

Climate Impact and Corporate Communication: The European and Italian Situation and the Issb Proposal Outlined in Exposure Drafts S2 Climate-Related Disclosure - 29 March 2022



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ABSTRACT: On 29 March 2022, the International Sustainability Standard Board (ISSB), an emanation of the IASB, issued two Exposure Drafts: IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosure. This article will only deal with Draft S2, which proposes a very comprehensive formal and substantive reporting structure concerning the issue of the climate impact of companies' production activities. It must read Draft S2 in the light of Draft S1 since both documents refer to the same rules of conduct and the same formal structure of the external report. The two Drafts S1 and S2 interpreted as documents that form part of a single global vision of corporate communication, show how the ISSB wants to overcome the duality of financial reporting/sustainable disclosure and propose a unified idea of corporate communication. This is also demonstrated by the proposal, contained in Draft S1 and taken up by Draft S2 as an explicit reference to what was stated in the First Draft, to communicate financial reporting and all reports on sustainability and climate change to third parties on the same date and with the same communication tool.

KEYWORDS: Climate, sustainability, reporting, Exposure Draft S2.

1)ENVIRONMENTAL/CLIMATE POLLUTION AND SUSTAINABILITY: SUMMARY CONSIDERATIONS OF THE EUROPEAN SITUATION ¹.

Climate change results from an increasingly degenerate environmental and climate pollution situation. Last year, the European Environment Agency (EEA) issued a document with highly analytical data on the causes of air pollution in Europe. Please note that the European Environment Agency (EEA) is an EU agency. Its task is to provide reliable and independent information on the environment and climate. The European Union adopted the Regulation establishing the EEA in 1990 and the Agency, based in Copenhagen, became operational in 1994. The Regulation also established the European Environment Information and Observation Network (Eionet). Eionet is a partnership network of the EEA and its member and cooperating countries. It also includes the European Topic Centres, consortia of European organisations with expertise in specific environmental fields, which support the EEA and the network member countries. To support policy development in Europe, EEA works closely with national and European institutions, in particular the European Commission, the European Parliament and the Council of the European Union.

In the EAA document "Towards a Zero-Pollution Europe, EEA 2020 Signals", issued in March 2021, it highlighted that transport is responsible for around 45 % of nitrogen oxides (NO₂) emissions in Europe and a significant proportion of total emissions of other key pollutants; road traffic is the most widespread source of environmental noise, with more than 100 million people in Europe affected by harmful levels. 100 million people in Europe are affected by harmful levels; 20Energy production and distribution is the largest source of sulphur oxide (SO₂) emissions and a significant source of NO₂ emissions; Unsustainable agricultural practices lead to soil, water, air and food pollution, overexploitation of natural resources, loss of biodiversity and degradation of ecosystems.

¹ To facilitate reading, I have decided not to include in the text, except in exceptional cases, the names of the scholars who have dealt with the subject under analysis since the bibliography is endless, I have opted not to indicate all the terms of the scholars in the text because this would have meant a continuous interruption of the reading of the complete sentence in which I express my thought.

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Waste production and mismanagement contribute to air pollution and affect ecosystems; landfills, illegal disposal and waste dispersal pose additional risks, including soil pollution and waste dispersed in the marine environment. Road traffic is the most widespread source of environmental noise, with more than 100 million people in Europe affected by harmful levels. 100 million emissions of fine particulate matter (PM_{2.5}); utilities such as domestic heating are also an essential source of dust pollution. Commercial, institutional and residential buildings are responsible for 53 % of fine particulate emissions. Households are also a source of water- and air-polluting waste; the agricultural sector is responsible for more than 90 % of ammonia emissions in Europe and almost 20 % of emissions of non-methane volatile organic compounds (NMVOCs), such as benzene and ethanol; Waste production and poor waste management contribute to air pollution and affect ecosystems. Landfilling, illegal disposal and dispersal of waste pose additional risks, including soil pollution and waste dispersed in the marine environment.

The challenge that the European Commission has set itself is exceptionally ambitious and challenging to achieve. The EEA document cited above states that " It presented the strategy towards zero pollution in Europe in the European Green Deal, which is part of the European Commission's strategy for implementing the United Nations Sustainable Development Goals agenda. Its main objective is to protect citizens and ecosystems by improving monitoring, reporting, prevention and remediation of pollution. The zero-pollution strategy can help the EU decouple prosperity from harmful pollution levels while strengthening the EU's resilience and strategic autonomy. This can also support a sustainable recovery after COVID-19, for example, by helping to mainstream zero pollution into recovery efforts, promoting adequate and timely information on the economic and health benefits of anti-pollution interventions and exploring the further development of business practices that reduce pollution, create job opportunities and reduce social inequalities, as pollution disproportionately affects the most vulnerable. As part of the broader zero pollution strategy, the European Commission has already announced actions to reduce pollution in several Green Deal initiatives, notably the 'Circular Economy Action Plan', the 'Biodiversity Strategy' and the 'Producer-to-Consumer' strategy. The Chemicals Strategy for Sustainability and the Zero Pollution Action Plan, published in 2020 and 2021, will help promote cleaner products and technologies in all relevant economic sectors, prioritising pollution prevention over clean-up. Preceded by a public consultation, the Zero Pollution Action Plan is scheduled for release in the first half of 2021. The Zero Pollution Action Plan will focus, among other priorities, on improving the implementation of existing and future legislation, reviewing key pollution control instruments, tackling pollutants of concern and establishing an integrated framework between monitoring and zero pollution perspectives. The European Environment Agency will be a key partner in these activities."

On air pollution, the EEA says that " the reduction in emissions has led to a general improvement in air quality. However, there are still exceedances of EU air quality health standards for key pollutants such as particulate matter, nitrogen dioxide and ozone; EU vegetation standards for ozone; World Health Organization (WHO) health guidelines; and of critical loads of nitrogen in many ecosystems. These exceedances are expected to remain in 2020. • With the full implementation of the current emission abatement policies, air pollutant concentrations above the WHO guidelines are expected to be almost completely eliminated by 2030. The current number of more than 400 000 premature deaths attributable to air pollution in the 28 EU Member States is expected to decline by more than a half by 2030, while the reduction in the impacts on ecosystems is expected to be smaller. Therefore there is still a need to substantially reduce the impacts on human health and ecosystems. • To further improve air quality, additional measures are needed to reduce emissions, especially from agriculture, transport and domestic heating. The continuing contribution to poor air quality by these sectors is consistent with a need for systemic changes in the food, mobility and energy systems. Because of the transboundary character of air pollution, maintaining collaboration and coordinated action at international, national and local levels will be crucial to curb air pollution, in coordination with other environmental, climate and sectoral policies."

The EEA, in its document outlining the pollution targets to be achieved by 2030, points out that "The challenge to reduce industrial pollution in Europe is decreasing thanks to a combination of regulations and developments in manufacturing and environmental initiatives. However, the industry continues to pollute, and the transition to zero pollution in this sector is an ambitious challenge. We can classify pollution according to the compartment where we find it (in air, water or soil) or look at different types of pollution, such as chemicals, noise or light.

Light. Another way to look at pollution is to go to its sources. Some sources of pollution are scattered, such as cars, agriculture and buildings; others can be better assessed as individual emission points.

Many of these point sources are large installations, such as factories and power plants, as well as individual emission points. The industry is a critical component of the European economy. According to Eurostat, in 2018, it accounted for 17.6 % of gross domestic product (GDP) and directly employed 36 million people. At the same time, the industry is responsible for more than half of the total emissions of some major air pollutants and greenhouse gases and other significant environmental impacts, including the release of pollutants into water and soil, waste generation, and energy consumption.

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Air pollution is often associated with the burning of fossil fuels. This applies to power plants and many other industrial activities with on-site power or heat production, such as iron and steel production or cement manufacturing. Some actions generate dust, which contributes to particulate concentrations in the air,

while the use of solvents, for example, in metalworking or chemical production, can lead to the emission of organic pollutants.

Trends in air emissions from the industrial sector: air emissions from the industrial sector in Europe have decreased in recent years. Between 2007 and 2017, total emissions of sulphur oxides (SO₂) fell by 54 %, nitrogen oxides (NO₂) by more than a third, and greenhouse gases from industry, including power plants, by 12 %. This progress in environmental performance by European industry has occurred for several reasons, including stricter environmental regulation, improvements in energy efficiency, a transition to less-polluting types of production processes and voluntary environmental impact reduction schemes. For many years, ecological legislation has limited the adverse effects of industrial activities on human health and the environment. Key EU measures addressing industrial emissions include the Industrial Emissions Directive, covering some 52 000 of the largest industrial installations, and the Medium Combustion Plant Directive. At the same time, the EU Emissions Trading System (EU ETS) limits greenhouse gas emissions from more than 12 000 manufacturing and power generation installations in 31 countries. The EU ETS covers about 45 % of the EU's greenhouse gas emissions. However, despite this progress, the industry is still responsible for a significant burden on the environment in terms of pollution and waste generation.

Public accountability: E-PRTR and transparency of industrial emissions data The European Pollutant Release and Transfer Register (E-PRTR) was established in 2006 to improve public access to environmental information. Essentially, the E-PRTR enables citizens and stakeholders to obtain information on pollution in all corners of Europe, on the main polluters and on whether or not pollutant emission trends are improving. The E-PRTR covers more than 34 000 facilities in 33 European countries. The E-PRTR data show, for each facility and each year, information on the amount of pollutants emitted to air, water and soil and off-site transfers of waste and pollutants in wastewater. The E-PRTR data are freely accessible on a dedicated interactive website. The website archives historical data on releases and transfers of 91 contaminants in 65 economic activities. In addition, the E-PRTR is now integrated with more extensive reporting under the Industrial Emissions Directive, including additional information for large combustion plants."

For the future, the EEA aims to "address climate, and environmental challenges are the defining task of our time. To achieve a sustainable future, policy initiatives, including the European Green Deal, require action along the following lines - Halting biodiversity loss and restoring ecosystems; - Bringing net greenhouse gas emissions to zero by 2050 and achieving resilience to climate change; - Achieving zero pollution to achieve an environment free of toxic substances; - Achieving resource efficiency in a circular economy; - Integrating sustainability into all EU policies."

The EEA and EIONET have addressed five areas: biodiversity and ecosystems, climate change: mitigation and adaptation, human health and the environment, circular economy and resource use, and sustainability trends/perspectives/responses.

This paper will specifically address climate change disclosure and the climate impact of productive activities. On this issue, the EEA, in its document "EEA-EIONET Strategy 2021-2030", points out that "Climate change is happening and will continue over the coming decades. Europe aims to achieve climate neutrality by 2050 and become more resilient and less vulnerable to climate change. We will monitor this transition and support the development, implementation and evaluation of policies and measures in this area. "

To intervene on the five areas mentioned above, the EEA and EIONET will, as stated in the document issued by the two entities on the Strategy to be implemented in the 2021-2030 decade, work on

- "generate knowledge to facilitate policy implementation and inform the development of new initiatives that can accelerate and broaden the transition to sustainability;
- further develop and use our vast array of high-quality data with long time series to support various environmental and climate policies; and
- ensure the use of the best available scientific knowledge through the involvement of the Scientific Committee of the European Environment Agency and the broader scientific community;
- develop and share knowledge on key sustainability challenges and solutions in energy, mobility, food and built environment systems;
- address the broader challenges and opportunities related to the transitions towards sustainability at both European and national levels, including drivers of change such as the financial sector and cities;
- strengthen our capacity to contribute to the evaluation of policies and measures.

A priority of this Strategy is to foster the integration of climate and environmental knowledge into economic, spatial planning and social cohesion policies, including the deepening of European global dynamics and their implications for policy implementation

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across Europe. In the period 2021-2030, we will also support critical EU policy processes, such as the European Semester and the Environmental Policy Implementation Review, by deepening our understanding of, for example, key trends and indicators, cost-effective implementation practices and the potential for improved social innovations to achieve sustainability goals."

To achieve these objectives, the EEA and EIONET will:

" - increase their capacity to monitor and identify emerging issues and rapidly mobilise the knowledge our network and other partners hold.

- strengthen their capacity to provide an immediate response to the knowledge demands of policymakers; - share innovative solutions implemented at different levels of governance in European countries;

- develop and deliver their knowledge to policy-makers and the public in formats best suited to their needs to foster greater participation and use in decision-making; - continuously develop approaches, channels and tools to improve the quality of their knowledge.

continuously develop communication approaches, channels and tools to ensure that their knowledge is understandable, available and accessible to all while strengthening our capacity for active engagement with citizens."

To enable Europe to achieve a complete ecological transition, the EEA and EIONET will also:

" - develop into a more flexible and innovative knowledge network, better linking at the European level the solid expertise gained at the national level;

- promote more active engagement at the national level, through activities involving a diverse set of authorities, organisations and citizens;

- join forces with other relevant networks, such as the network of environmental protection agencies, reporting networks and scientific societies;

- identify the knowledge community and work with it at the European level to ensure that investment in research and innovation in Europe is fully utilised;

- Identify knowledge gaps and explore collaborative actions with relevant partners, including EU agencies such as the European Chemicals Agency, the European Food Safety Authority and the European Centre for Disease Prevention and Control, to help address them;

In critical regional and global processes, further strengthen collaboration with international institutions, including UN bodies and conventions, on reporting obligations and issues of common interest."

This article addresses the issue of disclosure specifically concerning climate change and the actions implemented by businesses that they wish, or in some cases are obliged, to communicate to the outside world. The above summary of the climate situation in Europe should be interpreted as a mere introduction to the specific subject matter of this article. Our attention will be focused only on the disclosure of companies in the climate sphere, since on 29 March 2022, an exposure Draft was issued by the ISSB, an emanation of the IASB, precisely on this issue. To contextualise the problem that is the object of our attention at a global level and to provide a clearer picture of the situation in Europe, this article will deal with the issue of disclosure concerning, specifically, climate change and the actions implemented by production activities that companies themselves wish to, or in some cases, are obliged to, communicate externally. The above summary of the climate situation in Europe should be interpreted as a mere introduction to the specific subject matter of this article. Our attention will be focused only on the disclosure of companies in the field of climate because on 29 March 2022 an exposure Draft was issued by the ISSB, an emanation of the IASB, on this issue. To contextualise the subject of our attention at a global level, we report on the SDGs issued by the UN and considered objectives that can achieve within the next ten years. In this article, we would like to address the issue of disclosure specifically concerning climate change and the actions implemented by production activities that companies themselves wish to, or in some cases, are obliged to, communicate to the outside world. The above summary of the climate situation in Europe should be interpreted as a mere introduction to the specific subject matter of this article. Our attention will be focused only on the disclosure of companies in the field of climate because on 29 March 2022, an exposure Draft was issued by the ISSB, an emanation of the IASB, on this issue. In order to contextualise the subject of our attention at a global level, we report on the SDGs issued by the UN and considered objectives that can achieve within the next ten years. In this article, we would like to address the issue of disclosure specifically concerning climate change and the actions implemented by production activities that companies themselves wish to, or in some cases, are obliged to, communicate to the outside world. The above summary of the climate situation in Europe should be interpreted as a mere introduction to the specific subject matter of this article. Our attention will be focused only on the disclosure of companies in the field of climate as on 29 March 2022 an exposure Draft was issued by the ISSB, an emanation of the IASB, on this issue. To contextualise the problem that is the object of our attention at a global level and to have a global vision of the

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elements that distinguish sustainable management, we decided to refer to the SDGs issued by the UN, also known as the "2030 agenda

"1)No poverty ; 2) Zero hunger; 3)Good health and well-being; 4)Quality education ; 5)Gender equality; 6)Clean water and sanitation; 7)Affordable, and clean energy; 8)Decent work and economic growth for all; 9)Industry innovation and infrastructure; 10)Reduced inequalities Sustainable cities and communities; 11) Responsible consumption and production; 13)Climate action; 14)Life below water;15)Life on land;16)Peace , justice and strong institution; 17)Partnerships for the goals.

As can be seen from reading the 17 goals identified by the UN, they are not as many goals as wished. These goals are unlikely to be achieved by 2030 because they are too complex to reach. However, there is no doubt that, even now, some points can be managed in such a way as to make human life more sustainable in its entirety. Among these goals, which are at least partly achievable within the next decades (hardly by 2030), we can mention goals 5; 6; 7; 8; 9; 13, 14; 15 and 17.

Our attention will be focused exclusively on goal number 13 as the S2 exposure draft, which we will discuss in the following paragraphs, focuses on this issue. In the following pages, we will analyse the Italian legal situation concerning the information obligations addressed to outside companies concerning the topic of environmental pollution. Subsequently, we will highlight the main points of the Exposure Draft S2 issued by the ISSB, which will undoubtedly represent a critical reference point for each company when drawing up the document with which it makes the disclosure to the outside world concerning the issue of climate.

2) THE CLIMATE : REGULATORY REQUIREMENTS IN ITALY CONCERNING INFORMATION FOR OUTSIDE COMPANIES

In Italy, the issue of disclosure to the outside world concerning Climate has three main points of reference

- 1) the Civil Code;
- 2) Decree 254/2016.

In addition to these laws, in Italy, the issue of Climate is also addressed by the main law of this country, i.e. the Constitution. The Constitution does not address the issue of disclosure of information to third parties outside the company regarding Climate. Still, it does point out that this issue is fundamental to the action of the entire Nation.

On 10 February 2022, it makes the following amendments to Articles 9 and 41 of the Italian Constitution (the new parts are in bold and underlined):

Article 9: "The Republic promotes the development of culture and scientific and technical research. It protects the landscape and the historical and artistic heritage of the Nation. It protects the environment, biodiversity, and ecosystems in future generations' interests. The law of the State regulates the ways and forms of protection of animals'.

Article 41: Private economic initiative is free. ***It may not carry out in conflict with social utility or in such a way as to damage security, freedom, human dignity, health or the environment.*** The law determines the appropriate programmes and controls so that public and private economic activity can be directed and coordinated for social and ***environmental purposes.***

The above changes have been enthusiastically welcomed by the community, scholars and sustainability experts. For the first time in Italy, the Constitution has imposed ***the protection of the environment and biodiversity, ecosystems, and animals.***

This is certainly noteworthy. From a moral, ethical and pragmatic point of view, the introduction of such innovative elements must be interpreted as a massive step towards shared sustainability implemented by every subject of the State, be it business or individual. As already pointed out in the previous pages, only history will tell us whether these changes have created a difference between what happened before the introduction of the changes to the Constitution and what will happen in the future following these changes. From a purely theoretical and scientific point of view, however, the effort made by our legislator to send out a powerful message on the issue of sustainability by intervening directly in the Constitution and not contenting himself with issuing ordinary laws is highly appreciable.

It should be noted that, before the amendments introduced to Articles 9 and 41 of the Constitution on 10 February 2022, the legislator had already addressed, at least partially, the issue of sustainability and the environment in particular in the Constitution itself.

The first paragraph of Article 9 of the Constitution states that "the Republic promotes the development of culture and scientific and technical research. It safeguards the landscape and the historical and artistic heritage of the nation". It is clear that this article, introduced in the past, had already opened the door to a more incisive regulatory intervention on sustainability in general and on the environment in particular.

Article 32 of the Constitution is also interconnected with the environment, albeit indirectly. Article 32 states that "The Republic protects health as a fundamental right of the individual and in the community's interest and guarantees care for the indigent. No

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one may be obliged to undergo a given health treatment except by law. The law may in no case violate the limits imposed by respect for the human person".

This article does not refer specifically to the environment but, according to the prevailing legal doctrine, indirectly implies the protection of the environment itself since, in an unhealthy environment, there can be no health and, therefore, the safety of health, indirectly, required, even before the amendments made to Articles 9 and 41 of the Constitution, the protection of the environment.

In addressing the issue of environmental sustainability, we cannot forget what is stated in Article 117 of the Italian Constitution: The "Legislative power shall be exercised by the State and the Regions in compliance with the Constitution and the constraints arising from Community law and international obligations.

The State shall have exclusive legislation in the following matters.

- a) foreign policy and international relations of the State; relations of the State with the European Union; right of asylum and legal status of citizens of States not belonging to the European Union;
- b) immigration;
- c) relations between the Republic and religious denominations;
- d) defence and armed forces; State security; arms, munitions and explosives;
- e) money, protection of savings and financial markets; protection of competition; currency system; State taxation and accounting system; harmonisation of public budgets; equalisation of financial resources;
- (f) State organs and electoral laws; State referenda; election of the European Parliament;
- (g) order and administrative organisation of the State and national public bodies;
- (h) public order and security, except for local administrative police;
- (i) citizenship, civil status and registers;
- l) jurisdiction and procedural rules; civil and criminal law; administrative justice;
- (m) determination of the essential levels of the services concerning civil and social rights that must guarantee throughout the national territory
- n) general rules on education
- (o) social security;
- p) electoral legislation, governing bodies and fundamental functions of municipalities, provinces and metropolitan cities;
- q) customs, protection of national borders and international prophylaxis;
- r) weights, measures and time determination; statistical and computer coordination of data of State, regional and local administration; intellectual works
- s) protection of the environment, the ecosystem and cultural heritage.**

The following are matters of shared legislation (State and regions), international relations and relations with the European Union of the regions; foreign trade; labour protection and safety; education, without prejudice to the autonomy of school institutions and with the exclusion of vocational education and training; professions; scientific and technological research and support for innovation in productive sectors; health protection; food; sports regulations; civil protection; territorial government; civil ports and airports; large transport and navigation networks; communication regulations; national energy production, transportation and distribution; complementary and supplementary pensions; coordination of public finance and the tax system; **enhancement of the cultural and environmental heritage** and promotion and organisation of cultural activities; savings banks, rural banks, regional credit companies; regional land and agricultural credit institutions. In concurrent legislation, the regions have legislative powers, except for the determination of fundamental principles, which are reserved for State legislation.

The Regions shall have legislative powers concerning any matter not expressly reserved for State legislation. The Regions and the Autonomous Provinces of Trento and Bolzano, in the matters within their competence, shall participate in decisions aimed at the formation of Community legislative acts and shall see to the implementation and execution of international agreements and actions of the European Union in compliance with the rules of procedure established by the law of the State, which shall regulate the manner of exercising the power of substitution in the event of non-compliance.

Regulatory powers shall be vested in the State in exclusive legislation, subject to delegation to the Regions. Regulatory powers shall be vested in the regions in all other matters. Municipalities, provinces and metropolitan cities have the regulatory authority to regulate the organisation and performance of the assigned functions.

Regional laws shall remove all obstacles preventing the full equality of men and women in social, cultural and economic life and promote equal access for women and men to elected office.

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Regional laws shall ratify the Region's agreements with other regions to improve the exercise of its functions, including by identifying standard bodies.

In matters within its competence, the Region may conclude agreements with States and understandings with territorial entities within another State, in the cases and with the forms governed by the laws of the State."

From a reading of Article 117 of the Italian Constitution, it is clear that even before 10 February 2022, the Constitution established that the subject matter "protection of the environment, the ecosystem and the cultural heritage" is entrusted exclusively to the Italian State. On the other hand, the 'valorisation of the cultural and environmental heritage and the promotion and organisation of cultural activities is a matter of competing legislation between the State and the Regions. This situation of competition has created various legal problems in the past. Many scholars have highlighted the centralism of the State in the environmental sphere when, in their opinion, a situation of coordination between the State and the Regions should have been created.

This is not the place to go into the rants that have been waged over this competition. What is important to note is that, even before the amendments to articles 9 and 41 of the Constitution that occurred with the approval by Parliament of these additions on 10 February 2022, the issue of the environment and sustainability was already present in our Constitution. However, there were no references to animals. And it must welcome the integration approved on 10 February 2022 regarding these living with great happiness because it cannot separate the concept of sustainability from a human attitude towards animals that, although not human beings, are living beings with feelings. Therefore, in my opinion, the integration of animal protection should be seen as a massive step towards a more evolved community.

In various rulings before the year 2022, the Constitutional Court has highlighted the need to promote environmental protection. In particular, in sentence no. 210 of 1987, the Constitutional Court states that "the effort underway to give specific recognition to the protection of the environment as a fundamental right of the individual and fundamental interest of the community and to create legal institutions for its protection must be recognised. It includes the conservation, the rational management and the improvement of natural conditions (air, water, soil and territory in all its components). These are values that the Constitution essentially provides for and guarantees through articles 9 and 32, according to which the forecasting norms need an increasingly modern interpretation. The community directives commit the State in a relevant manner to a coordinated consideration of the environment, the timely and correct execution of the commitments undertaken, and the provision of the appropriate, necessary measures".

In the judgment of the Constitutional Court no. 127 of 1990, it is stated that "This implies that, ultimately, since - as we have seen - the decree implements that Directive and is therefore expressly aimed at "the protection of health and the environment", it is not possible to protect the environment. 127 of 1990 states that "This means that, in the final analysis, since - as we have seen - the decree is an implementation of that Directive and, therefore, expressly aimed at "the protection of health and the environment throughout the national territory", the maximum limit of polluting emissions, taking into account the criteria mentioned above, can never exceed the absolute and indefectible limit represented by the tolerability for the protection of human health and the environment in which man lives. This protection is entrusted to the fundamental principle laid down in Article 32 of the Constitution, to which the second paragraph of Article 41 refers.

In its judgment 127/1990, the Constitutional Court further states that "the Pretore complains, in substance, that Article 2 of Presidential Decree No 203 of 24 May 1988, by including, among other definitions, that concerning the 'best available technology' (No 7), has made the containment or reduction of polluting emissions by industrial plants subject to the condition that the application of the measures 'does not entail high costs. In so doing, the law conflicts with the 'absolute subjective right' to environmental health and the citizen's health, which, according to the principle laid down in Article 32(1) of the Constitution, cannot be subject to any limitation whatsoever. However, there is a similar conflict with the principles laid down in the first and second paragraphs of Article 41 of the Constitution, which require private initiative to be subordinate to and aimed at social benefit: whereas, by allowing entrepreneurs to subordinate anti-pollution measures for emissions to the interests of the company, the social benefit of the private initiative would be sacrificed precisely because of the offence inflicted on a primary and fundamental good such as health".

It is clear from the above that, even before the amendments to Articles 9 and 41 of the Constitution, the environment, sustainability, and all that is directly or indirectly related to these issues were the subject of national interest, particularly the Constitution itself or the Constitutional Court.

However, concerning the additions to Articles 9 and 41 of the Constitution issued on 10 February 2022, only time will tell if these changes will have a tangible impact on the issue of sustainability.

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Also, concerning the integration of animal protection, the application of the principle introduced into the Constitution will have a tangible impact on the community and the life of every citizen; it will all depend on how the rules are applied. As long as a principle is enshrined in law, even if it is a constitutional law but is not applied by the community, it does not help the issue it regulates. Again, only time will tell how this integration has impacted the behaviour of society toward animals and sustainability in general. From the reading of what has been said above, it sees how the Constitution deals with the issue of sustainability and, in particular, climate, not from the point of view of information intended for the community but from the point of view of the substance of the action that every subject belonging to the Italian nation must implement to protect, among the various elements listed, the environment and climate.

Although it does not fall within the scope of the disclosure, it was not possible to address the issue of Climate without referring to what is required by the Italian Constitution.

On the other hand, with regard specifically to disclosure intended for the outside world concerning the environmental impact and the impact on the Climate of the production activities carried out by companies, reference must be made to the Civil Code and Decree 254/2016. Legislative Decree No. 254 of 30 December 2016, Implementation of Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU regarding the disclosure of non-financial and diversity information certain undertakings and large groups. (17G00002) (OJ General Series No.7 of 10-01-2017) applies to public interest entities. Such entities are defined by Article 16(1) of Legislative Decree No 3 of 27 January 2010. That decree specifies that public interest entities include:

- (a) Italian companies issuing securities admitted to trading on regulated
- (a) Italian companies issuing securities admitted to trading on regulated markets in Italy and the European Union;
- (b) banks;
- c) insurance undertakings referred to in Article 1(1)(u) of the Private Insurance Code;
- d) reinsurance undertakings referred to in article 1 (1, cc) of the code of private insurance, with head office in Italy and the branches in Italy of non-EU reinsurance undertakings referred to in article 1 of the code of private insurance.

It must apply article 2428 of the Civil Code concerning the management/administrative report to companies that prepare financial statements according to the rules of the Civil Code and therefore do not belong to the companies defined as "public interest entities" by the decree as mentioned above.

It should note that both the document governed by Decree 254/2016 and the management/administrative report are mandatory documents but are not part of the year's financial reporting. This means that the relevance of the documentation in question is less than that assigned to the financial reporting on which there are precise rules governing the invalidity of the financial reporting itself. For the reports governed by Decree 254/2016 and Article 2428 of the Civil Code, there are no specific rules regarding the potential invalidity of the document in the presence of the preparation of incomplete reports, incomplete or containing untrue information. In reality, however, a form of control is foreseen for both reports. Their content must be examined by the auditors, who must answer the truthfulness and completeness of the document. Nevertheless, the relevance of both reports is lower than that of the financial reporting for the financial year.

Both the annual report and Decree 254/2016 address the issue of social responsibility in the broadest sense. Therefore, the issue of Climate and the impact of production activities on Climate is only one of the topics addressed by the two laws. In this article, we will only deal briefly with the provisions of the two laws mentioned above on the issue of Climate since the exposure Draft S2, which will be the subject of in-depth analysis on the following pages, only concerns this issue.

Concerning the content of the management/administrative report, governed by Article 2428 of the Civil Code, concerning the climate and the environmental impact of production activities, it should note that the legislation is very vague and does not provide helpful elements to disseminate information on these issues. The civil law article regulating management/administrative reporting consists of two parts: the second part lists a series of specific details that, obligatorily, the person drafting such a document must include in the disclosure intended for the outside world (1) research and development activities; 2) relations with subsidiaries, associated companies, parent companies and companies subject to the control of the latter; 3) the number and nominal value of both own shares and shares or quotas of parent companies held by the company, also through trust companies or third parties, with an indication of the corresponding portion of capital; 4) the number and nominal value of both the company's own shares and the shares or quotas of parent companies acquired or disposed of by the company during the financial year, including through fiduciary companies or third parties, with an indication of the corresponding portion of capital, the consideration and the reasons for the purchases and disposals; 5) (.... ...); 6) the foreseeable evolution of operations;6-bis) in relation to the use by the company

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of financial instruments and if relevant to the assessment of the financial position and results of operations for the year: (a) the company's financial risk management objectives and policies, including the hedging policy for each significant category of forecasted transactions; (b) the company's exposure to price risk, credit risk, liquidity risk and cash flow risk; 7. The report must also include a list of the company's secondary offices).

In the first part of the report, on the other hand, it is provided that "The financial report must be accompanied by a report by the directors containing an accurate, balanced and exhaustive analysis of the company's situation and the trend and result of operations, as a whole and in the various sectors in which it has operated, including through subsidiaries, with particular regard to costs, revenues and investments, as well as a description of the principal risks and uncertainties to which the company is exposed.

The analysis referred to in the first subparagraph shall be consistent with the size and complexity of the company's business and shall contain, to the extent necessary for an understanding of the company's position and of the development and performance of its business, financial and, where appropriate, non-financial performance indicators relevant to the particular business of the company, including information relating to environmental and employee matters. The analysis shall, where applicable, include references to and additional explanations of amounts reported in financial reporting."

As can be seen, the first part of the management/administrative report requires the disclosure of information concerning sustainability in the broadest sense and environmental and personnel protection. However, it leaves a great deal of freedom to the person drafting the document. However, the phrase "if appropriate...." introduces excessive discretion to the report's editor. This phrase can be interpreted either extensively or restrictively by the person drafting the management/administrative report, with the result that, on reading the reports of many companies, there is a tendency to provide minor and succinct non-financial information about the company.

In the management/administrative report, therefore, no specific elements are provided that must be included in the first part of this document. The legislator has limited itself to requiring "where appropriate ... to provide... non-financial information".

Non-financial information also includes sustainability information and, in particular, information on the climate and climate impact of the business activity. But everything is left to the 'good will' of the person preparing the report. On a practical level, companies with a good culture of sustainability in the general sense and of information intended for third parties will be able to read an extensive, complete and exhaustive management/administrative report. On the other hand, in companies where this culture is absent, the report will be relegated to a mere legal obligation, and non-financial information will be scarce and incomplete. This applies to all non-financial information and, therefore, also to that relating to climate.

Decree 254/16, however, is more detailed regarding the content of the report that must be prepared following the obligations imposed by Article 3 of the decree itself. The scope of the disclosure document regarding non-financial information imposed on public interest entities under Legislative Decree 254/2016 is as follows:

"Art. 3 Legislative Decree 254/2016.

Individual declaration of a non-financial character

1) The individual non-financial statement, to the extent necessary to ensure an understanding of the company's activity, its performance, its results and the impact it has produced, shall cover environmental, social, personnel, human rights, and the fight against active and passive corruption issues, which are relevant given the company's activities and characteristics, describing at least:

a) the company's model for managing and organising its activities, including any organisational and management models adopted under Article 6(1)(a) of Legislative Decree no. 231 of 8 June 2001, also concerning the management of the issues as mentioned above;

(b) the policies practised by the undertaking, including those of due diligence, the results achieved through them and the relevant non-financial key performance indicators;

(c) the principal risks ((including how they are managed)) generated or incurred, related to the above issues and arising from the undertaking's activities, products, services or commercial relationships, including, where relevant, supply chains and subcontracting;

2. Concerning the areas referred to in paragraph 1, the non-financial statement shall at least contain information concerning

(a) the use of energy resources, distinguishing between those from renewable and non-renewable sources, and the use of water resources

(b) greenhouse gas emissions and air pollutant emissions;

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c) the impact, where possible, on the basis of realistic hypotheses or scenarios also in the medium term, on the environment as well as on health and safety, associated with the risk factors referred to in paragraph 1, letter c), or with other relevant environmental and health risk factors;

d) social and personnel management aspects, including actions taken to ensure gender equality, measures aimed at implementing the conventions of international and supranational organisations on the matter, and how to dialogue with the social partners is carried out;

e) respect for human rights, measures taken to prevent violations thereof, as well as actions are taken in order to avoid discriminatory attitudes and actions;

(f) the fight against corruption, both active and passive, and the means adopted.

3. The information referred to in paragraphs 1 and 2 shall provide a comparison with that provided in previous years, following the methods and principles set out in the reporting standard used as a reference or in the independent reporting methodology used to draw up the declaration and, where appropriate, shall be accompanied by references to the items and amounts contained in the financial statements. The report shall make explicit reference to the reporting standard adopted. The reporting standard used differs from the one referred to in the previous year's statement shall be disclosed in the report.

The reason is explained if the reporting standard used differs from the one referred to in the previous year's statement.

4. Where a stand-alone reporting methodology is used, a clear and detailed description of the methodology and the rationale for its adoption in the non-financial statement is provided. Similarly, it shall describe previous years' changes and give reasons.

5. For reporting, the performance indicators used, as referred to in paragraph 1, letter b), is envisaged by the reporting standard adopted and represent the various areas, as well as consistent with the activity carried out and the impacts produced by it. If an autonomous reporting methodology is used, or if the performance indicators provided by the adopted are not adequate to consistently represent the activity carried out and its impacts, the company selects the most suitable indicators for this purpose, providing clearly and articulately the reasons underlying this choice. The choice of performance indicators is also made by taking into account, where appropriate, the guidelines issued by the European Commission according to the provisions of Directive 2014/95/EU.

6. Public interest entities subject to the obligation to prepare the non-financial statement that does not practice policies concerning one or more of the areas referred to in paragraph 1 shall provide in the same information, for each of those areas, the reasons for this choice, indicating the logic clearly and articulately.

7. Responsibility for ensuring that the report is prepared and published under the provisions of this Legislative Decree rests with the directors of the public interest entity. In fulfilling their duties, they shall act professionally and diligently. The control body, within the scope of the functions attributed to it by the law, shall supervise compliance with the provisions of this decree and shall report on it in its annual report to the shareholders' meeting.

8. Without prejudice to the obligations deriving from the admission or the application for admission of securities to trading on a regulated market, subject to a reasoned decision of the management body, after consulting the supervisory body, information concerning imminent developments and transactions in progress may, in exceptional cases, be omitted from the non-financial statement, if their disclosure would seriously jeopardise the undertaking's commercial position.

Where the public interest entity avails itself of this option, it shall disclose it in the non-financial statement with an explicit reference to this subparagraph. However, omission shall not be permitted where it would prejudice a fair and balanced understanding of the undertaking's performance, results and position, and the impact of its activities on the matters referred to in paragraph 1.

9. For persons who fulfil the obligations of this Article by submitting the non-financial declaration in the management/administrative report under Article 5, paragraph 1, letter

a), the obligations referred to in articles 2428 (1 and 2) of the civil code, article 41 (2) of legislative decree n. 136 of 18 August 2015 and article 94 (1-bis) of legislative decree n. 209 of 7 September 2005, limited to the analysis of non-financial information, shall be deemed to be met.

10. The person in charge of the statutory audit of financial reporting shall verify that the directors have prepared the non-financial statement. The same person, or another person specifically appointed to carry out the statutory audit, shall issue, in a specific report separate from the report referred to in Article 14 of Legislative Decree No. 39 of 27 January 2010, a statement regarding

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the conformity of the information provided with the requirements of this legislative decree and with the principles, methods and procedures set out in paragraph 3. It shall express the conclusions based on the knowledge and understanding that the person in charge of carrying out the control activity on the non-financial statement of the public interest entity, of the adequacy of the systems, processes and procedures used to prepare the non-financial statement. If the non-financial statement is contained in the management report under Article 5 (1) (a), the opinion referred to in Article 14 (2) (e) of Legislative Decree No. 39 of 27 January 2010 shall not include said statement, which shall remain the subject of the certification obligation referred to in this paragraph. The report, dated and signed by the person designated for the purpose, shall be attached to the non-financial statement and published together with it in the manner set out in Article 5. "

As can be seen by carefully reading art. 3 of Decree 254/16, the report governed by this regulatory act must, obligatorily, include information regarding: a) the use of energy resources, distinguishing between those produced from renewable and non-renewable sources, and the use of water resources; b) the emissions of greenhouse gases and pollutant emissions into the atmosphere; and c) the impact, where possible based on realistic assumptions or scenarios even in the medium term, on the environment as well as on health and safety, associated with the risk factors referred to in paragraph 1, letter c), or other relevant environmental and health risk factors.

Article 3 also highlights how it must provide information on the company's model of management and organisation of its activities, the policies practised by the company, including those of due diligence, the results achieved through the application of these policies and the related key performance indicators of a non-financial nature and the main risks arising from the companies' activities.

Even if the decree 254/16 does not analyse, in a particularly detailed manner, every issue that may fall within the above-mentioned topics, among which we recall the environmental impact and the climate connected to the company's production activities, it certainly provides more elements to be observed by the report's preparer than those indicated in art. 2428 of the Civil Code governing the management/administrative report.

Also, in this case, however, the completeness of the report was drawn up according to art. 3 decree 254/16 will depend on the culture of information intended for the outside world of the drafter of the document. Indeed, given the companies involved, there is a more incredible communication culture than that found in companies subject to the Civil Code (i.e. 95% of Italian companies not listed on the stock exchange, non-banking and non-insurance). Reports related to non-financial information, including information on the climate impact and climate resulting from companies' activities, are more informative than management reports.

In a more precise way, many entities and organisations have tried to identify the content that should characterise the report containing non-financial information (in the context of both the management report and the document governed by Decree 254/16).

Such bodies and organisations have proliferated in every State and Nation, but none has the impact, at the level of global relevance, of the IASB (International Accounting Standards Board). For this reason, the Exposure Draft S2 Climate-related Disclosure, issued by the ISSB (International Sustainability Standards Board), an emanation of the IASB, will certainly have a significant impact in the area of non-financial disclosure to third parties. Please note that two Exposure Drafts were issued on 29 March 2022: IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosure. We have already discussed the Exposure Draft IFRS S1 General Requirement for Disclosure of Sustainability-related Financial Information in a previous article (Avi, 2022). In this article we will elaborate on the content of Draft S2 Climate-related Disclosure, certain that this document, given the importance of the issuer, will have a certain impact on all companies that, currently, at least at European level, must, for various reasons, draw up a report containing information on the environmental impact and climate-related to the performance of their production activities. Since the document is very structured, we hope that it will also be taken as a model by non-European countries to create homogeneous non-financial reporting worldwide.

3) THE EXPOSURE DRAFT S2 CLIMATE-RELATED DISCLOSURE, ISSUED BY THE ISSB (INTERNATIONAL SUSTAINABILITY STANDARD BOARD), AN EMANATION OF THE IASB.

The Exposure Draft S2 Climate-related Disclosure highlights how the ISSB has issued this Draft "in response to calls from users of general purpose financial reporting for more consistent, complete, comparable and verifiable information, including consistent metrics and standardised qualitative disclosures, to help them assess how climate-related matters and the associated risks and opportunities affect:

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- an entity's financial position and financial performance;
- an amount, timing and certainty of the entity's future cash flows over the short, medium and long term and, therefore, the assessment of enterprise value by users of general purpose financial reporting; and
- an entity's strategy and business model.

Climate change affects all economic sectors. However, the degree and type of exposure and the current and anticipated effects of climate-related risks and opportunities on the assessment of enterprise value are likely to vary by sector, industry, geography and entity. In assessing an entity's financial and operating results and future cash flows, users of general purpose financial reporting want insight into the governance, risk management and strategic context in which such results are derived. Users also want to understand an entity's targets for managing climate-related risks and opportunities and the metrics the entity uses to measure progress towards meeting the targets. The proposals in the Exposure Draft are intended to facilitate the provision of comparable information for global markets. These requirements are designed to enable users of general purpose financial reporting to assess entities' exposure to and management of climate-related risks and opportunities, across markets, to facilitate capital allocation and stewardship decisions.”

Draft S2 underlines that “The urgent need for the International Sustainability Standards Board (ISSB) to deliver its initial Standards has been repeatedly highlighted, including in feedback to the September 2020 consultation on sustainability reporting held by the Trustees of the IFRS Foundation (Trustees) and to the April 2021 Exposure Draft of proposed amendments to the IFRS Foundation Constitution. The International Organization of Securities Commissions has also emphasised the urgent need for disclosure standards on climate change. Such urgency can pose significant challenges to standard-setting, which aims to achieve effective outcomes by balancing timely responsiveness to market needs with the rigour of formal due process. The Trustees recognised the opportunity to use and build upon existing sustainability standards and frameworks, including those developed in accordance with prior due process by the organisations that developed them and that enjoy broad user and preparer support. The main components of the Exposure Draft are based on work that has been subject to extensive public consultation and redeliberation and have since garnered significant market uptake. The Trustees viewed this as a signal that these foundational standards and frameworks help to address the information needs of investors and other capital market participants. The Trustees noted the need for prompt action and the background to the content of the Exposure Draft. However, they also noted that this does not negate the need for formal due process and exposure by the ISSB. It is important that the ISSB's stakeholders are given the opportunity to provide feedback on the proposals consistent with the IFRS Foundation's inclusive and thorough due process. To balance the need to advance the work of the ISSB on a timely basis while obtaining input from interested parties, the Trustees decided to grant special powers to the Chair and Vice-Chair of the ISSB to enable timely publication of initial exposure Drafts for stakeholder input. The Trustees agreed it would be appropriate that as the ISSB is being established (that is, as a transitional measure) the ISSB Chair and Vice-Chair be provided with the ability to publish exposure Drafts of a climate-related disclosure standard and/or a general requirements disclosure standard. This decision is reflected in paragraph 56 of the IFRS Foundation's Constitution published in November 2021. The effect of this provision in the Constitution is only to enable the exposure Drafts to be published prior to the ISSB being quorate. The exposure Drafts are subject to public consultation and will be redeliberated by a quorate ISSB. The ISSB Chair and Vice-Chair's right was made subject to oversight by the Due Process Oversight Committee of the Trustees who were consulted at a meeting convened on 21 March 2022 during which they confirmed that they did not object to the ISSB Chair and Vice-Chair publishing these exposure Drafts.”

In summary, Draft S2 addresses, in particular in-depth, the following issues concerning climate-related disclosure:

- governance— the governance processes, controls and procedures an entity uses to monitor and manage climate-related risks and opportunities;
- strategy—the climate-related risks and opportunities that could enhance, threaten or change an entity's business model and strategy over the short, medium and long term, including:
 - whether and how information about climate-related risks and opportunities inform management's strategy and decision-making;
 - the current and the anticipated effects of climate-related risks and opportunities on its business model;
 - the effects of climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term;
 - the resilience of its strategy (including its business model) to climate-related risks;
- risk management— how climate-related risks and opportunities are identified, assessed, managed and mitigated by an entity;

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- metrics and targets —the metrics and targets used to manage and monitor an entity's performance in relation to climate-related risks and opportunities, including:
- performance and outcome measures that support the qualitative disclosures across governance, risk management and strategy disclosure requirements; and
- targets that an entity uses to measure its performance goals related to significant climate-related risks and opportunities.

Each of these points is explored particularly effectively in Draft S2. In this way, Exposure Draft S2 becomes an excellent tool for homogenising information on the climate impact of production activities. The analytical approach with which each of the points mentioned above is examined in depth guarantees the drafting of a complete, exhaustive and thorough report on the climate issue. In addition, the importance of the Board that issued this Draft means that we hope that the format identified in Exposure Draft S2 will become an instrument to homogenise the information regarding the specific theme addressed by this document.

Draft S2 identifies its primary objectives in the following points:

- * the global objective of the Drafts, set out in the first part of the document, is to require an entity to disclose information about its exposure to significant climate-related risks and opportunities, enabling users of an entity's general purpose financial reporting.
- * the achievement of this objective enables to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value; to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes support the entity's response to and strategy for managing its significant climate-related risks and opportunities; and to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

Draft S2 is intended to address the issue of climate-related disclosure. Therefore, any other issues not related to climate-related disclosure are not addressed in the draft. For this reason, Draft S2 “applies to:

- (a) climate-related risks the entity is exposed to, including but not restricted to physical risks from climate change (physical risks); and risks associated with the transition to a lower-carbon economy (transition risks); and
- (b) climate-related opportunities available to the entity”.

As we have seen above, Draft S2 addresses several information issues that need to be observed by drafting a document intended for third parties and focused on the issue of the climate impact of production activities.

Firstly, Draft S2 emphasises that “the objective of climate-related financial disclosures on governance is to enable users of general purpose financial reporting to understand the governance processes, controls and procedures used to monitor and manage climate-related risks and opportunities.

To achieve this objective, an entity shall disclose information about the governance body or bodies (which can include a board, committee or equivalent body charged with governance) with oversight of climate-related risks and opportunities, and information about management's role in those processes. Specifically, an entity shall disclose:

- (a) the identity of the body or individual within a body responsible for oversight of climate-related risks and opportunities;
- (b) how the body's responsibilities for climate-related risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;
- (c) how the body ensures that the appropriate skills and competencies are available to oversee strategies designed to respond to climate-related risks and opportunities;
- (d) how and how often the body and its committees (audit, risk or other committees) are informed about climate-related risks and opportunities;
- (e) how the body and its committees consider climate-related risks and opportunities when overseeing the entity's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required;
- f) how the body and its committees oversee the setting of targets related to significant climate-related risks and opportunities, and monitor progress towards them, including whether and how related performance metrics are included in remuneration policies (
- g); and a description of management's role in assessing and managing climate-related risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about whether dedicated controls and procedures are applied to management of climate-related risks and opportunities and, if so, how they are integrated with other internal functions.

In preparing disclosures to fulfil these ... requirements, an entity shall avoid unnecessary duplication in accordance with [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. . For example, although an entity shall provide the information required by previous pages, when its oversight of sustainability-related risks and opportunities is managed

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on an integrated basis, providing integrated governance disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.”

In addition to providing information on governance, Draft S2 requires the disclosure of detailed information on the strategy followed by companies on climate issues related to the conduct of a company's business. Of course, Draft S2, while not explicitly highlighting this point, recognises the existence of a right of privacy for companies. It does not, of course, impose the disclosure of global corporate strategies because such an obligation would conflict with the right of all companies not to disclose strategically relevant information. Draft S2 only requires disclosure of climate strategies. In particular, the Draft cited above highlights the “the objective of climate-related financial disclosures on strategy is to enable users of general purpose financial reporting to understand an entity's strategy for addressing significant climate-related risks and opportunities.

To achieve this objective, an entity shall disclose information about:

- (a) the significant climate-related risks and opportunities that it reasonably expects could affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term;
- (b) the effects of significant climate-related risks and opportunities on its business model and value chain;
- (c) the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans ;
- (d) the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term —including how climate-related risks and opportunities are included in the entity's financial planning ; and
- (e) the climate resilience of its strategy (including its business model) to significant physical risks and significant transition risks “.

In addressing the issue of strategy, Draft S2 also specifies the obligation to communicate to third parties outside the company information about the strategy climate-related risks and opportunities.

Draft S2 emphasises that “ an entity shall disclose information that enables users of general purpose financial reporting to understand the significant climate-related risks and opportunities that could reasonably be expected to affect the entity's business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term. Specifically, the entity shall disclose:

- (a) a description of significant climate-related risks and opportunities and the time horizon over which each could reasonably be expected to affect its business model, strategy and cash flows, its access to finance and its cost of capital, over the short, medium or long term.
- (b) how it defines short, medium and long term and how these definitions are linked to the entity's strategic planning horizons and capital allocation plans.
- (c) whether the risks identified are physical risks or transition risks. For example, acute physical risks could include the increased severity of extreme weather events such as cyclones and floods, and examples of chronic physical risks include rising sea levels or rising mean temperatures. Transition risks could include regulatory, technological, market, legal or reputational risks.

In identifying the significant climate-related risks and opportunities described in a previous paragraph, an entity shall refer to the disclosure topics defined in the industry disclosure requirements

In preparing disclosures to fulfil the requirements in previous paragraphs , an entity shall refer to and consider the applicability of cross-industry metric categories and the industry-based metrics associated with disclosure topics, as described in previous paragraphs.

An entity shall disclose information that enables users of general purpose financial reporting to understand its assessment of the current and anticipated effects of significant climate-related risks and opportunities on its business model. Specifically, an entity shall disclose:

- (a) a description of the current and anticipated effects of significant climate-related risks and opportunities on its value chain; and
- (b) a description of where in its value chain significant climate-related risks and opportunities are concentrated (for example, geographical areas, facilities or types of assets, inputs, outputs or distribution channels).”

Since the implementation of strategy and decision-making are interrelated, Draft S2 devotes an entire paragraph to this issue, explaining what, according to the logic of the document, must be included in the report intended to provide information about climate to third parties outside the companies.

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Concerning strategy and decision-making, Draft S2 emphasises that an entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its strategy and decision-making, including its transition plans.

Specifically, an entity shall disclose:

(a) how it is responding to significant climate-related risks and opportunities including how it plans to achieve any climate-related targets it has set. This shall include:

(i) information about current and anticipated changes to its business model, including:

(1) about changes the entity is making in strategy and resource allocation to address the risks and opportunities identified in the previous paragraphs. Examples of these changes include resource allocations resulting from demand or supply changes, or from new business lines; resource allocations arising from business development through capital expenditures or additional expenditure on operations or research and development; and acquisitions and divestments. This information includes plans and critical assumptions for legacy assets, including strategies to manage carbon-energy- and water-intensive operations, and to decommission carbon-energy- and water-intensive assets.

(2) information about direct adaptation and mitigation efforts it is undertaking (for example, through changes in production processes, workforce adjustments, changes in materials used, product specifications or through introduction of efficiency measures).

(3) information about indirect adaptation and mitigation efforts it is undertaking (for example, by working with customers and supply chains or use of procurement)

(ii) how these plans will be resourced.

(b) information regarding climate-related targets for these plans including:

(i) the processes in place for review of the targets;

(ii) the amount of the entity's emission target to be achieved through emission reductions within the entity's value chain;

(iii) the intended use of carbon offsets in achieving emissions targets. In explaining the intended use of carbon offsets the entity shall disclose information including:

(1) the extent to which the targets rely on the use of carbon offsets;

(2) whether the offsets will be subject to a third-party offset verification or certification scheme (certified carbon offset), and if so, which scheme, or schemes;

(3) the type of carbon offset, including whether the offset will be nature-based or based on technological carbon removals and whether the amount intended to be achieved is through carbon removal or emission avoidance; and

(4) any other significant factors necessary for users to understand the credibility and integrity of offsets intended to be used by the entity (for example, assumptions regarding the permanence of the carbon offset).

(c) quantitative and qualitative information about the progress of plans disclosed in prior reporting periods in accordance with the previous paragraphs. Related requirements are provided in the following paragraphs.”

Draft S2 continues its analysis of the information to be included in the report on the climate impact of the company's activities, also addressing the issue of financial position, financial performance and cash flows. As can be seen from what will be reported in the following pages, Draft S2, according to the provisions of Draft S1 to which it must refer (Avi, 2022), addresses, together with the issue of climate concerning indicators of a quantitative or qualitative environmental nature, also the subject of the financial impact of the actions implemented by companies to combat climate change or aimed at fostering environmental and climate sustainability connected with the performance of corporate management action. With regard to this financial issue, Draft S2 considers that “ an entity shall disclose information that enables users of general purpose financial reporting to understand the effects of significant climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, and the anticipated effects over the short, medium and long term —including how climate-related risks and opportunities are included in the entity's financial planning. An entity shall disclose quantitative information unless it is unable to do so. If an entity is unable to provide quantitative information, it shall provide qualitative information. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, an entity shall disclose:

(a) how significant climate-related risks and opportunities have affected its most recently reported financial position, financial performance and cash flows;

(b) information about the climate-related risks and opportunities identified in paragraph 14(a) for which there is a significant risk that there will be a material adjustment to the carrying amounts of assets and liabilities reported in the financial statements within the next financial year;

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(c) how it expects its financial position to change over time, given its strategy to address significant climate-related risks and opportunities, reflecting:

(i) its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); its planned sources of funding to implement its strategy;

(d) how it expects its financial performance to change over time, given its strategy to address significant climate-related risks and opportunities (for example, increased revenue from or costs of products and services aligned with a lower-carbon economy, consistent with the latest international agreement on climate change; physical damage to assets from climate events; and the costs of climate adaptation or mitigation); and

(e) if the entity is unable to disclose quantitative information indicated in the previous paragraphs, an explanation of why that is the case.”

From the above, it can be understood that, also concerning Climate, as happens with the global discolouration concerning sustainability illustrated in Exposure Draft S1, the ISSB highlights the need to provide outside the company also information of a financial nature and not only quantitative or qualitative information concerning the subject matter subject to communication to third parties.

Climate resilience is another issue that Draft S2 considers relevant to address in corporate communications concerning Climate in general. In particular, Draft S2 requires that “an entity shall disclose information that enables users of general purpose financial reporting to understand the resilience of the entity's strategy (including its business model) to climate-related changes, developments or uncertainties—taking into consideration an entity's identified significant climate-related risks and opportunities and related uncertainties. The entity shall use climate-related scenario analysis to assess its climate resilience unless it is unable to do so. If an entity is unable to use climate-related scenario analysis, it shall use an alternative method or technique to assess its climate resilience. When providing quantitative information, an entity can disclose single amounts or a range. Specifically, the entity shall disclose:

(a) the results of the analysis of climate resilience, which shall enable users to understand:

(i) the implications, if any, of the entity's findings for its strategy, including how it would need to respond to the effects identified in the following paragraphs.;

(ii) the significant areas of uncertainty considered in the analysis of climate resilience;

(iii) the entity's capacity to adjust or adapt its strategy and business model over the short, medium and long term to climate developments in terms of:

(1) the availability of, and flexibility in, existing financial resources, including capital, to address climate-related risks, and/or to be redirected to take advantage of climate-related opportunities;

(2) the ability to redeploy, repurpose, upgrade or decommission existing assets; and

3) the effect of current or planned investments in climate-related mitigation, adaptation or opportunities for climate resilience.

(b) how the analysis has been conducted, including:

(i) when climate-related scenario analysis is used:

(1) which scenarios were used for the assessment and the sources of the scenarios used;

(2) whether the analysis has been conducted by comparing a diverse range of climate-related scenarios;

(3) whether the scenarios used are associated with transition risks or increased physical risks;

(4) whether the entity has used, among its scenarios, a scenario aligned with the latest international agreement on climate change;

5) an explanation of why the entity has decided that its chosen scenarios are relevant to assessing its resilience to climate-related risks and opportunities;

(6) the time horizons used in the analysis;

(7) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the scenario analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions); and

8) assumptions about the way the transition to a lowercarbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology.

(ii) when climate-related scenario analysis is not used:

(1) an explanation of the methods or techniques used to assess the entity's climate resilience (for example, single-point forecasts, sensitivity analysis or qualitative analysis);

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- (2) the climate-related assumptions used in the analysis including whether it includes a range of hypothetical outcomes;
- (3) an explanation of why the entity has decided that the chosen climate-related assumptions are relevant to assessing its resilience to climate-related risks and opportunities;
- (4) the time horizons used in the analysis;
- (5) the inputs used in the analysis, including—but not limited to—the scope of risks (for example, the scope of physical risks included in the analysis), the scope of operations covered (for example, the operating locations used), and details of the assumptions (for example, geospatial coordinates specific to entity locations or national- or regional-level broad assumptions);
- (6) assumptions about the way the transition to a lowercarbon economy will affect the entity, including policy assumptions for the jurisdictions in which the entity operates; assumptions about macroeconomic trends; energy usage and mix; and technology; and
- 7) an explanation of why the entity was unable to use climate-related scenario analysis to assess the climate resilience of its strategy.”

As in Draft S1, the Draft S2 also requires analytical disclosure of risk management. In order not to leave too much discretion to the compiler of the corporate communication document on climate, Draft S2 emphasises that “the objective of climate-related financial disclosures on risk management is to enable users of general purpose financial reporting to understand the process, or processes, by which climate-related risks and opportunities are identified, assessed and managed.

To achieve this objective, an entity shall disclose:

- (a) the process, or processes, it uses to identify climate-related:
 - (i) risks; and
 - (ii) opportunities;
- (b) the process, or processes, it uses to identify climate-related risks for risk management purposes, including when applicable:
 - (i) how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);
 - (ii) how it prioritises climate-related risks relative to other types of risks, including its use of risk-assessment tools (for example, science-based risk-assessment tools);
 - (iii) the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions); and
 - (iv) whether it has changed the processes used compared to the prior reporting period;
- (c) the process, or processes, it uses to identify, assess and prioritise climate-related opportunities;
- (d) the process, or processes, it uses to monitor and manage the climate-related:
 - (i) risks, including related policies; and
 - (ii) opportunities, including related policies;
- (e) the extent to which and how the climate-related risk identification, assessment and management process, or processes, are integrated into the entity's overall risk management process; and the extent to which and how the climate-related opportunity identification, assessment and management process, or processes, are integrated into the entity's overall management process.

In preparing disclosures to fulfil the requirements in previous paragraphs, an entity shall avoid unnecessary duplication in accordance with Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. For example, although an entity shall provide the information required by [previous paragraphs](#), when its oversight of sustainability-related risks and opportunities is managed on an integrated basis, providing integrated risk management disclosures rather than separate disclosures for each significant sustainability-related risk and opportunity would reduce duplication.”

The final issue Draft S2 addresses are metrics and targets, which should never be missing from a report that wants to disseminate comprehensive corporate communication on climate to the outside world.

Draft S2 takes up concepts expressed more generally in Draft S1. However, for the sake of completeness of the article, we believe it is essential to report the contents of Draft S2 on this issue because, in essence, without such detailed information, the report on the climate impact of the company's production activity would become a document without accurate climate information. Concerning this communication issue, Draft S2 highlights that “the objective of climate-related financial disclosures on metrics and targets is to enable users of general purpose financial reporting to understand how an entity measures, monitors and manages its significant climate-related risks and opportunities. These disclosures shall enable users to understand how the entity assesses its performance, including progress towards the targets it has set.

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To achieve this objective, an entity shall disclose:

- (a) information relevant to the cross-industry metric categories, which are relevant to entities regardless of industry and business model;
- (b) industry-based metrics which are associated with disclosure topics and relevant to entities that participate within an industry, or whose business models and underlying activities share common features with those of the industry;
- (c) other metrics used by the board or management to measure progress towards the targets identified in the previous paragraph ; and
- (d) targets set by the entity to mitigate or adapt to climate-related risks or maximise climate-related opportunities.

An entity shall disclose information relevant to the cross-industry metric categories of:

(a) greenhouse gas emissions—the entity shall disclose:

(i) its absolute gross greenhouse gas emissions generated during the reporting period, measured in accordance with the Greenhouse Gas Protocol Corporate Standard, expressed as metric tonnes of CO₂ equivalent, classified as:

- (1) Scope 1 emissions;
- (2) Scope 2 emissions;
- (3) Scope 3 emissions;

(ii) its greenhouse gas emissions intensity for each scope in the previous paragraph, expressed as metric tonnes of CO₂ equivalent per unit of physical or economic output;

(iii) for Scope 1 and Scope 2 emissions disclosed in accordance with previous paragraph, the entity shall disclose emissions separately for:

- (1) the consolidated accounting group (the parent and its subsidiaries);
- (2) associates, joint ventures, unconsolidated subsidiaries or affiliates not included in previous paragraph);
- (iv) the approach it used to include emissions for the entities included in paragraph 21(a)(iii)(2) (for example, the equity share or operational control method in the Greenhouse Gas Protocol Corporate Standard);
- (v) the reason, or reasons, for the entity's choice of approach in paragraph 21(a)(iv) and how that relates to the disclosure objective esposti in the previous paragraphs, for Scope 3 emissions disclosed in accordance with previous paragraphs ;

(1) an entity shall include upstream and downstream emissions in its measure of Scope 3 emissions;

(2) an entity shall disclose the categories included within its measure of Scope 3 emissions, to enable users of general purpose financial reporting to understand which Scope 3 emissions have been included in, or excluded from, those reported; when the entity's measure of Scope 3 emissions includes information provided by entities in its value chain, it shall explain the basis for that measurement;

(4) if the entity excludes those greenhouse gas emissions in previous paragraphs, it shall state the reason for omitting them, for example, because it is unable to obtain a faithful measure;

- (b) transition risks—the amount and percentage of assets or business activities vulnerable to transition risks;
- (c) physical risks—the amount and percentage of assets or business activities vulnerable to physical risks;
- (d) climate-related opportunities—the amount and percentage of assets or business activities aligned with climate-related opportunities;
- (e) capital deployment—the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities;

(f) internal carbon prices:

- (i) the price for each metric tonne of greenhouse gas emissions that the entity uses to assess the costs of its emissions;
- (ii) an explanation of how the entity is applying the carbon price in decision-making (for example, investment decisions, transfer pricing and scenario analysis);

g) remuneration:

(i) the percentage of executive management remuneration recognised in the current period that is linked to climate-related considerations; and

(ii) a description of how climate-related considerations are factored into executive remuneration).

In preparing disclosures to fulfil the requirements in previous paragraphs, an entity shall

- (a) consider whether industry-based metrics associated with disclosure topics, as described in paragraph 20(b), including those defined in an applicable IFRS Sustainability Disclosure Standard or those that otherwise satisfy Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information could be used in whole or part to meet the requirements; and

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(b) in accordance with paragraphs 37-38 of Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information, consider the relationship of these amounts with the amounts recognised and disclosed in the accompanying financial statements (for example, the carrying amount of assets used should be consistent with amounts included in the financial statements and when possible the connections between information in these disclosures and amounts in the financial statements should be explained).

An entity shall disclose its climate-related targets. For each climate-related target, an entity shall disclose:

- (a) metrics used to assess progress towards reaching the target and achieving its strategic goals;
- (b) the specific target the entity has set for addressing climate-related risks and opportunities;
- (c) whether this target is an absolute target or an intensity target;
- (d) the objective of the target (for example, mitigation, adaptation or conformance with sector or science-based initiatives);
- (e) how the target compares with those created in the latest international agreement on climate change and whether it has been validated by a third party;
- f) whether the target was derived using a sectoral decarbonisation approach;
- g) the period over which the target applies;
- h) the base period from which progress is measured; and
- i) any milestones or interim targets.

4. CONCLUSIONS

At the end of this illustration of Draft S2 Climate-Related Disclosure, it is worth mentioning that the indications contained in this Draft S are part of the concept of sustainability-related disclosures set out in Draft S1 General Requirements for Disclosure of Sustainability-related Financial Information. Draft S2 explicitly states that "An entity shall apply this [draft] Standard in preparing and disclosing materiality-related disclosures following [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

Therefore, the two Drafts S1 and S2, are structured coherently to provide comprehensive, exhaustive and consistent corporate disclosures on sustainability in general and climate-related issues.

From the integrated interpretation of Draft S2 and Draft S1, it is clear that the ISSB aims to achieve communication for all companies that overcomes the duality of financial reporting on the one hand and sustainability communication on the other. These corporate communications are often disseminated at different times.

Reading the two Drafts, S1 and S2, it is clear that the proposal is to overcome a fragmented vision of financial reporting at the level of international accounting standards. In all countries, financial reporting is prepared and communicated in a different document from the sustainability report. Often the two papers are released on other dates and through various media.

As already noted in a previous article (Avi, 2022), the Drafts vision overcomes this duality of documents. It proposes the publication of a single set of documents that includes the financial reporting of the year consisting of balance sheet, profit and loss, notes on financial reporting and cash flow statement and a document containing information related to sustainability in the broadest sense. The summary of Draft S1 states that the document containing information on sustainability should be included in the comprehensive information document for external use, which would become a financial and sustainability report. The summary, in fact, states, ". The sustainability-related financial information must be for the same reporting entity as the financial statements and published as part of its general purpose financial reporting". From this, it could infer that the sustainability document should become an integral part of the overall corporate communication consisting of the financial statements and the sustainability document as a whole. It is not clear whether the Draft proposal is intended to include sustainability reporting in financial reporting or whether, as it would appear from a careful reading of certain parts of the Draft, this document, which should contain not only sustainability information but also financial data relating to the company's sustainability management and strategy, would form an integral part of the company's overall communication to the outside world. While representing a unitary whole, this communication would consist of financial reporting and sustainability reporting as described in Draft S1.

It will better explain that these points will probably be in the final version of the Standard. However, what is important to note is the concept of the unity of the disclosure. It is no longer a question of financial and income communication almost in opposition to sustainability communication, but rather a concept of global communication, to be implemented at the same time and using the same media, which includes both the financial statements and the report on sustainability and the actions, strategies and tactics implemented in this field by the company.

This global and unitary vision of external reporting is already present in Italy. As pointed out in the previous pages, the management/administrative report, which also contains data on sustainability, is considered an essential element of corporate

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communication even if it is not part of the financial statements. So much so that by some judges, the invalidity of the report has been considered, in particular cases, cause for the nullity of the financial statements. It does not form part as a decided element of the global information system intended for third parties.

The single information tool containing financial, income, equity and sustainability data is an evolution in corporate communication. I believe that most scholars will agree with these statements on a doctrinal level. The only major problem lies with the companies that will have to put these standards into practice. As long as companies perceive communication as a mere obligation and not as an opportunity, it will be difficult for another standard to improve corporate communication. Only the diffusion of communication culture and the dissemination of a sustainability culture within companies will help achieve this goal. As long as communication is considered a detriment to the company, no standard will improve corporate reporting. Therefore, everything is in the hands of companies: they will decide the success or failure of the proposed Draft S1 and Draft 2.

It should also note that the vision of the two drafts issued by the ISSB goes beyond the now obsolete view of the company that acts in such a way as to avoid any disclosure to third parties. Draft S1 and S2 are based on the assumption that companies have understood that informing third parties not only about financial, income and balance sheet matters through financial reporting but also about actions taken in the field of sustainability in the broadest sense and climate can have beneficial effects on company performance.

However, research carried out by the author of this article, which will be published in a few months, shows that even today, many companies see external communication, especially about sustainability, as a burden rather than an opportunity. This is why we stated earlier that the failure or success of Draft S2 and S1 is entirely in the hands of companies. Only if companies understand the importance of disclosure in sustainability will Draft S1 and S2 have a positive impact on their external communications. If, on the other hand, as is often the case today, especially in small and medium-sized companies that are not listed on the stock exchange (95% of companies in Italy fall into this category), corporate communication is considered almost an attack on the right to corporate confidentiality, Draft S1 and S2 will not have any significant impact on corporate communication in these companies. Only the dissemination of a communication culture will help this process of opening up companies to the outside world. However, the current widespread use of greenwashing policies leaves little room for hope that the issuing of the two Drafts, as mentioned above, will have a significant impact on external information. As has already been pointed out, everything will depend on how companies progress along the road to understanding that communication to third parties is only not harmful but, on the contrary, can lead to an improvement in the company's financial and profitability performance, as well as sustainability. Only as this process progresses will Drafts S1 and S2 be able to bring about a significant improvement in corporate sustainability and climate communication. If this process stops or even regresses, Draft S2 and S1 will not substantially impact the information provided to external parties.

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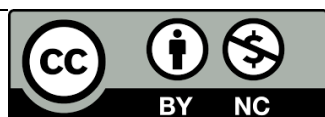
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