

NON-FINANCIAL REPORTING PRACTICES IN HUNGARY – OPPORTUNITIES AND CHALLENGES IN PREPARATION FOR CSRD

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Abstract Under the CSRD (Corporate Sustainability Reporting Directive), companies already covered by the NFRD (Non-Financial Reporting Directive) will have to report on sustainability issues from 2024, large companies not covered by the NFRD from 2025 and listed SMEs from 2026. As of 2018, Hungarian companies under NFRD were required to report non-financial data in their annual reports. In our research, we seek to answer the question of what domestic non-financial reporting practices will be able to be relied upon by preparers under CSRD. Companies preparing to report under the CSRD often use the NFRD reports which have been already prepared by those currently required to report as a benchmark, that is why we use the list of companies under NFRD as a sample. We identify which international reporting guidelines are followed and what are the most frequent topics in NFRD reports with content analysis. Among the sub-elements, the companies surveyed write most about the environment and social/employment issues in their annual reports, while fight against corruption and human rights are rarely mentioned. Based on our research, we highlight good practices that can be followed in terms of international guidelines and company examples.

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1 Introduction

Corporate sustainability issues as well as the communication and dialogue with stakeholders about them are getting more and more significant in every economy. In the European Union, Europe 2020 strategy and the related regulations mean important milestones in this process. From the perspective of our topic, non-financial reporting, Directive 2014/95/EU (Non-Financial Reporting Directive, NFRD, EP and EC, 2014) is of high interest, which introduced reporting obligations for the largest European companies to promote their responsible and long-term sustainable operation. NFRD complements two European Accounting Directives (78/660/EEC and 83/349/EEC, EC 1978 and 1983) and is based on more international benchmarks, like IFRS, GRI or ISO 26000 (Kardos and Madarasi-Szirmai, 2022). It has made companies' operations more transparent, identified the sustainability risks affecting their operations, and increased investor and consumer confidence. From 2018, NFRD made reporting of non-financial information mandatory for all companies with assets of more than €20 million or net sales of more than €40 million and more than 500 employees. In Hungary, under Chapter III, Section 95/C of the Act C of 2000 on Accounting (Government of Hungary, 2000), as of 2018, organizations as defined by the NFRD were required to report non-financial information in their annual reports, including: environmental protection; social and employment issues; respect for human rights; anti-corruption and bribery.

Already when the NFRD was drafted, the EU expressed its intention to extend sustainability reporting obligations for an increasingly wide range of companies. In addition, experience has shown that the quality of the data published varied widely, based on the relatively permissive regulation, which only described the issues, contrary to the principles of known reporting guidelines (mainly Global Reporting Initiative, GRI) and the legislator's aim to publish comparable, reliable information that would influence stakeholders' decisions and companies' sustainability performance.

In this paper, after the overview of the newest non-financial reporting regulation of EU and its connection to the most significant sustainability reporting scheme, GRI, we seek answers for the following research questions:

1. Which domestic non-financial reporting practices will be able to be used under CSRD (Corporate Sustainability Reporting Directive)?
2. Which international reporting guidelines are followed in Hungary and what are the most frequent topics in reports?
3. What are the main strengths of best practices?

In our analysis we only used Hungarian reports and good practice examples. In a further step of research, with broadening the scope to international cases we will be able to provide readers with a better understanding of how companies can overcome the challenges highlighted in the paper.

2 Theoretical Background

CSRD (Corporate Sustainability Reporting Directive, Directive 2022/2464/EU, EP and EC, 2022), adopted by the European Commission on 28 November 2022 changes the scope of companies covered by the NFRD (to all large companies from 2025 and to listed SMEs from 2026). Additionally, CSRD takes major steps towards the creation of a single European Sustainability Reporting Standard (ESRS) (EFRAG, 2022), which means that companies that were obliged by the NFRD as well, also will have to report on much more indicators from 2024.

The first version of the ESRS provides European companies with 4 sets of standards: horizontal (cross cutting), environmental, social and governance standards (ESG). The indicator groups will be structured in a similar way to the GRI Standards (GRI, 2022).

Going beyond indicators, perhaps an even more important part of international reporting standards is the definition of principles. In the context of the GRI 2022 revision, materiality and stakeholder engagement were highlighted as key principles, emphasizing that they are the key to the usefulness and meaning of the reporting process for both the company and its stakeholders. ESRS is also like the GRI in its principles (EFRAG, 2022):

- ESG 1 Double materiality;
- ESG 2 Characteristics of information quality;

- ESRG 3 Time horizons;
- ESRG 4 Boundaries and levels of reporting;
- ESRG 5 EU and international alignment;
- ESRG 6 Connectivity.

This allows for a parallel between the GRI and the proposed ESRS indicator structure. This recognition will allow European companies already using GRI to comply with the new standard from the beginning. The main points of possible alignment are shown in Table 1.

Table 1: Comparison and parallels of ESRS and GRI Standards

<i>Indicators in GRI Standards</i>	<i>Indicators in ESRS</i>
GRI 3 Material Topics	ESRS 4 Sustainability material impacts, risks and opportunities
GRI 3-1 Process to determine material topics GRI 3-2 List of material topics GRI 3-3 Management of material topics	
Environmental standards	
GRI 302 Energy	ESRS E1 Climate change
GRI 303 Water and Effluents	ESRS E3 Water & marine resources
GRI 304 Biodiversity	ESRS E4 Biodiversity & ecosystems
GRI 305 Emissions	ESRS E1 Climate change ESRS E2 Pollution
GRI 306 Effluents and Waste	ESRS E5 Circular economy
Other environmental standards	ESRS 3 Sustainability governance and organisation ESRS 5 Definitions for policies, targets, action plans and resources
Employment standards	
GRI 401 Employment	ESRS S1 Own workforce – general
GRI 403 Occupational Health and Safety	ESRS S2 Own workforce – working conditions
GRI 405 Diversity and Equal Opportunity	ESRS S3 Own workforce – equal opportunities
GRI 404 Training and Education	ESRS S4 Own workforce – other work-related rights
Social standards	
GRI 413 Local communities	ESRS S6 Affected communities
GRI 414 Supplier social assessment	ESRS S5 Workers in the value chain
GRI 416 Customer health and safety GRI 417 Marketing and labelling GRI 418 Customer privacy	ESRS S7 Consumers/End-users

<i>Indicators in GRI Standards</i>	<i>Indicators in ESRS</i>
Economic standards	
GRI 201 Economic Performance 2016	ESRS G1 Governance, risk management and internal control
GRI 202 Market Presence	ESRS G2 Products and services, management and quality of relationships with business partners
GRI 203 Indirect Economic Impacts 2016	ESRS G3 Responsible business practices

Source: Authors' research based on EFRAG (2022) and GRI (2022).

3 Methodology

Already prepared NFRD reports can serve as a benchmark for companies that will have to report under the CSRD. That is why they can be a starting point for our research regarding the preparedness of Hungarian companies for the new EU regulation.

We seek to answer the question of what domestic non-financial reporting practices will be able to be used under CSRD. We identify which international reporting guidelines are followed in Hungary and what are the most frequent topics (SDGs; UN, 2015) in NFRD reports with content analysis. Based on our research, we highlight good practices that can be followed.

In our research, we used the sample of Hungarian companies under NFRD included in the research of Lippai-Makra (2022 (Table 2)). The author reported that the identification of companies was a complex process because there is not a central register of these firms. Our only review was that out of the 23 companies in her sample, 2 have been dissolved or merged, so 21 companies were examined further by us.

Our research relied mainly on company statements (integrated and consolidated reports) and we used content analysis by using the topics and related terms that are defined by the NFRD. In a second phase, we searched the downloaded reports for 3 keywords: SDG, ESG, GRI as we consider the using of these well-known international standards as good practice to integrate sustainability content at a strategic level within an organization and to make the relationship between financial and sustainability issues clearly visible.

Table 2: List of Hungarian companies that had to comply with the non-financial disclosure requirements under the NFRD in 2022

No.	Name	Website address	Length of Annual Report 2021 (pages)
1	Any PLC	https://www.any.hu/	69
2	Magyar Telekom PLC	https://www.telekom.hu/rolunk/befektetoknek/penzugyi_jelentesek	233
3	Masterplast PLC	https://www.masterplastgroup.com/document_folder/masterplast-konzolidalt-eves-jelentesek/	76
4	MOL PLC	https://molgroup.info/hu/befektetoi-kapcsolatok/jelentesek	112 +115
5	OPUS GLOBAL PLC	https://opusglobal.hu/befektetoknek/#608-610-ii-penzugyi-jelentesek-1641809116	215
6	Rába PLC	https://raba.hu/befektetoknek/	not issued in 2021
7	Richter Gedeon PLC	https://www.gedconrichter.com/hu-hu/befektetok	310
8	Waberer's PLC	https://www.waberers.com/hu/befektetoknek	75
9	OTP Bank PLC	https://www.otpbank.hu/portal/hu/IR_Eves_jelentes	83
10	Takarék Jelzálogbank PLC	https://www.takarekjb.hu/sw/static/file/takarekjb.hu-files-22-87156.pdf	122
11	MKB Bank PLC	https://www.mkb.hu/befektetoknek/mkb-bankrol/penzugyi-jelentesek	168
12	Budapest H. és F. Bank PLC	From 31 March 2022, Hungarian National Bank approved the merger of MKB Bank and Budapest Bank. The merged bank operates under the name MKB Bank Plc.	not issued in 2021
13	CIB Bank PLC	https://www.cib.hu/document/documents/CIB/kommunikacio/evesjelentesek/IFRS_2021_CIB-Group__HU-220325.pdf	187
14	Citibank E. PLC	https://www.citibank.com/icg/sa/emea/hungary/assets/docs/annual-reports/2021_Annual_Report_of_Citibank_Europe_plc_HU.pdf	116
15	ERSTE BANK H. PLC	https://www.erstebank.hu/hu/ebh-nyito/bankunkrol/erstebank-hungary-zrt/vallalatiranyitas/eves-jelentesek	not issued in 2021
16	K&H PLC	https://www.kh.hu/csoport/bank/eves-jelentesek	219

No.	Name	Website address	Length of Annual Report 2021 (pages)
17	Raiffeisen Bank PLC	https://www.raiffeisen.hu/raiffeisen-csoport/sajtoszoba/penzugyi-adatok/jelentesek	130
18	Sberbank Takarékné Jelzőbank PLC	The European resolution authority has opened winding-up proceedings against Sberbank Europe AG, the parent company of Sberbank Hungary. Hungarian National Bank has withdrawn the operating licence of Sberbank, citing a serious liquidity problem and a weak capital position of Sberbank Hungary. At the same time, Russia's Sberbank announced its complete withdrawal from the European market.	not issued in 2021
19	Unicredit Bank Hungary PLC	https://www.unicreditbank.hu/hu/rolunk/hasznos_informaciok/penzugyi_informaciok.html	109
20	AEGON Magyarország PLC	https://www.aegon.hu/eves-jelentes/eves-jelentes-2021.html	n.d. (html)
21	Allianz Hungária PLC	https://www.allianz.com/en/investor_relations/results-reports/annual-reports.html	208
22	Generali Biztosító PLC	https://www.generali.hu/Rolunk/miagenerali.aspx#Jelentesek	105
23	Groupama Biztosító PLC	https://www.groupama.hu/hu/rolunk.html?fenntarthatosag	119

Source: Authors' research based on Lippai-Makra (2022).

The first major difficulty of our research was the lack of a permanent place for annual reports on websites. Most often the reports are found under 'about us' and 'for investors' but often only in a 'downloads' or 'documents' submenu. The availability and page numbers of the reports are shown in Table 2. In three cases, we did not find the annual report on the website, either only a report in English on the parent company's website, or only some information, e.g. an executive summary. In total, 18 reports were downloaded and analyzed (signed with white in Table 2). Because of the small number of reports, we didn't use Nvivo or other software, but searched directly in the documents found.

4 Results

Of the 18 reports analyzed, 2 mention SDG and 9 mention ESG or GRI. There are 9 reports that do not mention either term. There are 2 reports where all three terms are mentioned. Among the sub-elements, the companies surveyed write most about the environment and social/employment issues in their annual reports, while fight against corruption and human rights are rarely mentioned. We would like to highlight three good practices.

One is Magyar Telekom PLC (2022), one of Hungary's largest telecommunications service providers. SDGs are mentioned as the main defining international guidelines and GRI is also applied. One of Magyar Telekom's commitments is to publish an annual report on its sustainability performance. ESG is included in the report e.g. as the company is a member of the FTSE Russel ESG Rating Sustainable Index. A stand-alone sustainability report is also available on their website, where the criteria of selecting topics/SDGs are presented. According to their materiality analysis process which is the part of stakeholder involvement scheme, SDG 4, 11, and 12 are the main goals to which the company can contribute.

CIB Bank PLC (2022) has been reporting its sustainability performance annually since 2005 in line with the GRI, so priority topics are defined in accordance with its requirements – the detailed materiality matrix is particularly noteworthy. Since 2018, financial report has also been supplemented by a shorter non-financial report, which was included in the financial chapter of the financial statements. For the first time, the researched 2021 edition report combines the previous sustainability report and the actual non-financial report (resulting in an integrated report), which includes a separate chapter on SDGs. The operating model and business conduct focus on seven SDGs (SDG 3, 5, 8, 9, 10, 12, 13) which are given priority attention. The definition of the topics is based on materiality analysis with the participation of stakeholder groups. ESG is mentioned 44 times in the Bank's report.

OTP Bank PLC's (2022) annual report is particularly good, with a strong organizational framework supporting the full integration of sustainability, which was completed in 2021. ESG transformation for both OTP Bank and its subsidiaries is managed by a permanent ESG Committee established by the Board of Directors. The OTP Group also reports on its social, environmental and wider economic

impacts and performance in a separate sustainability report. The sustainability report for the year 2021 is Group-wide, compliant with the GRI and assured by an external independent party. Although the annual report does not go into detail on the SDGs here, the sustainability report justifies their selection in detail. It refers to detailed, stakeholder-led materiality analysis. OTP Bank focuses on SDG 4, 6, 7, 9, 13, 16 and 17.

5 Discussion and Conclusion

Our research shows that Hungarian companies who are regulated by the CSRD face significant challenges. Even the few companies under the NFRD cannot fully comply with the requirements. Except of the good practices, companies try to avoid detailed data sharing and neither the auditors, nor the state or other stakeholders really expect more information. This practice provides a validation for the EU's new regulative motivation: like in the other EU member states, in Hungary as well, companies don't take the non-financial reporting regulation seriously, so it needs to be taken to a new level both in its scope and detailedness. That is the only direction in which non-financial reporting can achieve its real goal, to enable a more sustainable economic operation.

At the same time, companies are not alone in this challenge as there are a lot of effective guidelines and initiatives related to corporate sustainability issues and reporting connected to them. Moreover, EFRAG, authorized by the EU works on a comprehensive standard system (ESRS) which will provide useable indicators for reporting about the material sustainability impacts which are relevant for both the companies and their stakeholders.

There are more contributions of our paper. Firstly, in the theoretical part we demonstrated the parallelism of GRI and the new European system, ESRS in preparation. It shows that companies actively using GRI will have adequate experience in the transition to the new system. And today's good practices will be examples for other regulated organizations as well. This is particularly true as GRI is the mostly used international reporting framework for companies under NFRD in Hungary.

Secondly, in the empirical part, relating the topics, we concluded that different SDGs are in focus at different companies, which is a natural consequence of their different field of activity. The main message of the good practices is to involve stakeholders to the definition of significant, material topics.

Thirdly, we highlighted the main points of best practices. Looking at Magyar Telekom PLC's and CIB Bank's reports, which are at the forefront in terms of content and detail, we see that one company continues to produce a separate sustainability report, while the other merges it with the annual report. Both solutions have advantages and disadvantages. If the financial and non-financial reports are in the same structure, the content may be very fragmented, or the presentation of each issue may not be sufficiently detailed. When a separate sustainability report and other supplementary information is provided, this may not be sufficiently addressed. A recommended practice (as seen at OTP Bank) is to maintain the independent sustainability report beside the integrated one.

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