

# Empirical Research in Sustainability Reporting

Prof. Dr. Katharina Hombach

WiSe 2024/25

R E C H T S W I S S E N S C H A F T   W I R T S C H A F T S W I S S E N S C H A F T E N

Foto: Thomas Müller Ivan Reimann

# Instructor



Prof. Dr. Katharina Hombach  
Professor of Financial Accounting and Corporate Governance

About:

*Dr. rer. pol.* (WHU)

*MSc* (LSE)

*BSc* (Frankfurt School)

*Bankkauffrau* (IHK/Commerzbank AG)

Research:

- How does disclosure reporting affect firms' relation to banks?
- Do firms share more information internally when their trade secrets are better protected?
- Is disclosure regulation an effective tool to achieve public policy objectives?
- Does disclosure regulation affect the market-wide information environment?

# Teaching Assistant



Inga Elise Meringdal M.A.

Research assistant @chair of Financial Accounting and Corporate Governance

About:

*MA* (Carl-von-Ossietzky Universität Oldenburg)

*BA* (Carl-von-Ossietzky Universität Oldenburg)

Research:

- How do firms prepare for the upcoming regulatory changes in the field of sustainability reporting?
- How do firms learn about their reporting?
- What drives the ESG job market?
- How do firms access new knowledge?
- Do tax motives drive firms' donation spendings?

# Deloitte

- We are happy to announce that Deloitte will support our course as a partner! 😊

# Get in touch!

If...

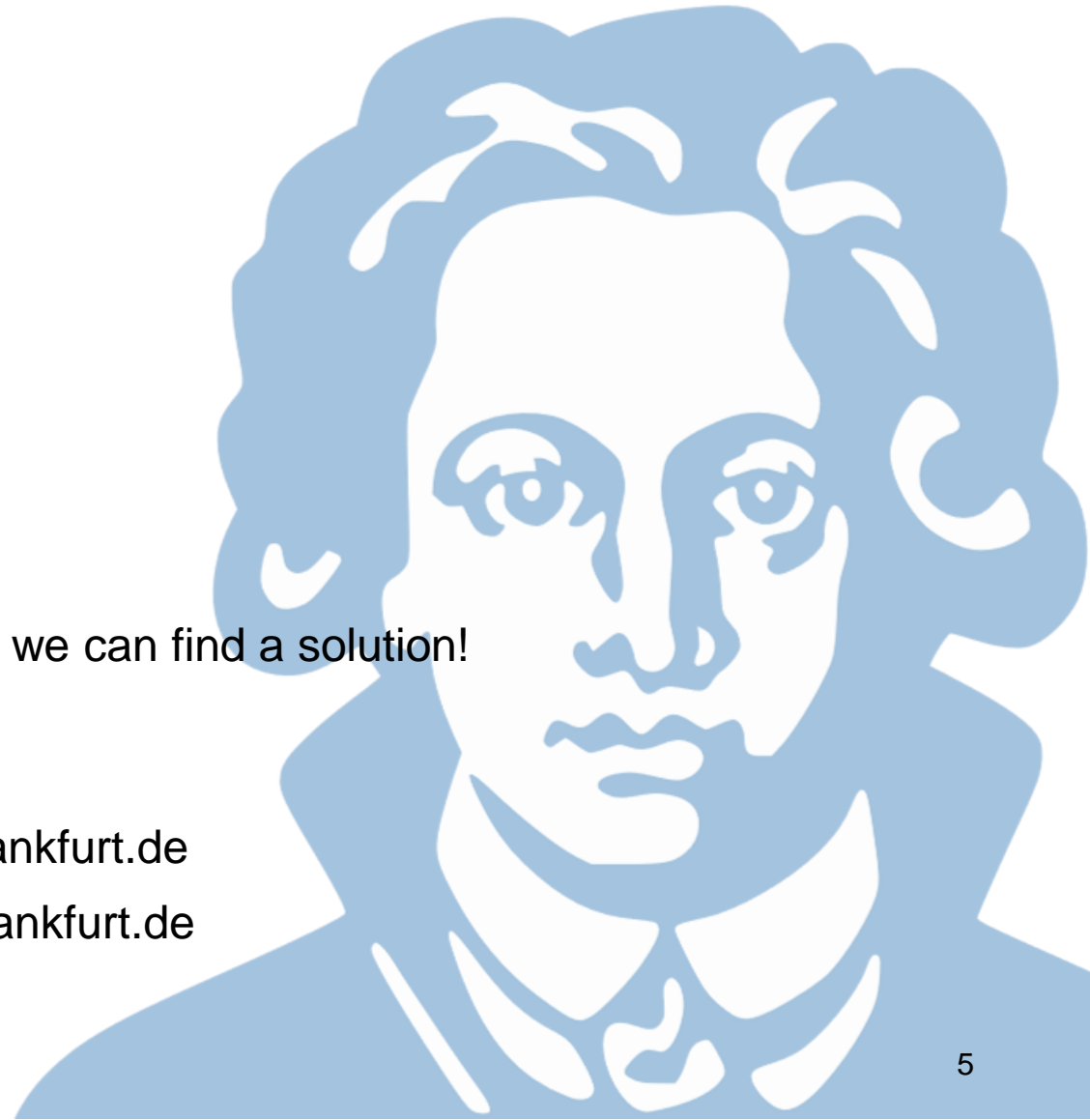
- You cannot access/find material on Moodle;
- You need more material on a given topic;
- You have any other questions:

**Get in touch** as soon as possible so we can find a solution!

E-Mail:

[hombach@econ.uni-frankfurt.de](mailto:hombach@econ.uni-frankfurt.de)

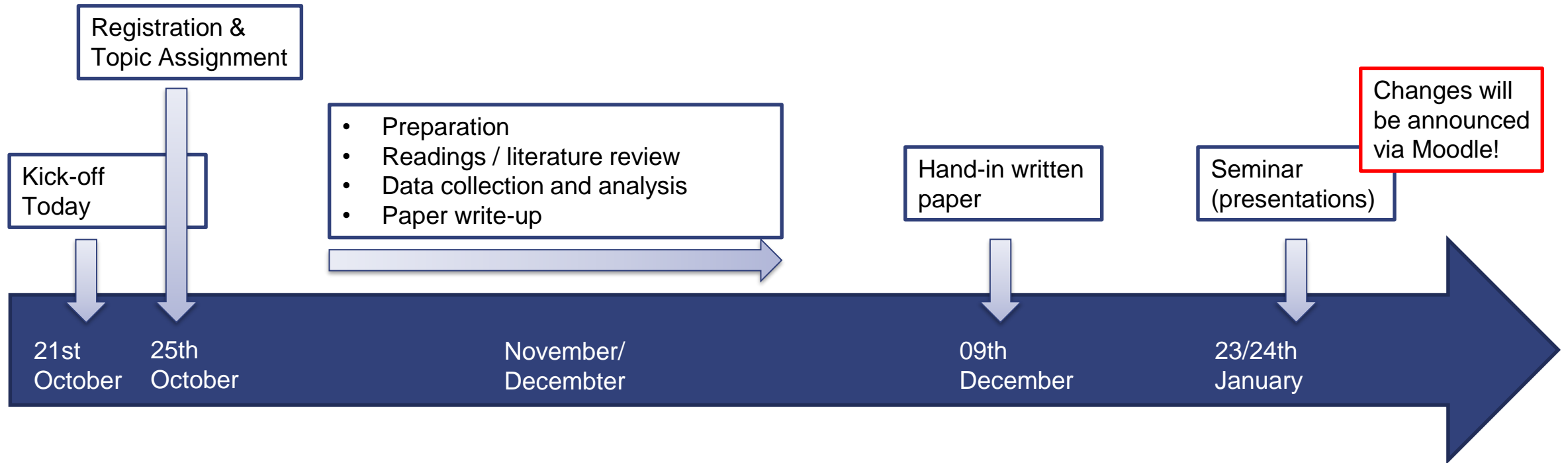
[meringdal@econ.uni-frankfurt.de](mailto:meringdal@econ.uni-frankfurt.de)



# 1. Course Organization and Examination



# Timeline



Guidelines and formal requirements: paper: [https://www.accounting.uni-frankfurt.de/fileadmin/images/03 Forschung/Formvorschriften Englisch 18112022.pdf](https://www.accounting.uni-frankfurt.de/fileadmin/images/03_Forschung/Formvorschriften_Englisch_18112022.pdf)

# Examination Requirements (1/2)

- Seminar Paper:
  - 13-15 pages of text
  - Requirements: [https://www.accounting.uni-frankfurt.de/fileadmin/images/03\\_Forschung/Formvorschriften\\_Englisch\\_18112022.pdf](https://www.accounting.uni-frankfurt.de/fileadmin/images/03_Forschung/Formvorschriften_Englisch_18112022.pdf)
  
- Presentation:
  - 20-25 minutes presenting plus 15 minutes of discussion (depending on course size)
  - Schedule will be announced later in the semester
  - (voluntary feedback on seminar papers for presentation)



# Examination Requirements (2/2)

- Chose topic via mail from list published on Moodle
  - Provide your order of **three** most preferred topics and send them via mail to [Meringdal@wiwi.uni-frankfurt.de](mailto:Meringdal@wiwi.uni-frankfurt.de)

Topic Number	Topic	Content
1	ESRS E1 – Transparency Changes	Investigate a sample of 10 ESRS early adopters. Collect the ESRS E1 data points (via the SRN) for 2022 and 2023. The paper will discuss the transparency changes coming with the early adoption of ESRS.
2	ESRS S1 – Transparency Changes	Investigate a sample of 10 ESRS early adopters. Collect the ESRS S1 data points (via the SRN) for 2022 and 2023. The paper will discuss the transparency changes coming with the early adoption of ESRS.
3	Use of Transitional Relief Options	Investigate the full sample of ESRS early adopters. Collect for the full sample of ESRS early adopters which transitional relief options are used for 2023.
4	Disclosure Requirements of ESRS Early Adopters	Investigate the full sample of ESRS early adopters. Collect for the full sample the set of requirements that has been listed as material for 2023. Identify patterns that might drive the results.
5	Early ESRS Adoption and ESG Ratings	Investigate the full sample of ESRS early adopters and a set of control firms. You pull Refinitiv ESG scores for early adopters and a set of control firms and check in a (simple) difference-in-difference design whether scores go up for early adopters (2022, 2023).
6	ESRS Adoption and Firms' Information Environment	Investigate the full sample of ESRS early adopters. Via Google Wayback machine you study which ESG-related information are published on their websites, including but also beyond the annual/sustainability report – e.g., ESG factsheets, etc. Check whether this publication behavior changes in 2024.
7	Audit	Investigate the full sample of ESRS early adopters. Go through the audit reports and document the level of assurance auditors provide for (early) ESRS disclosure. Check whether the level or the information audited change in 2023 reports compared to 2022 reports.
8	Materiality Process	Investigate the full sample of ESRS early adopters. Provide a detailed documentation of how these firms decide about their materiality of ESRS disclosure. Check whether the process or materiality decision change in 2023 reports compared to 2022 reports.
9	Estimates vs. Actual measurements	Investigate the full sample of ESRS early adopters. Provide a detailed documentation of ESRS disclosure, which is estimated vs. ESRS disclosure, which is actually measured. Check whether the information change in 2023 reports compared to 2022 reports.

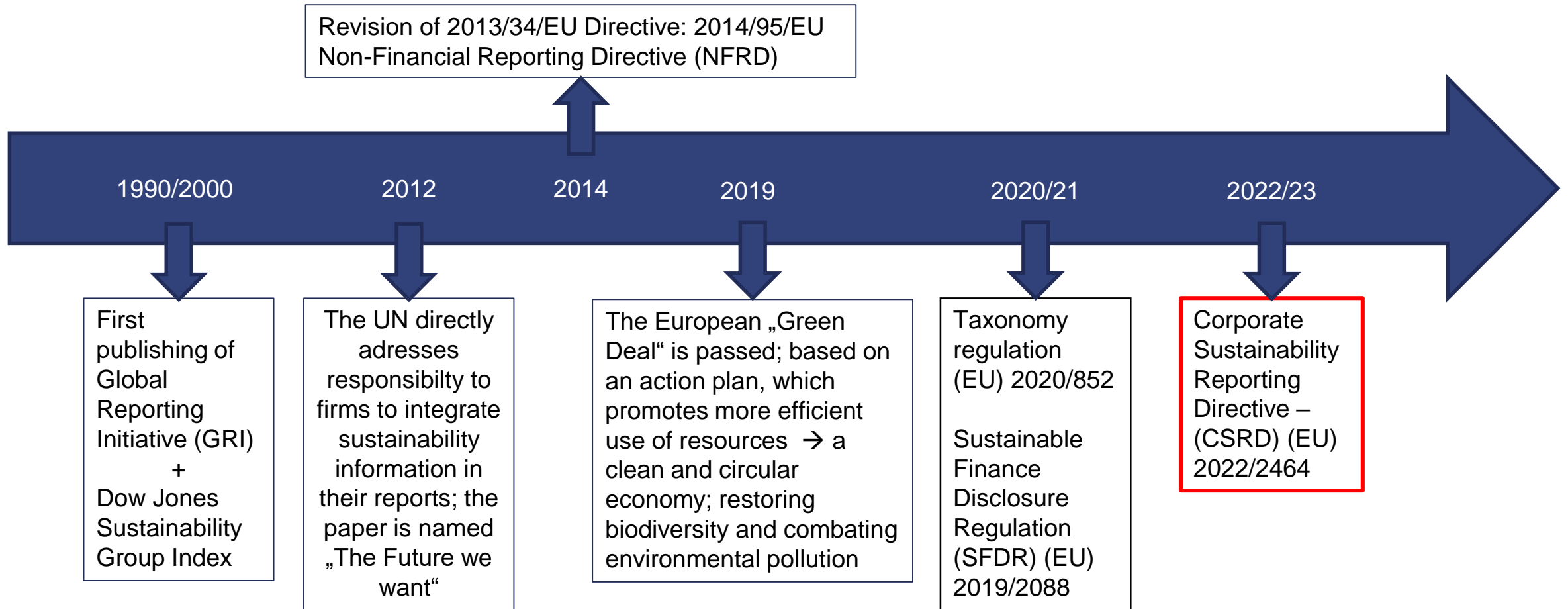
# Seminar Papers

- In your seminar papers, you will collect initial, (descriptive) evidence on the ESRS early adopters.
- Your paper should feature:
  - A description of the institutional background
  - A review of relevant academic research
  - A description of the characteristics of your firm sample
  - A detailed description of your data analysis
  - (Descriptive) evidence on firms' reporting behaviour (use visualizations!)
  - Discussion of your findings

## 2. Context of the Class



# What is the Context of this Course?



# Corporate Sustainability Reporting Directive (CSRD)

- The CSRD extends/changes the requirements of the NFRD
  - *Scope*: The CSRD extends the scope of the NFRD:
    - Large entities
    - Public-interest medium and small entities (SMEs)
    - Third-country firms, which are traded within the EU (organized market)
    - Branches in the EU (net turnover minimum: EUR40 Mio.), subsidiaries in the EU of third-country firms, which are required to report due to their operating activity (net turnover in the EU minimum EUR150 Mio. in the last two reporting years on consolidated basis)
  - *Audit*: Firms are required to conduct an external audit of the sustainability-related information
  - *EU-Standards*: Firms are required to prepare their sustainability information in compliance with European Sustainability Reporting Standards (ESRS)
  - *Place of Publication*: Firms are required to publish their sustainability information in the management report and in a digital form

# CSRD – Standardization of Sustainability Reporting

## General

ESRS 1: General requirements

ESRS 2: General disclosures

## Environmental

E1: Climate change

E2: Pollution

E3: Water and marine resources

E4: Biodiversity and ecosystems

E5: Resource use and circular economy

## Social

S1: Own workforce

S2: Workers in the value chain

S3: Affected communities

S4: Consumers and end-users

## Governance

G1: Business conduct

# ESRS Early Adopter

- Why should firms adopt ESRS earlier than required?

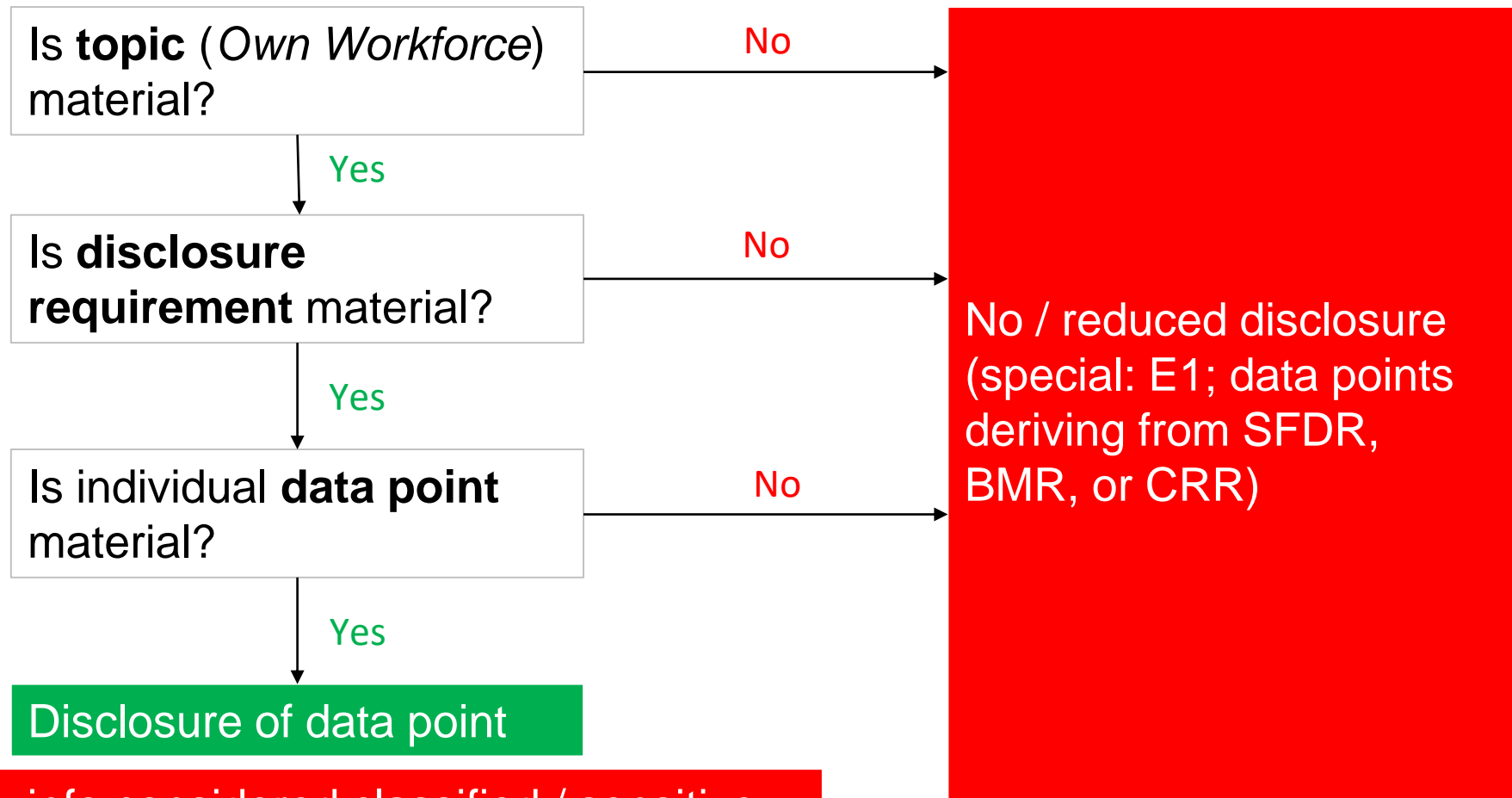




# ESRS Early Adopter: Focus of the course

- This year, the course will especially focus on ESRS early adopters
- We (and especially *you* in your seminar paper 😊) will analyze how...
  - transparency changes
  - transitional provisions are applied
  - ESG ratings are influenced
  - ...

# ESRS: Materiality Assessment and Disclosure of Metrics



Exemption: info considered classified / sensitive

# ESRS: From Sustainability Matter to Data Point



# ESRS: Transitional Provisions

- ESRS 1.10 provides an overview about transitional provisions

## ***10.1 Transitional provision related to entity-specific disclosures***

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130. The extent to which ***sustainability matters*** are covered by ESRS is expected to evolve as further Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time, in particular as a result of the future adoption of sector specific standards.
131. When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual ***sustainability statements*** under which it may as a priority:
- (a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to under chapter 2 of this Standard; and
  - (b) complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover ***sustainability matters*** that are material for the undertaking in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.

# ESRS: Transitional Provisions

- ESRS 1.10 provides an overview about transitional provisions

## *10.2 Transitional provision related to chapter 5 Value chain*

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132. For the first 3 years of the undertaking's sustainability reporting under the ESRS, in the event that not all the necessary information regarding its upstream and downstream **value chain** is available, the undertaking shall explain the efforts made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future.
133. For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their **value chain** and in order to limit the burden for SMEs in the value chain:
- (a) when disclosing information on **policies, actions** and **targets** in accordance with ESRS2 and other ESRS, the undertaking may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information; and
  - (b) when disclosing **metrics**, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.
134. Paragraphs 132 and 133 apply irrespective of whether or not the relevant **actor in the value chain** is an SME.
135. Starting from the fourth year of its reporting under the ESRS, the undertaking shall include upstream and/or downstream **value chain** information according to paragraph 63. In this context, the information required by ESRS to be obtained from SME undertakings in the undertaking's upstream and/or downstream value chain will not exceed the content of the future ESRS for listed SMEs.

# ESRS: Transitional Provisions

- ESRS 1.10 provides an overview about transitional provisions

## ***10.3 Transitional provision related to section 7.1 Presenting comparative information***

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136. To ease the first-time application of this Standard, the undertaking is not required to disclose the comparative information required by section 7.1 *Presenting comparative information* in the first year of preparation of the **sustainability statement** under the ESRS. For disclosure requirements listed in Appendix C *List of phased-in Disclosure Requirements*, this transitional provision applies with reference to the first year of mandatory application of the phased-in disclosure requirement.

# ESRS: Transitional Provisions

- ESRS 1.10 provides an overview about transitional provisions

## ***10.4 Transitional provision: List of Disclosure Requirements that are phased-in***

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137. Appendix C *List of phased-in Disclosure Requirements* in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the ***sustainability statement*** under the ESRS.

See **Appendix C: List of phased-in Disclosure Requirements**

# 3. Your Contribution

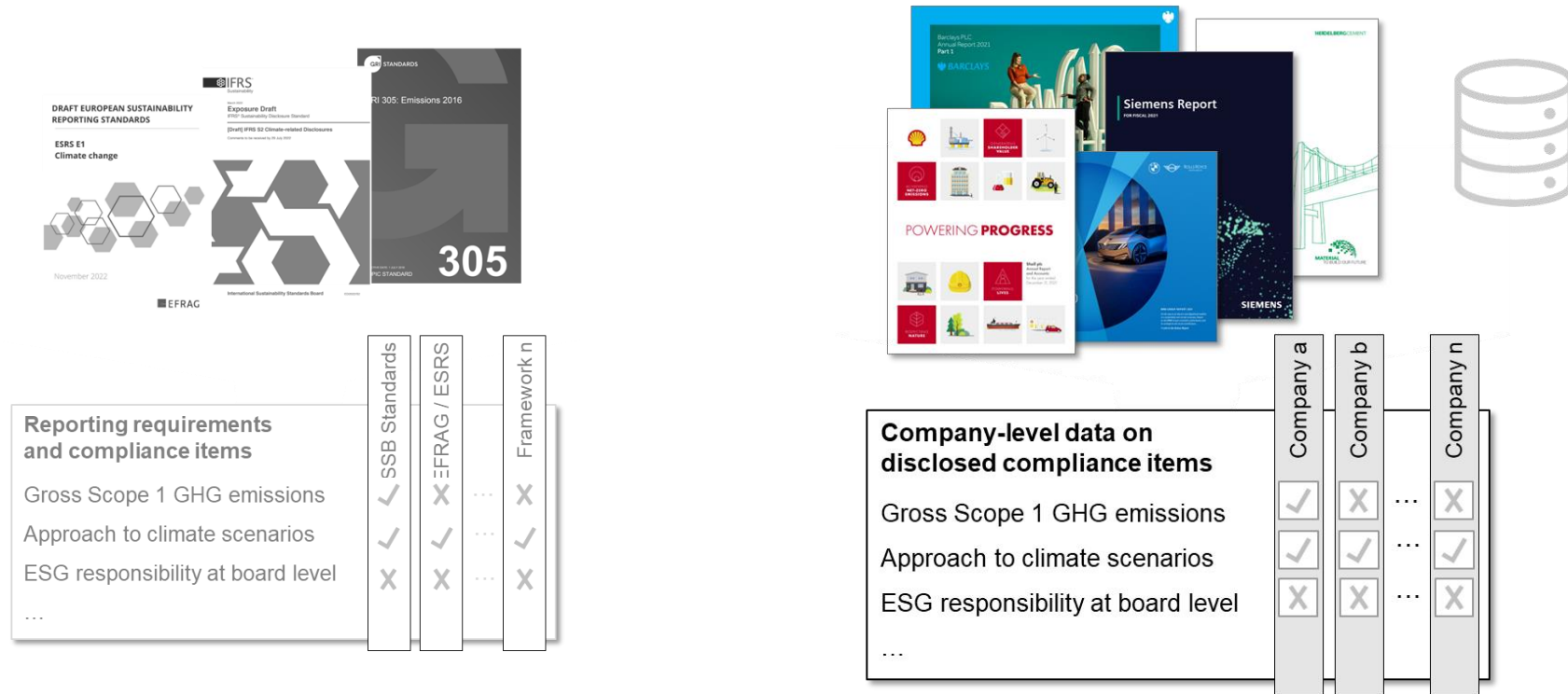




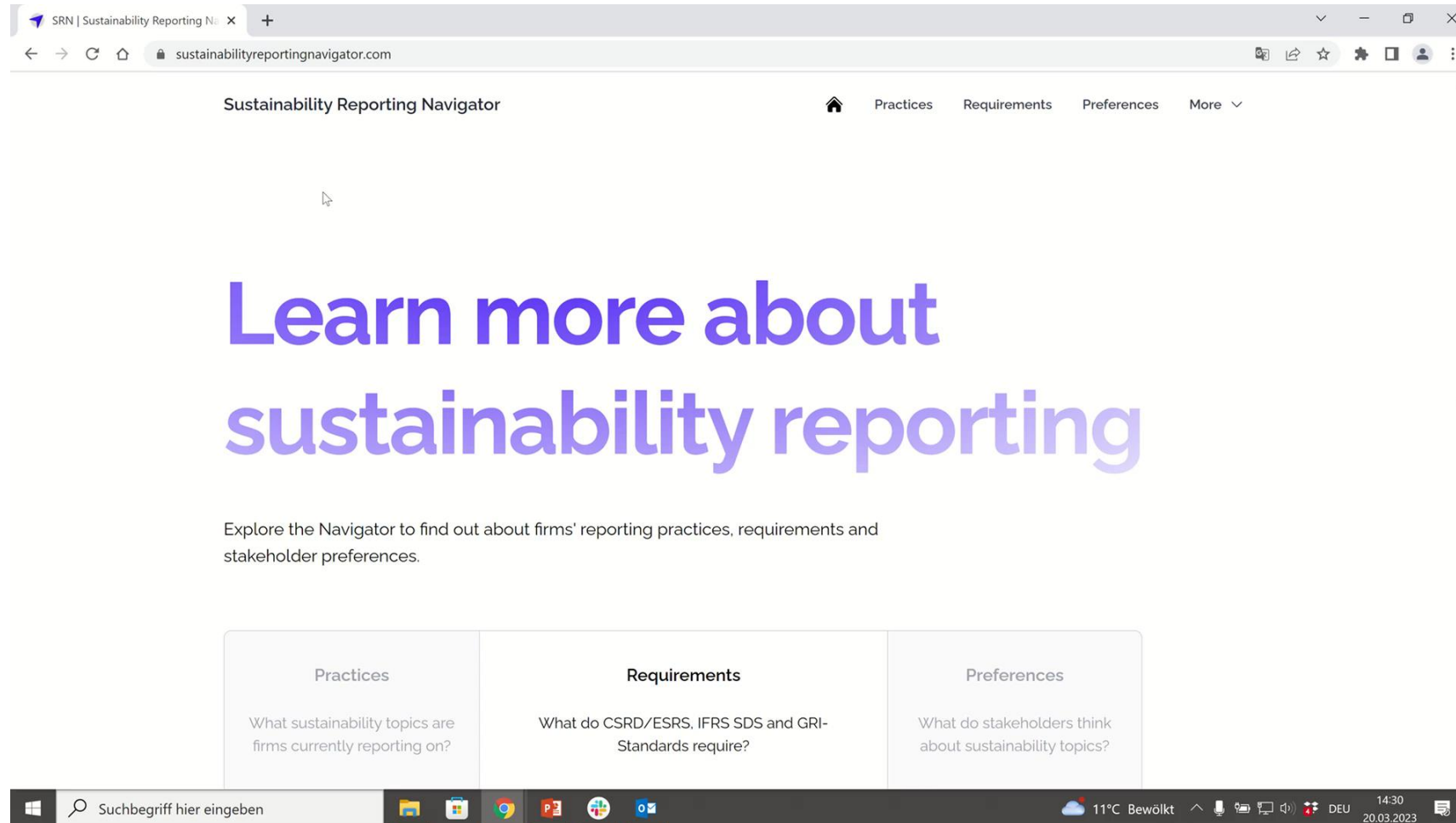
# Steps to Conduct the Empirical Analysis

- As part of your seminar paper, you need to...
  1. Gather ESRS early adopters reporting practices (for some topics: Database: Sustainability Reporting Navigator (see next slide & Material on Moodle))
  2. Explain the institutional background and your specific setting, depending on your topic
  3. Conduct an empirical analysis
  4. Discuss (with use of scientific papers) your findings
  
- We provide you with (all data is provided via Moodle):
  - a list of ESRS early adopters
  - readings
  - a detailed explanation of the SRN
  - suggestions of a research question

# A structured way to collect data on firms' sustainability reporting: The Sustainability Reporting Navigator



# The Sustainability Reporting Navigator (SRN) [Video]



# Next steps...

- Choose a topic (three favorites) and send your choice via mail (all information are uploaded on Moodle)
- Read the material and search for academic research (of course not every paper– but be familiar with the background)
- Define a research question
- Start the data gathering
- Conduct the empirical analysis
- Write your paper... and hand it in (Please do not forget to provide the data and code to conduct the empirical analysis)
- Receive feedback...
- Prepare your presentation...
- Present...
- Ready 😊

Questions? 😊