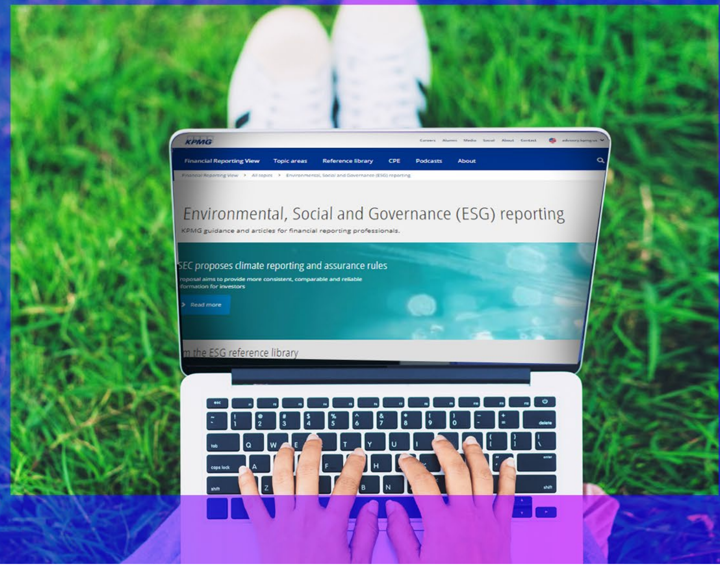


HOT TOPIC

ESG in Europe

Global implications of EU sustainability reporting

December 2023

The Corporate Sustainability Reporting Directive is now in force, but its application beyond the EU continues to raise questions.

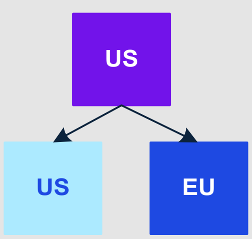
Source and applicability

- Corporate Sustainability Reporting Directive (CSRD)
- Companies with listed securities in the EU, non-EU parents (including US companies) with substantial activity and a presence in the EU, and non-EU subsidiaries of companies that meet the scoping.

Fast facts, impacts, actions

In November 2022, the European Parliament and Council of the EU approved and adopted the CSRD, which amends and significantly expands the existing EU requirements for sustainability reporting. Member States are now in the process of transposing it into national law, and may make revisions that go above and beyond the CSRD as drawn up. The related sustainability reporting – under European Sustainability Reporting Standards (ESRSs) – is effective for companies starting from January 1, 2024.

Notwithstanding that the CSRD is an EU Directive, there are considerable ESG reporting implications for US and other non-EU based companies (including those with securities listed on an EU-regulated market). The following overview – based on the CSRD as adopted by the EU – highlights the potential impact on a US (or other non-EU) parent of an EU subsidiary or branch.



- The CSRD scoping requirements for non-EU parent companies are based on a combination of physical presence in the EU (e.g. a subsidiary) and net turnover (revenue) generated in the EU.
- There will be a separate disclosure standard for non-EU parent companies in the scope of the CSRD; such reporting will cover the parent's consolidated group – i.e. not just its EU subsidiaries.
- Reporting exemptions reduce – but do not eliminate – the reporting obligations of EU subsidiaries of non-EU parent companies.

This Hot Topic was updated in December 2023 to reflect the latest developments from the European Commission and the European Financial Reporting Advisory Group (EFRAG).

Background

The existing EU requirements to publish nonfinancial statements stem from the Non-Financial Reporting Directive (NFRD) – EU Directive (2014/95/EU). The NFRD currently applies to large 'public interest entities' with more than 500 employees.

The CSRD amends and significantly expands the existing EU requirements for sustainability reporting – both in terms of the number of companies in scope and the nature of the sustainability reporting. It is estimated that the scope will extend from less than 12,000 to nearly 50,000 companies just in the EU.

The European Commission originally proposed the CSRD in April 2021. After various counter-proposals, the European legislative bodies reached agreement on the CSRD, and it was adopted by the European Parliament and Council of the EU in November 2022. The CSRD entered into force January 5, 2023. After this date, an 18-month period started for the CSRD to be transposed into the law of each Member State.

One of the provisions in the CSRD requires companies in scope to report sustainability information based on ESRSs. Further, it delegates power to the European Commission to adopt a first set of ESRSs (drafted by EFRAG) to be effective January 1, 2024 with additional standards to follow.

The first set of ESRSs (referred to as 'full ESRSs') has gone through multiple consultation rounds and has now been published as an EU Delegated Act. To understand these ESRSs, visit our ESRS Resource Center. There will be separate standards for reporting when an ultimate non-EU parent company is in the scope of the CSRD, and consultation on an exposure draft is expected by late 2024 or early 2025.

The CSRD is just one component of a number of sustainability-related regulations under the European Green Deal that include reporting obligations – e.g. EU Taxonomy disclosures. For additional information, see Resources.

Scoping requirements

The CSRD includes different scoping requirements for EU-based and EU-listed companies (including listed non-EU based companies) versus non-EU parent companies – referred to in this Hot Topic as 'general' vs 'non-EU parent' scoping, respectively. Whereas the general scoping depends on listing status or size, the non-EU parent scoping is based on a combination of physical presence in the EU and net turnover (revenue) generated in the EU. This interplay of requirements, plus related reporting exemptions, can make the scoping analysis complex.

General scoping

The CSRD applies to all large and most listed companies in the EU (and their subsidiaries) – including companies outside the EU with listed securities on an EU-regulated market.

In October 2023, the European Commission adopted a Delegated Act to increase the thresholds for determining the size of a company to account for the impact of inflation, effective for financial years beginning on or after January 1, 2024. This increase is reflected in the figures below.

- Large companies or large groups (i.e. a company including all its subsidiaries on a consolidated level) are defined as meeting at least two of the following, for each of the last two consecutive years:

  > 250 employees;
  > €50M (formerly €40M) net turnover (revenue);
  > €25M (formerly €20M) total assets.

- Listed companies in the EU that are in the scope of the CSRD include companies with listed securities (including debt and equity) on an EU-regulated market, other than 'micro-companies'. A micro-company meets at least two of the following (including subsidiaries), for each of the last two consecutive years: ≤ 10 employees; ≤ €900,000 (formerly €700,000) net turnover (revenue); ≤ €450,000 (formerly €350,000) total assets.

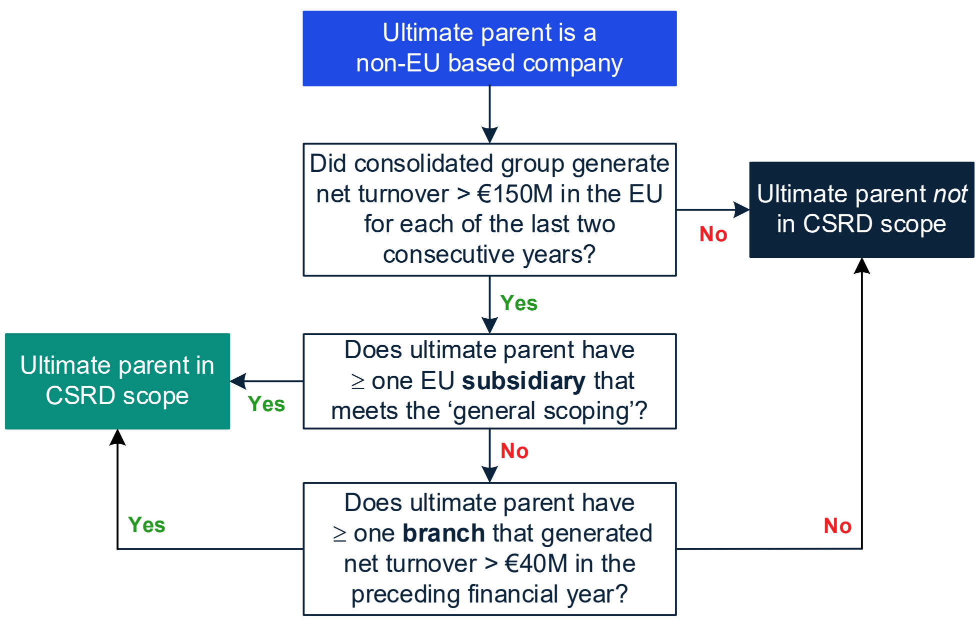
The general scoping includes large subsidiaries of non-EU parents – i.e. all companies based in the EU or listed on an EU-regulated market are subject to testing under the above criteria regardless of the origins or domicile of their ownership. We believe the general scoping also applies to an EU holding company even if it is not required to prepare consolidated financial reports – e.g. because the holding company qualifies for exemptions from consolidated financial reporting.

Non-EU parent scoping

Irrespective of the general scoping described above, an ultimate non-EU parent company is in the scope of the CSRD if it has:

- substantial activity in the EU – i.e. it generated net turnover greater than €150M in the EU for each of the last two consecutive years; and
- at least:
  - one EU subsidiary that meets the general scoping of the CSRD; or
  - one branch (in general, a physical presence) that generated net turnover greater than €40M in the preceding financial year.

The following decision tree summarizes application of the non-EU parent scoping.



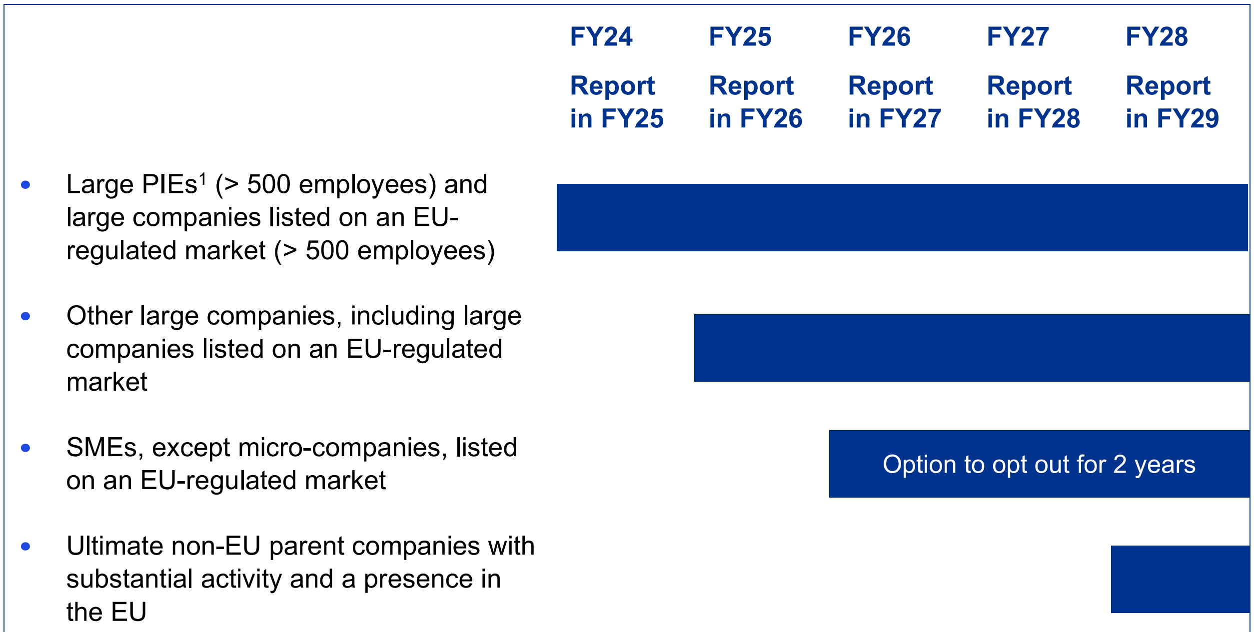
Effective dates

Large public interest entities with more than 500 employees that are also large under the general scoping need to apply full ESRSs for financial years starting on or after January 1, 2024 (reporting in 2025). This also applies to non-EU companies with securities listed on an EU-regulated market that have more than 500 employees and that are large under the general scoping.

Other companies, including small and medium-sized entities (SMEs) with listed securities on an EU-regulated market, will follow in a phased application. An ultimate non-EU parent company under the non-

EU parent scoping will need to apply the applicable ESRSs for financial years starting on or after January 1, 2028 (reporting in 2029).

This phased introduction of the CSRD is illustrated in the following table.



Note 1. See Application to public interest entities for PIE definition.

Reporting requirements

Reporting

The following table summarizes the reporting requirements for companies subject to the CSRD; see separate discussion on exemptions. When assessing the reporting requirements, it is important to involve legal counsel where appropriate.

Companies that are:	Report at the level of:	In accordance with:	In a:	Published by:
Large companies (including PIEs and companies listed on an EU-regulated market)	Legal entity (or consolidated[1] for parents of 'large' groups)	Full ESRSs (published)	Management report[2]	Company subject to the CSRD
SMEs, except micro-companies, listed on an EU-regulated market	Legal entity[3]	Full ESRSs (published) or reduced SME standards (forthcoming)	Management report[2]	Company subject to the CSRD

Companies that are:	Report at the level of:	In accordance with:	In a:	Published by:
Ultimate non-EU parent companies with substantial activity and a presence in the EU	Global group level	Reduced non-EU parent standards (forthcoming)	Report as provided for by each Member State – e.g. in an Impact Report	In-scope subsidiary or branch

Notes:

1. Consolidated sustainability reporting includes the reporting company and all of its subsidiaries, regardless of size and location.
2. The EU's Accounting Directive introduced the requirement for certain EU companies to prepare a management report. This report is intended to provide a fair review of the development and performance of the company's business and of its position, together with a description of the principal risks and uncertainties that it faces. This is sometimes analogized to the MD&A section of annual reports filed with the SEC.
3. SMEs are only required to report at the stand-alone level – i.e. reporting is only required for the entity that has listed securities on an EU-regulated market. Parents that are SMEs (i.e. they are not parents of a large group) are not required to prepare consolidated sustainability reporting. However, if a SME has subsidiaries, it needs to consider whether the group is in fact still a SME or whether, on a consolidated level, the group is considered 'large' and therefore subject to consolidated reporting requirements.

Listed SMEs that are subject to the CSRD may limit their sustainability reporting (e.g. they are not required to report on sustainability-related targets) and prepare this reporting in accordance with the forthcoming reduced disclosure standards for SMEs.

For an ultimate non-EU parent company that is in the scope of the CSRD, reporting covers the entire group – i.e. from the perspective of the ultimate parent. However, there will be reduced disclosure standards for this group level reporting. An expected timeline for the development of these standards is not yet available.

Further, any subsidiary of a non-EU parent company that meets the general scoping is nonetheless in the scope of the related disclosures that apply to EU-based companies.

Assurance

Limited assurance over the entire sustainability report – under both the general and non-EU parent scoping – is required initially, with the intent of moving to reasonable assurance in time.

The International Auditing and Assurance Standards Board (IAASB) has proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. Comments are due by December 1, 2023 and the final standard is targeted for September 2024. Although the effective date will be determined when the standard is approved by the IAASB, it is generally expected that it will be available for use in assuring sustainability reports prepared in accordance with the CSRD – i.e. assurance commencing in 2025.

Proposed ISSA 5000 addresses both limited and reasonable assurance, and is being developed using relevant principles, concepts and material adapted from existing IAASB standards and guidance. These include (1) International Standards on Assurance Engagements (ISAE) 3000 (Revised), *Assurance*

Engagements Other Than Audits or Reviews of Historical Financial Information, (2) ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, (3) International Standards on Auditing (ISAs), and (4) the IAASB's nonauthoritative guidance on sustainability and other extended external reporting assurance engagements.

Based on the CSRD, the EU may endorse ISSA 5000 as the assurance standard to be applied or may release its own assurance standard, which we believe will then be based on the proposed ISSA 5000.

Reporting exemptions

There are three exemptions available under the CSRD.

Group exemption

If an EU parent makes available sustainability reporting (in accordance with full ESRSs) that includes the entire group, all in-scope subsidiaries are exempt from preparing their own sustainability reporting. However, this exemption does not apply to subsidiaries under the general scoping that are large PIEs with securities listed on EU-regulated markets. Therefore, these subsidiaries are still required to prepare their own sustainability reporting.

We believe this group exemption is also available for non-EU companies with securities listed on an EU-regulated market.

> For EU subsidiaries of a non-EU parent to take advantage of this exemption, we believe the non-EU parent will need to voluntarily make available group-level sustainability reporting that includes all disclosure requirements – i.e. following the reporting requirements specific to the general scoping under full ESRSs – rather than the reduced non-EU parent standards. However, we do not believe this will trigger an obligation to also issue a consolidated management report in which the voluntary consolidated sustainability report can be included.

Group exemption criteria

To qualify for the group exemption, an exempted EU subsidiary must include the following information in its management report:

- that it is exempt from sustainability reporting requirements;
- the name and registered office of its parent that reports the exempting consolidated sustainability reporting; and
- a link to the website with the exempting consolidated management report (or consolidated sustainability report) and related assurance opinion.

Additionally, if a subsidiary's sustainability impacts, risks and opportunities are significantly different from those of the parent, the consolidated sustainability reporting must contain sufficient detail to provide an adequate understanding of both the group and the subsidiary.

Application to public interest entities

Both the NFRD and the CSRD refer to 'public interest entities' as part of their respective scopes, but the application is not the same. The following table summarizes the differences in the context of the above discussion.

<table>
<tr><th>PIEs in NFRD scope?</th><th>PIEs include:</th><th>PIEs in CSRD scope?</th></tr>
<tr><td rowspan="3">Yes, if > 500 employees</td><td>An entity whose transferrable securities are admitted to trading on regulated markets governed by the law of a Member State of the EU (companies with listed securities in the EU)</td><td>Yes; but the group exemption does not apply to large PIEs</td></tr>
<tr><td>A bank or insurance company[1]</td><td rowspan="2">Yes, if large; the group exemption applies</td></tr>
<tr><td>Any other company designated as such by a Member State of the EU</td></tr>
<tr><td colspan="3">Note 1. A bank or insurance company that is also listed on an EU-regulated market follows the requirements for listed companies.</td></tr>
</table>

Ultimate non-EU parent exemption

If a non-EU parent has multiple subsidiaries in the EU that meet the general scoping, until 2030 one of the EU subsidiaries that generated the greatest revenue (consolidated where applicable) in the EU in at least one of the preceding five financial years is allowed to prepare consolidated sustainability reporting that includes only those subsidiaries (including holding companies) that fall under the general scoping. This report needs to follow the reporting requirements specific to the general scoping and must include all subsidiaries (both EU- and non-EU based) of the subsidiaries that fall under the general scoping.

Equivalency exemption

The European Commission has the power to designate individual sustainability reporting frameworks or reporting regimes as 'equivalent' to reporting under the CSRD.

Although the Commission has not yet determined what would be considered an equivalent sustainability reporting framework, it will likely use the following criteria:

- whether the other framework requires companies to disclose information on environmental, social and governance matters; and
- whether the other framework requires companies to disclose information necessary to understand the company's impacts on sustainability matters, and how sustainability matters affect the company's development, performance and position (so-called double materiality).

Non-EU company impact

Non-EU companies could be impacted by the CSRD in various ways, which are illustrated in a series of examples later in this Hot Topic. In this section, we include our recommendations for actions to monitor scoping status and reporting implications.

As a company

If a non-EU company has securities listed on an EU-regulated market, it is subject to the same sustainability reporting obligations as listed EU companies. We recommend checking for debt and equity securities listed on an EU-regulated market. If only debt securities have been issued, also consider the denomination. For example, the CSRD does not apply to issuers of debt securities admitted to trading on a regulated market where the denomination per unit is at least €100,000 (or €50,000 for debt issued before December 31, 2010).

As a subsidiary

A non-EU subsidiary might be required to deliver sustainability information to its parent (either EU- or non-EU based) for CSRD reporting. We recommend coordinating closely with your parent company so it is clear whether you need to provide sustainability data and, if so, when that data is needed.

As an ultimate parent

An ultimate non-EU-parent might have EU-based subsidiaries that are subject to the CSRD. Additionally, an ultimate non-EU parent might be in the scope of the CSRD under the forthcoming reduced sustainability standards if it is a parent with substantial activity and a presence in the EU.

- Your EU subsidiaries need to know if, and when, they will be subject to the CSRD. Keep in mind which exemptions apply, and at which level, to help subsidiaries reduce the reporting burden. If your EU subsidiaries are subject to the CSRD, consider the best way of providing adequate resources and proper governance structures for the subsidiaries to report.
- You may consider voluntarily filing CSRD reporting for the entire group to exempt EU subsidiaries subject to the CSRD. This would exempt your EU subsidiaries from filing a report (if the exemption criteria are met) but would require your non-EU subsidiaries to provide sustainability data. These trade-offs require careful consideration.

Next steps

The following are next steps for the items discussed in this Hot Topic.

Next steps for the European Commission

- **CSRD transposition.** The CSRD entered into force on January 5, 2023. Member States (which are bound by the CSRD) have 18 months from that date to transpose it into national law. During transposition, Member States have the ability to make revisions that go above and beyond the CSRD as drawn up (e.g. expanding the scope).
- **ESRSs under the general scoping.**
  - Full ESRSs. These standards were published on July 31. For discussion and analysis, visit our ESRS Resource Center.
  - Sector-specific ESRSs. Sector-specific exposure drafts have not yet been released. The Commission has proposed to delay the adoption deadline for sector-specific standards by two years to June 30, 2026. Exposure drafts for the general approach to sector ESRSs and certain high-impact sectors (e.g. oil and gas, mining) are expected to be exposed for consultation in the first half of 2024. Other sectors (e.g. agriculture, farming) are expected to be exposed for consultation at later dates. Companies are still required to make relevant sector-specific disclosures from the first year of reporting and may do so by leveraging other standards (e.g. Global Reporting Initiative).
  - SME ESRSs. The exposure drafts for listed SMEs have not yet been released but are expected in early 2024 and would be effective for 2026 year-ends (reporting in 2027). An exposure draft is also expected in early 2024 for voluntary standards for non-listed SMEs, which are not in the scope of the CSRD but may receive requests from stakeholders for sustainability information.
- **ESRSs under the non-EU parent scoping.** An exposure draft relevant to the non-EU parent scoping is expected by the end of 2024 or early 2025. The Commission has proposed to delay the adoption deadline for non-EU parent standards by two years to June 30, 2026. This delay has no impact on the FY28 effective date for non-EU parent reporting.

Next steps for EFRAG

- **Q&A process.** EFRAG has launched the ESRS implementation Q&A process, which comprises a centralized Q&A platform where stakeholders may post questions. EFRAG plans to produce a series of clarifications and rejected questions quarterly in 2024.
- **Implementation guidance.** Nonauthoritative guidance on double materiality and the value chain is expected to be finalized in early 2024 after a consultation period. Additional nonauthoritative guidance on other topics is expected at later dates.

Next steps for companies

The following are some steps a company can take to help it prepare for the CSRD. Before moving on to application of the ESRSs, it is critical to start with understanding and assessing the CSRD scoping, reporting and exemption implications.

1. **Analyze your group structure to identify companies subject to the CSRD.**

   Understand which companies within your organizational structure will be subject to the CSRD and when. Whether you are a parent company or a subsidiary, it is critical to understand the scope of the CSRD in relation to your entire group structure and involve legal counsel where appropriate.

2. **Assess your reporting options, considering the requirements and the available exemptions.**

   Understand where within your organization the available reporting exemptions may be applied for companies subject to CSRD reporting.

3. **Choose the best reporting option for fulfilling sustainability reporting obligations and obtain stakeholder buy-in.**

   Perform a cost-benefit analysis to determine which level of reporting will best satisfy your company's sustainability reporting obligations. Gain stakeholder buy-in on the chosen option.

4. **Begin implementing ESRSs** at the agreed level of reporting, including determining the reporting boundary (i.e. the value chain) and conducting a double materiality assessment.

   Understand the significant volume of new disclosure requirements in ESRSs. Prepare to identify impacts, risks and opportunities and perform a double materiality assessment that covers not only the reporting company but also its upstream and downstream value chain. Ensure proper governance structures are in place early in the implementation. To learn more about ESRS disclosures, visit our ESRS Resource Center.

Examples

The following examples illustrate the CSRD reporting considerations for non-EU companies.

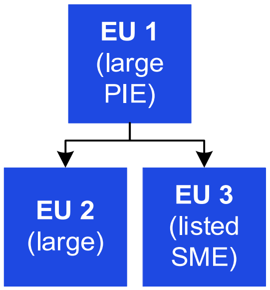
Example 1 starts with an illustration of the reporting implications for EU-based companies. Examples 2 through 5 build on this foundation and incorporate concepts relevant to non-EU companies.

When assessing the legal entity structure, it is important to involve legal counsel where appropriate.

Example 1

This example illustrates the CSRD reporting implications for an EU-based group.

GROUP STRUCTURE



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees. It is also the parent of a large group.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.

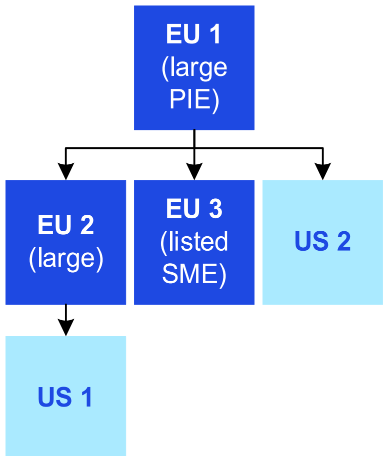
ANALYSIS

- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large, listed PIE that is the parent of a large group, **EU 1** will prepare consolidated sustainability reporting under full ESRSs. This reporting will include **EU 2** and **EU 3**. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As a large EU-based company, **EU 2** will prepare stand-alone sustainability reporting under full ESRSs.
  - ***Group exemption.*** If the criteria are met, **EU 2** is exempt from the stand-alone sustainability reporting requirement because it is included in the **EU 1** consolidated sustainability reporting.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** If the criteria are met, **EU 3** is exempt from the stand-alone sustainability reporting requirement because it is included in the **EU 1** consolidated sustainability reporting.

Example 2

This example illustrates how a US subsidiary may be required to provide sustainability data to support the CSRD reporting of an EU parent.

Group structure



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees. It is also the parent of a large group.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based, and are not listed on any EU-regulated markets.

Analysis

- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large, listed PIE that is the parent of a large group, **EU 1** will prepare consolidated sustainability reporting under full ESRSs. No exemptions are available.

  The consolidated sustainability reporting will include **US 1** and **US 2** (in addition to **EU 2** and **EU 3**). Both of these non-EU subsidiaries will need to provide sustainability data to **EU 1** for its consolidated sustainability reporting.

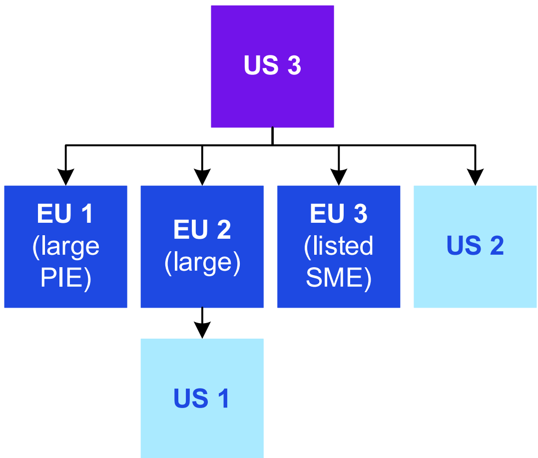
- **Beginning FY25.** **EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRSs. **US 1** will need to provide sustainability data to **EU 2** for its consolidated sustainability reporting.
  - ***Group exemption.*** If the criteria are met, **EU 2** is exempt from the consolidated sustainability reporting requirement because it is included in the **EU 1** consolidated sustainability reporting. Regardless of whether the group exemption is used, **US 1** (through **EU 2**) and **US 2** will need to provide sustainability data to **EU 1** for its consolidated sustainability reporting.

- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards. The group exemption is available (see Example 1).

Example 3

This example illustrates how a US parent may voluntarily report under the CSRD.

Group structure



- **EU 1**, **EU 2** and **EU 3** meet the general scoping.
- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees.
- **EU 2** is a large EU-based company with no securities listed on an EU-regulated market. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based and are not listed on any EU-regulated markets.
- **US 3** is not listed on any EU-regulated markets and does not meet the non-EU parent scoping – i.e. it generated net turnover less than €150M in the EU for the past year.

Analysis

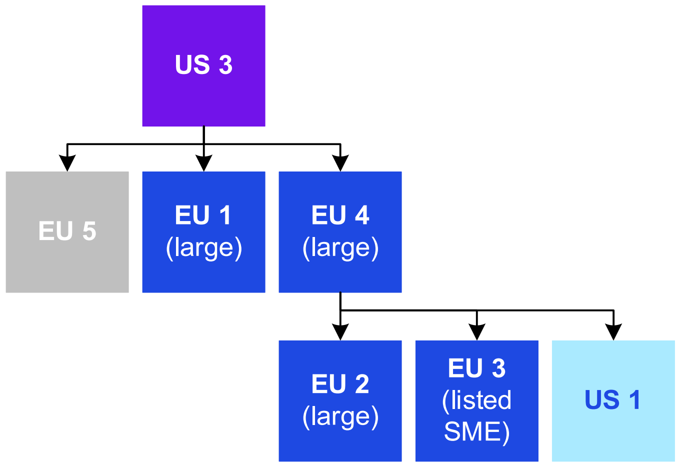
- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large, listed PIE, **EU 1** will prepare stand-alone sustainability reporting under full ESRSs. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRSs.
  - Even though it is not subject to the CSRD, **US 3** can voluntarily prepare consolidated sustainability reporting (including all EU subsidiaries – **EU 1**, **EU 2** and **EU 3**; and non-EU subsidiaries – **US 1** and **US 2**) under full ESRSs.
  - ***Group exemption.*** If the criteria are met, **EU 2** is exempt from sustainability reporting requirements because it is included in the **US 3** consolidated sustainability reporting. However, as a large, listed PIE, **EU 1** is not exempt from its stand-alone reporting requirements. This is why, in this example, **US 3** begins voluntary reporting in FY25 – i.e. because voluntary reporting in FY24 would not exempt **EU 1**.

    We believe this exemption would not be available if the **US 3** consolidated sustainability reporting is prepared under the reduced non-EU parent standards.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** **EU 3** is exempt if it is included in the **US 3** voluntary consolidated sustainability reporting.

Example 4

This example illustrates how a US parent may need to prepare its EU subsidiaries for sustainability reporting under the CSRD.

Group structure



- **EU 1** and **EU 2** are large EU-based companies that meet the general scoping but have no securities listed on any EU-regulated markets.
- **EU 3** is an EU-based SME that meets the general scoping and has securities listed on an EU-regulated market.
- **EU 4** is a parent of a large group (meets the general scoping) and the largest subsidiary of **US 3**. It is also a holding company that does not issue consolidated financial statements at this level.
- **US 1** is non-EU based, and not listed on any EU-regulated markets.
- **EU 5** does not meet the general scoping.
- **US 3** meets the non-EU parent scoping.

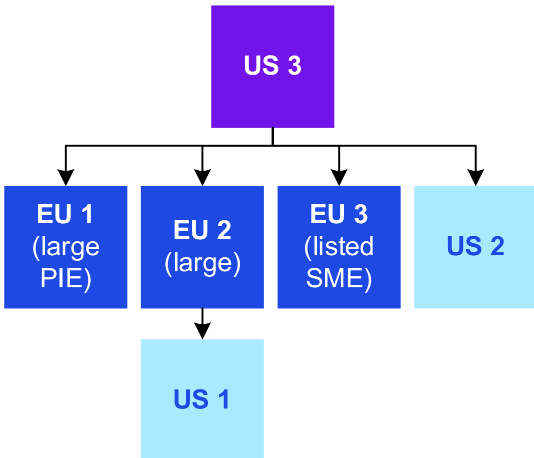
Analysis

- **Beginning FY24.** No companies meet the general scoping requirements that require reporting for FY24.
- **Beginning FY25.** **EU 1**, **EU 2** and **EU 4** are subject to the CSRD. As an EU-based parent of a large group, **EU 4** will prepare consolidated sustainability reporting (including **US 1**) under full ESRSs.
  - ***Ultimate non-EU parent exemption.*** Until 2030, **EU 4** may prepare artificially consolidated sustainability reporting covering all in-scope EU subsidiaries (i.e. including **EU 1**).
  - ***Group exemption.*** **EU 2** is exempt via inclusion in the **EU 4** artificially consolidated sustainability reporting or the **EU 4** standard consolidated reporting.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards.
  - ***Group exemption.*** **EU 3** is exempt via inclusion in either the **EU 4** artificially consolidated sustainability reporting or the **EU 4** standard consolidated reporting.
- **Beginning FY28.** **US 3** is in the scope of the CSRD as an ultimate non-EU parent company. The in-scope EU subsidiary will publish group-level sustainability reporting under the reduced non-EU parent standards (or alternatively under full ESRSs).
  - ***Group exemption.*** If the **US 3** group level reporting is prepared under the reduced non-EU parent standards, **EU 1** and **EU 4** will still have to comply with full ESRSs – i.e. the group exemption will not be available.

Example 5

This example illustrates how an EU subsidiary would meet its obligation to publish group level sustainability reporting (at the US parent level).

GROUP STRUCTURE



- **EU 1** is a large EU-based company with securities listed on an EU-regulated market (i.e. a PIE) and has > 500 employees.
- **EU 2** is a large EU-based company with no securities listed on any EU-regulated markets. It is also the parent of a large group.
- **EU 3** is an EU-based SME with securities listed on an EU-regulated market.
- **US 1** and **US 2** are non-EU based, and not listed on any EU-regulated markets.
- **US 3** meets the non-EU parent scoping.

ANALYSIS

- **Beginning FY24.** **EU 1** is subject to the CSRD. As a large EU-based PIE with securities listed on an EU-regulated market, it will prepare stand-alone sustainability reporting under full ESRSs. No exemptions are available.
- **Beginning FY25.** **EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRSs.
  - ***Group exemption*****.** If the criteria are met, **EU 2** is exempt from the consolidated sustainability reporting requirement if **US 3** voluntarily prepares consolidated sustainability reporting under full ESRSs.
- **Beginning FY26.** **EU 3** is subject to the CSRD, but has the option to opt out of sustainability reporting for two years. As a SME, **EU 3** will prepare stand-alone sustainability reporting, which may be prepared under the reduced SME standards. The group exemption is also available (see above).
- **Beginning FY28.** **US 3** is in the scope of the CSRD as an ultimate non-EU parent company. The in-scope EU subsidiary will publish group level sustainability reporting under the reduced non-EU parent standards (or **US 3** may voluntarily report under full ESRSs). If the **US 3** group level reporting is prepared under the reduced non-EU parent standards, the group exemption is not available.

KPMG resources

For further guidance on the CSRD and related developments, we recommend the following KPMG resources as a starting point.

- ESRS Resource Center
- Talk book, Get ready for ESRSs
- Report, European Green Deal Policy Guide (focus on the 'Fit for 55 package')
- Webcast replay, Double materiality.

Contact us

Bryce Ehrhardt
KPMG US
Managing Director, Dept. of Professional Practice

behrhardt@kpmg.com

Marissa Gerdes
KPMG US
Senior Manager, Dept. of Professional Practice

mgerdes@kpmg.com

Sam Jeffery
KPMG US
ESG Reporting Leader

samueljeffery@kpmg.com

Katharina Kerl
KPMG Germany
Senior Manager, Audit

katharinakerl@kpmg.com

Jan Müller
KPMG Germany
Senior Manager, Audit

janmueller@kpmg.com

Julie Santoro
KPMG US
Partner, Dept. of Professional Practice

jsantoro@kpmg.com

kpmg.com/socialmedia