# The KPMG view

## ESG reporting | Exploring topical issues

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## PODCAST TRANSCRIPT

# What do the EU's Omnibus proposals mean for your company?

### Speakers

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### Jan

Hello and welcome to this latest KPMG ESRS podcast. For now, in the world of sustainability reporting, all eyes are on the **first Omnibus package** from the European Commission. My name is Jan Alexander Müller and I'm joined today by Katharina Gädeke. How are you, Katharina?

### Katharina

Thanks, Jan! I'm glad to be here with you today to talk about the Omnibus proposals. As you know, they aim to reduce the sustainability reporting and due diligence requirements. So one of the most important questions that our listeners will have is: "What would this all mean for you and how will it affect your company?" In this podcast, Jan and I will talk through some of the headline points and flag some key takeaways that you should consider in the next couple of weeks and months.

Katharina Gädeke
Partner, Regulatory Advisory
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### Jan

The big news is that the European Commission has proposed to introduce a new size threshold for companies that are required to report. That has attracted a lot of attention, even though it is just a proposal for now. At the moment, the CSRD will start to apply in three waves for European companies. But the Omnibus proposal would introduce one single threshold, which is 1,000 employees, above which companies need to report under CSRD. All companies with less than 1,000 employees would be able to report voluntarily. So, if approved, these proposals would reduce the number of companies in scope of the CSRD by approximately 80 percent.

Let us start by looking at how this impacts the companies that are already reporting under the CSRD – Wave One, the large European public interest entities with more than 500 employees.

**"Don't let all your efforts and investment [in sustainability reporting] go to waste, but focus on what you want to prepare and produce for the market to provide transparency over your sustainable ambitions."**

Jan Müller
Partner,
KPMG in Germany

**"The strategic perspective of sustainability reporting is not only a compliance exercise but also a good opportunity to inform stakeholders about strategic activities."**

Katharina Gädeke
Partner, Regulatory Advisory,
KPMG in Germany

## Katharina

Of course, Jan! Most of these companies have just published their first CSRD report, or are about to publish. So for those that have already reported under CSRD, they need to assess whether they are above or below the new employee threshold of 1,000. Those above will continue to report, but probably with a simplified set of ESRS. Now, what's interesting is that in countries where CSRD hasn't been transposed, many companies have seen that there is value in sustainability reporting and have chosen to report voluntarily. For those that have already reported under CSRD for 2024 – but on a voluntary basis – they need to reconsider the reasons for this strategy, taking into account the current state of transposition in their countries.

## Jan

Absolutely. Let's go back to these large companies that are between 500 and 1,000 employees, because – if the European legislature passes the proposal as is – they would just drop out of scope. But timing of that is uncertain, because the proposal first needs to pass the legislative process and then all the member states need to transpose it into their national laws.

## Katharina

Absolutely agreed. This creates a lot of uncertainty since companies wonder whether and when they might drop out of scope. Well, strictly speaking, nothing has changed yet, but companies would want to consider what the future of their sustainability reporting looks like. They also might need to continue providing value chain information to large companies beyond the time when they stop being in scope themselves. The majority of Wave One companies have made huge investments to get ready for CSRD reporting. Lots of our clients therefore don't want to lose the momentum and support in their organisation. They therefore emphasise that the strategic perspective of sustainability reporting is not only a compliance exercise but also a good opportunity to inform stakeholders about strategic activities. At least, that's what my clients are saying.

## Jan

That's a good bridge into the next topic. So let's move to Wave Two and Wave Three companies now – those companies that would be required to report in 2025 and 2026 for the first time, based on the current CSRD requirements. These companies are currently in the middle of their implementation projects, but now they don't even know if they will still have to report – at least those with less than 1,000 employees.

The European Commission in communicating the Omnibus proposals suggested that these companies use the voluntary standards (the so-called VSME) because it was initially intended only for small- and medium-sized enterprises.

Katharina, do you see an appetite in the markets to use these standards?

## Katharina

Well, yes, we do currently see an increased interest in the VSME standard. I was speaking earlier to a client and he said that he is planning to use the VSME standard because it puts him in the best situation in the current situation of uncertainty. And this, from my point of view, makes sense because we are expecting that the data points included therein will remain, even under the revised ESRS. This is for sure also interesting for Wave Two and Three companies as they would also have to adjust their implementation plans.

## Jan

The important point for those that are in Wave Two and Three is that they would have more time now to prepare, I guess.

## Katharina

Exactly, Jan. And what's important to mention here is also that usually companies in Wave Two and Three are those that have not gone through assurance yet. So they are not used to preparing any assurance evidence. They are not used to what it would mean to have assurance-ready processes in place for sustainability reporting, and typically are also not used to gathering all the data. Most of the clients I am talking to raise concerns that they don't even have the right resources in place to do this. So really, the two years that they hopefully have to prepare now should be used carefully in setting up the processes appropriately to become assurance-ready in two years from now.

## Jan

We should just remember that, while it's likely that this postponement will happen, at the moment this is all still just a proposal.

So let's now look at the non-EU groups (which we sometimes refer to as Wave Four). They are subject to all these changes we have been talking about in Europe with their European subsidiaries, plus specific changes that are proposed to Wave Four to raise the non-EU grouping threshold from €150 million of turnover to €450 million of turnover. When you speak with clients, how are these companies reacting to these proposals?

## Katharina

That's a very good question, Jan. So we really do have a special situation here. Many of these multinational groups have considered all the reporting requirements for both the European subsidiaries and at the global level and came up with an overall reporting strategy. Some of them decided to voluntarily report on group level to exempt the European subsidiaries. Many of the inputs to this assessment now have changed as some of these EU subsidiaries now might fall out of scope.

So the cost benefit of reporting at a group level will need to be reassessed. The key question they are raising now is: "Is my reporting strategy still correct?" When I'm speaking to my clients, I'm recommending that they redo the scoping exercise to make sure that under the Omnibus proposal they have the right subsidiaries in their scope. Based on this, the reporting strategy can be redesigned if applicable, switching from global reporting to EU reporting.

## Jan

Thanks, Katharina. This is all very interesting and valuable insight. If we were to pick three key takeaways maybe for our audiences, what would you start with?

## Katharina

Hmm, of course, I would start with (I think) the easiest one: 'Stay informed'. I would definitely recommend you follow the developments closely. The European Commission's Omnibus proposal is still in a proposal stage, as we just elaborated, so it's crucial to stay updated to avoid any issues with compliance at a later date. But maybe Jan, you have one more?

## Jan

Yeah, sure. I would probably go for 'maximise the value from work already done and the investments made so far'. I mean, companies may have more time now even if the compliance burden might reduce, but I guess there is a strategic benefit to this reporting or to partial reporting at least, so processes have been set up. So I would definitely say don't let all the efforts and investments go to waste, but focus on what you want to prepare and produce for the market in order to provide transparency over your sustaianbility ambitions.

## Katharina

Absolutely, that's such an important point. And maybe, last but not least, reconsider your reporting strategy. Regardless of whether you are a stand-alone EU company or part of a multinational group, think about how these changes might impact your sustainability reporting strategy.

## Jan

Thanks Katharina! With this, we have really barely scratched the surface here and there is so much more coming down the track in this space. So stay tuned! Meanwhile for more insights and guidance, check out our **ESRS Today** pages on the website. To get there, just type KPMG IFRS into your browser and then follow the ESRS Today tab under corporate reporting. Thanks, Katharina, and thank you to everyone for listening!

## Katharina

OK, Jan. Talk soon!

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