HOT TOPIC

# Sustainability in the EU

## Global implications of EU sustainability reporting

December 2024

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

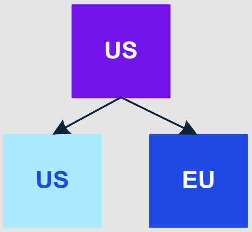
### Source and applicability

- Corporate Sustainability Reporting Directive (CSRD)
- Companies with listed securities in the EU, non-EU parents (including US companies) with substantial activity and a physical 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. The related sustainability reporting – under European Sustainability Reporting Standards (ESRS) – is effective for companies starting from January 1, 2024.

Notwithstanding that the CSRD is an EU Directive, there are considerable sustainability 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 2024 to reflect the latest developments from the European Commission (EC) and the European Financial Reporting Advisory Group (EFRAG), including the EC's release of CSRD FAQs.

## Background

The prior EU requirements to publish nonfinancial statements stemmed from the Non-Financial Reporting Directive (NFRD) – EU Directive (2014/95/EU). The NFRD applied to large ‘public interest entities’ with more than 500 employees.

The CSRD amended and significantly expanded the prior 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 extended from less than 12,000 to nearly 50,000 companies just in the EU.

The European Commission (EC) 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 on January 5, 2023. After this date, an 18-month period started for the CSRD to be transposed into the law of each Member State. Many Member States did not meet this deadline and the implications of this delayed transposition remain to be seen.

One of the provisions in the CSRD requires companies in scope to report sustainability information based on ESRS. The first set of ESRS (referred to as ‘full ESRS’) were drafted by the European Financial Reporting Advisory Group (EFRAG), adopted by the EC in July 2023 and published as an EU Delegated Act in the Official Journal of the EU in December 2023. They are effective for reporting starting January 1, 2024. To learn more about ESRS, read our handbook, ESRS Foundations. There will be separate standards for reporting when an ultimate non-EU parent company is in the scope of the CSRD, and public consultation on an exposure draft is expected by 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.

In August 2024, the EC released a set of CSRD FAQs that seek to clarify the interpretation of certain provisions introduced by the CSRD. The FAQs were published in the Official Journal of the EU in November 2024. By providing increased clarity and certainty, the EC intends for these FAQs to support its objective of reducing the administrative burden on companies applying ESRS, and to facilitate the usability and comparability of sustainability reporting. These FAQs should be considered alongside each Member State’s locally transposed laws and interpretive questions of these FAQs should be directed to qualified legal counsel.

## 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 EC 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. Member States have the option to make these increased size thresholds effective earlier – i.e. as early as financial years beginning on or after January 1, 2023 – and therefore relevant in applying the size tests from the earliest relevant year.

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.

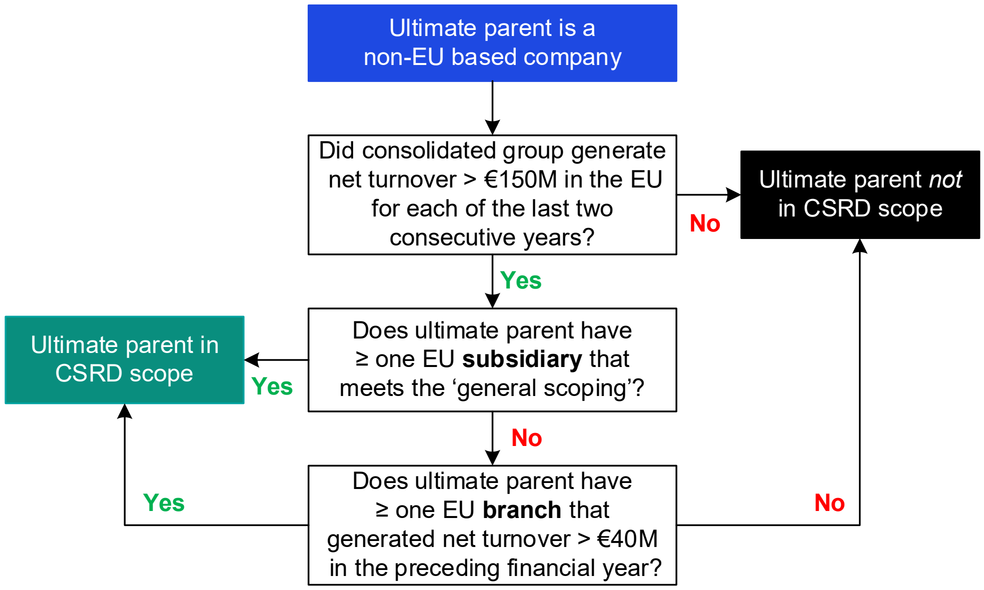
The general scoping includes large subsidiaries of non-EU parents – i.e. all companies based in the EU or listed on an EU-regulated market are subject to testing under the above criteria regardless of the origins or domicile of their ownership. Based on discussions, it appears that the general scoping 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 EU 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.

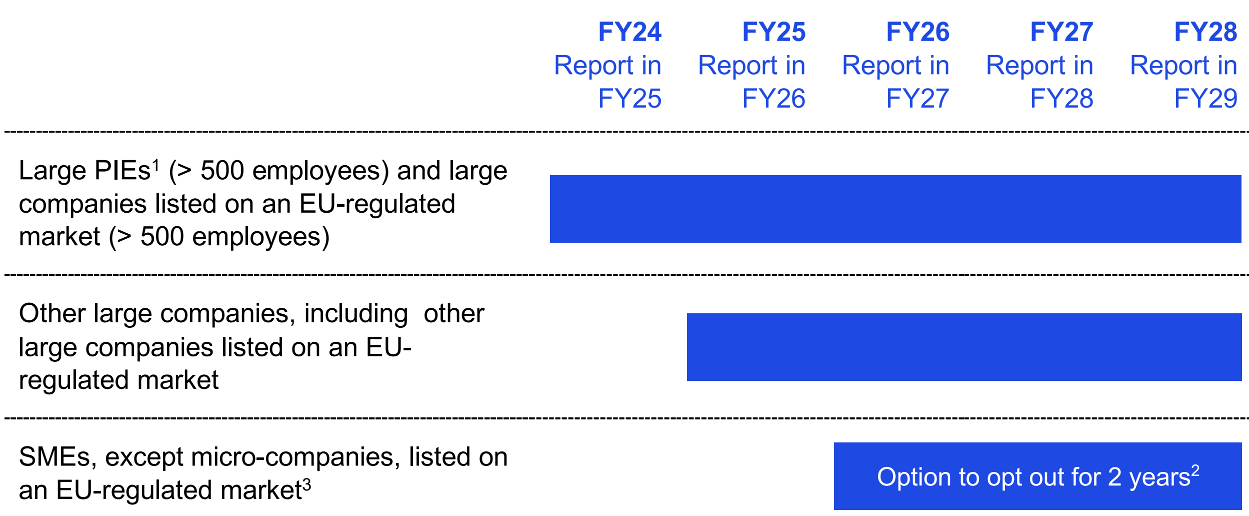



## Effective dates

Large public interest entities with more than 500 employees that are also large under the general scoping need to apply full ESRS 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 ESRS 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.



| | FY24 Report in FY25 | FY25 Report in FY26 | FY26 Report in FY27 | FY27 Report in FY28 | FY28 Report in FY29 |
|---|---|---|---|---|---|
| Ultimate non-EU parent companies with substantial activity and a physical presence in the EU | | | | | |

Notes:

1. See Application to public interest entities for PIE definition.
2. When applying this option, the SME needs to briefly state in its management report why the sustainability reporting was not provided.
3. Small and non-complex institutions and captive insurers have the same effective date as listed SMEs – although the option to opt out until 2028 does not apply unless they also meet the definition of a SME.

## 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.

| Company type | Report level | Report framework | Report location | Report filer |
|---|---|---|---|---|
| Large companies and groups (including PIEs and companies listed on an EU-regulated market) | Legal entity (or consolidated[1] for parents of 'large' groups) | Full ESRS (published) | Management report[2] | Company subject to the CSRD |
| SMEs, except micro-companies, listed on an EU-regulated market | Legal entity[3] | Full ESRS (published) or reduced SME standards (forthcoming)[4] | Management report[2] | Company subject to the CSRD |
| Ultimate non-EU parent companies with substantial activity and a physical presence in the EU | Global group level | i.e. NESRS (forthcoming)[5] or full ESRS (published) | Report as provided for by each Member State – e.g. in an Impact Report | In-scope subsidiary or branch[6] |

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 company 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.
4. 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.
5. The focus of the NESRS is expected to be information about sustainability-related impact reporting. The standards are not expected to include disclosure requirements to describe risks, opportunities and resilience of the business model and strategy in relation to risk-related sustainability matters.
6. 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.

## Equivalency

The EC has the power to designate equivalency status to jurisdictions requiring sustainability reporting. Equivalency is not granted to a voluntary sustainability reporting framework – e.g. Global Reporting Initiative standards.

Although the EC has not yet determined what would be considered an equivalent sustainability reporting framework, it will 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).

## Electronic reporting format

Companies that publish their sustainability reporting in a management report are required to:

- prepare the management report in accordance with the electronic reporting format specified by the European Single Electronic Format (ESEF) Regulation (i.e. XHTML); and
- mark up their sustainability reporting, including EU Taxonomy disclosures, in accordance with a specific digital taxonomy to be adopted by the EC (by amending the ESEF Regulation); read more about ESEF here.

There are no specific format requirements for group level reporting prepared in accordance with NESRS by an ultimate non-EU parent company that meets the non-EU parent scoping criteria. However, this reporting needs to be published in a data extractable format with the relevant accompanying metadata – e.g. name of submitting company, year and month of submission.

### 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 scope of the assurance conclusion is required to address the following aspects of the sustainability statement:

- presentation in accordance with the CSRD and ESRS;
- the company's process to identify the information reported in accordance with the ESRS – i.e. the double materiality assessment process;
- the requirement to mark up the sustainability reporting in accordance with the electronic reporting format; and
- whether it meets the EU Taxonomy reporting requirements.

In November 2024, the International Auditing and Assurance Standards Board (IAASB) formally approved and issued International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*.

ISSA 5000 addresses both limited and reasonable assurance. Although it is based on principles from existing IAASB standards and guidance, it expands on these to facilitate consistency and quality by more explicitly addressing the expectations in performing sustainability assurance engagements.

The CSRD does not currently mandate which assurance standards should be used by an assurance practitioner to perform the engagement. It requires the EC to adopt limited assurance standards by October 2026. The EC may endorse ISSA 5000 as the assurance standard to be applied or may release its own assurance standard, which may be based on ISSA 5000.

Pending the EC's adoption of an assurance standard, Member States may adopt national assurance standards or pronouncements. As the national assurance standard, some Member States may choose to adopt ISSA 5000, and effective dates may vary based on Member State requirements.

US accountants performing assurance engagements are required to comply with the attestation standards of the American Institute of Certified Public Accountants (AICPA). There are ongoing efforts to incorporate ISSA 5000 into the AICPA standards, with a goal of converging with ISSA 5000 as considered appropriate for the US jurisdiction.

## Reporting exemptions

There are two exemptions available under the CSRD. For each exemption option, the following table provides a roadmap to the reporting requirements for the subsidiary (that meets the general scoping criteria) and the ultimate non-EU parent (that meets the non-EU parent scoping). These exemptions are discussed in further detail following the table.

| | | In-scope subsidiary reporting requirement | In-scope ultimate non-EU parent reporting requirement |
|---|---|---|---|
| **Option 1** | Group exemption | None, subject to conditions | Voluntary consolidated reporting in accordance with full ESRS; or group level reporting in accordance with NESRS if group exemption is applied at a lower parent level – e.g. EU holding company level |
| **Option 2** | Ultimate non-EU parent exemption | Artificially consolidated reporting, subject to conditions, until 2030, then **Option 1** or **Option 3** | Group level reporting in accordance with NESRS |

Note that if neither of the above exemptions are applied, an in-scope ultimate non-EU parent will be required to prepare group level reporting in accordance with the NESRS and each in-scope subsidiary will be required to prepare standalone and/or consolidated reporting in accordance with the full ESRS.

## Option 1. Group exemption

If an EU parent makes available sustainability reporting (in accordance with full ESRS) 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. Based on the EC's CSRD FAQs, it appears that this exemption also does not apply to large non-EU companies with securities listed on EU-regulated markets. Therefore, these subsidiaries are still required to prepare their own sustainability reporting.

Based on the EC's CSRD FAQs, it appears that for non-EU parent reporting to exempt EU subsidiaries via the group exemption, the non-EU parent will need to make available group-level sustainability reporting prepared under full ESRS. It appears that such reporting may be published in a separate document – i.e. outside of a management report.

### *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.

EU Taxonomy disclosures, covering the activities carried out by the exempted subsidiary, are included in the management report of the exempted subsidiary or in the consolidated sustainability reporting of the non-EU parent.

As part of the transposition process, Member States may set additional criteria for subsidiaries within that jurisdiction that are applying the group exemption.

*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>A company 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 is available</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>

**Option 2. Ultimate non-EU parent exemption**

To qualify for the ultimate non-EU parent exemption, a non-EU parent must have multiple subsidiaries in the EU that meet the general scoping.

This exemption allows for the preparation of consolidated sustainability reporting (commonly referred to as 'artificial consolidation') 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;
- include all subsidiaries (both EU- and non-EU based) of the subsidiaries that fall under the general scoping; and
- be prepared by 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.

Based on the EC's CSRD FAQs, it appears that this exemption is available for financial years ending on or before January 6, 2030.

Provided the group exemption criteria are met, subsidiaries included in such reporting are exempted from their own sustainability reporting requirements.

## 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 situations in which a US based company could be subject to the CSRD.

### As a company

A non-EU company with securities listed on an EU-regulated market 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 traded 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 NESRS if it is a parent with substantial activity and a physical 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.

## Recent developments

The following are recent developments related to the items discussed in this Hot Topic.

### CSRD transposition

The CSRD entered into force on January 5, 2023. Member States (which are bound by the CSRD) had a deadline of July 6, 2024 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). As of mid-December 2024, many Member States have not yet transposed and some are unlikely to a transpose before the end of 2024. For companies in scope of the CSRD for financial years starting on or after January 1, 2024, these delayed transpositions are causing significant legal uncertainties – relating to, for example, continued application of the sustainability reporting regime under the NFRD. In this case, companies could still consider applying ESRS, but on a voluntarily basis. Companies that have subsidiaries in Member States where the CSRD is not yet transposed should monitor forthcoming developments closely.

### ESRS under the general scoping

Full ESRS. These standards were adopted on July 31, 2023 and published in December 2023. To learn more about ESRS, read our handbook, ESRS Foundations.

Sector-specific ESRS. Sector-specific exposure drafts have not yet been released. The EC has delayed the adoption deadline for sector-specific standards by two years to June 30, 2026. Exposure drafts for the general approach to sector ESRS and certain high-impact sectors (e.g. oil and gas, mining) are expected to be exposed for consultation in early 2025. 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 ESRS. An exposure draft for listed SMEs was released in January 2024 and the final standard will be effective for 2026 year-ends (reporting in 2027). An exposure draft has also been released 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. Both SME standards are expected to be formally approved by EFRAG and delivered to the EC by the end of 2024, and are expected to be adopted by the EC in 2025.

### NESRS under the non-EU parent scoping

An exposure draft relevant to the non-EU parent scoping is expected for public consultation in early 2025.

Based on an early draft of the NESRS discussed in EFRAG meetings in November 2024, EFRAG has considered asking for comments on a scope limitation to allow non-EU groups to restrict disclosures to cover only those activities (and their value chains) that relate to products sold into the EU. This limitation would apply to all topical standards except ESRS E1 (climate change).

The EC has delayed the adoption deadline for the NESRS by two years to June 30, 2026. This delay has no impact on the FY28 effective date for non-EU parent reporting.

### EFRAG's ESRS Q&A process

EFRAG launched its ESRS implementation Q&A process, which comprises a centralized Q&A platform where stakeholders may post questions. EFRAG has begun producing a series of clarifications and rejected questions and will continue doing so in 2025.

### EFRAG's implementation guidance

Nonauthoritative guidance on double materiality, value chain and ESRS datapoints was finalized in May 2024. Additional nonauthoritative guidance on other topics is expected at later dates. For example, implementation guidance on the transition plan is expected for public consultation in early 2025.

### European Securities Market Authority (ESMA)

In July 2024, ESMA made a public statement emphasizing the importance for issuers to carefully consider EC and EFRAG guidance (e.g. the EC's CSRD FAQs) when implementing the CSRD.

In October 2024, ESMA announced that its 2024 enforcement priorities would include a focus on sustainability reporting – specifically on the materiality assessment, the structure and scope of the sustainability statement, and the disclosures related to the EU Taxonomy Regulation.

## 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 ESRS, it is critical to start with understanding and assessing the CSRD scoping, reporting and exemption implications. These factors are important puzzle pieces in determining your organization's strategy for fulfilling its broader sustainability reporting obligations.

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

   Considering the transposition in Member States where you have operations, 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.**

   Evaluate the chosen reporting option in the context of other reporting frameworks with which your organization will comply – either mandatorily or voluntarily.

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

4. **Begin implementing ESRS** 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 ESRS. 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. Consider the universe of relevant disclosures and the levels in the organization at which such disclosures are relevant and/or material. Understand the data needed, the data already collected and the gaps. Develop an action plan for closing those gaps and assess whether that action plan is feasible. Ensure proper governance structures are in place early in the implementation. To learn more about ESRS, read our handbook, ESRS Foundations.

## Examples

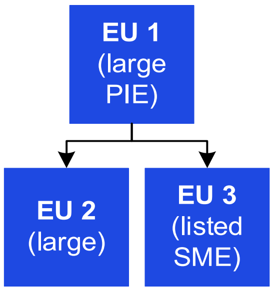
The following examples illustrate the CSRD reporting considerations for non-EU companies. Example 1 starts with an illustration of the reporting implications for EU-based companies. Examples 2 through 5 build on this foundation and incorporate concepts relevant to non-EU companies.

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.

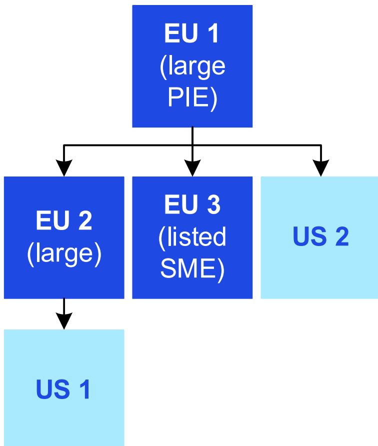
### Analysis

- **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 ESRS. 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 ESRS.
  – ***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 ESRS. 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.

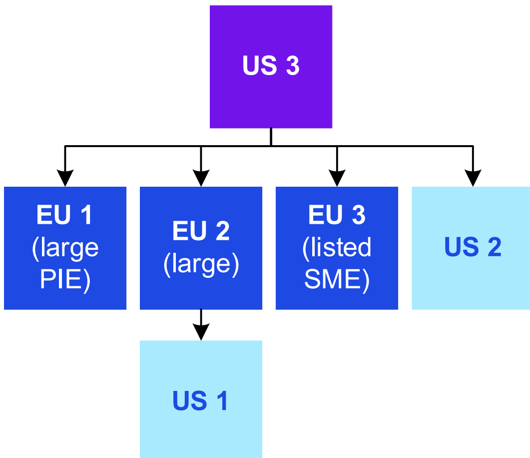
- **Beginning FY25. EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS. **US 1** will need to provide sustainability data to **EU 2** for its consolidated sustainability reporting.
  - ***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

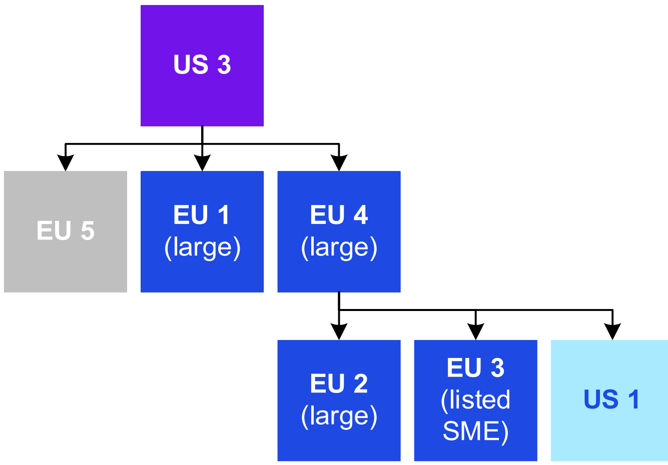
- **Beginning FY24. EU 1** is subject to the CSRD. As a large, listed PIE, **EU 1** will prepare stand-alone sustainability reporting under full ESRS. No exemptions are available.
- **Beginning FY25. EU 2** is subject to the CSRD. As an EU-based parent of a large group, **EU 2** will prepare consolidated sustainability reporting (including **US 1**) under full ESRS.
  - 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 ESRS.
  - ***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**.

    Based on the EC's CSRD FAQs, it appears that this exemption would not be available if the **US 3** consolidated sustainability reporting is prepared under the NESRS.
- **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.

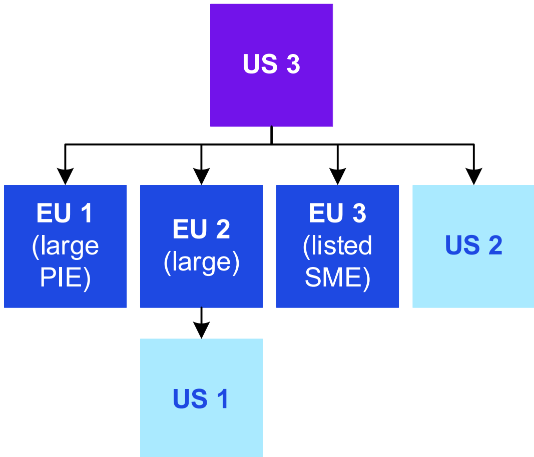
### Analysis

- **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 ESRS.
  - ***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 from stand-alone sustainability reporting 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 NESRS (or alternatively under full ESRS).
  - ***Group exemption.*** If the **US 3** group level reporting is prepared under the NESRS, **EU 1** and **EU 4** will still have to comply with full ESRS – 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 ESRS. 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 ESRS.
  - ***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 ESRS.
- **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 NESRS (or **US 3** may voluntarily report under full ESRS). If the **US 3** group level reporting is prepared under the NESRS, 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.

- Handbook, ESRS Foundations
- Talk book, Get ready for ESRS
- Report, European Green Deal Policy Guide (focus on the 'Fit for 55 package').

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