



A quick guide for corporates

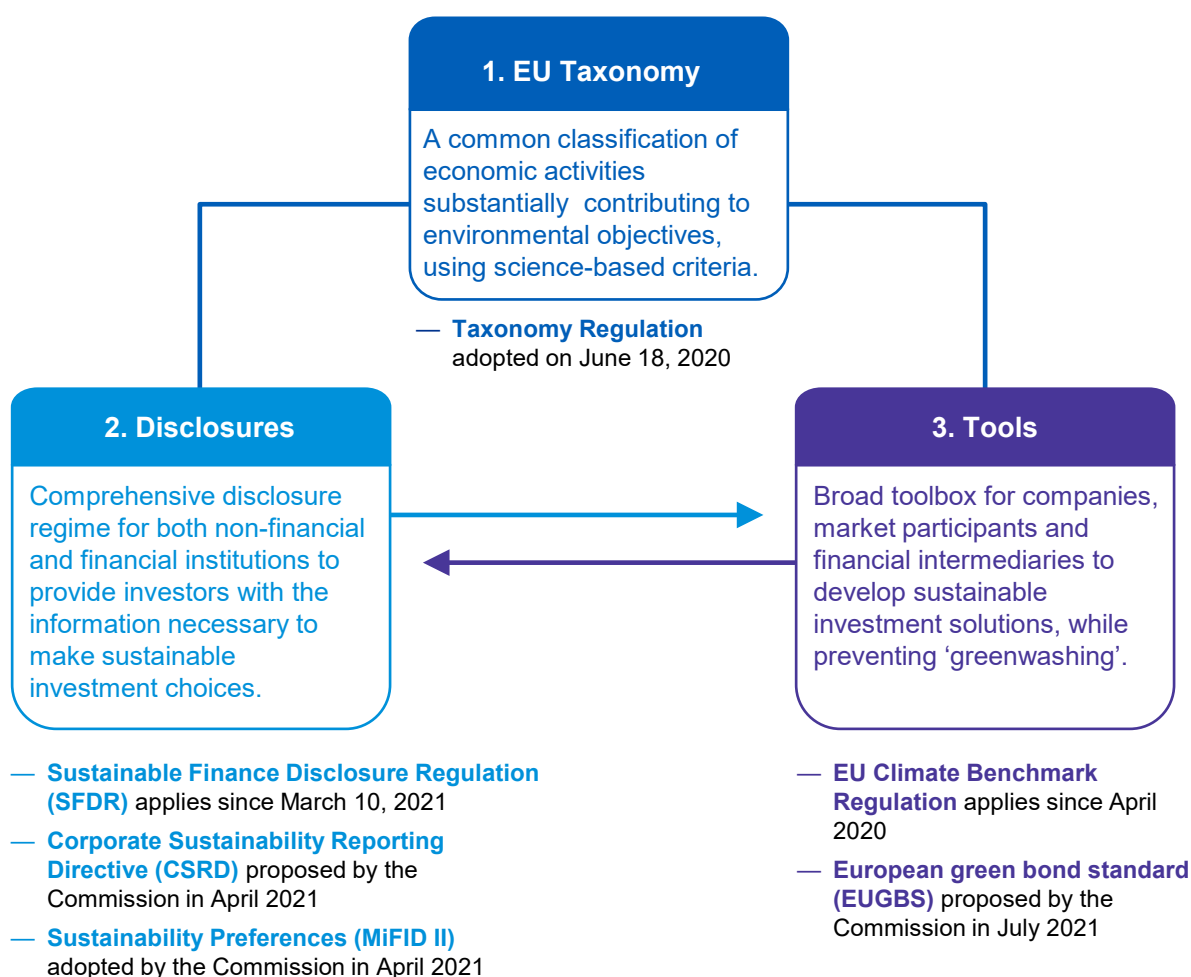
EU Taxonomy, CSRD and
IFRS Foundation



March 2022

The foundations for sustainable finance in EU

In the context of EU's policy, sustainable finance is understood as finance to support economic growth while reducing pressures on the environment and taking social and governance aspects into account. Sustainable finance is an essential part of the European Green Deal. The EU sustainable finance action plan contains a list of actions to ensure businesses to have access to new sources of funding through global capital markets and the financial sector worldwide.



Adapted from the European Commission, Goldman Sachs Global Investment Research

How the EU sustainable finance framework affects disclosures

Instrument	Sustainable Finance Disclosure Regulation (SFDR)	Corporate Sustainability Reporting Directive (CSRD)	MiFID II – Suitability Assessment for Sustainable Preferences	Taxonomy Regulation
Scope	Asset Managers	Corporates	Asset Managers	Corporates & Asset Managers
	Financial market participants offering investment products and financial advisers	All large EU companies and all listed in the EU companies (except listed micro enterprises), around 49,000 corporates (potentially including private companies)	Financial market participants; investment advisors, asset managers, etc.	Financial market participants; all companies subject to CSRD
Disclosure	Entity and product level disclosure on sustainability risks and Principal Adverse Impacts (PAIs)	Report on the basis of formal reporting standards and subject to external audit	Suitability disclosure rule for financial institutions to raise awareness and promote transparency of ESG products to clients	Turnover, capital and operating expenditures in the reporting year regarding products or activities associated with Taxonomy
Status	Effective as of March 10, 2021	Under negotiation; expected to apply from 2023	Applies one year after being officially published (Q4, 2022)	Applies from January 2022

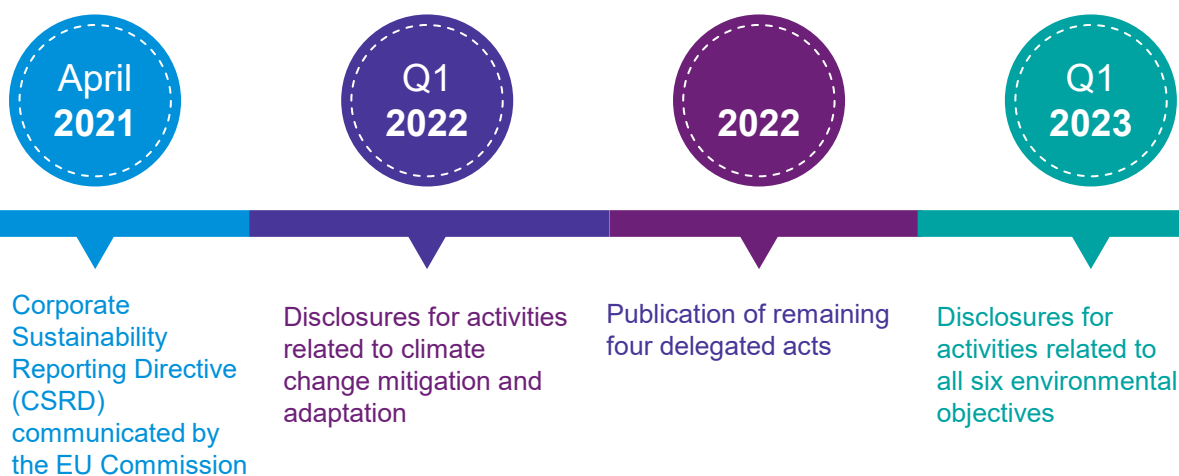
The EU Taxonomy regulation for corporates at a glance



The EU Taxonomy came into force on July 12, 2020, offering a classification system for companies and investors to determine whether an economic activity is 'green' or not.

For the reporting year 2021, companies will have to present the proportion of Taxonomy-eligible and Taxonomy non-eligible activities in their total CAPEX, OPEX and turnover. For the reporting year 2022 and onwards, companies will have to disclose their taxonomy alignment on CAPEX, OPEX and turnover.

Timeline





Q1
2022

Disclosures for activities related to climate change mitigation and adaptation

Who should disclose?

All companies that are required to provide a non-financial statement under the Non-Financial Reporting Directive (NFRD)*

*Currently this includes large PIEs of 500+ employees. The CSRD will replace the NFRD and will include all large companies (meeting at a minimum two criteria of 250+ employees, EUR 40 mln turnover, EUR 20 mln assets) and will come into effect as of reporting year 2023.

How and what to disclose?

Identify eligible activities against the classification system

Test for alignment based on the Technical Screening Criteria, DNSH criteria, and compliance with minimum social safeguards

For eligible and aligned activities

Turnover %

CAPEX %

OPEX %

Did you know...

Additional screening criteria for No Significant Impact (NSI) and Significant Harm (SH) are to be developed

Additional granularity within screening criteria 'Shades of Green' might be added (e.g. levels of performance vs 'in-or-out thresholds')

Additional delegated acts on social aspects are expected: From compulsory dictionary for 'E' to dictionary for 'E+S' → 'social taxonomy'



Key implementation challenges



Operational impact

What will the administrative burden be for the company and how well equipped are our systems?



Reporting alignment

How can we integrate EU Taxonomy reporting into existing processes and align it with other frameworks, such as TCFD?



Change story

How can we use the EU Taxonomy as a tool to further shape and support our change story?



Data availability

How easy is it to retrieve the required data and what changes are needed to our systems over time?



CAPEX, OPEX and turnover definition

How will we apply the definitions to our data and ensure they align with our current financial reporting?



Strategic steering

How will the EU Taxonomy shape our strategic decisions, e.g. regarding investments and how do we communicate on this topic?



KPMG can support you with your EU Taxonomy challenges

	VALUE FOR YOU
<p>KPMG has a standardized EU Taxonomy approach based on conversations with many clients</p> <p>As experienced providers of advisory and assurance services, KPMG has been one of the first organizations to help companies map their activities for EU Taxonomy alignment, support disclosure and reporting, and provide assurance on EU Taxonomy information in reports. Based on the numerous (international) client conversations and engagements, KPMG has developed a standardized approach that addresses the key questions clients pose. The approach can be tailored to best address a specific ask.</p>	<p>KPMG professionals can bring in and leverage practical knowledge from previous engagements</p>
<p>KPMG has in-depth sector expertise</p> <p>KPMG professionals have extensive experience working in various sectors, ranging from energy & natural resources to manufacturing, logistics and agri-food. They understand the developments that are relevant to your sector, seek to understand your business and know the stakeholder landscape well.</p>	<p>KPMG professionals can work efficiently as they understand your sector and can help you benefit from existing insights</p>
<p>KPMG is at the forefront of new developments through the EU Taxonomy Hub</p> <p>KPMG is closely connected to relevant developments at the EU level through the KPMG office in Brussels and the international EU Taxonomy Committee. In addition, through participation in a number of leading business networks, KPMG is well aware of the discussions around certain topics and the direction to which these discussions are leading.</p>	<p>KPMG professionals can provide first-hand access to relevant insights regarding future developments and their impact on your business</p>
<p>Interconnected, hands-on teams</p> <p>Across KPMG, the EU Taxonomy focus teams combine relevant aspects to help achieve a successful delivery. Combining EU Taxonomy expertise, extensive sustainability and accounting know-how, and in-depth sector knowledge.</p>	<p>KPMG's professionals can provide relevant expertise to help successfully and efficiently deliver the project based on years of practical experience</p>

CSRD at a glance



EU law requires certain large companies to disclose information on the way they operate and manage social and environmental challenges. On April 21, 2021, the Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD), which will amend the existing reporting requirements of the Non-Financial Reporting Directive (NFRD).

Trends in reporting

- Increased awareness that climate change will have severe consequences when not actively addressed
- Societal stability requires more focus on equal treatment of people, including a more equal distribution of income and financial capital
- Allocating capital to companies with successful long-term value creation requires more comprehensive insights in non-financial value factors
- Recognition that large corporate institutions have a much broader role than primarily serving shareholders

Policy response

- Policy makers such as the EC address these trends through comprehensive legislation, focusing on directly addressing issues as well as indirectly, through corporate disclosures to support investors decision making

New regulation

- The EU Corporate Sustainability Reporting Directive (CSRD)

Companies to be affected

All [listed or non-listed] **large companies** (2 of 3 criteria met):

- > 250 employees;
- EUR 40 mln turnover;
- EUR 20 mln total assets.

All other (small/medium) **listed companies** get an extra 3 years to comply

Limited assurance mandatory (subject to Member States)

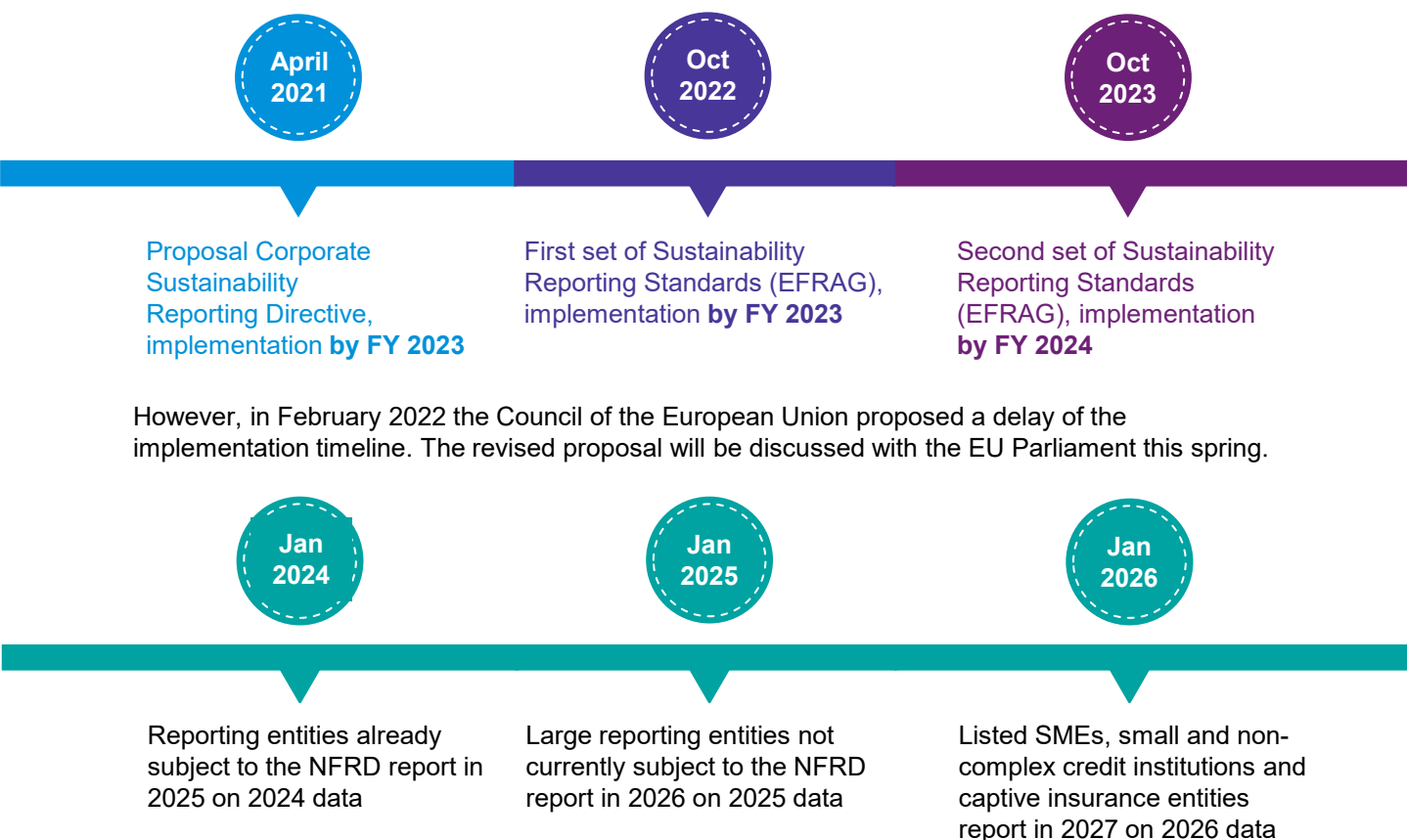
If statutory auditor:

- integration in auditor's report;
- involvement of key audit partner;
- EU Taxonomy and materiality assessment in scope.



Timeline and multi-cluster pipeline

This timeline for undertakings implementing the CSRD by FY 2023 is based on the European Commission proposal dated April 2021.



Overview of the reporting of requirements of the CSRD

Overall requirements	General disclosures	Topic-specific disclosures
<ul style="list-style-type: none">— Inclusion in the annual report— External (limited) assurance (as from FY 2023)— Reporting principles— Format and timing	<ul style="list-style-type: none">— Business model, strategy and policies— KPIs and targets (forward looking information)— Company and sustainability governance— Double materiality assessment and due diligence— Risk and opportunity management	<ul style="list-style-type: none">— Environmental (incl. EU Taxonomy)— Social— Governance (for topics)— Diversity— Sector-specific standards

How to deal with CSRD: requirements and approach

Detailed overview of the reporting requirements of the CSRD

Overall requirements	
Category	CSRD requirement
Inclusion in the annual report	— The required information should be included in the management section of the annual report.
External (limited) assurance	— Limited assurance on reporting against EU standards.
Reporting principles	<ul style="list-style-type: none"> — Strategy and targets, due diligence, risk and materiality assessment should include short-, medium- and long-term time horizons. — Information should : <ul style="list-style-type: none"> • be forward-looking and retrospective, and qualitative and quantitative; • cover a value chain where appropriate; • be understandable, relevant, representative, verifiable, comparable, in a faithful manner. — Link to other information in annual report where appropriate. — Information that may be seriously prejudicial to the commercial position of the company may be omitted in certain exceptional cases.
Format and timing	<ul style="list-style-type: none"> — Report should be published within 12 months after the balance sheet date. — Prepare the report in a Single Electronic Reporting Format and sustainability information mar-up.

General disclosures	
Category	CSRD requirement
Business model, strategy and policies	<ul style="list-style-type: none"> — Strategy and business model description. — Sustainability strategy description. — Sustainability policies description. — Plans to ensure compatibility with the transition to a sustainable economy and 1.5C pathway.
KPIs and targets	<ul style="list-style-type: none"> — Description of targets including progress made and plans to achieve these targets. — Indicators for all general disclosures. — Intangibles (other than those in the balance sheet), incl. intellectual, human, social and relationship capital.
Role of management	— Role of management and supervisory board in sustainability.
Double materiality assessment and due diligence	<ul style="list-style-type: none"> — Consideration of the financial interests of stakeholders and the impact of the company on sustainability matters. — Actual or potential adverse impacts throughout the value chain. — Due-diligence process disclosure. — Risks and opportunities from sustainability matters, including dependencies, and how those are managed.
Risk and opportunity management	<ul style="list-style-type: none"> — Actions to prevent, mitigate, remediate actual or potential adverse impacts. — Resilience to sustainability risks, including how risks are managed. — Opportunities related to sustainability.



Topic-specific disclosures	
Category	CSRD requirement
Environmental	<ul style="list-style-type: none"> — Climate change mitigation. — Climate change adaptation. — Water and marine resources. — Use of resources, and circular economy. — Pollution. — Biodiversity and ecosystems.
Social	<ul style="list-style-type: none"> — Equal opportunities for all. — Working conditions. — Respect for human rights.
Governance	<ul style="list-style-type: none"> — Role and composition of administrative, management and supervisory bodies, incl. on sustainability matters. — Business ethics and corporate culture, incl. anti-corruption and anti-bribery. — Political engagements of the undertaking, incl. its lobbying activities. — Management and quality of relationships with business partners, incl. payment practices. — Internal control and risk management systems, incl. those in relation to the undertaking's reporting process.
Diversity	<ul style="list-style-type: none"> — Diversity related to management and supervisory board, policy and implementation, objectives, and results.

A potential way forward to become CSRD ready

This timeline for reporting entities implementing the CSRD by FY 2023 is based on the European Commission proposal dated April 2021. Alternative proposal drafted by the Council of the European Union suggests delay in implementation (see page 9 for details), which if adopted will affect a potential way forward outlined below.



The new International Sustainability Standards Board (ISSB)



The new International Sustainability Standards Board (ISSB) aims to develop sustainability disclosure standards that are focused on enterprise value.

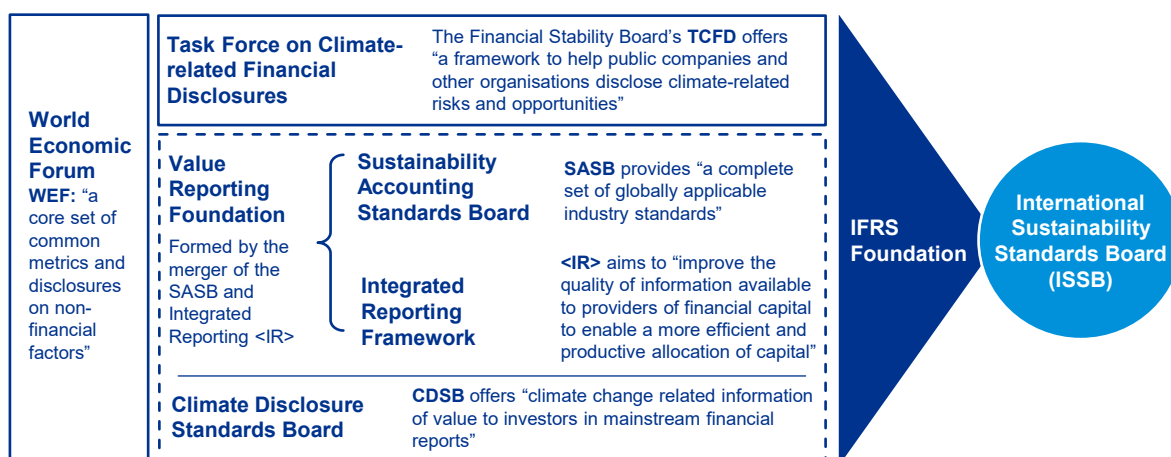


The goal is to drive globally consistent, comparable and reliable sustainability reporting, using a 'building blocks' approach.

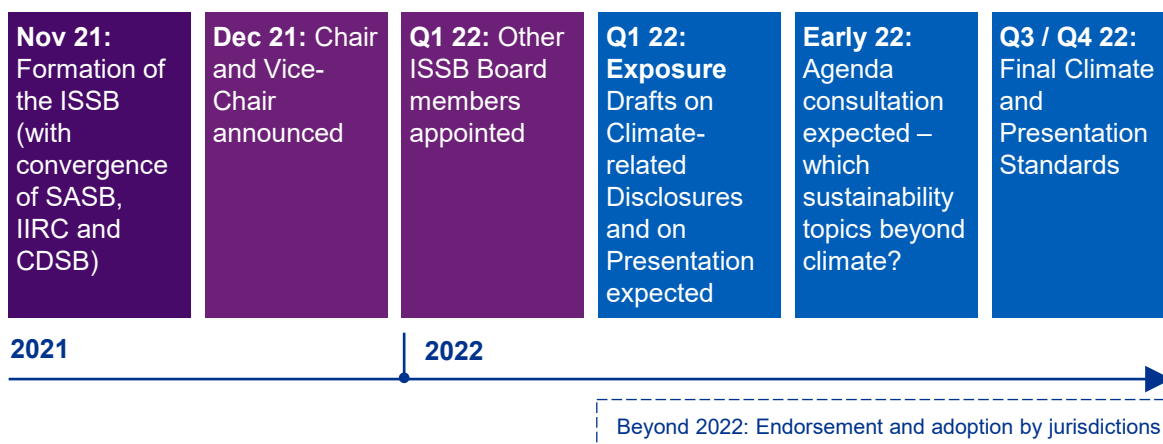


This approach will allow national and regional jurisdictions to build on that global baseline to set supplemental standards that serve their specific jurisdictional needs.

Who contributes to the ISSB and IFRS Sustainability Disclosure Standards?



Timeline





How Sustainability Disclosure Standards are supposed to look

Presentation Standard (general requirements)

- General requirement to disclose all material information ('what' information to disclose)
- Sets out a general approach to the disclosure of material information based on the four pillars (how to disclose)
- Sets out what to do if an ISSB Standard is not yet in place for a material topic – this will set a hierarchy of what guidance to use in order to meet the disclosure requirements.

Thematic Standards (first – Climate)

- Establish requirements for:
 - narrative-based disclosures
 - cross-industry metrics
- General requirements for industry / activity / business model-specific metrics

Thematic Standards are developed when: 1) a theme is pervasive across the market; 2) tailoring of the four pillars to establish narrative-based requirements is of added value; and 3) cross-industry metrics are feasible and useful

Industry Standards (specific disclosures)

- Industry-specific disclosure topics (those covered by a Thematic Standard plus others)
- Specific narrative and metrics:
 - to meet Thematic Standards
 - requirements for all other industry-specific disclosure topics not covered by Thematic Standards
- Industry Standards are developed for an established set of industries

Pillars

- Governance
- Strategy
- Risk Management
- Metrics and Targets





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