

## **Dialogue with standard setters**

### **Sustainability reporting and European Sustainability Reporting Standards (ESRS): The activity and viewpoint of the Organismo Italiano di Contabilità (OIC)**

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#### **1. Introduction by Pier Luigi Marchini and Marco Maffei**

The Directive on Corporate Sustainability Reporting, issued by the European Commission (Directive 2022/2464/EU), has enhanced the standards for social and environmental information required to be disclosed by listed companies, large companies, and small- and medium-sized enterprises (SMEs).

The European sustainability reporting standards are developed by the European Financial Reporting Advisory Group (EFRAG). The European Commission has adopted the delegated act for the first set of standards. However, the adoption of sustainability reporting standards is mandated by national legislation within the European Union.

In Italy, the Organismo Italiano di Contabilità (OIC) will play a crucial role in developing sustainability reporting standards. To gain insights into this development, we interviewed Professor Michele Pizzo, Chairman of the Board of Directors of the OIC. We posed several questions to understand how the OIC prepares to address this new challenge. Professor Pizzo provided valuable insights into the changes in the OIC's structure and organisation, the OIC's role within the European context, the interaction between the OIC and EFRAG, and the primary issues in implementing sustainability reporting principles, particularly for SMEs. We are deeply grateful to Professor Pizzo for his contributions to this discussion.

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## **2. The organisational and structural changes of the OIC following its appointment as the Italian advisor for defining sustainability reporting standards in February 2022**

OIC, that was formed in 2001 in response to the need perceived by the main public-sector and private-sector parties to establish a national standard setter that would voice national opinions on accounting matters ([https://www.fondazioneoic.eu/?page\\_id=92&lang=en](https://www.fondazioneoic.eu/?page_id=92&lang=en)), is the official Italian interlocutor of the IFRS Foundation and EFRAG on financial reporting. After the enactment of Italian *Legge 15/2022*, OIC also became the official interlocutor on sustainability reporting. OIC recently modified its governance to respond more efficiently to its now broader mandate. In June 2023, an organizational change led to creating two specific Technical Committees, focusing on financial and sustainability reporting, respectively. These committees are composed of subject experts whose goal is to ensure that the technical proposals thoroughly reflect the issues discussed. Then, a Board of Directors oversees these two committees. The Board is responsible for all technical and administrative decisions and ensures that all decisions reflect a coordinated and unitary approach to corporate reporting ([https://www.fondazioneoic.eu/?page\\_id=94&lang=en](https://www.fondazioneoic.eu/?page_id=94&lang=en)).

## **3. The OIC role in the European context and its interactions with the EFRAG**

OIC contributes to developing financial reporting and sustainability standards in the European and international context. In the European context, OIC has been a member of EFRAG since 2014. After the 2021 EFRAG governance reform, which tasked EFRAG in 2021 with developing a set of sustainability reporting standards for European entities, the OIC holds a permanent seat in all EFRAG bodies: the Administrative Board, the Financial Reporting Board, the Sustainability Reporting Board, the Financial Reporting Technical Experts Group and Sustainability Reporting Technical Experts Group. Thus, the OIC has a constant interaction with EFRAG. Further, it also consults EFRAG on consultations on relevant documents, organizes joint outreach initiatives, and provides technical contribution through its staff.

In the international context, the OIC maintains ongoing interaction with standard setters in several ways. First, the IASB and IFRS Foundation consult the OIC on several discussion documents. Specifically, to assist the IASB in making more informed decisions, the OIC disseminates IASB documents and gathers inputs from several stakeholders. Second, in collaboration with EFRAG and other national standard setters, the OIC proactively promotes several nationally relevant projects to encourage the IASB to address them. Finally, by participating in the EFRAG's work, the OIC contributes to defining the endorsement opinion of the international accounting standards, which is mandatory for their adoption in Europe.

#### **4. Operational issues that the OIC should address to ensure the correct application of the standards by companies required to prepare the sustainability report**

In response to the July 2022 consultation on the sector-agnostic sustainability standards drafts, the OIC highlighted two critical issues for their implementation: materiality assessment and value chain reporting. In this regard, OIC recommended that EFRAG develops more detailed application guidelines and illustrative examples to help companies identify the key actors in their value chain and carry out the materiality assessment, which defines what information to report in the sustainability report.

Preparers particularly appreciated EFRAG's guidance on materiality assessment and value chain by EFRAG, which provided them with a helpful reference point. For example, the guidance on the materiality assessment acknowledged that current practice on double materiality is still developing and that examples of ESRS-based reporting are not currently available. Therefore, EFRAG renewed the call for assessing the inclusion of examples, at least on the most critical issues. These examples, without detracting from the need for evaluations entity-specific and based on judgement, would provide a concrete idea of the application of the rules, also promoting comparability.

After the public consultation phase, EFRAG is currently finalizing the guidance documents. Since these guidance documents will not be formally adopted by the European Commission and will be available only in English, the OIC will publish a translation of these documents on its website, ultimately fostering their dissemination to national stakeholders.

Through its involvement in the EFRAG standard-setting process, the OIC aims to support operators in the initial implementation of these standards and to identify solutions to reduce the complexity and granularity of information requirements. Adopting a gradual approach to the sustainability reporting (e.g. through a phase-in period) would allow companies to deepen their understanding of the new reporting requirement and identify how to appropriately gather the required information.

## **5. The OIC's activity for improving the content of sustainability reporting in Italy**

To support the implementation of the ESRS, EFRAG created the “Q&A ESRS Platform”. The goal of this platform is to systematically gather and provide an answer to the issues raised by preparers on sector-agnostic standards. As part of its public service role, the OIC collected national preparers' doubts on the interpretation and the application of sector-agnostic sustainability standards. Specifically, the staff shared its expertise with national preparers and assisted them in submitting the inquiries to the EFRAG platform. In addition, the OIC staff is currently supporting EFRAG staff in evaluating the clarity and completeness of the answers provided in the Q&A platform.

## **6. The OIC's viewpoint and activity regarding the application of sustainability standards by SMEs.**

In light of the Corporate Sustainability Reporting Directive, EFRAG published two draft sustainability standards for small and medium enterprises (SMEs) — one for listed SMEs, open for public consultation until May 21, 2024, and one for unlisted SMEs. Even though unlisted SMEs fall outside the scope of the Corporate Sustainability Reporting Directive, the goal of this set of (voluntary) standards is to provide these firms with a simple reporting framework on ESG topics.

In this respect, the draft sustainability standards for unlisted SMEs are the most relevant for the Italian market, where most firms are unlisted SMEs. Given the relevance of these standards, the OIC is currently evaluating whether the disclosures proposed by the standards are excessively burdensome for unlisted SMEs and whether they meet the information

needs of several stakeholders (e.g., supply-chain partners, banks). Indeed, while OIC appreciates EFRAG's initiative, it also believes that its success will depend on how much these voluntary disclosures will meet the different stakeholder demands for sustainability information.

## **7. The OIC's initiatives, in the national context, to promote the voluntary adoption of sustainability standards**

To foster understanding and discussion of this issue, on May 10, 2024, the OIC organised an outreach event on the sustainability reporting of unlisted SMEs, entitled "*SMEs Voluntary Sustainability Reporting: EFRAG Exposure Draft and Data Demands from Financial Sector and Large Undertakings*" (<https://www.fondazioneoic.eu/?p=16753&lang=en>), in collaboration with EFRAG, Assonime and Luiss Guido Carli University – which hosted the event in Rome. Following the welcome remarks and the presentation of the draft document by Chiara Del Prete, Chair of EFRAG's Sustainability Reporting TEG, representatives of national authorities intervened and a panel of experts focused on the critical issues in terms of the feasibility and usefulness of the information that the draft standard proposes to the SMEs.

## **References**

- Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting. -- <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32022L2464>.
- Legge 25 febbraio 2022, n. 15 Conversione in legge, con modificazioni, del decreto-legge 30 dicembre 2021, n. 228, recante disposizioni urgenti in materia di termini legislativi. (22G00022) (GU Serie Generale n. 49 del 28.2.2022 – Suppl. Ordinario n. 8) -- <https://www.gazzettaufficiale.it/eli/id/2022/02/28/22G00022/sg>.