KPMG

Get ready for ESRSs

September 2023

Time is running out...

In a matter of months, the first set of 12 European Sustainability Reporting Standards (ESRSs) will apply for the first tranche of companies in scope of the Corporate Sustainability Reporting Directive (CSRD). They require reporting on a broad range of topics, using data from across the value chain. Their aim is for companies to provide sustainability-related performance information to multiple stakeholders, including investors, customers, suppliers, employees and regulators.

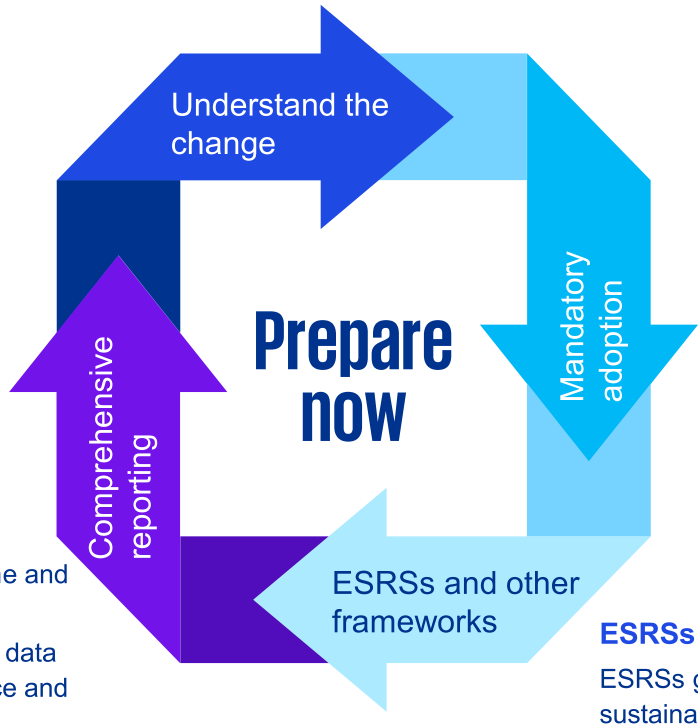
This is a significant step up in reporting requirements and presents a challenge for all companies, not just the most complex.

Prepare now

- Perform a double materiality assessment to identify the information to report and gaps in the reporting architecture.
- Assurance is mandatory for companies reporting under the CSRD. This requires an audit trail and appropriate systems and controls to support the disclosures provided.

Understand the change

New standards are driving significant change in the scope and scale of reporting – so understanding the landscape of new requirements is key



Mandatory adoption

- ESRSs will apply for years beginning on/after 1 January 2024 (reporting in 2025)
- Phased introduction, starting with the largest companies[1]

Comprehensive reporting

- ESRSs require a high volume and granularity of disclosures
- Generating sufficient-quality data requires effective governance and controls
- Capturing the relevant organisation and value chain information relies on internal and external collaboration

ESRSs and other frameworks

ESRSs go further than most other sustainability reporting frameworks – so identifying conceptual and specific differences and assessing how to bridge them is important

1 Starting with public interest entities (PIEs) and companies with listed securities on EU-regulated markets[2] (both EU and non-EU based) which are large[3] and have more than 500 employees.

2 Except those exempted under the Transparency Directive.

3 Large companies are those that, on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries): 250 employees, net revenue of EUR 40m or total assets of EUR 20m.

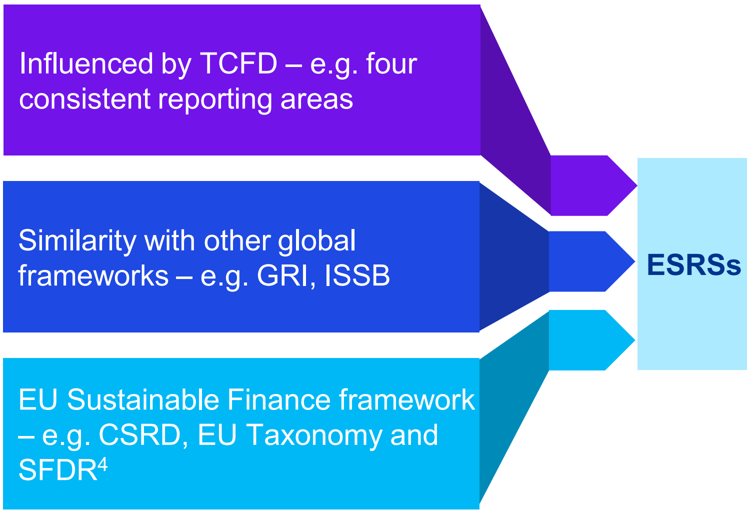
Understand the change

The new standards include 10 topic-specific and two cross-cutting standards. Additional sector-specific standards, separate standards for SMEs and non-EU parent reporting standards will follow.

Their core **reporting areas** are consistent with the TCFD[4] framework – i.e. governance, strategy, management of impacts, risks and opportunities (IRO), and metrics and targets.

Many disclosure requirements under ESRSs are similar to or based on those under the TCFD and **other global frameworks** – e.g. GRI[4], ISSB[4]. For example, companies can include disclosures based on GRI Standards when developing company-specific disclosures.

ESRSs aim to create a binding, unified reporting framework for the EU to ensure compliance with CSRD reporting requirements and with European Green Deal goals. The CSRD forms a key part of the **EU Sustainable Finance framework** and addresses EU policy objectives, including alignment with the Paris Agreement.



Get ready to report

Certain companies need to be ready to report as early as FY24.

What's the impact?	What do you need to consider?
Reporting is required as part of the **management report** at the same time and for the same period as the financial statements. It may significantly expand the volume and type of data you need to report.	Are your systems and processes able to deliver this?
You will need to report **forward-looking information** about the impact of sustainability-related IROs on the company's strategy, business and financial statements in the short, medium and long term.	Do you have the governance in place to do this?
All information to be reported on will be subject to a **double materiality assessment** considering the company's financial and impact perspectives. This requires performing due diligence across the value chain and engaging with stakeholders.	Do you understand the ESRS approach to materiality?
Where considered material, information has to not only be provided on the reporting entity but also cover a company's **value chain.**	Do you have processes in place to gather all relevant data from within and outside the company's financial control?
The standards include important **phase-in measures** to help companies report in the first year(s) – including certain relief for data to be obtained from companies in the value chain.	Are you clear on what you need to report, and when?

4 Task Force on Climate-related Financial Disclosures; Global Reporting Initiative; International Sustainability Standards Board; the EU's Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088).

How can you prepare?

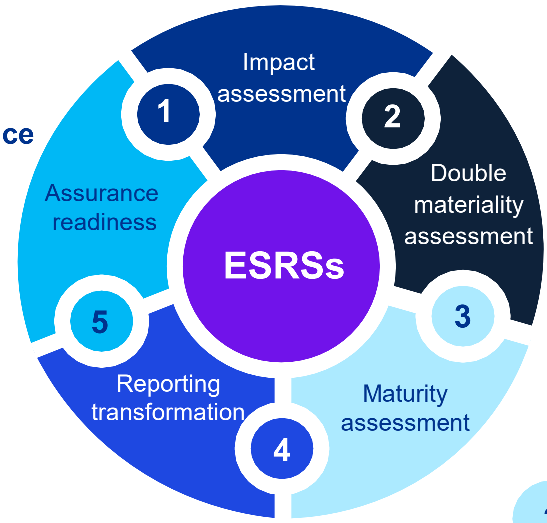
Our approach to applying ESRSs includes the following steps.

1 Understand the impact

- Understand when, where and how the CSRD scoping requirements will impact your company and wider group
- Understand how the ESRS requirements differ from your current reporting

2 Determine what is material

- Understand the scope and breadth of your value chain
- Undertake a double materiality assessment to determine which topics are relevant to report on, following the processes set out in the ESRSs
- Decide what information is material about those topics from an impact and financial perspective



5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance
- Rectify issues ahead of the formal assurance process

3 Assess maturity

- Assess the maturity of processes, the control environment, data models and policies
- Understand the current distribution of roles and available knowledge and capacity

4 Transform reporting

- Design the future state of your reporting, including designing the most efficient reporting structure to meet group and individual company needs
- Develop and deploy your target operating model, including training and support for change management

This approach can help you

- **See beyond compliance and realise opportunities** by making reporting part of your business processes
  - Embed sustainability into risk management and strategic decision making across the company
  - Set ESG targets and determine the key metrics required to meet current and upcoming regulations
  - Establish a cross-functional governance structure to collect, report and approve ESG data
- **Determine the most efficient approach** to ESG data management, including systems, processes and controls
- **Build trust** in your reporting through high-quality disclosures and preparing for assurance

KPMG ESG insights

For more information about how you can help your company fulfil its purpose and achieve its ESG goals, check out and subscribe to ESG insights. This is an on-going subscription that allows you to receive articles, publications, webcasts and podcasts curated for ESG leaders.

For practical guidance to help you get ready for ESRSs that captures the latest thinking together with our insight, refer to our ESRS sustainability reporting resource centre.

Our ESG reporting team of technical accounting and sustainability subject matter specialists draws upon practical experience, helping companies prepare for current and upcoming ESRS requirements.

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