance and management of standard-setting activities more independent and to meet the needs of public standard-setters. A separate governance structure was established to develop standards, including the creation of a new Global Sustainability Standards Board (GSSB)
International Sustainability Standards Board (ISSB)	The ISSB was established to provide a comprehensive global foundation for sustainability disclosure in the capital markets. ISSB published two draft IFRS sustainability Disclosure Standard (ISDS) for public consultation	Competent authorities will decide whether to require IFRS standards for sustainability reporting, just as they will decide whether to require IFRS accounting standards. The ISSB has no authority to order the application of its rules. However, companies can choose to apply them	On 3 November 2021, the IFRS Foundation Board announced the formation of the International Sustainability Standards Board (ISSB). In March 2022, the ISSB began consultations on its first two draft standards. One for climate-related disclosures and another for general sustainability-related disclosures.

Continuation of Table 1

Name	Description	Who reports?	Release
Task Force on Climate-Related Financial Disclosures (TCFD)	Their policies take into account varying degrees of economic, social and environmental performance. The GRI Standard is one of the most widely used environmental reporting frameworks for organizations	Organizations from the financial and non-financial sectors. Other frameworks are also increasingly embracing these recommendations and encouraging their respondents to align their disclosures with them. Especially for companies with annual sales exceeding \$1 billion. Wealth managers and owners want a better understanding of risk and its impact on investments	The TCFD's final recommendations were published in June 2017 following a joint global stakeholder consultation. 2021 TCFD "Appendix" updates and replaces 2017 edition to implement Task Force recommendations on climate-related financial disclosures
Taskforce on Nature-related Financial Disclosures	The working group is made up of 40 independent working group members representing financial institutions, corporations and market service providers with over \$20 trillion in assets. In June 2021, TNFD officially launched with extensive support from financial institutions, businesses, governments and civil society. Market-based and science-based, the TNFD framework enables companies and financial institutions to involve nature in decision-making	Investors and financial institutions, analysts, corporations, regulators, exchanges, accounting firms, environmental, social and governance (ESG) data providers, rating agencies, financial service providers	The third beta framework of TNFD (v0.3) was released in November 2022, with the final development scheduled for 2023
Sustainability Accounting Standards Board (SASB Standards)	The SASB standard allows companies to make industry-based sustainability disclosures about risks and opportunities that affect business value. In August 2022, the IFRS Foundation merged with the Value Reporting Foundation, which previously administered these standards, and assumed responsibility for the SASB standards. Industry-specific reporting standards enable global companies to benchmark and compare	Any organization can use the SASB standards	First SASB industry-specific standards were published in November 2018. In 2021 standards: Metals & Mining, Coal Operations, and Asset Management & Custody Activities were updated. In 2022 standard Apparel, Accessories & Footwear was updated. In March 2022, the SASB announced that it would consolidate frameworks and standards under the IFRS Foundation, creating a new International Sustainability Standards Board (ISSB)
Carbon Disclosure Project (CDP)	CDP collects, evaluates and reports information on the environmental performance of companies, cities and regions. It does this by publishing specific questionnaires on climate change, water, forests and supply chains. Respondents were required to disclose and document various questions about their current and future sustainability strategies. They are rated A to D reflecting their level of sustainability maturity	These reports are: 1) Responses to Investor Inquiries, 2) Responses to Client Inquiries, 3) Self-Chosen Companies. Most Large Organizations Are Reporting: Over 13,000 Companies Are Currently Responding	CDP was founded in 2000 as a non-profit organization. CDP currently has regional offices and local partners in 50 countries. Companies, cities, states and territories in over 90 countries now disclose their data annually through CDP
VRF	The VRF is a comprehensive resource designed to help companies and investors develop a shared understanding of business value – how it is created, maintained, and consumed over time. is a global non-profit organization that provides: These resources, such as the Principles of Integrated Thinking, the Integrated Reporting Framework, and the SASB Standards, can be used individually or in combination depending on your business needs. Deployed in more than 70 countries, these tools help build a 21st century market infrastructure to develop, manage and communicate strategy to create long-term value and drive performance improvement	Companies, Investors	VRF was established in June 2021 through the merger of the International Integrated Reporting Committee (IIRC) and the SASB. On 1 August 2022, the VRF consolidated into IFRS Foundation to support the new International Sustainability Board (ISSB) and drive connectivity between sustainability disclosure and financial statements

Name	Description	Who reports?	Release
The EU Sustainable Finance Disclosure Regulation (SFDR)	The EU Sustainable Financial Services Disclosure Regulation (SFDR) is an important part of the new regulation, which will require financial service providers and financial product owners to publicly analyze and disclose environmental, social and governance (ESG) information. It was introduced to make investment products with sustainability claims more transparent, improve product comparability and help investors better understand the impact of their investment decisions	SFDR typically affects two types of financial companies: • Financial advisers providing investment or insurance advice on insurance-based investment products within the EU. • Financial market participants that manufacture and sell financial products and provide administrative services within the EU. Examples include banks, financial advisors, and insurance companies	On October 22, 2021, the European Supervisory Authority (ESA) published the final draft of the financial product disclosure rules under the Sustainable Financial Disclosure Regulation (SFDR) in its "Final Report on Draft Regulatory Technical Standards" (Draft RTS)
EU Corporate Sustainability Reporting Directive (CSRD)	CSRD is a new EU law that requires all large companies to publish regular reports on their environmental and social impact activities. It helps investors, consumers, policy makers and other stakeholders assess the non-financial performance of large companies. A corporate sustainability reporting policy expands the scope and reporting requirements of existing non-financial reporting policies	The CSRD is requiring all large companies – meaning companies with more than 250 employees and more than €40M turnover and/or more than €20 Million in total assets – and all listed companies (except microenterprises, less than 10 employees or below €20M in turnover) to report on their sustainability	On November 28, 2022, the Council of the European Union finally approved the Corporate Sustainability Reporting Directive (CSRD). Companies must file FY2024 reports under CSRD by 1 January 2025
The Sustainable Development Goals (SDGs)	The Sustainable Development Goals (SDGs), also known as the Global Goals, are 17 sustainability-based global goals and 169 associated sub-goals that companies can use to align their corporate strategies. The overall aim is that we, as a global community, help achieve these goals by 2030. The SDGs emphasize the interrelated environmental, social and economic aspects of sustainable development by placing sustainability at the center	Any company can choose to contribute to the goal and disclose the actions it is taking	The United Nations adopted the SDG in 2015 as a universal call to action by 2030 to end poverty, protect the planet and ensure peace and prosperity for all
EFRAG (European Sustainability Reporting Standards (ESRS))	It aims to strengthen corporate accountability and improve the quality and transparency of reporting to meet investor demand for sustainable development-related information. ESRS supports CSRD and new legislation will replace the Non-Financial Reporting Directive (NFRD) in October 2022. EFRAG has published 13 draft ESRSs for public comment. The ESRS contains reporting guidance on 13 topics grouped into four categories. On 15 November 2022, agreement was reached on the first set of ESRS to be submitted to the European Commission, which is expected to adopt in June 2023	ESRS applies to: • all large and mainly listed EU companies; • large subsidiaries of non-EU parent companies (block exemption applies); • non-EU companies with a turnover in the EU of more than EUR 150 million	The public consultation period for the draft standard ends on August 8, 2022. According to the European Commission (EC) CSRD, these rules apply to financial years commencing on or after 1 January 2024 and apply to large public interest entities and banks and insurance companies already complying with the Non-Financial Reporting Directive (NFRD) subject; January 1, 2025 for large companies not currently subject to NFRD; or small and medium-sized enterprises (SMEs) and others listed by January 1, 2026 (SMEs can opt out until 2028)

Source: compiled by the authors based on [11–21].

2. Disclosure of information about CSR in non-financial reporting

After examining international standards for non-financial reporting, it is appropriate to focus on such reporting in Ukraine during the war. In the modern conditions of non-financial reporting, it would be advisable to consider the disclosure of information on CSR in the context of the Russian federation war aggression against Ukraine (Table 2).

Table 2

Disclosure of information on CSR in the conditions of the Russian federation war aggression against Ukraine and the responsibility of business

Name of the enterprise	Report	Standards	Report section
BDO	Transparency Report & ESG	Information is lacking	Issues of the environment, internal corporate relations and social events during the war
Cygnet	Corporate Social Responsibility Report		There is no hunger. Sustainable urban development. Peace and Justice
Astarta Holding PLC	Sustainability report	GRI standards	Russian Invasion Impact
PRJSC «MHP»			War in Ukraine
NJSC Naftogaz	Annual report		Country at war: - Humanitarian aspects of the war – the risk of long-term consequences for Ukraine. - Military and financial support. - At work during the war
JSC «Farmak»	Sustainability Report	Information is lacking	Executive director’s statement

Source: compiled by the authors based on reports of the Ukrainian enterprises [22–27].

Analyzing information of the *Table 2* is advisable to pay attention to the fact that some enterprises (BDO, Cygnet, JSC «Farmak») did not disclose the standards on the basis of which their non-financial reporting was compiled, however, such Ukrainian companies as Astarta Holding PLC, PRJSC «MHP», NJSC Naftogaz use GRI standards. Other non-financial reporting standards are absent in domestic practice.

Conclusions

Based on the analysis of international standards for non-financial reporting, we have identified the approach to the development of non-financial reporting in Ukraine. *Firstly*, it is implementation of international standards of non-financial reporting, reflecting the best practices of such reporting. *Secondly*, mandatory non-financial reporting requirements for companies of certain sizes and industries have been established. It should provide greater transparency and adequate comparison between companies. *The third* is development of tools for measuring non-financial indicators, such as social responsibility, environmental performance and others, which will help companies to understand their impact on the social and environmental sphere. *The fourth* is tightening control and reporting on non-financial indicators, including audit and assessment of the impact of companies’ activities on the social and environmental spheres. *Fifthly*, the stakeholder’s awareness of the non-financial reporting importance and its impact on society has been raised, which will help to ensure greater attention and interest in this area.

In general, the development of non-financial reporting based on international standards requires greater attention and support from stakeholders such as governments, the business community, public organizations, shareholders, and investors.

Raising of the consciousness of these parties about non-financial reporting and its impact on society can be achieved through information campaigns, training programs, conferences and other events that contribute to a greater understanding of them. It is also important to consider stake-

holder feedback and suggestions on non-financial reporting to meet the needs of different groups and ensure the effectiveness of the process.

At the same time, it should be noted that increase of the stakeholders' consciousness regarding the importance of non-financial reporting and its impact on society is a key factor for the development of reporting in Ukraine.

In further scientific research, it is proposed to focus on formulating concepts for the development of non-financial reporting in Ukraine.

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