

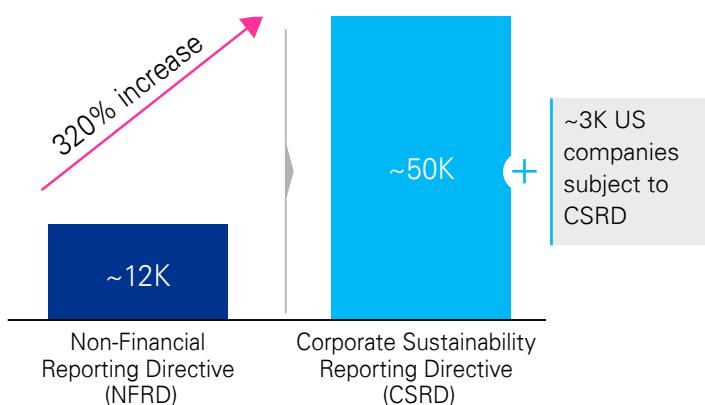
Sustainability reporting for value creation

Navigating CSRD compliance: Don't delay strategic investments that add value now

As the Corporate Sustainability Reporting Directive (CSRD) and other reporting directives remain in flux, the landscape of ESG reporting is set to transform dramatically. This EU legislation is going to significantly expand the existing requirements for ESG reporting, including 12 new binding European Sustainability Reporting Standards (ESRS) with up to 120 mandatory non-financial KPIs and additional qualitative disclosures. 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.

Despite being an EU directive, US and other non-EU based companies will be impacted by the CSRD and similar legislation if they meet certain scoping criteria. The nature of these impacts will vary depending on the specific circumstances of the company.

Captured companies



Scope of application

- **FY 2024:** Public Interest Entities (PIEs) exceeding 500 employees under the Transparency Act
- **FY 2025:** Large EU subsidiaries of US parent companies (including non-capital market oriented)
- **FY 2028:** US parent companies with defined business activities in the EU



Reporting

Reporting only possible in the:

- **Management Report** (option for publishing a separate non-financial report will no longer be available)
- Digital reporting of sustainability information in line with the **European Single Electronic Format (ESEF)**



Assurance obligation

- Mandatory **limited assurance** according to ISAE 3000 or a comparable standard
- **Reasonable assurance** possibly the next step in the process of aligning the depth of review with that of the annual financial report

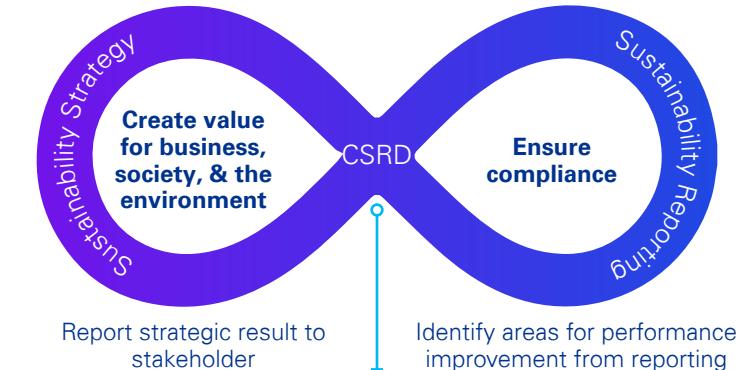
The global ESG reporting journey

Preparing for compliance like CSRD presents an opportunity for reporting companies to bolster their sustainability operating models and develop a holistic approach towards a compliant reporting practice that also satisfies the needs and expectations of relevant stakeholders. This journey would typically involve increasing integration of sustainability matters with the financial reporting process, which will require concerted cross-functional effort and leadership commitment.



Sustainability reporting can uncover value creation opportunities

Ensuring complete and accurate sustainability reporting is only half the story. The other half? Understanding how it fits into the broader business strategy. Insights from CSRD readiness assessments helps leaders make informed decisions on their programs.



How reporting influences strategy

- Identifies risks and opportunities
- Informs strategic planning
- Guides resource allocation
- Sets and tracks performance targets
- Drives operational efficiency and cost reduction
- Strengthens stakeholder relations
- Improves compliance with regulatory requirements
- Enhances brand reputation and market positioning

Learnings from the reporting journey

Despite all the recent developments, reporting companies still have a long way to go in order to reach the desired maturity level for a robust CSRD reporting process. This requires effort both for integration of sustainability into the company's overall business strategy as well as developing the right operating model to satisfy the various reporting mandates in an efficient manner.



Source: KPMG survey on companies' ESG reporting efforts, <https://audit.kpmg.us/articles/2022/the-esg-journey-to-assurance.html>

Developing a holistic operating model that integrates with the organization's broader business practices to deliver disclosures with an appropriate level of assurance required for financial reporting.

- 01** Mindset shift in reporting
Financial reporting standards (such as IFRS & US GAAP) focus primarily on the preparation and audit of **historical** information. The CSRD requires a seismic shift in mindset, requiring significant **forward-looking information**.
- 02** Beyond a "check the box" exercise
The ESRSSs inject a level of formality and rigor into the preparation of the historical **sustainability report**. As a result there is still an opportunity for **strategic and transformative change**.
- 03** Double materiality assessment is central to getting CSRD right
A thoughtful and robust DMA plays a crucial role in informing **both strategy and disclosure** requirements.
- 04** Educate relevant stakeholders on what they actually need
We need to **be cognizant** that we expect a lot of evolution to the implementation of CSRD. We need to educate relevant stakeholders on **key decisions and risks** in implementation today.

Being prepared for CSRD and similar legislation can unlock and prioritize value creation opportunities across the organization by uncovering seemingly unconnected challenges and risks, revealing opportunities.

Growth

Focusing on prioritized opportunities can open up new avenues for growing market presence and revenue streams.

Profitability

Addressing environmental and social impacts can reduce operational costs and lead to productivity improvements.

CapEx

Better understanding of environmental and social priorities can support CapEx planning.

Impairments

A more comprehensive understanding of enterprise-wide risks can help pre-empt disruptive events.

Cost of capital

Enhanced reputation and better performance on sustainability ratings can help enhance access to low-cost capital.

Our differentiators



Our experience



Contact us

**Liz Ming**

Partner, KPMG U.S.
Private Equity Sustainability Leader
214-679-8368
eming@kpmg.com

**Marcus Leach**

Managing Director,
ESG and Climate Advisory
864-506-4106
marcusleach@kpmg.com

**Josh Hesterman**

Managing Director,
ESG and Climate Advisory
972-351-3765
jhesterman@kpmg.com

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