

Strategic Asset Acquisition in the Era of EU Sustainability Reporting: Lease Accounting Implications for CSRD and Taxonomy Compliance

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ABSTRACT: This paper investigates the impact of evolving EU sustainability reporting regulations on strategic asset acquisition decisions, focusing on the accounting of leases under different accounting frameworks. Employing a mixed-method approach, the study combines literature review with a detailed case study comparing accounting treatments of leases under different accounting regimes. Results reveal that regulatory requirements for sustainability disclosures and key performance indicators significantly influence whether entities opt for purchasing or leasing assets, as these choices directly affect certain ratios. The findings highlight that divergent accounting standards can lead to material differences in sustainability reporting outcomes, potentially shaping corporate strategies. Academically, the study underscores the need for greater harmonization between sustainability and financial reporting standards, while practically, it offers guidance for organizations

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navigating compliance and strategic decision-making in the context of sustainability reporting.

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Introduction

It can be observed that the European Union (hereinafter referred to as: “EU”) shifted its focus towards sustainability in the last decade by adopting more and more sustainability-related regulations, with an evolving disclosure legislation (Hummel and Jobst, 2024). The European Parliament and Council and European Commission issued significant regulations in respect of sustainability reporting and disclosure requirements, among others:

- ▶ the 2022/2464 Corporate Sustainability Reporting Directive (hereinafter referred to as: CSRD), which supersedes the Non-Financial Reporting Directive (hereinafter referred to as: NFRD) requires detailed reporting on sustainability matters and performance for an increased number of companies with the obligation to disclose information and data in accordance with the European Sustainability Reporting Standards (hereinafter referred to as: ESRS),
- ▶ the 2020/852 Taxonomy Regulation (hereinafter referred to as: EU Taxonomy) is aiming to facilitate sustainable investment with defining environmentally sustainable economic activities through its classification system,
- ▶ the 2021/2178 EU Commission Delegated Regulation (hereinafter referred to as: Disclosure Delegated Act) that specifies the content and presentation of information to be disclosed by certain undertakings in line with EU Taxonomy. The regulation requires companies to disclose certain key performance indicators (hereinafter referred to as: KPI) as well,
- ▶ the 2021/2139 EU Commission Delegated Regulation (hereinafter referred to as Climate Delegated Act) that defines those economic activities and their set of science-based criteria which could contribute to the EU’s environmental objectives of climate change mitigation and adaptation.

These regulatory requirements introduce challenges in deciding how sustainability-related expenses and revenues should be classified under different accounting regimes. The classification affects sustainability disclosures, as well as financial reports and some KPIs. Among other requirements, companies are obligated to disclose KPI results in respect of the amount of revenue, operating expenditure (hereinafter referred to as: OPEX) and capital expenditure (hereinafter referred to as CAPEX) connected to environmentally sustainable activities in accordance with the EU Taxonomy regulation.

The Disclosure Delegated Act sets out rules specifically for users of the International Financial Reporting Standards (hereinafter referred to as: IFRS) as well on which accounting items for each KPI can be reflected in revenue, OPEX and CAPEX. The Regulation provides that the following should be considered as CAPEX under IFRS:

- ▶ Property plant and equipment (IAS16)
- ▶ Intangible assets (IAS38)
- ▶ Investment properties (IAS40)
- ▶ Biological assets (IAS41)
- ▶ Right-of-use asset according to Leases (IFRS16)

The Disclosure Delegated Act highlights that if the lease contract is not recognised as a right-of-use asset under IFRS rules, the lease cost should be recognised as OPEX. In addition, a similar approach should be taken if under an entity's national accounting rules, the lease cost shall not be capitalised as asset (Böcskei and Veit, 2023). Question arises whether sustainability related requirements on disclosures and KPIs required by the EU have an impact on the decisions of entities to choose between purchase and lease agreements to influence the result of the KPIs when they are about to acquire an asset and whether the result would be different under different accounting frameworks.

The EU Taxonomy regulation of Disclosure Delegated Act was published in 2021 and determined the scope of companies who are required to disclose the ratios of their green revenue, CAPEX and OPEX following the mandatory reporting scheme. Initially, the disclosure obligation was covering large public interest entities, followed by large companies aligned with the CSRD reporting scope. However, following the first CSRD reporting year in 2025, the European Commission introduced a simplification package known as the Omnibus, which is aiming to reduce the administrative burden on large companies (EY, 2024).

This package proposes revising the scope of reporting entities, firstly by decoupling the reporting obligations under the EU Taxonomy from those under the CSRD. Secondly it recommends limiting mandatory EU Taxonomy disclosures to the largest companies with a minimum of 1,000 employees and 450 million euro in net turnover, while enabling other large companies potentially subject to future CSRD requirements to report voluntarily. These proposed changes are still undergoing scrutiny by the European Parliament and Council, and the results are expected by the end of 2025 or in early 2026. If adopted as proposed, the Omnibus would substantially decrease the number of companies required to report under the EU Taxonomy (KPMG, 2024a).

Nonetheless, the EU Taxonomy is expected to remain a critical instrument for advancing sustainable and green finance across the EU, and voluntary reporting practices are anticipated to contribute progressively to the evolution of future sustainability reporting frameworks. Financial institutions, especially banks, are increasingly motivated

to disclose and improve their Green Asset Ratios⁵, which requires reliable and taxonomy-aligned data from their corporate borrowers, particularly in the context of operational and project-based lending. This trend is reinforced by innovative regulatory initiatives, such as the Hungarian National Bank's green capital requirement discount program, supporting a substantial reduction in carbon emissions in Hungary without increasing prudential risks (Bethlendi and Holczinger, 2025).

The EU Taxonomy provides a scientifically grounded classification of economic activities that are consistent with the objectives of the Paris Agreement⁶, thereby ensuring that reported green activities have genuine environmental impact. Furthermore, voluntary alignment with the taxonomy can influence reputational dynamics within industries; companies that choose not to disclose their taxonomy alignment may face increased reputational risk, especially when competitors demonstrate transparency and commitment to sustainability with EU Taxonomy disclosure (KPMG, 2024b).

In Hungary, certain entities prepare their financial statements according to IFRS, but majority of the entities are still preparing theirs according to the Act C of 2000 on Accounting (hereinafter referred to as: Hungarian Accounting Act). As a result, number of economic transactions are presented differently in the financial statements of Hungarian entities, such as economic transactions related to leases. Most companies subject to the initial phase of mandatory sustainability reporting under the EU Taxonomy and the CSRD are publicly listed entities that report under IFRS in Hungary. However, the second phase – following the currently implemented legislation – is expected to encompass companies as well which are not obligated to report under IFRS in Hungary. Concurrently, voluntary sustainability reporting is gaining traction among organizations whose markets and stakeholders demonstrate heightened interest in their environmental, social, and governance performance, alongside financial metrics.

It is also important to highlight that the EU Taxonomy serves as a critical tool for banks and financial institutions to facilitate the expansion of green finance. In particular, the Taxonomy and its associated financial key performance indicators play a fundamental role in the assessment processes for green loans and bond issuances, thereby supporting the evaluation of sustainable financial opportunities. In this paper, we first examine through a literature review how differently sustainability aspects can be incorporated into financial and non-financial reporting.

5 The Green Asset Ratio (GAR) is a financial metric that measures the proportion of a financial institution's assets that are aligned with sustainable criteria. It is calculated by dividing the total value of environmentally friendly assets (such as loans, debt, and equity investments) by the total value of all assets.

6 The Paris Agreement is an international treaty adopted in 2015 aiming to limit the global average temperature increase to well below 2°C above pre-industrial levels, while pursuing efforts to keep it below 1.5°C, by reducing greenhouse gas emissions and enhancing climate resilience through international cooperation, financial support, and regular national commitments.

As the paper focuses on the impact of EU regulations on asset acquisition strategies of certain entities, it is essential to analyse the definitions and accounting regulations concerning lease and rental agreements, as sustainability-related economic transactions may be presented differently in financial statements under different accounting frameworks. Based on this, we outline our analytical methodology by comparing the treatment of these two accounting practices under Hungarian Accounting Act and IFRS, present the calculation methodology of expense related KPIs with the help of a case study and examine how different accounting regulations affect them. Finally, we present the research conclusions, discuss its limitations, and identify potential directions for future research.

Literature Review

As Castaldo *et al.* (2024) stated, accounting has a rich history grounded in principles and practices developed over centuries and its significance as a social and moral discipline has been acknowledged since its inception nevertheless it is often linked to financial management and data processing only. They believe that accounting must reclaim its social and moral dimension to address today's complex challenges. Its role should extend beyond financial management and data processing to include integrated reporting, non-financial disclosure, sustainability reporting, and impact assessments. In the recent years the landscape of corporate reporting has undergone a major transformation, with increasing emphasis on sustainability and the integration of environmental, social, and governance (hereinafter referred to as: "ESG") factors into traditional financial reporting (Jámbor and Zanócz, 2023).

The study of [Mohamed Riyath](#) and [Inun Jariya](#) (2024) highlights the mediating effect of stakeholders' awareness of sustainability on the link between ESG reporting and sustainability culture. Their study recommends organizations to leverage ESG reporting strategically and prioritize stakeholder engagement to enhance their sustainability commitment.

Brown and Dillard (2014) offer a critical examination of integrated reporting's potential to drive sustainability through its role as a transformative initiative. By integrating insights from science and technology studies, they explore the debate surrounding integrated reporting's ability to advance sustainability objectives. The core of their work is to critically evaluate integrated reporting to expand and deepen discussions on how accounting standards can either support or hinder sustainable business practices. They emphasize that to effectively empower stakeholders, enhance accountability, and facilitate sustainability transitions, it is crucial to consider political-economic contexts, engagement processes, and the design of accounting technologies.

One of the key developments in sustainability reporting has been the introduction of various reporting standards and frameworks aimed at promoting more comprehensive and transparent sustainability accounting and sustainability reporting with the objective to define what "sustainable" means in finance and

accounting. New frameworks are being developed to define what sustainable investment or sustainable economic activity means. These frameworks are called taxonomies. Dusik and Bond (2022) present how taxonomies can shift the mindset regarding sustainable development expectations associated with policy tools like environmental assessment and demonstrate that emerging taxonomies can benefit from integration with existing environmental assessment systems.

While the spread of sustainability related standards has been a positive step towards more visibility of sustainability, it has also highlighted several challenges and issues that need to be addressed. One of the primary concerns surrounding sustainability reporting is the lack of standardisation and comparability across different frameworks and standards. The research of García-Pina Rosete and Hernandez Barros (2024) emphasizes the importance of collaboration between industry leaders and academic researchers to standardise sustainability reporting. They believe, such collaboration is crucial for improving environmental, economic, and social disclosures.

By establishing a unified international framework for sustainability practices, companies can adopt a comprehensive approach that accurately reflects the complex impact on profitability and societal well-being. Standardisation would facilitate broader data collection and more effective implementation of sustainable practices. The empirical evidence in their study highlights the influence of various factors on profitability ratios, underscoring the benefits of unified reporting standards. Global alignment of these practices would provide clearer insights for corporations and researchers, driving sustainability advancements. Ultimately, effective sustainability reporting enhances a firm's value, which can only be achieved through the successful implementation of accounting standards for sustainability efforts. Therefore, adopting international standards is essential for companies to create value and implement environmentally responsible practices that earn recognition.

As Muñoz *et al.* (2017) noted, that different sustainability reporting frameworks allow for benchmarking within the companies that adopt them, but there is no comparability between the frameworks themselves. These frameworks are designed for wide range of audiences and serve various purposes, leading to inconsistencies in reporting practices. As a result, investors, regulators, and other stakeholders face difficulties in assessing and comparing the sustainability performance of different companies. This lack of standardisation reduces both the transparency and usefulness of the information disclosed.

As part of the standardisation process, the EU Taxonomy was published in 2020 to set a common definition on what is sustainable to facilitate sustainable finance. Research of Lucarelli *et al.* (2020) showed that the EU Taxonomy leverages comprehensive scientific research from the past 30 years in respect of environmental objectives and economic activities. They are highlighting that the EU Taxonomy provides clear and unambiguous criteria to determine whether an economic activity is environmentally sustainable which can emphasise comparability and standardisation. Furthermore Paccs (2021) argues that the EU Taxonomy helps reduce greenwashing by establishing standardised environmental sustainability disclosures.

Chiu (2022) argues that further efforts to develop sustainability metrics in sustainability reporting that inform the investment sector about companies' sustainable performance and increase comparability would be crucial. The paper identifies gaps in EU leadership regarding the governance of metrics development and proposes that EU-level governance can be effectively structured, particularly through a multi-stakeholder approach, to address metrics development and engage key information intermediaries in this field. Hummel and Bauernhofer (2024) found that in the first reporting year based on EU Taxonomy entities seem to disclose the mandatory KPIs, but they often lack the necessary infrastructure to provide more details in their disclosures. Alessi *et al.* (2024) highlight that it would be necessary to prepare detailed comparisons for the published turnover, OPEX and CAPEX ratios.

The complexity of ESG information, suggesting careful integration into financial analysis to enhance both transparency and stakeholder decision-making. Researchers reveals that the increased adoption of sustainability reporting may lead to a paradoxical reduction in the accuracy of forecasts due to different conceptual frameworks and standards, leading to difficulties for financial analysts in terms of comparability and interpretation (Pizzi *et al.*, 2024). Nevertheless, Arian and Sands (2024) show that corporate disclosure of climate risks is insufficient, as companies tend to underestimate these risks and focus on short-term financial materiality rather than sustainable development, in a longer term. The study underlines the need for better regulatory frameworks and a broader concept of materiality, encompassing both financial and sustainability aspects, to encourage meaningful disclosure of climate risks and increase corporate resilience.

Furthermore, quality of the reports may also be questionable even though many of the reports are validated by assurers. According to Bentley-Goode *et al.* (2024) quality of sustainability reporting varies depending on the type of assurance provider (accounting firm versus a non-accounting firm). Their study found that non-accounting firms focus more on quantity of disclosures, while accounting firms place greater emphasis on both quantitative and qualitative aspects. Based on the above, it appears that the regulations endeavour to ensure standardisation and comparability but there is still room for improvement regarding the details and in harmonisation with international and national accounting systems.

Methodology

In our research, we used a mixed research method. We adopt a case study approach to examine the accounting treatment of lease and rental agreements in the context of Hungarian legislation and sustainability regulations. Case studies are particularly valuable in accounting and sustainability research as they enable an in-depth examination of real-world applications of regulatory standards, capturing the complex factors that influence reporting and decision-making (Segal and Naik, 2019).

We examine how the accounting treatment of lease and rental agreements is conducted through an examination of the definitions found in Hungarian

legislation. Based on this, we present the classification dilemmas that arise not only in the field of accounting and controlling, but also in broader financial and regulatory context for which guidance can only be found in EU regulations – precisely the Disclosure Delegated Act – related to sustainability. This provides the foundation for understanding the current accounting practices and potential challenges organizations face in controlling, financial reporting, and broader sustainability contexts (Secinaro *et al.*, 2020).

Besides, we analyse the guidance and requirements outlined in international regulations, such as the IFRS16 on leases. The analysis is based on a comprehensive review of relevant literature, including academic articles and industry reports. These sources provide valuable insights into the impact of the lease accounting standards, and the methodologies for analysing the efficiency of lease arrangements in relation to sustainability regulatory requirements. The case study approach provided an opportunity to illustrate the differences and challenges between accounting and sustainability categorisation using real company data.

Regulatory background of lease and rental in hungary

a. Definitions of lease and rental

First signs of lease appeared in Hungary at the 1970's but the significance of this form of financing raised after the regime change in 1989 due to the demand from the economy. The regulation of lease transactions in Hungary takes place within a complex legal framework, where various regulations collectively define the legal background and operation of lease and rental forms. The purpose of these regulations is to ensure the protection of the rights of lessors and lessees, as well as to promote the development of the lease market. It is important to highlight that in the Hungarian legislation there is a difference between lease and rental agreements even though the two concepts are often used synonymously in practice. To be able to handle these agreements properly from an accounting and controlling perspective, it is important to understand the definitions found in the regulations (Adorján *et al.*, 2017).

The Hungarian Civil Code (Act V of 2013 on Civil Code, hereinafter referred to as Civil Code) defines both finance lease and lease contracts (rental agreement), as described in the following table.

Table 1: Definition of finance lease and rental agreement according to the Act V of 2013 on Civil Code

Act V of 2013 on the Civil Code	
Finance lease agreement	Under a financial lease contract, the lessor shall give the thing or right owned by him (hereinafter "lease object") to use for a definite period, and the lessee shall take the lease object over and pay the lease fee, if under the contract the lessee is entitled to use the lease object during its whole economic lifetime or beyond, or, if the duration of use is shorter, upon the contract terminating, the lessee is entitled to acquire the lease object for no consideration or at a price substantially lower than the market value at the time when the contract was concluded; or if the amount of the lease fee to be paid is equal to or exceeds the lease object's market value at the time when the contract was concluded. (Section 6:409).
Rental agreement	(1) Under a lease contract, the lessor shall grant the temporary use of a specified thing, and the lessee shall take over the thing and pay the rental fee. (2) The rules on the lease of things shall apply accordingly to granting the temporary exercise of rights for consideration to another person. (Section 6:331)

Source: Own editing (based on: Act V of 2013)

The following table collects the main differences along the characteristics of a finance lease agreement and a rental agreement:

Table 2: Comparison of finance lease and rental agreement

Characteristic	Finance lease agreement	Rental agreement
Ownership	Acquisition of ownership in an economic sense is possible	Ownership remains with the lessor
Risks and rewards	The lessee bears the risks and collects the rewards	The lessor bears all the risks except for those arising from improper use
Right to use	For a fixed term	For a fixed or indefinite term
Fee	Lease payment (principal + interest)	Rental fee

Source: Own editing (based on: Act V of 2013)

Based on the above, in case of finance lease agreements three types of economic transactions can be observed simultaneously: sale, loan and rental agreement. The complexity of the subject of lease is indicated by the fact that in the Hungarian legal system not only the Civil Code but the Act on Credit Institutions and Finance Enterprises (Act CCXXXVII of 2013) also defines finance lease, while the Hungarian Accounting Act itself does not determine what finance lease and rental agreements mean, only refers to the Act on Credit Institutions and Finance Enterprises in respect of finance lease.

The following tables summarises the definitions from the above-mentioned legislations.

Table 3: Definition of finance lease according to the Act CCXXXVII of 2013 on Credit Institutions and Finance Enterprises

Finance lease	<p>'finance lease' shall mean an operation where the lessee acquires title of use on movable tangible property or real estate property owed by the lessor, or a right held by the lessor for a specified period of time, upon which the lessee:</p> <ul style="list-style-type: none"> a) shall bear all risks stemming from the passing of risk, b) becomes entitled to collect proceeds, c) shall bear direct costs (including maintenance and depreciation costs or amortization charges), d) gains entitlement for acquiring title of ownership – or to assign such entitlement to another party – of the leased property following expiration of the lease period as stipulated in the contract and upon payment of principal and interests in full and payment of the residual value described in the contract. If the lessee decides not to exercise this right, the possession of the leased property shall revert to the lessor. Parties shall stipulate the principal – which equals the contract price of the leased tangible property or leased right – and the interest amount of lease payments and the due dates of such payments; (Section 6, (1) 89) <p>Lease conducted between a parent company and its subsidiary shall not be considered finance lease, except where such transactions are concluded by finance institutions. Section 6, (6)</p>
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Source: Own editing (Act CCXXXVII of 2013)

Table 4: Definition of lease agreements under Hungarian Accounting Act and IFRS

Lease definitions	
Hungarian Accounting Act – Act C of 2000 on Accounting	'finance lease' shall mean an arrangement made under a finance lease agreement provided for in the Act on Credit Institutions and Finance Enterprises, including if made between a parent company and its subsidiary; (Section 3 (8) 13).
IFRS16 Leases	A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration (IFRS16.9)

Source: Own editing (based on: Act C of 2000, IFRS16)

It is worth highlighting that Hungarian regulations are not completely consistent with each other, given that according to Act X, a financial leasing contract concluded between a parent company and a subsidiary is not considered a financial lease (unless the lessor is a financial institution), while the Accounting Act also classifies these transactions as financial leasing. The reason for this is that the parties can conclude the transaction even if the lessor is not a financial enterprise, but from an accounting

perspective these transactions are to be treated as financial leasing (Adorján et al., 2017).

A comparison of the definition and accounting treatment of leases between the Hungarian Accounting Act and IFRS introduces a fundamentally different approach to lease accounting. The conceptually different treatment under IFRS enhances transparency and comparability, while at the same time causing significant challenges in financial reporting. The difference magnifies decision-making dilemmas, not to mention the issues of linking them to sustainability activities.

b. Accounting aspect of finance lease and rental agreements according to the Hungarian Accounting Act

Based on the definitions in accounting there is a need for differentiation between lease and rental agreements. Finance lease is a service in a form of financing asset acquisitions, where the lessor on behalf of the lessee purchases the leased asset to be able to lease it out to the lessee for a period of time in exchange for consideration. In finance lease in Hungary there is a differentiation between open-end leases and closed-end leases. In case of a closed-end lease agreement the legal title of the leased asset will be automatically transferred to the lessee at the end of the lease term. In case of an open-end lease agreement there is no automatic transfer of ownership, but the lessee has a call option to buy the leased asset at the end of the lease term, which means that there is an uncertainty on the transfer of ownership during the lease term. Moreover, finance lease is a licenced activity in Hungary.

An asset acquired under finance lease agreement shall be recognised in the balance sheet of the lessee as asset together with any costs arise before commissioning (e.g., transfer) against an undiscounted lease liability which amount shall not consist of any interest. Depreciation on the asset will be recognised in the income statement over the lease term. The amount of lease liability shall continuously be decreased by the lease payments. Interest associated with the lease liability shall be recognised at the time of the interest payment or at the time of recognition of any accrual or deferral. If at the end of the lease term lessee does not call its option for transfer of ownership the leased asset shall be derecognised at lessee side and recognised at the lessor (Adorján *et al.*, 2017).

In case of rental agreements, lessee cannot gather ownership of the leased asset at the end of the lease term. Lessee is entitled to take over the leased assets and use them, and to make them available to third parties with the consent of the lessor. In addition to paying the rent, lessee is obliged to use the property as intended (in accordance with the terms of the contract). In respect of rental agreements, lessee shall only recognise rental cost in the income statement (accrued or deferred if necessary), but nothing else will be reflected by the balance sheet (Magyar Lízingszövetség, n.a.).

c. Accounting aspect of finance lease and rental agreements according to IFRS

While the Hungarian Accounting Act still differentiates between finance lease and rental agreements (i.e. operating leases), IFRS 16 provides a single lease model

on lessee side and defines lease as follows: „A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration” (IASB, 2016). The focus has shifted towards the existence of control. According to the definition a contract is or contains a lease if there is an explicitly or implicitly identified, i.e., specified asset in the contract without substantive substitution right for the lessor, where lessee obtains substantially all the economic benefits of the asset and the lessee has the right to direct the use of the asset (IASB, 2016).

As a result of the requirements of IFRS16, lessee shall recognise a right-of-use asset and a corresponding discounted lease liability in its financial statements in respect of those contracts that meet the definition of a lease. The income statement is impacted by the depreciation of the right-of-use asset over the period of the lease agreement and by the interest expense on the lease liability as unwinding of discount (Stancheva-Todorova and Velinova-Sokolova, 2019).

Based on the above definition, the followings are typical⁷ contracts that will not be recognised as leases in the balance sheet of a lessee (IASB, 2016):

- ▶ The standard offers practical exemptions for lessees in terms of short-term leases and leases of low value items. If the lessee chooses to use the practical exemptions in its accounting policies, short-term and low value item leases shall be recognised as rental cost in the income statement and will not be recognised in the balance sheet as asset and liability.
- ▶ If the contract is cancellable at any point in time without the parties compensating each other, the contract does not meet the definition of a lease and shall be presented as cost in the income statement.
- ▶ Contracts with variable consideration shall be expensed as rental cost in the income statement unless the variability is depending on an index or a rate.

Since agreements that are considered as rental under the Hungarian Accounting Act may comply with the definition of lease under IFRS and agreements considered as finance lease under the Hungarian Accounting Act may not comply with the definition of lease under IFRS, presentation of the exact same agreement under the Hungarian Accounting Act and under IFRS can be different.

Discussion

Accounting itself does not categorise costs as OPEX or CAPEX since these are rather finance specific terms.

⁷ We would like to highlight that the examples do not constitute exhaustive list of contracts that do not meet the definition of a lease according to IFRS16.

Table 5: Definition of CAPEX and OPEX

	Definition
CAPEX	„Capitalized costs represent expenditures that a company records as an asset on its balance sheet rather than as an expense on the income statement. This treatment is typically reserved for costs that provide future economic benefits extending beyond the current accounting period. By capitalizing these costs, companies can spread the expense over the useful life of the asset, aligning the cost recognition with the revenue generated from the asset.”
OPEX	„Expensed costs, unlike capitalized costs, are recorded immediately on the income statement in the period they are incurred. These costs are typically associated with the day-to-day operations of a business and do not provide long-term economic benefits. By expensing these costs right away, companies can accurately reflect their current financial performance without deferring the recognition of these expenditures.”

Source: Own editing (based on: Accounting Insights, 2024)

Based on the above definitions, the basic assumption would be that all expenditures that are necessary for the day-to-day operation of the entity are OPEX expenditures, while all expenditures that generate future economic benefits are CAPEX ones. Along these lines, the question arises as to whether the OPEX / CAPEX classification of costs related to lease or rental agreement shall be different just because the accounting requirements are different?

Despite the above, it may be argued that the right-of-use asset recognised in balance sheet under IFRS qualifies as CAPEX expenditure because of the inflow of future economic benefits, but another significant argument is whether the nature of the cost has changed with the change in IFRS accounting rules alone.

The introduction of IFRS16 had a significant impact on companies' KPIs like EBIT⁸, EBITDA⁹, OPEX and CAPEX. IFRS16 transforms lease cost into depreciation and financial expense, which means IFRS16 increases EBIT, EBITDA and decreases OPEX (Stancheva-Todorova and Velinova-Sokolova, 2019). Due to the above, many companies in industries where leases are significant decided to follow the international trend to introduce a so-called “after lease” version for financial KPIs and continue to do it. “After lease” adjusts the financial KPIs to the “old” view used under the predecessor standard to ensure comparability over time although the calculation of “after lease” versions of KPIs are not standardised which distorts comparability between companies (Földes and Böcskei, 2022).

Recently, there has been an increasing emphasis on the integration of sustainability considerations into financing, which may raise questions associated with the above CAPEX / OPEX classification.

8 Earnings before interest and tax

9 Earnings before interest, tax, depreciation and amortisation

The Disclosure Delegated Act Annex 1 provides the list of KPIs that shall be presented from 2023 for non-financial entities along with the additional information that shall be disclosed. The KPIs cover turnover ratio, CAPEX ratio and OPEX ratio and their share of environmentally sustainable economic activities (EU Regulation 2020/852 (22)). For the preparation of the KPIs, reporting entities shall identify the economic activities related to the above mentioned three main financial indicators and prepare their alignment assessment to identify whether they qualify as Taxonomy-eligible and/or Taxonomy-aligned economic activities. These KPIs must relate to the previous annual reporting period, i.e., the annual reporting period from the calendar year preceding the date of publication (Commission Delegated Regulation, 2021a).

The EU Taxonomy regulation establishes a framework for classifying economic activities as Taxonomy-eligible and Taxonomy-aligned activities. The reporting entities are required to assess their economic activities related to the three financial KPIs (revenue, OPEX, CAPEX) to determine whether they qualify as eligible activities. If an activity completes the eligibility, subsequent alignment assessment must be conducted. Taxonomy-eligible economic activities are those that corresponds the short description and/or NACE¹⁰ classifications outlined in the relevant Environmental or Climate Delegated Act of EU Taxonomy for the certain economic activity. Taxonomy-aligned activities in contrast must satisfy the full set of criteria determined for the given economic activity in the respective delegated act. This includes demonstrating a substantial contribution to certain environmental objectives, ensuring completion of the Do No Significant Harm (hereinafter referred to as: “DNSH”) criteria and the minimum safeguards requirements related to social and governance standards.

The Regulation provides an exhaustive list of type of costs that shall be considered as CAPEX or OPEX, although this type of categorisation is not found in accounting, furthermore it differentiates between classification under different accounting systems (Commission Delegated Regulation, 2021a). As a result, there can be a difference between CAPEX and OPEX ratios presented by non-financial entities if they are preparing their financial statements according to IFRS or other national Generally Accepted Accounting Principles (hereinafter referred to as: GAAP), like Hungarian Accounting Act. The legislation determines CAPEX for those non-financial entities who use IFRS. In case of determining the direct non-capitalised costs of OPEX the legislation is broader, and it can be aligned along the internal accounts of the entity while covering research and development, building renovation measures, short-term lease, maintenance and repair, and any direct expenditures of the day-to-day servicing of assets of property, plant and equipment. While the Disclosure Delegated Act precisely defines what are the elements of CAPEX and OPEX KPI, IFRS does not give any guidance on this classification, which can create differences of OPEX and CAPEX elements in sustainability reporting and management accounting. (Böcskei and Veit, 2023).

10 Statistical Classification of Economic Activities in the European Community

In case of CAPEX and OPEX KPIs, the ratios shall be calculated as follows:

$\text{CAPEX KPI} = \frac{\text{Capital Expenditure related to assets or processes that are associated with Taxonomy-aligned economic activities}}{\text{Total Capital Expenditure}}$
$\text{OPEX KPI} = \frac{\text{Operating Expenditure related to assets or processes that are associated with Taxonomy-aligned economic activities}}{\text{Total Operating Expenditure}}$

The Commission Delegated Regulation requires entities that are preparing the financial statements in accordance with IFRS to classify the right-of-use asset as CAPEX, but explicitly states that under other national GAAPs, where a rental agreement does not result in a recognised asset in the balance sheet, lease cost shall be considered as part of the OPEX KPI. As a practical business result of managing leases, companies may interpret and treat sustainability classifications in accounting differently depending on their regulatory systems, suggesting that while there are significant differences between accounting systems, there remain limitations to sustainability regulation.

In our opinion, differences arising from accounting systems should be regarded as inherent problem in the context of sustainability reporting regulations. Consequently, a sustainability report can only be constructed based on the accounting system in use, irrespective of the fact that the recognition of certain economic events may differ significantly across various accounting regimes. Although the accounting framework constitutes a base for the sustainability report, this situation nonetheless continues to undermine comparability between reports. Ultimately, harmonization of accounting systems or reporting under a worldwide accepted accounting framework would be the sole means to resolve these comparability issues.

Results

Our results are presented with using a case study approach:

The company is specialized in the transportation of goods, primarily serving business entities through multiple logistics channels including road, marine and rail transport. As the company's primary source of revenue is road transportation, the analysis focuses on this specific economic activity. The activity of freight transport services by road occurs under the climate change mitigation and adaptation objectives as well. As this is not an adaptation solution from the company's perspective, therefore it is associated and analysed under the set of criteria for climate change mitigation in this case study. The Climate Delegated Act designates NACE code H49.4.1. Freight transport by road for this activity, which aligns with the company's own classification of its main economic activity. Furthermore, the company meets

the short description requirements by utilizing N1¹¹ and N2¹² vehicles, all of them comply with the EURO VI¹³ emission standards. Definition of the activity according to the Climate Delegated Act: *“Purchase, financing, leasing, rental and operation of vehicles designated as category N1, N2 or N3¹⁴ falling under the scope of EURO VI for freight transport services by road”* (Commission Delegated Regulation, 2021b).

During this step, the company’s economic activity of road transportation is analysed in accordance with the environmental criteria, for which the used vehicles are in the scope of EU Taxonomy framework. The company’s fleet consists of 1,300 vehicles, all leased, including 200 N1 category vehicles and the remaining N2 category vehicles, of which 50 are electric. As the first, substantial contribution criteria consider zero-emission vehicles as acceptable for sustainable activity designation, these are analysed against the DNSH criteria for the outset.

The company has no other considerable lease contracts from sustainability disclosure point of view. For sustainability disclosure purposes the company shall determine whether the lease contracts meet the definition of taxonomy-aligned economic activities. Therefore, the case study presents the company’s approach to EU Taxonomy alignment assessment, with a particular focus on the key steps undertaken to evaluate the economic activity of freight transportation by road and determine the relevant KPIs. Given the extensive and technically detailed nature of the substantial contribution and DNSH criteria, the analysis emphasizes the most critical requirements rather than providing an exhaustive evaluation of all technical specifications. In the presentation of the determination of financial KPIs a degree of simplification was applied to ensure clarity and practicality. After the taxonomy-alignment assessment the case study illustrates the results of the KPIs.

The company’s financial statements are prepared under IFRS. The company enters lease contracts for a period of five years, with an option to extend the lease for an additional year. The vehicles do not qualify as low-value assets. The lease payments are made monthly and consist of a fixed rental component and variable charges and the company is able to separate the non-lease components from the total payments.

According to its accounting policy, the company has chosen to apply the practical expedient allowed under IFRS 16 and separate the non-lease components from the lease payments. These non-lease components are recognized as operating expenses (OPEX) in the period in which they are incurred.

The lease contracts for the vehicles meet the definition of a lease under IFRS 16. Therefore, the company recognizes the fixed lease payments as part of the right-of-use asset and corresponding lease liability in its balance sheet. The right-of-use asset

11 Vehicles used for the carriage of goods and having a maximum mass not exceeding 3,5 tonnes

12 Vehicles used for the carriage of goods and having a maximum mass exceeding 3,5 tonnes but not exceeding 12 tonnes

13 Light-Duty Vehicles

14 Vehicles used for the carriage of goods and having a maximum mass exceeding 12 tonnes

is subsequently depreciated over the lease term, while the lease liability is measured at amortized cost using the effective interest method.

Table 6: Case study: EU Taxonomy alignment table

Type of criteria	Objective of the criteria	EU Taxonomy criteria	Company alignment
Substantial contribution	Climate Change Mitigation	<ul style="list-style-type: none"> • Vehicles of category N1 have zero direct (tailpipe) Co2 emissions. • Vehicles of category N2 and N3 determined as zero-emission heavy-duty vehicles. 	The company has a fleet of 50 electronic vehicles from which eight are N1 vehicles with zero direct CO2 emission, and the remaining are N2 category vehicles which determined as zero-emission heavy-duty vehicles.
Do No Significant Harm (DNSH)	Climate Change Adaptation	Identify the main material physical climate risks by performing a robust climate risk and vulnerability assessment.	The Company conducted a comprehensive assessment to systematically identify the primary climate risks associated with freight transport services by road. Based on these findings, the company prepared a strategic action plan with adaptation solutions to reduce exposure to physical climate risk.
	Sustainable use and protection of water and marine resources	Not applicable	-
	Transition to a circular economy	Vehicles are reuseable or recyclable to a minimum of 95% by weights and reusable or recoverable to a minimum of 95% by weight.	All electronic vehicles in the company's fleet complete the threshold for recyclability, reusability, and recoverability which is confirmed by their manufacturer.

Type of criteria	Objective of the criteria	EU Taxonomy criteria	Company alignment
	Pollution prevention and control	Tyres of M ¹⁵ and N ¹⁶ category vehicles comply with the highest populated class of rolling noise tyres and comply with the two highest populated class of rolling resistance coefficient. Vehicles comply with the latest applicable emission and noise regulations for road vehicles.	The tyres of all electric vehicles meet the required standards, including tyres designed for low noise and high energy efficiency, as well as compliance with the latest emission and noise regulations for road vehicles. These are verified through the official product registry provided by the manufacturer.
	Protection and restoration of biodiversity and ecosystems	Not applicable	-

Source: Own editing, the details of the EU Taxonomy criteria is based on the 2021/2139 EU Commission Delegated Regulation

All 50 electric vehicles used for freight transport by road were analysed and found that all of them successfully met the substantial contribution and DNSH criteria. Following this assessment, the evaluation proceeds with the verification of compliance with the minimum safeguards (hereinafter referred to as: “MS”) from the entity’s perspective. The company ensures adherence to MS by aligning with internationally recognized frameworks, including the UN Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. Additionally, it has implemented a due diligence process to address and mitigate risks related to human rights, labour practice, and ethical conduct.

In conclusion, the 50 electric vehicles and their associated operational activities are considered aligned with the EU Taxonomy criteria. In compliance with the EU Taxonomy disclosure requirements, the company is required to report the turnover, OPEX and CAPEX associated with its freight transport by road activities. This article primarily focuses on the CAPEX and OPEX perspectives, therefore the breakdown of these financial KPIs is detailed in Table VII. below. The company’s entire fleet consists of vehicles leased for a five-year period, after which the company has an option to either purchase or return them to the lessor. The operation and use of vehicles remain under the direct control of the company over the period of lease.

15 Power-driven vehicles having at least four wheels and used for the carriage of passengers

16 Power-driven vehicles having at least four wheels and used for the carriage of goods

Table 7: Case study: EU Taxonomy KPIs

EU Taxonomy KPI	Company's approach
Total Capital Expenditure:	Direct capitalised costs incurred in the execution of freight transport by road, primarily consist of lease fee for the entire vehicle fleet.
Capital Expenditure related to assets or processes that are associated with Taxonomy-eligible economic activities	The total CAPEX determined above is considered the total CAPEX associated with the eligible activity, as all vehicles classified eligible under the assessment criteria.
Capital Expenditure related to assets or processes that are associated with Taxonomy-aligned economic activities	The proportion of the total eligible CAPEX determined above related to the 50 electric vehicles.
Total Operating Expenditure:	Direct non-capitalised costs incurred in the execution of freight transport by road and those costs that are necessary for the day-to-day operation of the activity, primarily consist of maintenance and repair costs related to the vehicles, insurance costs, weight tax, fuel.
Operating Expenditure related to assets or processes that are associated with Taxonomy-eligible economic activities	The total OPEX determined above is considered the total OPEX associated with the eligible activity, as all vehicles classified eligible under the assessment criteria.
Operating Expenditure related to assets or processes that are associated with Taxonomy-aligned economic activities	The proportion of the total eligible OPEX determined above related to the 50 electric vehicles.

Source: Own editing (based on: EU Taxonomy)

As all 50 electric vehicles and their associated operational activities are considered aligned with the EU Taxonomy criteria. In the following the case study presents the financial data of the company for two consecutive years (base year and current year) under IFRS and under the Hungarian Accounting Act. The company's calculation methodology considered the following:

The company has compiled consolidated-level capitalized increases in property, plant, and equipment and intangible assets for the 2023 and 2024 financial year. Related information is also available in the financial statements in the form of movement schedules within the relevant notes, and the company provides data on capital expenditures in financial statement line items.

For the CAPEX KPI, the materiality threshold specified in the company's accounting policy for 2023 and 2024 financial year was also applied. Material increases in balances were identified aggregated by asset category. Using this method, 96% of all balance increases were covered.

The taxonomy regulation's definition requirements for economic activities were then examined for the economically significant activities identified, comparing them with the activities considered material for CAPEX at the company

According to IFRS lease contracts shall be capitalised as asset in the balance sheet and the Disclosure Delegated Act sets that right-of-use assets recognised as a result of lease contracts shall be considered as part of the CAPEX KPI. The Company prepared the the below table for the calculation of its CAPEX KPI.

Table 8: Case study – CAPEX calculation under IFRS

Gazdasági tevékenységek	CAPEX 2024 (m HUF)	CAPEX%, 2024	CAPEX 2023 (m HUF)	CAPEX %, 2023
CAPEX of Taxonomy-aligned activities	328	0,69%	87	0,27%
Road transportation	20 589	43,30%	5 559	17,60%
Construction of new buildings	13 495	28,40%	10 526	33,30%
Installation, maintenance, and repair of energy efficiency equipment	38	0,10%	36	0,10%
CAPEX of Taxonomy-eligible activities	34 122	71,80%	16 121	50,90%
CAPEX of activities that are not aligned nor eligible to Taxonomy	13 090	27,50%	15 446	48,80%
TOTAL	47 540	100%	31 653	100%

Although, if the company prepares its financial statements under IFRS, the fees arising from lease agreements are presented as assets and thus form part of the company's CAPEX indicator. However, if the same company prepares its statements under Hungarian accounting rules, vehicle rental agreements would not be capitalised in the balance sheet; instead, the lease payments would simply appear as OPEX expenditure in the income statement for the period to which the cost relates. Accordingly, for a company reporting under Hungarian accounting, lease payments would form part of the company's OPEX KPI and not the CAPEX KPI. The following table shows the company's CAPEX KPI under the Hungarian Accounting Act. Since all the road transportation related costs appeared as CAPEX under IFRS come from vehicle lease contracts, the road transportation line in Table IX. shall present o.

Table 9: Case study – CAPEX calculation under the Hungarian Accounting Act

Economic activities	CAPEX 2024 (m HUF)	CAPEX %, 2024	CAPEX 2023 (m HUF)	CAPEX%, 2023
CAPEX of Taxonomy-aligned activities	0	0%	0	0%
Road transportation	0	0,00%	0	0,00%
Construction of new buildings	13 495	50,70%	10 526	40,50%
Installation, maintenance, and repair of energy efficiency equipment	38	0,10%	36	0,10%
CAPEX of Taxonomy-eligible activities	13 533	50,80%	10 562	40,60%
CAPEX of activities that are not aligned nor eligible to Taxonomy	13 090	49,20%	15 446	59,40%
TOTAL	26 622	100%	26 007	100%

It is important to highlight that the difference is not only due to the cost being presented in a different line, but its amount may also vary significantly. The reason is that under IFRS, the CAPEX KPI reflects the total additions in a given period, i.e. the discounted present value of the lease payments for the entire lease term determined under IFRS 16 is included in the metric, whereas under Hungarian Accounting Act only the lease payment relating to the given period is shown. Therefore, it is theoretically possible that if a company does not enter into a new lease contract in the given period, the CAPEX value will be zero under IFRS; however, under Hungarian Accounting Act, the costs relating to that year from leasing contracts entered into in previous years will appear in the OPEX indicator.

Table 10: Case study – OPEX calculation under the Hungarian Accounting Act

Economic activities	OPEX 2024 (m HUF)	OPEX %, 2024	OPEX 2023 (m HUF)	OPEX%, 2023
OPEX of Taxonomy-aligned activities	83	0,42%	17,4	0,13%
Road transportation	5 230	26,40%	1 112	8,60%
Construction of new buildings	13 495	68,20%	10 526	81,30%
Installation, maintenance, and repair of energy efficiency equipment	38	0,20%	36	0,30%
OPEX of Taxonomy-eligible activities	18 763	94,90%	11 673	90,10%
OPEX of activities that cannot be aligned and are not eligible to taxonomy	935	4,70%	1 262	9,70%
TOTAL	19 780	100%	12 953	100%

Conclusion

This study aimed to investigate whether EU Regulations requiring sustainability-related disclosures and KPIs influence entities' decisions between purchasing and leasing assets, particularly in how these choices affect KPI outcomes. Additionally, it was examined whether these outcomes differ under different accounting frameworks. Our literature review confirmed that researchers are promoting standardisation and seeking for comparability in non-financial reporting, which, although initiated by regulations, still shows clear areas for improvement. However, comparison and standardisation are made much more difficult by the fact that under different accounting frameworks, entities have different results in their disclosures and KPIs.

By reviewing the definitions and learning about the specific accounting rules, it can be concluded that not only can entities get different results by applying different accounting rules, but they can also influence the outcome of the KPIs. A typical example for this can be lease accounting. With the understanding of the Hungarian rules regarding lease accounting and the requirements of IFRS16, it is obvious that the accounting framework has an impact on to which KPI the lease costs will be classified to. Under different national GAAPs used in the EU the result can vary in terms of the OPEX and CAPEX KPIs.

The case study illustrates that the identification of green activities is a matter of considerable professional judgement and is the result of a process that is still in the pre-implementation stage in accounting systems. In turn, the accounting treatment of the Taxonomy-aligned and Taxonomy-eligible activities is subject to different perceptions of different systems, which influence the treatment of leases.

Consequently, lease contracts under IFRS or Hungarian Accounting Act may give stakeholders different impressions of the companies' activities.

Under IFRS, both purchases and most of the lease/rental agreements will impact the CAPEX KPI, unless entities decide to choose the practical exemption of short-term and low value item leases and enter into contracts accordingly or negotiate contracts that will not meet the definition of lease (e.g. cancellable contracts or variable lease payments) which decisions can provide greater flexibility in the desired outcome of the results of KPIs.

The above might indicate that the KPI set in the Disclosure Delegated Act may not have a significant impact on the decisions of entities related to asset acquisitions to those entities reporting under IFRS. However, based on the definitions given by the Hungarian legislation, it appears that entities under the Hungarian Accounting Act could have a direct impact to influence the KPI results and to improve CAPEX or OPEX KPI, if necessary, by deciding to purchase or to avoid capitalisation, to enter into a rental agreement. It could be important for example in a case where interest in a sustainability-linked loan agreement of a company is tied to a certain level of OPEX or CAPEX KPI as a covenant. However, it is important to highlight that lease cost can be differently classified at different entities with different contractual terms and different accounting policy choices, which makes it extremely difficult to compare KPI results of different companies. Our research indicates that varying accounting frameworks can yield disparate results in KPIs, and it appears that strategic decisions can impact ratio outcomes by structuring contracts to achieve an accounting treatment that aligns with the desired KPI results.

The main limitation of our research is that it is based on definitions, rules, and theory. At present, we do not see a significant shift between purchase and lease at entities listed on the Hungarian stock exchange with premium stake with the introduction of the KPIs. However, even if there were a shift, it is not possible to examine whether the results of the KPIs actually have an impact on asset procurement decisions exclusively based on publicly available quantitative data. Further line of research could be interview-based qualitative research on this topic, in which the decision-makers of the entities would be interviewed. ■

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