





## Sustainability reporting: the current issues in Slovenian legislation

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### Abstract

*Sustainability reporting is gradually being introduced into the economy. The European Union (EU) is at the forefront with its Directive 2022/2464/EU on corporate sustainability reporting, a pivotal part of corporate transparency and responsibility commitments for larger and more significant entities and groups. Nevertheless, a proposal package of amendments to the Directive is being considered to adjust, simplify, and delay sustainability reporting, with the aim of enhancing European economic competitiveness. Our conference paper presents the current sustainability reporting framework in Slovenia. The research question is twofold. First, what are the newest occurrences in the field of sustainable reporting in Slovenia and their implementation in the Slovenian legislative framework? Second, are further simplifications and administrative burden diminution needed in the Slovenian sustainability reporting regulatory framework? Analysis reveals minor possible simplifications to the Slovenian sustainability reporting framework. Careful consideration should be given to striking a reasonable balance between the benefits and costs associated with sustainability reporting.*

**Keywords:** sustainability reporting, reporting entities, Slovenia

## 1. Introduction

In Europe and the United States, sustainability reporting dates back to the 1960s and 1970s, when the paradigm of maximising profits shifted beyond that horizon and businesses began to understand that they had a social responsibility. The United Nations released the Brundtland Report, also known as Our Common Future, in 1987, which gave the movement a boost in momentum (Bosi et al., 2022). Sustainability reporting, also known as non-financial reporting, has undergone significant changes since its introduction in the legislative framework in the EU in 2014. The key driving factors behind evolution are voluntary and legislative initiatives and standards that contribute to greater transparency and accountability of legal entities. In the past, early-stage sustainability reporting was largely voluntary, focusing on corporate social responsibility (CSR) and often limited to a single, select environmental or social initiative. With increasing awareness of environmental and social issues, as well as growing investor demands for information related to sustainability and sustainable practices, the need for mandatory sustainability reporting and standardisation of sustainability reporting requirements has emerged (Zdolšek & Taškar Beloglavec, 2023). Sustainability reporting has become a central element of corporate transparency and accountability, as it enables entities to inform stakeholders about their environmental, social, economic, and governance practices. In particular, social pressure and demands from various stakeholders encourage reporting entities to be more transparent.

In 2014, the European Union (EU) adopted the Non-Financial Reporting Directive (NFRD; Directive 2014/95/EU), which entered into force in Slovenia in 2018, requiring the largest entities (i.e., public interest entities with more than 500 employees) to disclose certain key information about environmental, social and governance aspects of their operations. The requirements regarding the content and scope of non-financial reporting were quite general, resulting in variations in the quality, depth and scope of the disclosures. However, the NFRD laid the foundations for more structured reporting. In 2022, the EU adopted the Corporate Sustainability Reporting Directive (CSRD; Directive 2022/2464/EU), which replaced the NFRD. The EU has established one of the most advanced regulatory frameworks for sustainability reporting with this Directive, aiming to promote the sustainable transformation of the EU economy. The mechanisms in the Directive ensure better awareness of investors and the general public in the field of sustainability-related issues (for

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example, the impact of an entity on the natural environment and the community, the risks that sustainability-related issues pose to society). The sustainability reporting mechanisms in the Directive are also intended to enable greater comparability between entities, more credible reporting and greater accessibility of sustainability-related data. The amendment to the Companies Act (ZGD-1M) transposed the mechanisms from the CSRD Directive into Slovenian law. In the revised legal order, the entity's non-financial reporting statement was replaced by the sustainability report.

The field of sustainability reporting, as discussed above, is a rapidly developing area that is being gradually introduced into the economy. The latest edition of the EU regulation is legislative packages Omnibus I and II by the European Commission (which began its work in December 2024 under the current composition of Commissioners; EC) in February 2025. It is about simplifications and amendments to the rules or requirements that also apply to sustainability reporting (EC, 2025a; EC, 2025b). In a changing global environment, these packages of proposals are based on the idea of possible simplifications to enhance European economic competitiveness, particularly by increasing the competitiveness of European entities. The purpose of the package is to reduce administrative and reporting burdens for entities and to unlock their investment potential. Therefore, the package also aims to reduce the reporting burden on entities by 25% (EC, 2025a), while maintaining the climate and decarbonisation objectives of the European Green Deal (EC, 2019). The proposals in the package are being gradually adopted. Among the adopted proposals are, for example, the following. For large public interest entities with an average number of employees of 500 or more, and those that must report on sustainability for the financial year 2024, the criterion for the average number of employees has been raised from 500 to 1,000. A proposal to delay the start of sustainability reporting for all remaining entities by 2 years has been adopted (EC, 2025a). The adoption of these and other proposals in the package consequently creates the need to amend or supplement the Slovenian Companies Act (ZGD-1) again.

Of course, the EU legislative sustainability reporting Omnibus package is also bringing some changes. The main topics will be discussed in one of the following sections. European Commission (2025c) emphasises that the EU needs to foster a favourable business environment and ensure that entities are not burdened with excessive regulatory and legislative demands. Simplification in Omnibus aims to unlock investments and enable entities to transition pragmatically and effectively to a sustainable economy. The latter enables the EU to meet climate and other sustainability goals. The compliance complexities for all entities are lowered. The focus stays on the largest companies that have a bigger impact on the environment and climate.

The purpose of this paper is to present the latest requirements of the Slovenian law governing the operation of entities in the field of sustainability reporting. The research question is twofold. First, what are the newest changes in the field of sustainable reporting in Slovenia and their implementation in the Slovenian legislative framework? Second, are further simplifications and administrative burden diminution needed in the Slovenian sustainability reporting regulatory framework? Careful consideration should be given to striking a reasonable balance between the benefits and costs associated with sustainability reporting. Methodologically, the paper is based on a study of the current and forthcoming legislative framework and requirements.

After the introduction, the paper briefly presents the reasons for sustainability reporting in the second section. The third presents the entities required to report on sustainability under the revised legislation. The sustainability report, its components under the law, and the variants of special sustainability reports for some entities are discussed in the fourth section. Sustainability reporting is an area monitored or supervised by the company's working bodies, which is the subject of Chapter 5. The paper also briefly presents issues related to the auditor's assurance on the credibility of the sustainability report. The final, sixth chapter presents concluding thoughts on the challenges faced by entities required to report on sustainability and provides the answers to the research questions.

## **2. Sustainability reporting – a brief overview**

Sustainability reporting is a key component of corporate transparency and accountability. Such reporting reflects the reporter's commitment to practices that are sustainable (i.e., sustainable development) in the environmental, social, and economic areas of the reporter's operations. It is a process in which the reporter informs various stakeholders (for example, investors, employees, customers, the local community, and the general public) about its sustainable operations, especially the achievement or success of achieving sustainability goals (its own, regional, national, or supranational goals). The usual classification of disclosures focuses on disclosing information related to the reporting entity's performance in environmental issues (e.g., energy consumption or energy efficiency, emissions, etc.), social issues (e.g., labour practices, community involvement, etc.) and governance issues (e.g., regulatory compliance, ethical guidelines, etc.), that is, in ESG matters or nowadays rebranded to sustainability issues.

Sustainability reporting has its rationale from both economic and legal perspectives. The primary reasons for a sustainable business should be awareness of the entity about sustainability issues and its general impact. Sustainability reporting should be used as a means to inform stakeholders that an entity takes sustainability issues seriously. However, it also has economic implications. Entities that transparently report on their sustainability and performance in this area are characterised as those that improve their business results and attract new investors. Various authors (Fifka, 2013; Dienes

et al., 2016; Okoye et al., 2024) have noted that several studies have demonstrated that an entity's reputation improves, leading to strengthened customer loyalty, both of which contribute to a long-term increase in market share and profitability. Also, stakeholder trust and support for such reporters increase (Martins et al., 2019). Such reporting is consistent with the demands of various stakeholders to provide evidence of the long-term sustainability of companies' sustainability practices (Ahmad et al., 2024). Therefore, sustainability also affects the market value of an entity (Ahmad et al., 2024; Edmans, 2022). Hence, only satisfied stakeholders can positively impact the profitability and reputation of an entity (see Godfrey et al., 2009; Buallay et al., 2021). The benefits for the entity reporting on sustainability issues (in addition to, for example, managing sustainability risks) include that sustainability reporting also facilitates organisational learning and the improvement of management practices, as well as the strengthening of sustainability strategies and operationally oriented business operations towards sustainability (Huber & Bassen, 2018). Additionally, it leads to lower costs for the reporter due to a more rational use of natural resources and improved waste management, as well as lower financing costs (Priem & Gabellone, 2024).

From a legal perspective, the demands of sustainability reporting are becoming increasingly rigorous, and its importance is growing as national and supranational regulators increasingly require companies to report on sustainability issues to protect the interests of various stakeholders. The inclusion of reporting on individual elements of sustainability or on all aspects of sustainability is being included in individual legal frameworks (Kachur, 2021). This recognises the role of law in areas of sustainability reporting that are incorporated into the concept of corporate governance (Bazylińska-Nagler, 2018). This provides a standardised mechanism for assessing entities (both from the perspective of regulatory compliance and for possible comparisons between entities), a mechanism that allows for the assessment of their responsibility while simultaneously limiting potential irregularities related to entities' sustainability efforts (Kachur et al., 2020).

Alongside the economic and legal reasons for sustainability reporting, there is at least one more reason to consider. That is social pressure, i.e., expectations from various stakeholders for more comprehensive sustainability reporting. Entities are responding to stakeholder demands to disclose more about their environmental and social impact (Yusoff et al., 2019; Soleha, 2022). Reporting that is consistent with stakeholder interests to reduce the risks of potential disapproval and damage to the entity's reputation due to unsustainable practices (Bowers, 2010). As stakeholder awareness of entities' contributions to the natural environment, climate change, and society increases, various stakeholders are increasingly demanding that entities report on sustainability as much and as comprehensively as possible. In these cases, the level of maturity may be sufficient for their ethical responsibility to lead them to (continuously) disclose information on sustainability. However, it is worth noting that this is not a mechanism that only indicates the social responsibility of the reporter, but increasingly a mechanism of the reporter's long-term resilience (Khalil et al., 2024; Wang et al., 2024).

### 3. The entities bound to sustainability reporting

Entities that are obliged to issue a (separate) sustainability report are either large companies or small and medium-sized companies whose securities are traded on a regulated securities market (amended Article 70c of the Companies Act, ZGD-1). The law stipulates that: *“A public-interest entity whose average number of employees in the financial year is more than 500 on the balance sheet cut-off date shall include a statement on non-financial operation in its business report.”* The latter definition excludes medium-sized and micro entities, whose securities are also traded on a regulated securities market, as required to prepare a (separate) sustainability report no later than the financial year 2027 – i.e., after the end of the transitional period specified in Article 35 of the amended Companies Act (ZGD-1M). This will be prolonged for two years shortly, before the end of 2025, with an amendment to the Companies Act (ZGD-1N). The amendment, importantly, introduced significant changes in the field of sustainable reporting and revised the size criteria for entities. The entities' classification thresholds have been shifted. For identifying large entity two criterion have been shifted: annual revenue has been raised from €40 million to €50 million and assets from €20 million to €25 million. The number of employees has been lowered. This is especially important for the entities who are not going to meet new boundaries to be identified as such, since they will benefit from reduced administrative burdens and reporting costs. Disregarding these criteria, both, large and small and medium-sized entities listed on the stock exchange will have to issue sustainability reports, which will have to be included in the annual management reports and must undergo an audit (for example, sustainability assurance engagement). The goal of this obligation is to foster integration of environmental, social, and governance (ESG) factors into business operations and support adequate investment as a direction towards green transformation (Gov.si, 2024).

The table below outlines the criteria for determining the size of an entity (Article 55 of the Companies Act, ZGD-1), which will be applied for the financial year 2026. For the purposes of the application of this Act, entities can be identified as micro, small, medium-sized and large on the annual balance sheet cut-off date. Criteria are average number of employees, net turnover/annual revenue, and the asset value.

**Table 1.** Micro, small, medium-sized and large entities (companies), according to the amendment of the Companies Act (ZGD-1M)

	Average number of employees	Assets' value	Net turnover/annual revenue
<b>Micro</b>	Up to 10 employees	Up to 450 thousand €	Up to 900 thousand €
<b>Small</b>	Up to 50 employees	Up to 5 million €	Up to 10 million €
<b>Medium-sized</b>	Up to 250 employees	Up to 25 million €	Up to 50 million €
<b>Large</b>	Above 250 employees	Above 25 million €	Above 50 million €

Source: Companies Act (ZGD-1M)

Since the preparation of sustainability reports, as defined by the amended Companies Act (ZGD-1M), is a novelty for a large number of entities, since the scope has been widened, a transitional period is foreseen (in accordance with the provisions of the CSRD Directive), during which the scope of entities required to report on sustainability will gradually expand from 2025 onwards. The transitional provisions of Article 35 of the amended Companies Act (ZGD-1M) establish deadlines by which entities must begin applying the amended Article 70c and the new Article 70č of the Companies Act (ZGD-1). The entity will, based on the criteria, decide for itself whether it must report on sustainability. The decision shall be submitted to the Agency of the Republic of Slovenia for Public Legal Records and Related Services (AJPES) for statistical purposes in connection with the 2024 financial year (AJPES, 2024). It should be noted that this article also states that, until the application of the amended Article 70c and the new Article 70č of the Companies Act amendment (ZGD-1M), an individual entity shall apply the current provisions of Article 70c of the Companies Act (ZGD-1).

The entities' activities regarding sustainability reporting are divided into separate time requirements according to the transition period stipulated in the amendment. By including the financial year 2024, the authors aim to highlight the differences in reporting and reporting entities, which is also the primary purpose of this contribution.

For the 2024 financial year, entities that have previously been required to prepare a statement of non-financial operations or a consolidated statement are now required to prepare a sustainability report. These are large entities in terms of size, which hold the status of a public interest entity (PIE) and have an average number of employees exceeding 500 as of the balance sheet cut-off date. For the 2024 financial year, parent entities that have the status of a public interest entity and which, together with their subsidiaries, meet the conditions for large entities from the Paragraph 5 of Article 55 of the Companies act (ZGD-1), whereby the criteria of net turnover and asset value are increased by 20 percent, and whose average number of employees in the financial year was more than 500 at the group level, also had to prepare a sustainability report.

For the current business year, 2025, the scope of entities to prepare a mandatory sustainability report has been expanded, specifically for the first time, sustainability reports will be prepared by entities classified according to new size criteria. The scope of obliged entities is expanded to include parent entities (together with subsidiaries), which, based on the increased size criteria from Paragraph 5 of Article 55 of the Companies Act (ZGD-1), exceed the requirements for large entities by 20 per cent, whereby they did not yet have the sustainability reporting obligation in the 2024 financial year.

In the financial year of 2026, the scope of obliged entities to report on sustainability is further expanded to include the remaining companies that must prepare a sustainability report (for the first time). These are (1) small and medium-sized entities whose securities are traded on an organised securities market, (2) small and non-complex institutions, and (3) their own insurance and reinsurance undertakings under the law governing the insurance industry. These entities have the additional option of postponing the obligation to prepare a sustainability report until the 2028 financial year, provided they disclose the reasons for the postponement of reporting (Article 36 of the ZGD-1M). This will be prolonged for two years shortly, before the end of 2025, with an amendment to the Companies Act (ZGD-1N).

It is worth noting that the liable entity must submit an annual (consolidated) report to AJPES, containing all components, in the manner and within the deadlines specified by law (Article 58 of the Companies Act, ZGD-1). Failure to submit it on time constitutes an offence for which the entity and the responsible person of the entity are subject to punishment (Articles 686 and 686a of the Companies Act). However, certain subsidiaries may be exempted from the obligation to prepare a (consolidated) sustainability report if they are not large entities in terms of size and whose securities are traded on a regulated market (Paragraph 8, Article 70c, ZGD-1; Paragraph 2, Article 70č of the Companies Act, ZGD-1 M).

#### 4. Sustainability report as a part of the entity's management report

##### 4.1. The terms of the sustainability report and the sustainability statement

The management report (as an integral part of the annual report) must present the (current and expected) development of the entity, its operations and its financial position, as well as the significant risks and uncertainties to which the entity is exposed (Paragraphs 1 and 4, Article 70 of the Companies Act, ZGD-1). The entity's research and development activities are also presented. The presentation incorporates various analyses and integrates accounting, financial, and non-financial indicators. Among other contents, it must cover all significant business events that occurred after the end of the previous

financial year. It is crucial that the presentation in the management report is credible, i.e., fair (Paragraphs 1 and 2, Article 70 of the Companies Act, ZGD-1).

Entities required to report on sustainability (from the amended Article 70c of the Companies Act, ZGD-1) shall also prepare a sustainability report as an independent part (section) separated from the rest of the management report. The separation of the sustainability report from the rest of the management report is mandatory because the sustainability report is also part of the independent auditor's engagement to provide assurance on the credibility of the entity's sustainability reporting (Article 57 of the Companies Act, ZGD-1). These entities are required to prepare explanations regarding their key intangible assets, how their business model depends on these assets, and how these assets contribute to the creation of value within the entity (Paragraph 3, Article 70 of the Companies Act, ZGD-1). Entities that are mandatory to report on sustainability, from the moment they are required to prepare a sustainability report, no longer prepare a statement of non-financial information. They might have prepared it under Article 70 of the Companies Act (ZGD-1) before the amendment to the Companies Act (ZGD 1-M). Some entities, however, will continue to prepare the sustainability statement until the 2027 financial year (or later) until they have to issue a sustainability report.

#### 4.2. Pronouncements for sustainability reporting in the EU

The standards according to which a sustainability report must be prepared are the European Sustainability Reporting Standards (ESRS). The ESRS standards are set by delegated acts of the EC, based on Articles 29b and 29c of the Accounting Directive (Directive 2013/34/EU). This act is a non-legislative act of general application, adopted by the EC on the basis of a delegation contained in a legislative act (EU Parliament, 2021). The ESRS standards aim to unify and improve sustainability reporting for entities operating in the EU. They currently comprise 12 standards from various areas. They are based on double materiality, namely the dimension of an entity's impact on people and the environment (impact materiality) and financial materiality (i.e., how sustainability risks in an entity affect its financial operations). One of the goals is to increase transparency regarding sustainability risks and impacts in corporate entities. They are harmonised (i.e., do not conflict) with other generally accepted sustainability reporting standards (for example, the TCFD Climate Disclosure Guidelines or the IFRS S2 standard that replaced them, the SASB sector-specific standards, the GRI standards, which are general standards applicable to any sector). Their application is expected to be challenging for entities, particularly those that have not previously collected and reported sustainability data.

The sustainability report is therefore prepared by the obliged entities in accordance with the law (ZGD-1), EU rules and the ESRS Standards. In addition to these standards, their variations or extensions will be developed in the future. The sustainability report will be prepared by obliged entities, which are small and medium-sized entities whose securities are traded on a regulated securities market (listed small and medium-sized enterprises, LSME), in accordance with the ESRS Standards for Small and Medium-sized Companies, which will be adopted by the EC as a delegated act. . The sustainability report will be prepared by foreign entities from third countries in accordance with the ESRS Standards, which are specifically intended for them (expected to be adopted by mid-2026). Sectoral ESRS Standards have also been announced and expected to be adopted by mid-2026, but the Omnibus legislative framework has cancelled their adoption (Accountancy Europe, 2025). The voluntary ESRS standard for small and medium-sized companies that are not listed on a regulated securities market has also been adopted by the European Commission. Reporting entities apply this standard voluntarily (compare with paragraph 11 of the revised Article 70c of the Companies Act, ZGD-1).

Companies subject to sustainability reporting must prepare and submit a comprehensive annual report to AJPES for public publication together with the auditor's report in a uniform electronic format, namely in the XBRL hypertext markup language format (in XML or XHTML, as specified in the so-called ESEF regulation; Paragraph 2, Article 58 of the ZGD-1). Based on a previously developed and harmonised taxonomy, the XBRL markup language enables the conversion of human-readable information into machine-readable information. Namely, the reporting entity must mark up the report in the tagging process in accordance with the adopted taxonomy. The use of the taxonomy facilitates the comparison of mark-ups from the annual reports of different entities at multiple levels, including the consolidated level. The tags enable quick (practically immediate) comparisons and business analyses, especially on the part of credit rating agencies. The taxonomy according to which the reporting entities will prepare their sustainability reports and consolidated sustainability reports has not yet been determined (AJPES, 2024). Of course, the legal requirements above are transposed from the relevant EU directive governing this area, the Accounting Directive (Directive 2013/34/EU). Hence, the digital format requirements for the management report, which includes a sustainability report, are defined in Article 29d (more PWC, 2025).

The EC is expected to adopt a delegated regulation on a digital taxonomy for the labelling of sustainability reports in the near future (in 2025). According to Paragraph 3 of Article 35 of the ZGD-1M, the provisions of the ZGD-1 regarding the tagging of sustainability reports shall apply when the technical conditions for their implementation are ensured and from the date to be determined by the minister responsible for the economy by order published in the Official Gazette of the Republic of Slovenia. Until the adoption of the (digital) taxonomy, an annual report containing the sustainability report in XHTML format without labels shall be submitted to AJPES (AJPES, 2024).

### 4.3. Sustainability report components

The sustainability report is part of the entity's management report (Paragraph 3, Article 70, and Paragraph 1, Article 70c of the Companies Act, ZGD-1). The management report must contain a true and fair view, i.e., a fair view of the development and results of the entity's operations and its financial position, including a description of the material risks and uncertainties to which it is exposed (Article 70, Paragraph 1 of the Companies Act, ZGD-1). A true and fair view also applies to the sustainability report, which must contain all the information necessary to understand the entity's impacts on sustainability issues (for example, the impact on the natural environment, social and personnel issues, respect of human rights and issues regarding the fight against corruption and bribery), and information necessary to understand how sustainability issues affect the entity's development, performance (successfulness) and position (for example, how climate risks affect its operations) (Paragraph 1, Article 70c of the Companies act, ZGD-1).

An entity required to prepare a sustainability report must prepare a report in accordance with the provisions of the ZGD-1, EU rules and ESRS Standards. In particular, these standards specify the information that an entity must disclose in more detail (Paragraph 4 of Article 70c of the ZGD-1). In Paragraph 2 of the amended Article 70c of the ZGD-1, the minimum scope of components or contents that must be included in a sustainability report is specified and those are: a short description of the business model of the entity, a description of its policies regarding the above-mentioned issues, including the performance of due diligence procedures, the results of those policies, the main risks regarding the aforementioned issues in connection with the activities of the entity, including its business relations, products or services where appropriate and proportionate, when these risks could cause serious damage in these areas, and the ways in which the entity manages these risks, and key non-financial performance indicators which are important for specific activities. We look at selected content reporting demands in more detail in the following paragraphs.

For the entity, a description of its **business model and sustainability strategy is mandatory; additionally, requirements for further specifications are outlined** in legislation. It has to be broken down into more detail from several aspects. Detailed disclosure requirements prevent general texts from being included in the sustainability report. Disclosures have to be made in the following content areas:

- the plans on the entity's assurance that its business model and strategy are compatible with the transition to a sustainable (green) economy by limiting global warming to 1.5°C (in line with the Paris Agreement). The corresponding operational plans, including implementation measures, and related financial and investment plans, must be defined;
- if applicable, information on the entity's exposure to coal, oil and gas activities has to be laid out;
- information on the resilience of the entity's business model and strategy regarding the sustainability risks has to be disclosed;
- information on how the entity's business model and strategy consider the interests of its stakeholders and impacts on sustainability matters is necessary;
- information on how the entity's strategy on sustainability matters has been implemented and
- disclosures regarding opportunities for society regarding sustainability have to be formed.

Presentation of the **entity's sustainability objectives** has to be defined in terms of time (short-term, medium-term and long-term). By doing so, the entity must disclose:

- its concrete targets and commitments for absolute reduction of greenhouse gas emissions for at least the years 2030 and 2050;
- a description of its sustainability objectives achieved;
- a statement, whether its sustainability objectives in relation to environmental factors are based on conclusive scientific evidence.

**Disclosures regarding the due diligence** carried out by the entity in relation to sustainability-related matters have to encompass:

- the due diligence process description;
- an entity discloses its own sectoral activities (products, services) and its value chain (business relationships, supply chain, etc.). In this regard, it also discloses any actual and potentially adverse impacts;
- all measures for detecting, preventing, mitigating, remediating or eliminating adverse impacts, actual and potential, and the results of these measures have to be disclosed.

Further content in the sustainability report will also explain the role of management and supervisory boards in matters related to sustainability within the entity. This also includes the disclosure of the knowledge and experience that these bodies have in carrying out matters related to sustainability. The presentation of the entity's policies regarding sustainability matters and the disclosure of any sustainability-related incentive systems available to management or members of the supervisory board should be included. Key risks related to sustainability must be highlighted, as the entity must describe its main dependencies on sustainability issues and the manner in which these key risks are managed. Additionally, disclosures of relevant (accounting, financial, and other non-financial) indicators, as well as those that

supplement other disclosures in the sustainability report, must be made. At a minimum, it shall disclose indicators that supplement the disclosures required by the Companies Act (Point 8, Paragraph 2, Article 70c of the Companies Act, ZGD-1). The process of acquiring information used in sustainability reporting and presented in the final sustainability report must be described. Namely, given the rules under which an entity must prepare a sustainability report, this means that the entity in question uses and prepares a double materiality matrix in this process, and utilises the available taxonomy.

The entity shall, in the sustainability report, also include the disclosures of information required by Article 8 of Regulation 2020/852/EU establishing a framework for promoting sustainable investment (Paragraph 1, Article 70c of the Companies Act, ZGD-1). This represents information on how and to what extent the entity's activities are related to economic activities that are considered environmentally sustainable in accordance with the mentioned Regulation. Furthermore, non-financial entities shall disclose (1) the proportion of revenues derived from products or services related to economic activities that are considered environmentally sustainable, and (2) the proportion of investments in fixed assets and the proportion of investments in current assets that relate to assets or processes related to economic activities that are considered environmentally sustainable.

The law also allows an exception when an entity is not required to prepare and disclose the specified minimum components of a sustainability report (Article 70c of the Companies Act, ZGD-1). The entity does not have to prove information referred there in exceptional cases, *“on the basis of a well-founded opinion of the members of the management or supervisory bodies, if the disclosure of information concerns future events or matters that are the subject of current negotiations, and their disclosure would seriously damage the business position of the company, but omission of disclosure shall not affect the fair and balanced understanding of the development, successfulness and position of the company, and the effects of its activities”* (Paragraph 4, Article 70c of the Companies Act, ZGD-1). Omission to disclose the legally required information must not affect a fair and balanced understanding of the development, performance and position of the entity and the impact of its operations.

For certain entities required to prepare a sustainability report, the law also allows for a simplified (or truncated) sustainability report. These are (1) small and medium-sized entities whose securities are traded on a regulated securities market, (2) small and non-complex institutions, and (3) own insurance and reinsurance undertakings under the law governing the insurance industry (Paragraph 4, Article 70c of the Companies Act, ZGD-1). These entities prepare a sustainability report in accordance with the ESRS Standards for Small and Medium-sized Companies, set out in a delegated act of the EC (Paragraph 5, Article 70c of the Companies Act, ZGD-1).

There are some exemptions from the above-mentioned rules. For certain entities, the law permits the preparation of a simplified and abbreviated sustainability report. These are (1) small and medium-sized entities whose securities are traded on a regulated securities market, (2) small and non-complex institutions, and (3) proprietary insurance and reinsurance undertakings under the law governing the insurance industry (Paragraph 4, Article 70c of the Companies Act, ZGD-1). These entities prepare a sustainability report in accordance with the ESRS Standards for Small and Medium-sized Companies, set out by a delegated act of the EC (Paragraph 5, Article 70c of the Companies Act, ZGD-1). A simplified sustainability report must include a minimum of the following components (Paragraph 5, Article 70c of the Companies Act, ZGD-1):

- a (brief) description of its business model and strategy;
- disclosure of the entity's policy on matters related to sustainability;
- disclosure of its identified key (actual and potential) adverse impacts on sustainability-related matters and any measures taken by the entity to manage these risks (i.e., their risk detection, monitoring, prevention, mitigation or elimination);
- key sustainability-related risks management description;
- disclosure of relevant (accounting, financial and other or non-financial) indicators and indicators that complement other disclosures in the sustainability report.

The sustainability report is part of the entity's management report and must include all the elements specified by law. If it is later determined that individual legally required contents of the sustainability report have been omitted, this omission may mean that the management report does not contain all the elements required by law. In such a case, an entity and the liable person commit an offence and shall, for that, be fined (Article 686 of the Companies Act, ZGD-1).

#### **4.4. EU Omnibus legislation package imposes changes in the field of sustainability reporting**

Overall, the EU Omnibus legislation package generally simplifies previously implemented legislation requirements in the field of sustainability reporting. It, in practice, refers to a set of proposed changes introduced by the EC on 26 February 2025 to simplify and streamline sustainability-related regulations, particularly focusing on sustainability reporting and due diligence obligations. It consists of four content blocks. Those are: stop-the-clock directive (Directive (EU) 2025/794) and quick fix regulation, proposals related to the Corporate Sustainability Reporting Directive (CSRD) as well as

proposed changes to the Corporate Sustainability Due Diligence Directive (CSDDD), the Carbon Border Adjustment Mechanism (CBAM), and regulations related to InvestEU and other EU investment programmes (European Commission, 2025c). The aim of these changes and simplifications is making sustainability reporting more efficient and less burdensome, especially in the terms of labour and cost demands.

The key changes to current legislative requirements are (European Commission, 2025c):

- changing the scope of reporting entities: around 80% of entities that were obligated to report sustainability issues under CSRD will now no longer be mandatory to report – only entities that have more than 1,000 employees and either a turnover above €50 million or a balance sheet total above €25 million will remain subject to the rules.
- make a clear distinction between two groups of entities, that is, large and smaller entities - sustainability reporting requirements for large entities will not burden smaller entities in their value chains. In this regard, EC plans to adopt a voluntary reporting standard, based on the SME standard developed by EFRAG.
- changing ESRs - revise and simplify the existing European sustainability reporting rules, against which the entities remaining in scope will have to report.
- abandonment of previously planned sector-specific standards adoption - the assurance requirement is kept at the level of “limited” assurance, not at the level of “reasonable” assurance.
- limiting reporting obligations under the EU Taxonomy – solely the largest entities (minimum of 1000 employees and €450 million net turnover) will have to report. Of course, other large entities within the previewed scope of CSRD shall be able to report voluntarily.

## 5. Sustainability reporting challenges

It is worth noting that sustainability reporting is a challenging task, particularly for reporting entities who prepare sustainability reports. We can highlight a few challenges.

Firstly, challenges related to data acquisition. Reporting entities must first prepare the data before including it in sustainability reports. Problems arise in acquiring data that may not be accurate and comprehensive; in short, data of poor quality or missing data is often a significant issue. An excessive volume of required data can overload the reporter.

Second, the key is the appropriate structuring of the reporting process, implementing all the necessary steps, and establishing a process of continuous improvement. The sustainability reporting process should be comprehensive and provide credible reports. From a technical standpoint, the process should be as automated as possible, with data management systems in place. Additionally, a third challenge is coordinating different legal disclosure requirements and various pronouncements. In this case, an entity has to identify duplicate requirements and ensure regulatory compliance. Deloitte (2021, as cited in Setyaningsih et al., 2024, p. 4) proposes a process for sustainability reporting, from data acquisition to the final report, as part of the management report. The steps for guidance on sustainability reporting are defined as phases of preparation, integration, and reporting. All of this derives from an understanding of sustainability objectives, risks, audience, and stakeholders related to reporting. The final reporting step is conforming the sustainability reporting to recognised standards.

Further challenges are related to the complexity of reporting entities. There are, in general, more organisational units, departments, or entities in the group. Hence, data points need to be established in more places where sustainability data is collected, including their custodians. Coordination between departments or entities in the group is required, and it is usually sensible to designate a separate sustainability reporting department, which is responsible for that task. The complexity increases even more with the length and depth of the entity's supply chain. The entity also needs to acquire and properly evaluate relevant sustainability data in its supply chain. Setyaningsih et al. (2024) conclude that sustainability reporting is crucial for both large corporations and SMEs; the benefits and challenges faced by corporations and SMEs vary, depending on the entity's size and complexity.

Lastly, the time and costs involved in sustainability reporting also pose a challenge for reporting entities. Such reporting requires additional resources, both human (staff) and technical. The costs associated with collecting, analysing and reporting data, training (education) of staff, and establishing technical capacities can be a major challenge. It is therefore crucial for entities to ensure the necessary financial and non-financial resources are provided to address the challenges in sustainability reporting. Note that careful consideration should be conducted in search of a reasonable balance between benefits and costs in this field. Feeney (2024) adds that producing a sustainability report can be a resource-intensive process. Additionally, the sustainability reporting process can expose challenges in various parts of business operations, such as communication, data collection and verification processes, basic and advanced workflows, and auditing capabilities.

Legal and professional requirements for sustainability reporting change frequently, creating risks for reporting entities who may not prepare reports in accordance with all changes. This also makes the reporting area a great challenge, especially for those entities that are professionally and employment-wise undernourished in this regard. Feeney (2024)

notes precisely this - that the regulatory environment for reporting on sustainability issues is extremely complex, so the first step for an entity is to carefully study and determine which regulations apply to it.

## 6. Conclusion

The European Union has recognised sustainability reporting with Directive 2022/2464/EU on corporate sustainability reporting as a component of corporate transparency and accountability for larger and more significant entities and groups. It involves informing stakeholders about the sustainability performance of the reporting entity, especially the achievement of sustainability goals. This commits the reporting entity to practices focused on sustainable development in the environmental, social and economic areas of the reporting entity's operations. The amendment to the Companies Act (ZGD-1M) implemented, among other things, the mechanisms of the aforementioned Directive regarding the preparation of a sustainability report. In the introduction, our paper first presents the reasons for sustainability reporting, followed by an overview of the legal requirements in the field of sustainability reporting. The number of entities that must or will have to start mandatory reporting on sustainability gradually over a few years is wide. The sustainability report is an integral part of the management report, has several contents prescribed by law, and there are also special sustainability reports for unique entities (certain subsidiaries from Slovenia controlled by certain foreign entities from third countries; certain branches of a foreign entity from a third country). Sustainability reporting is an area monitored by the audit committee. The company's supervisory board and the general meeting make decisions in this area, for example, in matters related to the auditor's assurance engagement concerning the credibility of the sustainability reporting. On the reporting entity's side, sustainability reporting presents numerous challenges. These include establishing an appropriate reporting process, obtaining quality data, ensuring regulatory compliance with reporting requirements, and determining a proper balance between the reporting entity's depth of reporting and the available resources.

Deloitte (2024) finds in its research that a growing trend in the field of sustainability reporting is that entities are moving beyond compliance and incremental changes to embrace sustainability as a central driver of innovation and long-term value. Within this main research finding, 7% of reporting entities are focusing sustainability efforts on ensuring compliance with regulatory expectations, 14% are focusing primarily on incremental process or operational changes to improve sustainability, and 45% are transforming their business models to address climate change and sustainability as a central part of their strategy.

Deriving from these research results, we can say that sustainability reporting is not merely a legal requirement, but also represents a shift in paradigm from maximising profits to building a sustainable and responsible business. Of course, the obligation to meet legal sustainability reporting requirements remains, and entities face numerous challenges, as discussed above.

The latter is also at the core of the purpose of this paper. We wanted to present the latest requirements of Slovenian law governing the operation of entities in the field of sustainability reporting. The research question is twofold. First, what are the newest changes in the field of sustainable reporting in Slovenia and their implementation in the Slovenian legislative framework? First, some reasons for sustainability reporting were briefly presented. Then, those responsible for sustainability reporting and the sustainability report were discussed. This provides an answer to the first research question. Nevertheless, instead of repeating, we would like to note the following key points. Sustainability reporting faces major challenges in data acquisition and quality, requiring reliable, comprehensive, and well-structured data collection systems to ensure credible reporting. The reporting process must be effectively organised, automated, and aligned with evolving pronouncements (for example, the EU's directives and Regulations and ESRS Standards). High complexity, resource demands, and frequent regulatory changes increase the burden on entities, especially those with extensive supply chains or limited technical and human capacities.

Second, are further simplifications and administrative burden diminution needed in the Slovenian sustainability reporting regulatory framework? Yes, the motto »keep it simple« should be at the forefront. Simplifications of sustainability reporting pronouncements are being called upon, not only in the Slovenian legislative framework, but also in the EU. The Omnibus package proposal that proposes revised CSRD, CSDDD, SBAM and EU Taxonomy focuses reporting duties on the largest entities, easing obligations and costs for smaller entities while allowing voluntary reporting and phased environmental alignment. Simplifications include reduced reporting templates and adjusted financial indicators (for example, the Green Asset Ratio for banks). Compliance deadlines with sustainability pronouncements are postponed by at least two years.

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