
Are the Companies Prepared for Sustainability Reporting under the ED IFRS S1 and S2? Evidence from Poland

Magdalena INDYK, Ph. D.,
financial analyst, FCCA, Poland
ORCID: 0000-0001-9141-162X,
e-mail: mag.indyk@gmail.com

Abstract

This article aimed to determine the implications of the Exposure Drafts (ED) IFRS S1 and S2, especially for financial reporting. The novelty of these sustainability standards is the attempt to regulate sustainability and climate-related financial information. Therefore, the article first presents the key aspects of the ED IFRS S1 and S2, and their practical implications. As both EDs represent an ambitious proposal of standard-setters, the author attempted to determine whether companies in Poland are prepared for these changes. For this reason, the EDs were confronted with (1) Poland's legal and soft sustainability regulations, and (2) empirical research results. An empirical part was performed based on the selection of 177 companies, listed on the Warsaw Stock Exchange (WSE). The evidence represents the collection of their responses to the selected ESG sections of "The Best Practice 2021" WSE Code.

The study provides numerous conclusions and observations. ESG undoubtedly became a factor considered by multiple companies in their businesses. However, preparing for the ED IFRS S1 and S2 means a complete ESG integration into a business strategy, processes, and reporting. Only sixty companies (34%) in the examined sample declare ESG integration into a business strategy, and thirty-two companies (18%) claim they disclose the strategic data, including defined goals, measures, and progress (also ESG-related). Considering the progress of the ESG revolution, it will mean reporting transformation for most companies, i.e., building sustainability-related financial reporting from scratch. The biggest challenge will be quantifying the impact of sustainability and climate-related risks and opportunities on financial statements. Such quantification will require advanced risk management tools and the building of an integrated reporting system. The article, with its findings, may be of high interest to standard-setters, companies, and other researchers contributing to ESG and financial reporting.

Key Words: ESG; financial statements; sustainability reporting; IFRS S1; IFRS S2;

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