KPMG IFRG Limited
15 Canada Square
London E14 5GL
United Kingdom

brian.odonovan@kpmgifrg.com

Mr Kristian Koktvedgaard
Acting Sustainability Reporting Board Chair
EFRAG
35 Square de Meeûs
1000 Brussels

Our ref BoD/288

28 October 2026

Dear Mr Koktvedgaard

Exposure Draft ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive

We appreciate the opportunity to comment on EFRAG's Exposure Draft ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive (ESRS-40a). We have consulted with, and this letter represents the views of, the KPMG network.

We recognise EFRAG's efforts to develop a standard for non-EU groups within the parameters of Article 40a of the Accounting Directive 2013/34/EU (Article 40a) and the European Commission's mandate. We recognise the challenge of designing proportionate requirements for groups that have significant activities in the EU, but whose ultimate parent is outside the EU.

We understand that EFRAG developed the Exposure Draft within the boundaries of Article 40a and the mandate set by the European Commission. Within that mandate, we believe the objective of the resulting reporting framework should be to provide decision-useful information to stakeholders. This would complement the stated policy objective of creating a level playing field for non-EU companies. We encourage EFRAG to use stakeholder information needs as the starting point for a framework that is pragmatic, proportionate and decision-useful, while providing meaningful transparency about material impacts connected with the company's activities.

Our recommendations focus on making the proposals clear, operable and capable of assurance. In particular, we recommend that EFRAG retain the core architecture of the Exposure Draft, subject to the following principal improvements:

- enable companies to use information prepared under other sustainability reporting frameworks through a framework-neutral interoperability mechanism;
- if the mixed reporting approach is retained, establish clear conditions for determining the reporting boundary and transparent disclosure safeguards;

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- clarify the reporting objective, intended users and responsibilities that underpin fair presentation; and
- develop a pathway towards regulatory equivalence and passporting to avoid duplicate reporting.

We recommend that EFRAG validate the revised requirements through focused field testing with preparers, users and assurance practitioners across a range of sectors, group structures and business models before finalising the technical advice to be provided to the European Commission. We recognise that the timetable is tight. If comprehensive field testing cannot be completed before EFRAG delivers its advice, we encourage EFRAG to state this and to recommend that the European Commission allow time for application testing or a transitional period.

We have structured our response as a letter because several questions require a more contextual response than a binary answer in the online questionnaire permits.

Interoperability with existing reporting frameworks

We welcome the Exposure Draft's provisions allowing incorporation by reference. Companies should be able to leverage, to the greatest extent possible, sustainability information already prepared under existing reporting frameworks (for example the IFRS® Sustainability Disclosure Standards and jurisdictional requirements based on those standards or GRI). The current proposal limits incorporation by reference to information reported pursuant to a requirement in applicable laws or regulations. We recommend extending it to voluntary reporting, because excluding voluntary reports would disadvantage early adopters and companies in jurisdictions where implementation is phased or currently limited to climate-related disclosures.

We recommend a framework-neutral cross-referencing mechanism rather than an approach limited to named frameworks. A disclosure requirement should be capable of being satisfied by information prepared under another framework when:

- the disclosure objective of the ESRS-40a requirement is met;
- the information relates to the same reporting period;
- the reporting company and boundary are the same as, or broader than, those required by ESRS-40a; and
- differences in scope, terminology, measurement methods, timing and permitted reliefs are clearly identified and any material gaps are addressed.

Where the boundary of the cross-referenced information is broader, the company should disclose that fact and explain any effect on the information presented. Where it is narrower, we support the Exposure Draft's requirement to complement the incorporated information with additional elements as necessary. Cross-references are only useful where they identify the specific information that addresses each requirement. We also ask EFRAG to consider whether the Exposure Draft's other

conditions for incorporation by reference, in particular those on translation and digital tagging, are proportionate for information prepared under other frameworks.

This mechanism would recognise existing reporting as a substantive starting point rather than merely a source from which individual data points may be copied. Although IFRS Sustainability Disclosure Standards focus on sustainability-related risks and opportunities, governance, strategy, processes, metrics and targets will often overlap with impact-reporting because significant impacts may also affect an entity's prospects over time.

We also ask EFRAG to clarify whether, and under what conditions, an ESRS-40a report may incorporate by reference sustainability statements already published by EU subsidiaries of the same group. For many groups within scope this would avoid duplicating information on topics other than climate change that is already available.

EFRAG could support consistent application by publishing and maintaining mappings to relevant frameworks. This would reduce duplication, strengthen interoperability and comparability and lower costs, while preserving the additional information needed to meet the impact-reporting objective of Article 40a.

Mixed reporting approach

We recognise that the European Commission requested EFRAG to explore options to limit reporting on matters other than climate change to impacts meaningfully connected with the EU. We do not oppose retaining a mixed reporting approach, provided that the standard establishes clear criteria, safeguards and disclosures and that field testing demonstrates that the approach is operable and produces decision-useful information. If such an approach is retained, the standard should address the boundary judgements, comparability concerns, evidential requirements and user expectations described below.

The Exposure Draft defines EU-related impacts, but the requirement that they be "meaningfully identified" leaves considerable room for judgement. We recommend that the standard clarify what it means for an impact to be related to the EU, in particular whether it includes impacts of non-EU suppliers serving EU operations. We suggest that the assessment follow principle-based criteria that can be applied across the eligible topics, supported by examples illustrating how far the connection extends through an integrated value chain. The examples could cover, for example, impacts arising from products sold in the EU but manufactured elsewhere, procurement from non-EU suppliers for EU operations, and global policies or management systems that govern EU-related impacts.

The option is available only where EU-related impacts can be meaningfully identified, but companies may regard an activity as separable when it remains closely intertwined with the rest of the business, making the separation artificial. The standard should therefore include considerations for impacts that cannot be separated into EU-related

and non-EU portions, for example where impacts arise deeper in the value chain, relate to group-wide central services, or have group-wide consequences.

The mixed reporting approach currently permits multiple reporting boundaries at topic, sub-topic or group of impacts level. The approach can be assured where the applicable criteria are sufficiently clear. However, such variation could impair comparability and increase complexity for preparers, assurance providers and users. We therefore recommend that EFRAG limit the use of different boundaries to circumstances in which they are necessary to faithfully represent the relevant impacts and can be supported by evidence.

The Exposure Draft already requires a company applying the mixed reporting approach to explain, for each topic, sub-topic or group of impacts, how it concluded that the option is available and the methodology and assumptions used, and to label metrics that cover only EU-related impacts. We recommend that the standard additionally address:

- the criteria and evidence used to determine whether impacts are meaningfully connected with the EU, so that the basis for the judgement can be evaluated by users and practitioners; and
- how global policies, actions and targets are to be reported alongside EU-scoped metrics, including where no EU-specific policy, action or target exists.

These disclosures are important because multinational groups often manage operations, financing, procurement and supply chains on an integrated basis. Different boundaries by topic may otherwise make it difficult for users to distinguish global information from EU-related information, compare companies, interpret trends or understand relationships between disclosures. The flexibility inherent in the mixed reporting approach also affects how fair presentation should be assessed and communicated.

Fair presentation and responsibility for the report

Fair presentation requires a clearly articulated reporting objective against which a company can assess whether its report is fairly presented. The Exposure Draft's objective refers to all material impacts, which is difficult to reconcile with the option to report only EU-related impacts. We recommend that the standard states explicitly that fair presentation is assessed against both the boundary elected in accordance with ESRS-40a (including, where applicable, the EU-related boundary under the mixed approach) and the standard's defined impact-reporting scope. We suggest EFRAG further clarifies that the omission of information outside that boundary or scope should not prevent fair presentation, provided that the boundary has been selected and applied in accordance with clear criteria and the report explains any material limitations necessary for users to understand what the report represents.

This clarification should be accompanied by a review of the defined users and their information needs. The Exposure Draft frames materiality for primary users by reference to decisions about providing resources to the company, and for other users by reference to the undertaking's material impacts; how these two limbs would operate in an impact-only report that is limited to EU-related impacts is unclear. A broad description of users may create expectations that cannot be met by a report limited to EU-related impacts within a multinational group. We recommend that EFRAG articulates the intended use of ESRS-40a information so that preparers can apply materiality judgements, and assurance providers can evaluate them, against a clear purpose.

The interaction between the impact-only objective, the mixed reporting approach and the fair presentation requirement is central to whether ESRS-40a reports will be understandable and useful. We encourage EFRAG to consider these elements together rather than in isolation.

We welcome the Exposure Draft's confirmation that impact-only reporting does not exclude impacts that also give rise to risks and opportunities. We recommend that the standard also clarify the treatment of matters that are material from both an impact and a financial perspective so that companies do not exclude impact information merely because the same matter is financially material. We also ask EFRAG to clarify whether information on related risks and opportunities, where included to explain a material impact, should be presented as supplementary information. Only financially material matters that do not involve an actual or potential impact should fall outside the content scope of ESRS-40a.

We recommend that EFRAG clarifies the role of entity-specific disclosure in the context of the scope limitations mentioned above. The standard should specify the trigger for such disclosure and make clear that it extends only as far as necessary to provide material information about that impact within the elected boundary and the scope of ESRS-40a.

An EU subsidiary or branch may be required to publish information supplied by a non-EU parent or other group entities that it does not control and may be unable to verify its completeness and accuracy or to obtain missing information. We recommend that EFRAG clarifies which party is responsible for the fair presentation assertion and how that assertion should be made where the publishing entity lacks access to group-level information. Where the publishing entity cannot obtain all relevant information from the parent or other group entities, the standard should require transparent disclosure of the nature and effect of the resulting data limitations. Such limitations should not automatically preclude a fair presentation assertion, provided that the report clearly explains the information that could not be obtained, the reasons and the steps taken to address the limitation. Any relief for information that cannot be obtained should be clearly justified, limited to a defined period and supported by application guidance, so that omissions are not indefinite and assurance providers can assess whether they are justified.

Equivalence and passporting

This section is addressed mainly to the European Commission, which would decide on equivalence; we include it so that EFRAG can take it into account in its advice.

We encourage the European Union to position European Sustainability Reporting Standards (ESRS), including ESRS-40a, as a reporting framework that provides relevant information to stakeholders, rather than as a compliance exercise. The value of impact-reporting would be easier to communicate if it complemented a global baseline focused on financial materiality. Over time, a report in line with IFRS Sustainability Disclosure Standards plus ESRS-40a requirements could be considered equivalent to full ESRS.

Although some groups in the scope of Article 40a may not currently prepare an IFRS Sustainability Disclosure Standards report at an ultimate parent level, we understand that they are considering multiple strategies to navigate the present patchwork of reporting requirements. It could be attractive for companies to publish a report at the ultimate parent level applying the IFRS Sustainability Disclosure Standards plus incremental disclosure requirements necessary to meet the objective of ESRS-40a. This would require ESRS-40a to be developed in a way that it bridges the requirements between a report drawn up in accordance with IFRS Sustainability Disclosure Standards and one drawn up in accordance with ESRS.

We remain committed to supporting EFRAG's work to develop high-quality and proportionate sustainability reporting requirements. Please do not hesitate to contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Ramon Jubels at jubels.ramon@kpmg.nl if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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