Global CSRD scoping webcast

Beyond knowledge. Action.

July 2024

Agenda

1. An evolving global ESG regulatory landscape and overview of CSRD
2. Scope of CSRD, scoping strategies and considerations
3. CSRD Scoping: Practical insights
4. Scoping for private equity: Luxembourg Case
5. Assurance Readiness
6. What is next and how can KPMG help?

Speakers

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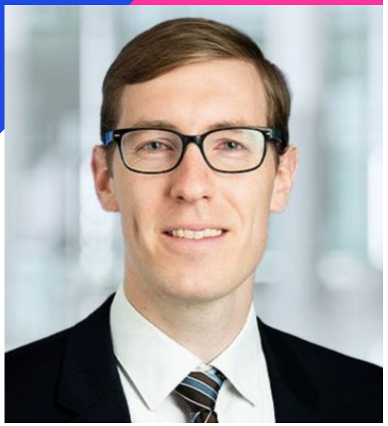

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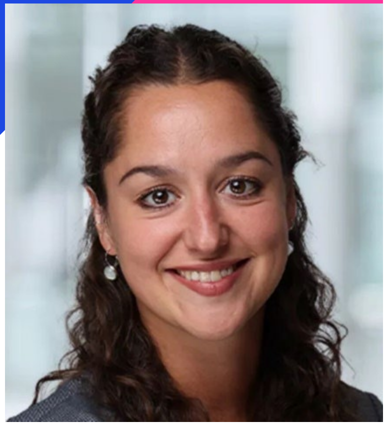

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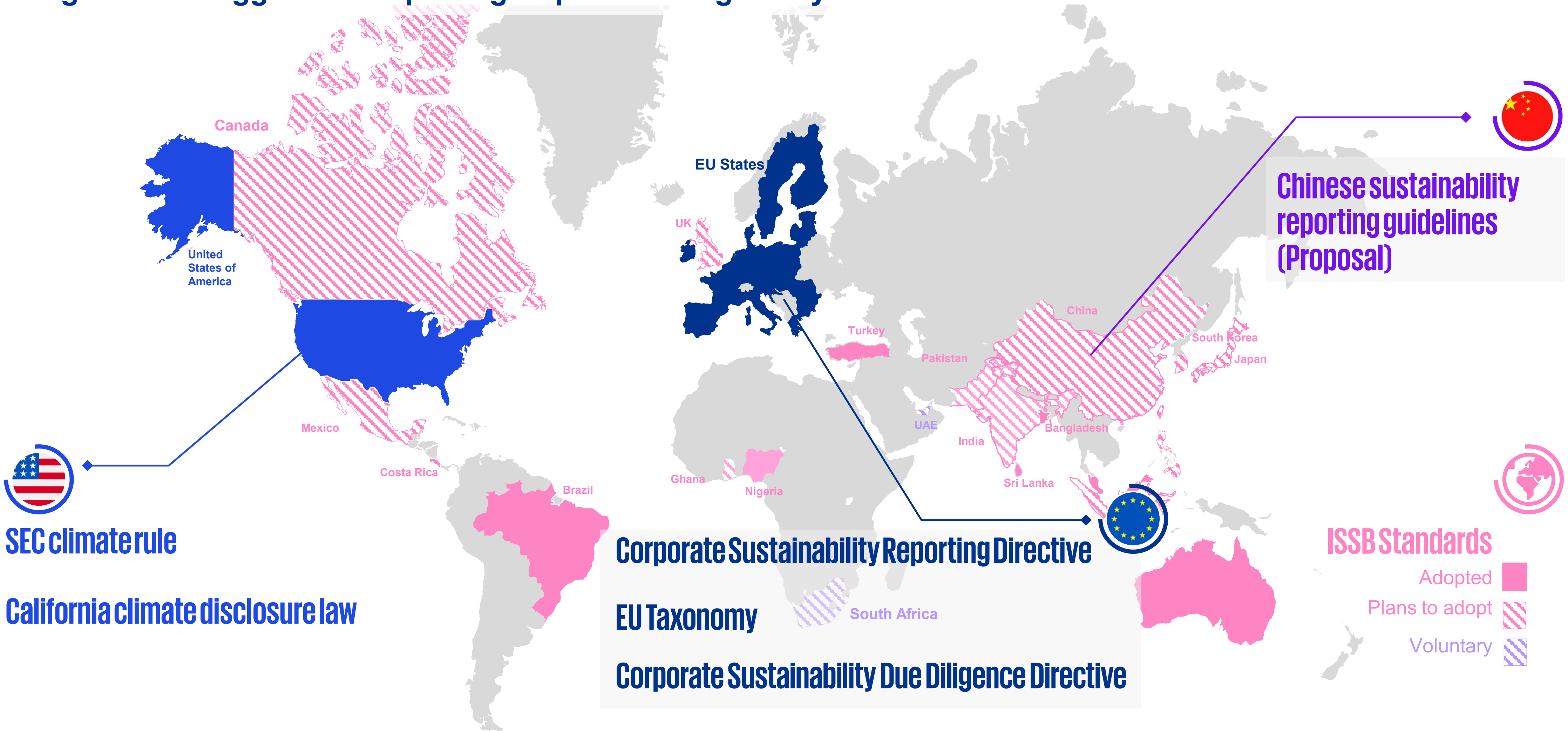
Chapter 1

An evolving global ESG regulatory landscape

Global ESG regulatory landscape: A non-exhaustive overview

EU regulations trigger ESG reporting requirements globally



EU regulations trigger ESG reporting requirements globally

CSRD starts in Europe and affects companies worldwide

Americas (no. of companies)

Non-EU headquarter (US)	3k+
Non-EU headquarter (Canada)	1.3k

CSRD, SEC and California Act…

ESG Reporting Advisory for the US region is focused on SEC and other regulatory requirements.

50,000 companies in EU

thereof 10,000 companies owned by Non-EU HQ

Asia Pacific (no. of companies)

Non- EU headquarter (Japan)	700+
Non-EU headquarter (Australia)	600+
Non-EU headquarter (Hong Kong (SAR), China)	100+
Non-EU headquarter (China)	600+
Non-EU headquarter (Korea)	75+
Non-EU headquarter (Singapore)	100+

EMEA + UK

EU Companies	50k+
Germany	>10k
Non-EU HQ Switzerland	200+
Non-EU HQ (UK)	1.2k

50,000 companies in EU
CSRD, ISSB and EU Taxonomy

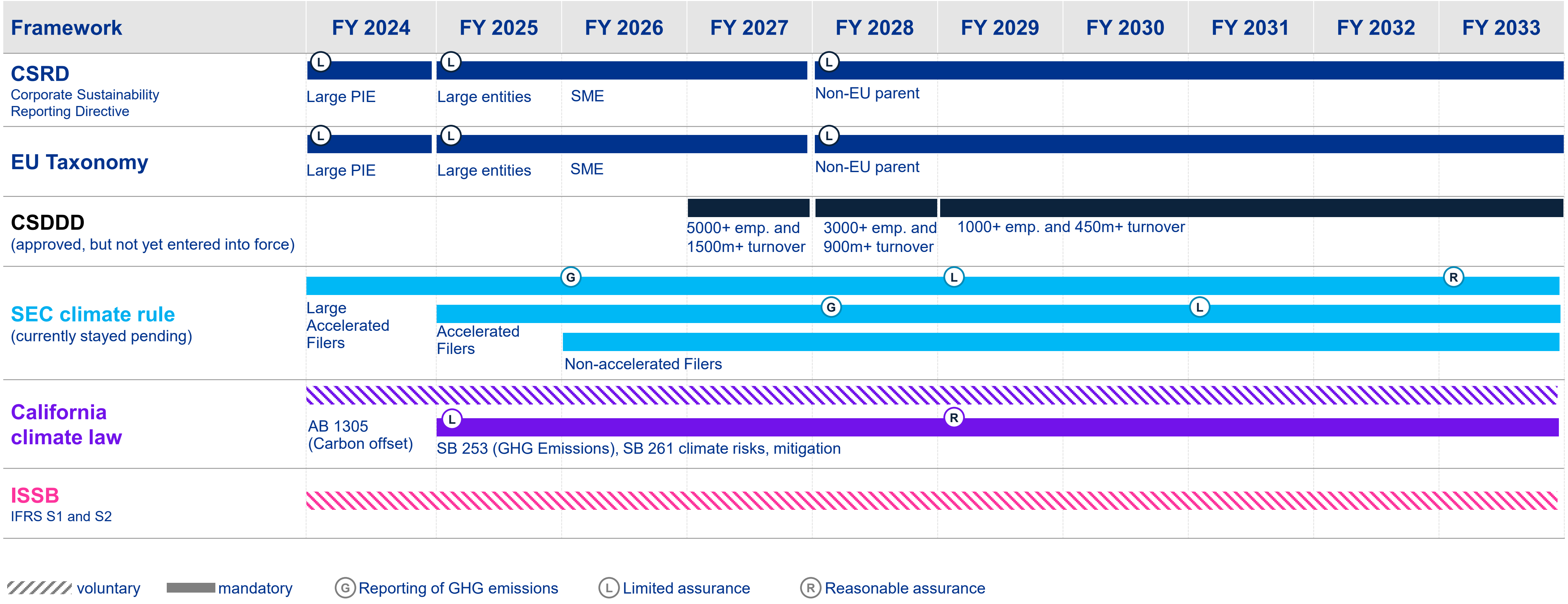
ESG Reporting Advisory for the EMEA region is focused on CSRD and other regulatory requirements. This includes the UK being focused on ISSB.

CSRD, ISSB, TCFD +

ESG Reporting Advisory for the Asia Pacific region is focused on ISSB and other frameworks.

An evolving global ESG regulatory landscape

Regulatory timeline



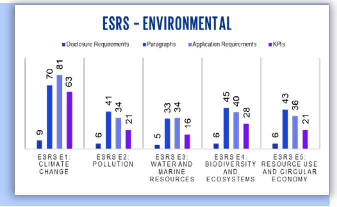
What needs to be reported?

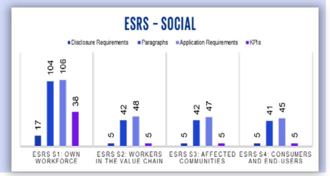
CSRD reporting content is defined by the European Sustainability Reporting Standards (ESRS):

ESRS Reporting Levels

Sector-agnostic

Topics	Standards
Cross-cutting standards	**ESRS 1 –** General requirements **ESRS 2 –** General disclosures
Topical Standards: Environment	**ESRS E1 –** Climate change **ESRS E2 –** Pollution **ESRS E3 –** Water and marine resources **ESRS E4 –** Biodiversity and ecosystems **ESRS E5 –** Resource use and circular economy
Topical Standards: Social	**ESRS S1 –** Own workforce **ESRS S2 –** Workers in the value chain **ESRS S3 –** Affected communities **ESRS S4 –** Consumers and end-users
Topical Standards: Governance	**ESRS G1 –** Business conduct





Sector-specific

Planned but not yet published

Entity-specific

Entity-specific disclosures apply for material IROs not or insufficiently addressed by an ESRS. included in ESRS 1.

Chapter 2

Scope of CSRD, scoping strategies and considerations

Scope of the CSRD

Scope of reporting entities over the years

	FY24 Reporting in FY25	FY25 Reporting in FY26	FY26 Reporting in FY27	FY27 Reporting in FY28	FY28 Reporting in FY29
1 Large PIEs (> 500 employees)	✓				
2 Other large companies		✓			
3 Listed SMEs (except listed micro-enterprises)			2-year opt out option		✓
4 Ultimate non-EU parents					✓

General scoping

A ***large*** company meets at least 2 of the following:
- > 250 employees (annual average)
- > €50M net turnover
- > €25M total assets

A ***micro-company*** meets at least 2:
- ≤ 10 employees (annual average)
- ≤ €900,000 revenue
- ≤ €450,000 total assets

1

Companies subject to the existing Non-Financial Reporting Directive (NFRD)

2

All large companies not currently subject to the NFRD

3

Certain listed SMEs* and small and non-complex institutions and captive insurers

Ultimate non-EU parent scoping

4

An **ultimate non-EU parent** with:
- Substantial activity in the EU — i.e., revenue > €150M in the EU for each of the last 2 consecutive years; ***and***
- at least:
  - 1 EU-based subsidiary meets **general scoping**; ***or***
  - 1 branch (in general, a physical presence) with revenue > €40M in the preceding year

In-scope subsidiary or branch publishes sustainability reporting at the group level of the ultimate non-EU parent — in accordance with slightly reduced ESRSs

Scoping considerations for single entities, groups and subgroups

References for scoping: an overview

The CSRD includes different scoping requirements for EU-based and EU-listed companies versus non-EU parent companies, addressed in the EU Accounting Directive

Art. 19a
Accounting Directive

Sustainability reporting at the level of the single entity

Art. 29a
Accounting Directive

Consolidated sustainability reporting at the level of a (sub)group

Art. 40a
Accounting Directive

Consolidated sustainability reporting at third-country company level

Art. 48i
Accounting Directive

Artificial consolidated sustainability reporting at the largest European subsidiary

(until FY 2030)

Artificial consolidation

Key questions regarding Artificial consolidation?

In case of **multiple EU subsidiaries** that meet the general scoping requirements, an **EU subsidiary** that generated the **greatest turnover in at least one of the preceding 5 years** would be allowed to prepare a **consolidated sustainability report** that includes only those subsidiaries that fall under the general scoping.

Where to report?	1. **Within Management Report** 2. **If there is no Management Report, then reporting within statutory financial statement**
What to report?	1. **Full ESRS reporting** 2. **Consolidated for all EU subsidiaries**
Assurance obligation?	1. **Subject to EU assurance requirements** 2. **First limited assurance, later potentially reasonable assurance (following an EU assessment)**
If there is no financial consolidation?	**Side calculation to compute financial KPIs needed**

Scoping considerations for single entities, groups and subgroup

First reporting year 2025	Advantages	Disadvantages
Option 1: Voluntary Global Consolidation (Art. 40a)	• **One** report • **No** risk of reporting inconsistency • **One** DMA at the global consolidated level	• **Significant initial data uplift** and **multiple voluntary entities** in scope • Voluntarily reporting against **full set of ESRS**
Option 2a: Consolidation on EU subgroup level (Art. 29a)	• **Subgroup(s)** own(s) reporting: limited number of reports and DMAs • **Limited** risk of inconsistency • **Coordination** and **audit process** follows financial reporting structure	• **Subgroup(s)** to perform a DMA • Potentially **voluntary** entities in scope • **Potential difference** in assurance boundary
Option 2b: Artificial Consolidation by Largest EU Subsidiary (Art. 48i)	• **One** report by largest EU subsidiary • One subsidiary steers and sets-up **audit process** and coordinates **DMA** • **Temporary** consolidation process	• DMA **update** needed on a group level in FY28 • Risk of reporting inconsistency between artificial consolidation and **non-EU parent reports**
Option 2c: Stand-alone EU Entity Subsidiary Reporting (Art. 19a)	• **Each subsidiary** owns reporting • **Limited coordination** needed across subsidiaries	• **Multiple reports** needed • **Each subsidiary** to perform a DMA • **Potential difference** in assurance boundary • Risk of reporting inconsistency between stand-alone and **non-EU parent reports**

Chapter 3

Scoping: Practical insights

Reporting exemptions are applicable to EU subsidiaries

Non-EU parent companies can exempt EU subsidiaries from the stand-alone reporting obligation by voluntarily reporting at group level in accordance with CSRD.

1. The non-EU parent will need to voluntarily make available group-level sustainability reporting per full ESRS rather than the reduced non-EU parent standards. This most likely will not trigger an obligation to also issue a consolidated management report.
2. The following **information must be included in the management report of the exempted subsidiary**:
   - that it is exempt from sustainability reporting requirements;
   - the name and registered office of its parent that reports the exempting consolidated sustainability report; and
   - a link to the website with the exempting consolidated management report (or consolidated sustainability report) and related assurance opinion.

Group exemption can not be applied to:

Large listed PIEs

Not fully consolidated subsidiaries

Joint Arrangements

Joint Ventures

Joint Operations

Associated companies

… Cannot make use of the exemption rule and therefore **are obligated to prepare standalone CSRD report**

Considerations when deciding on reporting strategy

Choosing CSRD reporting strategy as a Non-EU parent

- Analyze Group structure
- Assess reporting options & exemptions
- Choose reporting option & onboard stakeholders
- Begin implementation

01 Build on existing structures

Do you already have consolidation processes, procedures and data systems regarding financial or non-financial reporting implemented?

02 Mobilize resources

Do you have the right staff with the needed resources, competences and experience to report on the according (subsidiary) level and to create synergy effects?

03 Satisfy regulatory requirements

Could you satisfy multiple regulatory requirements and align market-specific foundational frameworks with the levels within the organization?

04 Stakeholder‘s perception

Do customers, shareholders and other stakeholders perceive the company as a whole or lies the focus of stakeholder‘s needs on a regional and subsidiary level?

05 Align corporate strategy

Do the existing reporting level support the alignment of the organization‘s ESG strategy, future strategic decision-making processes and climate ambition?

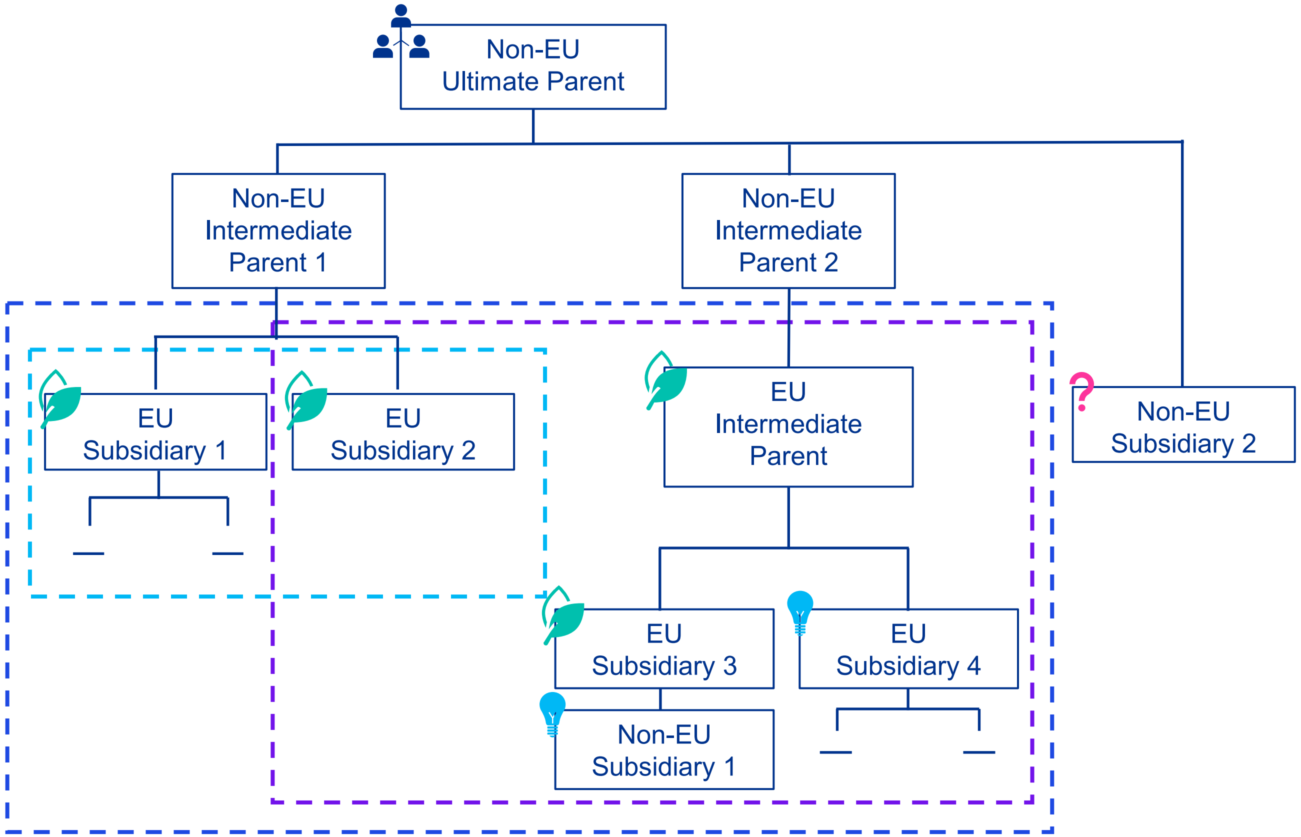
06 Take investment decisions

How and on what level are strategic medium- and long-term investment decisions are made and is the reaction within the organization harmonized with it?

KPMG project experience: Challenges and how they can be approached

Use case	Companies' challenges	What works well...
Understanding the Group/entities	• Complex **ownership structures** across multiple jurisdictions • Challenging identification of **PIE status and issuer-status**	• Start with the organizational chart showing the ownership structure of each subgroup • PIEs and issuers might have special reporting obligations and therefore require "special treatment"
Reporting obligations	• Deviations in financial figures according to **different GAAPs** (revenue, assets / balance sheet total) • Consolidated vs. unconsolidated data • **Jurisdiction of formation**: EU vs. EFTA	• Involve **accounting experts that are** familiar with accounting standards and deviations and the overall financial reporting / consolidation process • Inform yourself about current adoption status of CSRD and potential local particularities
Reporting exemptions	• **Understanding the requirements** for applying reporting exemptions • Assessment for several reporting years	• We consider **CSRD reporting as a journey**: the "best" reporting option may change over time.
Reporting strategy	• Understand **financial reporting and governance structure** • Find **arguments** for reporting options	• Understand current reporting processes and organization at an early stage to identify the best reporting option • Identify and involve relevant stakeholders (if applicable) • Discuss result and rationale with the **external Auditor**

Use Case — Reporting Scope & Strategy



EU subsidiaries of a third country parent company obliged to (group) sustainability reporting can be exempted if they are included in **consolidated sustainability reporting** in accordance with Art. 29a of the Accounting Directive

The sustainability report can be prepared for all EU subsidiaries to be exempted.

The **EU subsidiaries to be exempted can also be grouped together and divided into several (consolidated) reports.**

All subsidiaries of the consolidated EU subsidiaries subject to the obligation must be **included** in the report, including those based outside the EU.

?

Uncertain: voluntary extension of the scope of consolidation to include (individual) non-EU subsidiaries

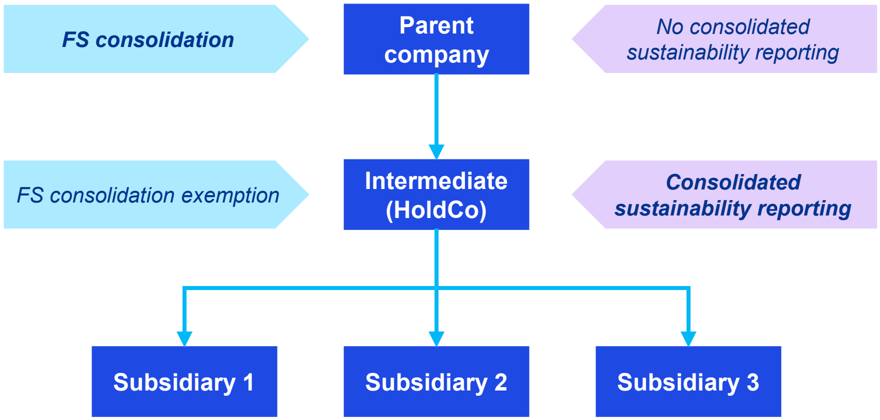
Chapter 4

Scoping for private equity: Luxembourg case

Financial exemption vs CSRD exemption

What CSRD says about financial consolidation exemptions?

Recital 26 of the CSRD specifies that the exemption regime for consolidated financial statements and consolidated management reports operates independently from the exemption regime for consolidated sustainability reporting (see example below).



References:

- *CSRD recital 26, p.9 - 2022/2464 - CSRD Directive*

Luxembourg framework provides a number of conditions for the entities to be exempted from the consolidation in the financial statement of the Group:

Immateriality

It is not material for the purposes of providing a true and fair view

Cost/Delay

The information necessary for the preparation of consolidated accounts in accordance with the Law cannot be obtained without disproportionate expense or undue delay

Restricted exercise

Severe long-term restrictions substantially hinder the parent undertaking in the exercise of its rights over the assets or management of that undertaking

Subsequent resale

Most common for investment structures

The shares of that undertaking are held exclusively with a view to their subsequent resale

Financial exemption vs CSRD exemption

Attention point

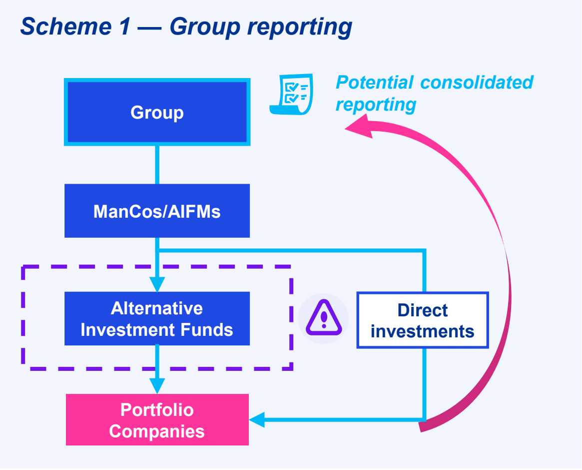
Though the company could be exempted from drawing consolidated accounts with the view of further sale of the underlying portfolio companies, it could still be required to prepare sustainability reporting as per CSRD. This item is on the regulatory agenda pending clarification by the transposition of the EU Directive (CSRD) to the Luxembourg national law level.

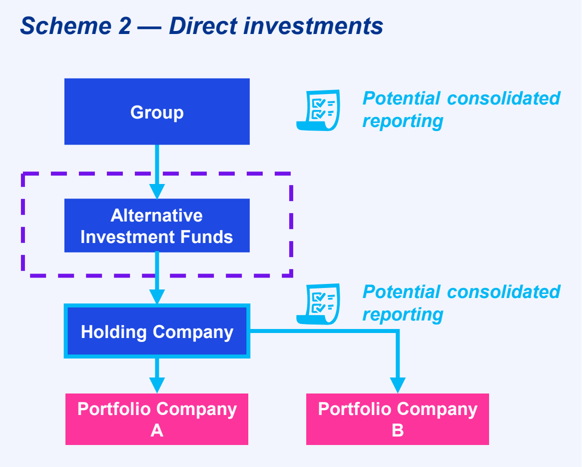
Currently observed market perception is that since AIFs are out of scope of CSRD (following Article 1 (1), para 4), the PF companies could be considered as part of the value chain only. However, if there are direct investments in the structure as well, for those ones the consolidated CSRD report could be applied.

Refer to scheme 1 below

On the other hand, the HoldCos under the fund structure might also fall under the scope of CSRD, if they fall under at least two of the three CSRD criteria for large entities. This could also apply to RAIF structures, despite the financial consolidation exemption defined in Luxembourg for them.

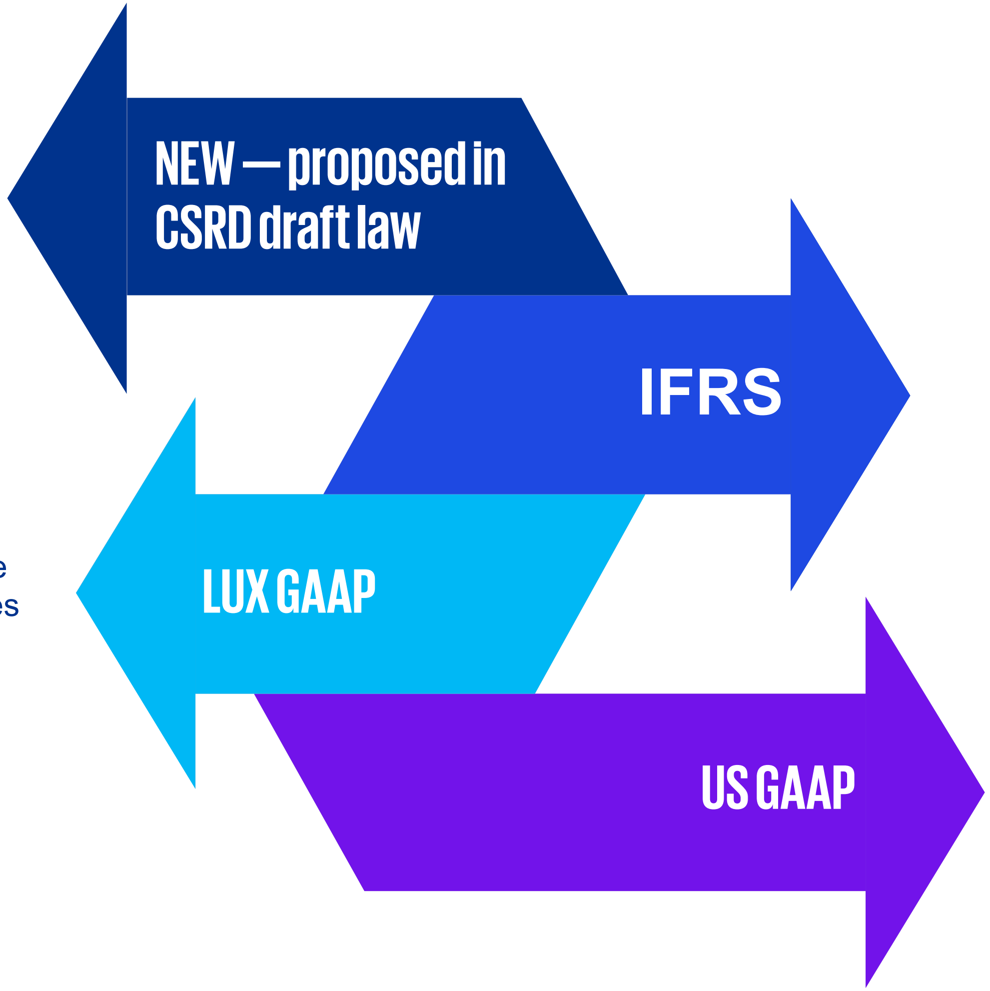
Refer to scheme 2 below





Out of scope of CSRD as per the Directive (subject to SFDR reporting) — to be validated by the Luxembourg law

Turnover definition based on accounting standards



Net turnover is turnover as defined by the accounting framework in accordance with which financial statements are prepared.

Income arising in the course of an entity's ordinary activities.

"An entity's 'ordinary activities' may be broader than those generating revenue from contracts with customers in the scope of IFRS 15 or generating interest revenue calculated using the effective interest method. As such, the revenue line item in the statement of profit or loss may include other revenue amounts that are not in the scope of IFRS 15." [IFRS 15.A]

Net turnover shall comprise the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover [article 48 L2002].

Revenue comprises inflows or other enhancements of assets and/or settlements of an entity's liabilities from delivering or producing goods, rendering services or other activities that are the entity's ongoing major or central operations.

References:

- *IFRS 15.A – 2024 IFRS Accounting Standards Navigator*

Consolidation methods

01

Full consolidation

The parent undertaking combines the annual accounts of the parent and its subsidiaries line by line. The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated. Intragroup balances, transactions, income and expenses shall be eliminated in full.

02

Proportionate consolidation

In preparing consolidated annual accounts, a jointly controlled undertaking is included in the consolidated accounts in proportion to the rights in its capital held by the undertaking preparing consolidated accounts.

03

Equity method

Where an undertaking included in a consolidation exercises a significant influence over the operations and the financial policy of an associated undertaking in which it holds a participating interest, the carrying amount of the participating interest is replaced by the parent's portion of equity of this participating interest.

Chapter 5

Assurance readiness

KPMG's view on Assurance readiness — what needs to be done?

From 'project governance' → **Via 'what and how to report'** → **To limited assurance (recurring)**

01
Setting the scene
Project set up and scoping

02
Review DMA
Review DMA performed by the client

03
Reporting requirements
Bridge material topics and the data requirements

04
Policies and manuals
Review the definitions, policy documents and manuals

05
Perform pilot assurance
Perform pilot assurance track for client

06
Performing walkthroughs
Get an understanding of the dataflow, estimates, data used and processes

07
Review indicators and text claims
Perform limited assurance on indicators. Review first draft of text claims (sustainability report)

08
Final assurance
Perform procedures on the final KPIs and text claims to provide limited assurance (3810 N)

Timeline to align with the implementation process of CSRD project

To pass limited assurance you need.......

“

50 %

of data is there, we ‘just’ need to properly report”

1. Report what matters

Do get your reporting content organized properly

2. Processes organized

The ESG reporting processes need to be expanded

3. Sufficient system support

It is important to move from excel and SharePoint based solutions to durable platforms

4. Effective Internal controls

Get controls and governance sufficiently organized

Chapter 6

What is next and how can KPMG help?

Next steps

1

Which of your EU subsidiaries will be in scope of CSRD?

When do you have to report for the first time in line with CSRD?

2

Can you leverage the reporting exemptions to ease some of the operational burden?

3

How will you track the recent CSRD developments / announcements from the EU going forward and which directives will you need to comply with in the meantime?

4

What does a project plan look like and which persons / departments do you need to involve?

How will you to consider multiple frameworks as efficiently and effectively as possible?

Key steps towards CSRD compliance

KPMG firms implementation approach

Pre-Readiness- Assessment

- Scoping Exercise
- Multi-reporting readiness assessment:
  - For example, where a company has to comply with more than one ESG reporting framework (e.g., SEC and CSRD)

Materiality

- Conducting a materiality analysis (ESRS requirements)
- Delimitation of non-material report contents to reduce future reporting efforts

Gap Assessment

- Gap assessment between requirements of the CSRD taking into account the results of the materiality analysis

Governance & Resources

- Holistic further development of governance structures (Governance Systems)
- Creation of a resource plan for the fulfilment of the upcoming reporting requirements

Survey & Frameworks

- Setting up a process to collect the qualitative/quantitative information
- Consideration of relevant frameworks for the further development of non-financial reporting (GRI, TCFD, SASB, etc.)

Audit Readiness

- Preparation of an external audit of the non-financial reporting, e.g., by conducting an assurance readiness assessment

Integration with the Management Report

- Preparation of the integration of reporting into the management report, especially with regard to the time perspective

How can KPMG professionals support you?

Knowledge provider & enabler

Team composition with EFRAG members

Helping hands for ramp-up phase

Consideration of ESG frameworks overlaps

Preparation for reasonable assurance

Outside-in perspectives from DAX mandates

Contact us

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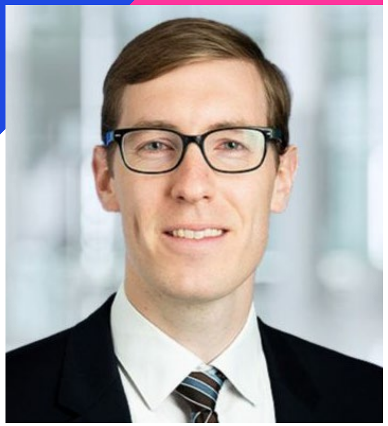

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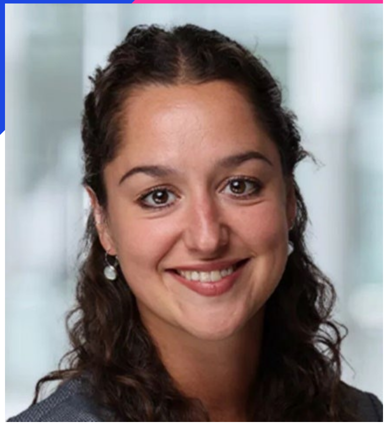

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