Chapter 2: Scope

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2.1 Scope chapter overview

In response to increasing demand from investors, regulators, governments and other stakeholders to understand corporate actions taken to address climate change and other sustainability initiatives, various frameworks to transform sustainability reporting have emerged worldwide. The sustainability reporting frameworks expected to have the broadest impact are:

- the Corporate Sustainability Reporting Directive (CSRD) in the European Union (EU),
- the IFRS® Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB) and
- the United States (US) Securities and Exchange Commission (SEC) proposed climate disclosure rules in the US.

In addition, California has issued several laws that will require sustainability disclosures from a broad range of public and private companies, including US subsidiaries of non-US entities.

Given the geographic reach of these frameworks and their potential to encompass a broad spectrum of value chain contributors, most entities are expected to be impacted in some way. In addition to entities in scope of one or more of the new rules, entities without direct reporting obligations may be asked for information by customers, suppliers, investors or lenders because of value chain disclosure requirements for in-scope entities. In addition, many multinationals will be subject to more than one framework. An SEC registrant that has a subsidiary listed in the EU and a subsidiary in a jurisdiction that requires disclosure in accordance with the IFRS Sustainability Disclosure Standards, for example, may be subject to all three frameworks, plus the new California laws.

There may be opportunities to leverage disclosures prepared for one reporting framework to satisfy some or all of the requirements of another. The European Commission (EC), EFRAG (previously known as the European Financial Reporting Advisory Group) and the ISSB, for example, have announced they are working together on interoperability guidance intended to assist companies that apply both the European Sustainability Reporting Standards (ESRS) and IFRS Sustainability Disclosure Standards.[1] EFRAG has also announced that the ESRS reflect a "high degree of interoperability" with the standards of the Global Reporting Institute (GRI).[2] In addition, two of the new California climate disclosure laws allow a company to satisfy their reporting requirements by leveraging disclosures prepared to meet other national and international reporting requirements, although this equivalency is provided only if those reports meet the requirements of the applicable laws.

Understanding where the frameworks align and diverge will help entities in scope of multiple frameworks develop the requisite reporting strategy, data gathering processes and related controls, providing for a streamlined process and effective deployment of resources to meet each framework's individual reporting requirements.

See SRG 3, *General requirements* [coming soon], for further discussion of interoperability and equivalence considerations in complying with multiple reporting requirements.

2.2 EU Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive goes well beyond the EU's current Non-Financial Reporting Directive (NFRD). By design, the CSRD is intended to drive changes in an entity's behaviour and bring sustainability reporting on par with financial reporting over time by mandating

[1] IFRS Foundation, European Commission, EFRAG and ISSB confirm high degree of climate-disclosure alignment, 31 July 2023.
[2] EFRAG, EFRAG-GRI interoperability joint statement, 4 September 2023.

detailed disclosures about environmental, social and governance topics. Therefore, although the NFRD has already imposed some requirements to disclose environmental and social impacts, the CSRD will result in more entities being included in scope and more expansive disclosure requirements.

The CSRD is an 'amending EU Directive', meaning that it revises the existing regulations on non-financial reporting in the EU. The CSRD went into effect on January 5, 2023, and EU Member States have until early July 2024 (18 months from the effective date) to incorporate its provisions into national law. The directive sets forth the baseline; thus, Member States may add provisions during this period but cannot eliminate any of the requirements in the CSRD. The CSRD does, however, allow for EU Member States to make several elections during the transposition process (for example, language requirements for reporting, expansion of assurance providers beyond the statutory auditor).

The information in this section is based on the CSRD, as approved and prior to the impact of transposition. Entities should monitor developments in EU Member States for any modifications made in transposition. In addition, refer to the separate interactive publication [coming soon] for the status of adoption in each of the EU Member States.

The existing directives amended by the CSRD include:

- Directive 2013/34/EU — the 'Accounting Directive'; and
- Directive 2004/109/EC — the 'Transparency Directive'.

The Accounting Directive is applicable to EU entities — including EU entities with non-EU ultimate parent entities — and the Transparency Directive is applicable to both EU and non-EU entities that are issuers whose securities are 'admitted to trading' (that is, listed) on a regulated market in an EU Member State. The CSRD's amendments to the Transparency Directive are intended to ensure that non-EU issuers are subject to the same sustainability reporting requirements as EU issuers. Whether an entity is in scope and required to provide sustainability reporting in accordance with the CSRD is based on the definitions and relevant terms from the Accounting Directive and the Transparency Directive. Entities that are exempted under these directives are not in scope of the CSRD. For example, the Transparency Directive exempts non-EU issuers of exclusively debt securities with certain denominations (for example, denomination per unit of at least €100 thousand).[3]

As highlighted in Figure SRG 2-1, the reason why a company is scoped into the CSRD will impact which of three types of reporting standards would need to be applied:

- *European Sustainability Reporting Standards (ESRS):* 12 sector-agnostic standards that became law in December 2023
- *Simplified standards:* For use by certain small and medium-sized enterprises (SMEs), small and non-complex institutions, and captive insurance undertakings (drafts of the simplified standards have been issued by EFRAG for public consultation)[4]
- *Non-EU dedicated standards:* Dedicated standards to be applied at a global consolidated level as part of the additional reporting for non-EU headquartered companies (EFRAG has not yet issued a draft of the non-EU dedicated standards)[5]

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[3] Directive 2004/109/EC, Article 8, paragraph 1.
[4] EFRAG, EFRAG's public consultation on two exposure drafts on sustainability reporting standards for SMEs, 22 January 2024.
[5] On 7 February 2024, the European Parliament and the Council of the European Union provisionally agreed to a two-year delay for the issuance of the non-EU dedicated standards (extending the deadline to 30 June 2026). The announcement of the agreement, however, confirmed that the deadline for application has not changed. See SRG 2.2.6 for information on the timing of first-time application.

Sector-specific standards are also in development. We expect there to be around 40 sector-specific standards although it is currently unclear how they will apply to each type of entity in scope.

The scope of entities directly impacted by the CSRD is expansive, as summarized in Figure SRG 2-1:

Figure SRG 2-1
Summary of entities within the scope of CSRD

Entities in scope of CSRD	Relevant section	Applicable standards
'Large' EU undertakings	SRG 2.2.1.1	ESRS
EU undertakings that are parents of a 'large' group	SRG 2.2.1.2	ESRS
Non-EU entities with listed securities	SRG 2.2.1.3	ESRS
Listed SME undertakings	SRG 2.2.2	Simplified standards
Non-EU entities with significant activities in the EU	SRG 2.2.3	Non-EU dedicated standards

CSRD applies to all entities listed on EU-regulated markets — with limited exceptions — and to 'large' undertakings (as defined in the directive, see SRG 2.2.1.1) and 'large' groups in the EU.[6] CSRD also impacts non-EU headquartered companies, including through their EU subsidiaries and due to a phased requirement for reporting at the global consolidated level. The scoping requirements of CSRD reporting are complex and can be nuanced. Entities will need to consider applicability at multiple levels within the organisation to ensure all reporting obligations are identified. Engaging with counsel may be helpful in this evaluation. Penalties for non-compliance will be determined by each EU Member State and may include fines or incarceration.

See SRG 2.2.6 for information on the timing of first-time application.

Question SRG 2-1

What is an 'undertaking'?

PwC response

Article 1 of the Accounting Directive defines an 'undertaking' as an entity of a certain legal form established in the EU and governed by the laws and regulations on corporate reporting of each EU Member State. The undertakings in scope of the Accounting Directive are mainly entities with limited liability, including partnerships with members that have limited liability for the partnership's obligations.[7]

This publication generally refers to an undertaking or undertakings as an entity or entities, unless quoting from official legislation. However, whether an entity is an undertaking is an important criterion in determining applicability of CSRD as illustrated in Figure SRG 2-1 and discussed in the following sections.

[6] There are limited exceptions to the reporting requirement for listed entities. For example, 'micro-undertakings' are not in scope. Micro-undertakings are defined as an undertaking that does not exceed at least two of three metrics on two consecutive annual balance sheet dates: €450,000 in total assets, €900,000 in net turnover (revenue) and average of 10 employees; Directive 2013/34/EU, Article 3, paragraph 1, as amended by Commission Delegated Directive (EU) 2023/2775, Article 1 paragraph 1.
[7] Directive 2013/34/EU, Annex I and Annex II.

Question SRG 2-2

Does an entity's status as a public interest entity (PIE) impact the application of CSRD?

PwC response

Article 2 of the Accounting Directive generally defines public interest entities as entities with securities admitted to trading on an EU-regulated market, entities that meet the definition of a credit institution or an insurance undertaking and any other entities designated as PIEs by EU member states.[8] For financial reporting purposes, PIEs are automatically treated as 'large' undertakings, regardless of their size. This provision, however, does not apply to sustainability reporting obligations. In general, PIEs are subject to the same criteria as non-PIE entities in terms of determining whether they are in the scope of CSRD. One difference, however, is that small and medium-sized PIEs are exempt from CSRD unless they have securities listed on an EU-regulated market. See SRG 2.2.2 for information on the criteria for small and medium-sized undertakings.

In addition, refer to SRG 2.2.5 for special scoping considerations for certain financial institutions.

2.2.1 Entities subject to the European Sustainability Reporting Standards

Entities subject to the ESRS generally comprise 'large' EU undertakings and EU undertakings that are parents of a 'large' group that meet specified size thresholds, as well as non-EU entities with securities listed on an EU-regulated market.

2.2.1.1 'Large' EU undertakings

An entity organized in the jurisdiction of an EU Member State — including an EU subsidiary of a non-EU headquartered company — that (1) meets the definition of an 'undertaking' (see Question SRG 2-1) and (2) meets the criteria to be 'large' is required to provide sustainability reporting prepared in accordance with the ESRS.[9]

A 'large' undertaking is defined as an undertaking that exceeds at least two of the following three size criteria as of the end of the last two consecutive financial years:[10]

- Balance sheet total: €25 million
- Net turnover: €50 million
- Average number of employees during the financial year: 250

As discussed in Question SRG 2-3, the size criteria should be determined based on the GAAP applied in the entity's financial statements. In addition, the criteria are measured as of the undertaking's balance sheet date. Fluctuation in the average number of employees or the balance sheet total during the year would not impact the measurement. Once an entity qualifies as 'large', it will continue to be subject to the requirements unless it fails to meet at least two of the three criteria for two consecutive years.

Definition of net turnover for EU entities

Article 2(5) of the Accounting Directive provides a definition of 'net turnover' for various entities, beginning with a general definition.

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[8] Directive 2013/34/EU, Article 2, paragraph 1.
[9] Directive 2013/34/EU, Article 19a, paragraph 1.
[10] Directive 2013/34/EU, Article 3, paragraphs 4 and 10, as amended by Commission Delegated Directive 2023/2775, Article 1, paragraph 4.

Excerpt from Accounting Directive Article 2(5)
‘Net turnover’ means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover

The definition goes on to provide specific guidance for insurance entities and credit institutions, as discussed in SRG 2.2.5. It also provides guidance for non-EU entities with significant activities in the EU, as discussed in SRG 2.2.3.

Question SRG 2-3

What accounting principles should be applied in assessing the size criteria?

PwC response

We believe that entities should evaluate the size criteria based on the generally accepted accounting principles (GAAP) applied in accordance with the laws of the applicable EU Member State.

Entities should also determine the average number of employees by applying the term as defined by each EU Member State. There may be differences both in the definition of ‘employee’ and in the rules on how to calculate the average number of employees.

2.2.1.2 *EU undertakings that are parents of a ‘large’ group*

An entity that does not meet the criteria to be a large undertaking on its own may be in scope if it is the parent of a ‘large’ group. Article 2 of the Accounting Directive provides relevant definitions as follows.

Excerpt from the Accounting Directive Article 2
9. ‘Parent undertaking’ means an undertaking which controls one or more subsidiary undertakings;
10. ‘Subsidiary undertaking’ means an undertaking controlled by a parent undertaking, including any subsidiary undertaking of an ultimate parent undertaking;
11. ‘Group’ means a parent undertaking and all its subsidiary undertakings;

As with other terms, the terms ‘subsidiary’ and ‘control’ may be defined differently by the GAAP used by the entity. The prevailing definition is the one referred to in the applicable national law of the EU Member State.

A ‘large’ group is defined as a group consisting of parent and subsidiary entities that, on a consolidated basis, exceed at least two of the following three size criteria on two consecutive annual balance sheet dates:[11]

- Balance sheet total: €25 million
- Net turnover: €50 million
- Average number of employees during the financial year: 250

[11] Directive 2013/34/EU, Article 3, paragraphs 7 and 10, as amended by Commission Delegated Directive 2023/2775, Article 1, paragraph 7.

See SRG 2.2.1.1 for general information on how to apply the size criteria and Question SRG 2-3 for discussion of which GAAP to apply in making this assessment.

The subsidiary entities considered in the calculation would include the EU and non-EU subsidiaries of the EU parent (see Example SRG 2-1) with limited exemptions.[12] Because the criteria are assessed on a consolidated basis, the amounts should be calculated after intercompany eliminations unless the EU Member State dictates another calculation method.

Question SRG 2-4

If an entity meets the definition of a large undertaking on a standalone basis and is also the parent of a large group, is it required to provide sustainability reporting on both a standalone and consolidated basis?

PwC response

No. When an entity is a large undertaking on a standalone basis and is also a parent entity of a large group, it only needs to prepare sustainability reporting for the large group (that is, consolidated sustainability reporting). In accordance with the Accounting Directive, if a parent entity complies with the CSRD reporting requirements for a parent entity of a large group, it is deemed to have complied with the requirements set out for a large undertaking.[13] This means that only the group reporting is mandatory.

Question SRG 2-5

Is an EU holding company or intermediate entity required to prepare sustainability reporting if it is exempted from financial reporting (that is, it does not prepare consolidated financial statements)?

PwC response

Yes. According to Recital 26 of the CSRD, the available exemptions from preparing a management report or financial statements are separate and independent from the exemptions available for CSRD reporting. Therefore, EU holding companies or intermediate entities may benefit from exemptions for consolidated financial reporting that do not extend to sustainability reporting. As a result, an EU holding company or intermediate entity may be required to provide consolidated sustainability information under the CSRD even though it does not prepare financial information at that level.

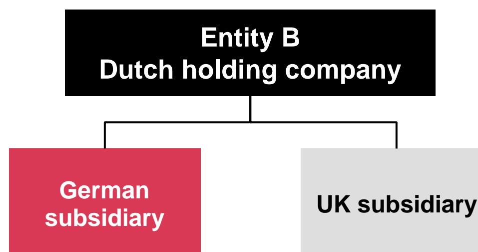
Practical challenges may arise in these cases as certain ESRS disclosure requirements leverage financial information, such as intensity metrics and disclosures under the EU Taxonomy Regulation (see SRG 17, *EU Taxonomy — general* [coming soon]). Absent clarifying guidance, our expectation is that an entity in scope of the CSRD will need to obtain the financial information required for its sustainability reporting.

[12] Directive 2013/34/EU, Article 23, paragraph 9.
[13] Directive 2013/34/EU, Article 29a, paragraph 7.

Example SRG 2-1

Parent undertaking of a large group

Entity B is a limited liability entity established in the Netherlands with a subsidiary in Germany and another in the UK. Entity B is a holding company with no operations of its own.



Financial information for Entity B and its subsidiaries is as follows (currency in millions):

Size criteria		German sub	UK sub	Entity B consolidated
20x3				
Balance sheet total	€1	€8	€1	€10
Net turnover	-	€52	€8	€60
Average number of employees	20	270	60	350
20x4				
Balance sheet total	€1	€11	€3	€15
Net turnover	-	€60	€15	€75
Average number of employees	20	280	100	400

There are no intercompany eliminations.

Does Entity B meet the criteria to be considered a parent entity of a large group as of 31 December 20x4?

Analysis

Yes, although Entity B would not meet the definition of a large undertaking itself, it is the parent entity of a large group as of 31 December 20x4 as follows:

- *Jurisdiction:* Entity B is a limited liability entity established in the Netherlands; a limited liability entity meets the definition of an undertaking, thus Entity B is an undertaking established in an EU Member State.
- *Group criteria:* Entity B controls the German subsidiary and the UK subsidiary, so all entities together are considered a 'group'.
- *Size criteria:* It meets two of the three criteria on a consolidated basis during the last two consecutive financial years: (1) it has more than €50 million of net turnover and (2) it has more than 250 average number of employees during the financial year.

Although Entity B would not be in the scope of the CSRD on a standalone basis, because it is the parent of a large group, Entity B would be subject to the requirements of CSRD at the consolidated holding company level.

2.2.1.3 *Non-EU entities with listed securities*

A non-EU entity with securities (equity or debt) admitted to trading (that is, 'listed') on an EU-regulated market is required to issue a CSRD report in accordance with the ESRS.[14] Such entity is also referred to as an 'issuer'.[15]

Excerpt from the Transparency Directive Article 2(1)(d)
'Issuer' means a natural person, or a legal entity governed by private or public law, including a State, whose securities are admitted to trading on a regulated market. In the case of depository receipts admitted to trading on a regulated market, the issuer means the issuer of the securities represented, whether or not those securities are admitted to trading on a regulated market

'Admitted to trading' is defined in the national laws and associated regulations of each EU Member State. Generally, it is when equity or debt is officially listed by an issuer for trading on a regulated market or a multilateral trading facility. Simply because a security is available to be purchased or sold on a given exchange does not mean that it is admitted to trading.

There are unregulated exchanges in the EU or 'free markets'. The CSRD, however, applies only to entities with securities traded in EU-regulated markets. A 'regulated' market is a market that is licensed and authorised by a financial services authority in the jurisdiction or an external regulator or relevant competent authority.[16]

Excerpt from the Markets in Financial Instruments Directive Article 4(1)(21)
'Regulated market' means a multilateral system operated and/or managed by a market operator, which brings together or facilitates the bringing together of multiple third-party buying and selling interests in financial instruments – in the system and in accordance with its non-discretionary rules – in a way that results in a contract, in respect of the financial instruments admitted to trading under its rules and/or systems, and which is authorised and functions regularly and in accordance with Title III of this Directive;

Throughout Europe, there are markets referred to as multilateral trading facilities (MTFs), which are self-regulated financial trading venues, such as Chi-X Europe, UBS MTF, Liquidnet Europe and Currenex. As MTFs are not regulated or governed by a jurisdiction's competent authority, they are not considered regulated markets.

Some exchanges, such as the Frankfurt Stock Exchange, include both EU-regulated segments and exchange-regulated segments. Securities listed on exchange-regulated segments are not in scope of reporting. A complete listing of EU-regulated markets can be found in a database compiled by the European Securities and Markets Authority (ESMA).[17]

The advice of counsel may be needed to determine if securities are admitted to trading on an EU-regulated market.

[14] Directive 2004/109/EC, Article 4, paragraph 5.
[15] Directive 2004/109/EC, Article 2, paragraph 1(d).
[16] Directive 2014/65/EU, Article 4, paragraph 21.
[17] ESMA, List of EU regulated markets. To find the list of regulated markets, choose 'Regulated markets' under the 'Entity type' drop down menu in the left-hand side bar.

2.2.2 *Listed small and medium-sized undertakings*

A listed small or medium-sized undertaking is required to issue a CSRD report in accordance with simplified standards designed specifically for these types of undertakings.[18] Micro-undertakings are exempt from issuing a CSRD report.[19] Figure SRG 2-2 provides the thresholds that define small, medium-sized and micro-undertakings.[20] To be a SME or micro-undertaking, two of the three respective thresholds cannot be exceeded as of the balance sheet date of two consecutive financial years.

Figure SRG 2-2
Framework for evaluating an undertaking's size classification (not to exceed at least two of the three size criteria)

	Micro-undertakings	Small undertakings	Medium-sized undertakings
Balance sheet total	€450 thousand	€5 million	€25 million
Net turnover	€900 thousand	€10 million	€50 million
Average number of employees during the financial year	10 employees	50 employees	250 employees

See SRG 2.2.1.1 for general information on how to apply the size criteria.

2.2.3 *Non-EU entities with significant activities in the EU*

Even if it does not have listed securities, a non-EU entity that has significant activities in the EU will be required to provide global consolidated reporting following the non-EU dedicated standards beginning in fiscal year 2028 (reporting in 2029) if: [21]

- Consolidated net turnover (revenue) generated in the EU exceeds €150 million for each of the last two consecutive financial years; and
- Either:
  - at least one entity in the consolidated group within the scope of CSRD is a large undertaking or a listed small or medium-sized undertaking; or
  - at least one branch generated more than €40 million annual net turnover in the EU in the preceding financial year.

A non-EU entity, often also referred to as a 'third-country undertaking', is defined as an entity not governed by the law of an EU Member State but that has a legal form comparable to an EU undertaking.[22]

The CSRD does not define 'branch' for purposes of determining whether reporting is required at the global consolidated level, and there is no single definition that exists in other EU regulations or directives (except for a definition given for insurance/reinsurance entities and credit institutions (see

[18] Directive 2013/34/EU, Article 19a, paragraph 1.
[19] Directive 2013/34/EU, Article 36, paragraph 1(c).
[20] Directive 2013/34/EU, Article 3, paragraphs 1-3, and Article 10, as amended by Commission Delegated Directive 2023/2775, Article 1, paragraph 1-3.
[21] Directive 2013/34/EU, Article 40a, paragraph 1.
[22] Directive 2013/34/EU, Article 1, paragraph 5.

SRG 2.2.5)). In assessing whether this criterion is met, we recommend that entities perform an assessment based on existing relevant national definitions with advice from legal counsel. That said, the assessment of whether an entity has a branch is only relevant if the non-EU parent entity does not have a subsidiary that is in the scope of the CSRD.

Question SRG 2-6
Which entity in the consolidated group is required to publish the global consolidated sustainability report?

PwC response

The obligation to publish the global consolidated sustainability report for a non-EU headquartered entity that is reporting under the €150 million criterion sits with the relevant EU subsidiaries (or branches), not with the non-EU parent. In the event the subsidiary or branch is unable to obtain the required information, it would "draw up, publish and make accessible the sustainability report [...], containing all information in its possession, obtained or acquired, and issue a statement indicating that the [non-EU parent] did not make the necessary information available."[23] EU Member States may inform the European Commission on an annual basis of the subsidiaries or branches of non-EU companies that fulfilled the publication requirement as well as instances when a report was published with a statement that not all necessary information was made available.[24]

Definition of net turnover for non-EU entities

Article 2(5) of the Accounting Directive provides a definition of 'net turnover' for various entities, beginning with a general definition (see SRG 2.2.1.1). It also provides specific guidance for entities whose ultimate parent is not governed by the laws of an EU Member State (that is, entities subject to Article 40(a)) as follows.

Excerpt from Accounting Directive Article 2(5)
'Net turnover' means … the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the undertaking are prepared

This definition confirms that the non-EU parent entity should calculate net turnover following the GAAP applied when preparing its consolidated financial statements. A question also arises, however, as to which entities should be included in the calculation. The Accounting Directive uses the language "at its group level" in describing the €150 million annual net turnover threshold.[25] Therefore, we believe this is intended to cover net turnover as a result of all sales from the global consolidated group to customers in the EU. However, we believe other methodologies, such as net turnover recognized by sales from entities established in the EU — whether to customers in the EU or otherwise — may also be permitted.

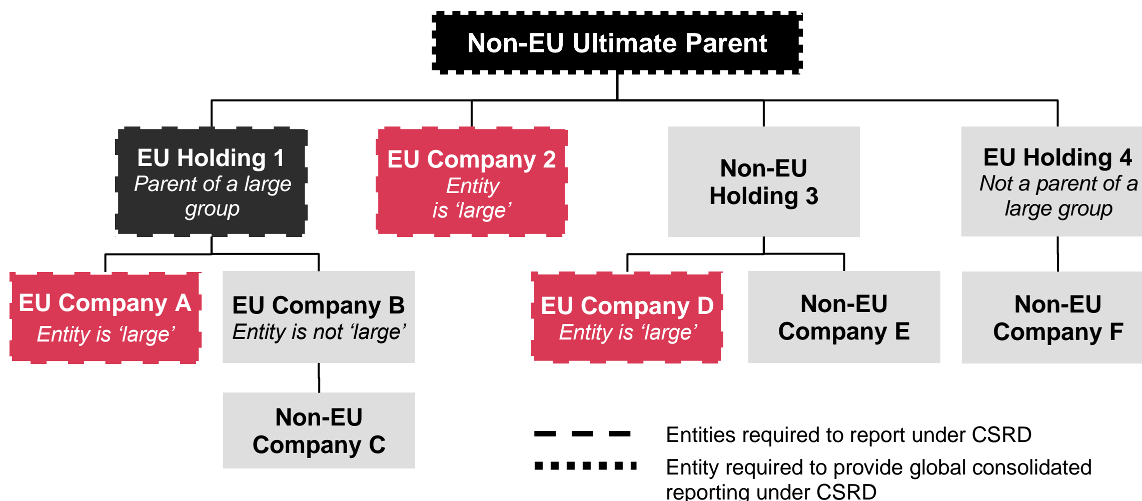
EU Member States may provide additional clarifications upon transposition of the amendments into national law. Until more detail is provided, entities should consider evaluating this criterion from multiple perspectives and prepare for implementation based on the methodology that yields the highest net turnover (revenue) generated in the EU.

[23] Directive 2013/34/EU, Article 40a, paragraph 2.
[24] Directive 2013/34/EU, Article 40a, paragraph 4.
[25] Directive 2013/34/EU, Article 40a, paragraph 1.

Example SRG 2-2

Global consolidated reporting by a non-EU parent entity

A Non-EU Ultimate Parent has global operations and multiple EU and non-EU subsidiaries. Net turnover generated in the EU is in excess of the €150 million threshold in both of the last two years. In addition, all of the entities in the group have a form of organisation that meets the definition of an undertaking and none of the entities are listed in the EU.



What are the sustainability reporting requirements for the global consolidated group?

Analysis

This consolidated group will have reporting obligations as follows:

- 'Large' EU entities — EU Company A, EU Company 2 and EU Company D are all 'large' undertakings that are not listed. These entities will be required to report in accordance with ESRS beginning in 2026 on 2025 data.

  Note that EU Company A is required to report under CSRD; however, it may be eligible for a subsidiary exemption because it is included in EU Holding 1's consolidated ESRS report. See SRG 2.2.4 for further information on available exemptions and the related reporting requirements.

- Parent of a 'large' group — EU Holding 1 is the parent of a large group and will be required to report in accordance with ESRS beginning in 2026 on 2025 data, including its subsidiaries (EU Company A, EU Company B and Non-EU Company C). All subsidiaries must be included in the consolidated sustainability reporting, regardless of whether a subsidiary itself is in the scope of CSRD.

- Non-EU Ultimate Parent — Non-EU Ultimate Parent meets all requirements under Article 40a of the Accounting Directive for sustainability reporting: (1) the consolidated group generated net turnover in the EU of greater than €150 million in both of the last two years; (2) at least one of its subsidiaries is a 'large' undertaking in the EU and (3) it has a form of organisation consistent with an undertaking. Thus, Non-EU Ultimate Parent will be required to provide global consolidated sustainability information in accordance with the non-EU dedicated standards beginning in 2029 on 2028 data. Its subsidiaries will have responsibility for submitting the consolidated reporting (see Question SRG 2-6).

All other companies are out of scope because they are not issuers and are either (1) EU companies that do not meet the size thresholds (standalone or as the parent of a group) or (2) non-EU companies (therefore the size criteria do not apply).

See SRG 2.2.5 and Example SRG 2-4 for the timing requirements and available exemptions.

Example SRG 2-3

Determining whether the €150 million net turnover threshold is met

US Parent Company has a subsidiary in Italy and another in the UK. Net turnover for US Parent Company and its subsidiaries is as follows (currency in millions):

Revenue in million €	US Parent	Italy sub	UK sub	US Parent consolidated
20x7				
Sales to German customers	-	-	€30	€30
Sales to French customers	-	€105	-	€105
Sales to US customers	-	€50	-	€50
Total	-	**€155**	**€30**	**€185**
20x8				
Sales to German customers	-	-	€50	€50
Sales to French customers	-	€110	-	€110
Sales to US customers	-	€50	-	€50
Total		**€160**	**€50**	**€210**

In addition, Italy sub's balance sheet is €105 million at the end of each of 20x7 and 20x8.

Is US Parent Company required to provide global consolidated sustainability reporting?

Analysis

It depends. US Parent Company meets the first criterion because it has a subsidiary that is a 'large' undertaking located in the EU and thus in the scope of CSRD. Whether it has net turnover generated in the EU in excess of €150 million, however, will depend on how it calculates this amount. We believe there may be more than one acceptable method including:

- Destination of sales (that is, products or services delivered to the EU) — following this approach, net turnover in the EU would be €135 million and €160 million in 20x7 and 20x8. Because net turnover generated in the EU is not more than €150 million in two consecutive years, no global consolidated sustainability reporting would be required.
- Generated by subsidiaries in the EU — under this method, net turnover in the EU would be equal to Italy sub's net turnover: €155 million and €160 million in 20x7 and 20x8. Because net turnover generated in the EU is more than €150 million in two consecutive years, global consolidated reporting would be required.
- Combined — this alternative would include (1) all revenue generated by EU subsidiaries and (2) sales from non-EU subsidiaries into the EU. In this fact pattern, all of US Parent Company's revenue would be considered in the evaluation because it is either generated from an EU subsidiary or related to sales to EU customers. This approach would also require global consolidated reporting because the threshold is exceeded in both years.

There may also be other approaches. Given the potential disparity in results as illustrated by this example, we recommend that entities consider multiple methods of determining net turnover generated in the EU. The methodology selected should be applied consistently. In addition, entities should monitor the transposition process by EU Member States to see if further guidance is provided.

2.2.4 Exemptions

Although each EU entity that is in scope has its own reporting obligation by default, there are exemptions to the reporting requirement if certain conditions are met. An EU subsidiary (or subgroup) may be able to satisfy its own sustainability reporting requirements if it is included in the CSRD reporting of an EU or non-EU parent (referred to as the 'subsidiary exemption'). In addition, there is a special variant of the subsidiary exemption — 'artificial consolidation' — that is temporarily available for EU subsidiaries (or subgroups) in the scope of CSRD with a non-EU parent company.

These exemptions are available to all qualifying entities, including insurance entities and credit institutions (see SRG 2.2.5) that meet the definition of subsidiaries. PIEs listed on EU-regulated markets that meet the size thresholds to be 'large' are not eligible for any exemptions. Such entities must comply with the CSRD separately even if they are included in their parent entities' consolidated CSRD report.[26]

EU Member States may also prohibit certain exemptions upon transposition of the CSRD into national law. Entities should monitor developments in EU Member States for any modifications made in transposition. In addition, please refer to the separate interactive publication [coming soon] for the status of adoption in each of the EU Member States.

Given differences in the scope of the information required for standalone reporting or for preparation of a consolidated report, we recommend companies carefully assess the required level of effort before pursuing these exemption possibilities. For an analysis of the considerations that may influence the decisions about which exemption elections to make, see PwC's publication, *Take the next step - decide how to report under CSRD*.

Question SRG 2-7

What reporting is required if an EU subsidiary (or subgroup) subject to the CSRD elects an exemption?

PwC response

To qualify for a reporting exemption, an EU subsidiary (or subgroup) in scope of reporting is still required to provide certain information in its own management report, including:[27]

- a statement that it is exempt from CSRD reporting obligations;
- the name and registered address of the parent entity preparing the CSRD report;
- web links to either (1) the consolidated management report or (2) the consolidated sustainability report, as applicable, of the parent entity preparing the report; and
- web links to the applicable assurance opinion.

In addition, the report in which the EU subsidiary (or subgroup) is included must:

- be prepared in accordance with ESRS or equivalent standards (non-EU parent only, see SRG 2.2.4.2);
- include the disclosures required by Article 8 of the EU Taxonomy Regulation (see SRG 17, *EU Taxonomy – general* [coming soon]);

[26] Directive 2013/34/EU, Article 19a, paragraph 10, and Article 29a, paragraph 9.
[27] Directive 2013/34/EU, Article 19a, paragraph 9.

- meet the limited assurance requirements; and
- comply with the laws of the subsidiary's EU Member State, including any language translation requirement.

In addition, in order for a subsidiary to claim an exemption, its parent's consolidated management report must be prepared, assured and published before the due date of the subsidiary's standalone report. This may mean that a parent will need to accelerate its reporting such that it is available prior to its subsidiaries' earliest reporting date.

Additional criteria may apply depending on the exemption elected. See SRG 2.2.4.1, SRG 2.2.4.2 and SRG 2.2.4.3 for additional information about the various exemption options and other criteria and disclosure requirements specific to each exemption.

Question SRG 2-8

Is an entity required to use an exemption if it is available?

PwC response

No. Although Article 19a(9) of the Accounting Directive states that if the criteria are met, "a subsidiary undertaking shall be exempted", we do not believe that this phrase indicates a requirement and thus the application of the exemptions is not mandatory.

Question SRG 2-9

If not otherwise required, do consolidated financial statements need to be prepared in support of consolidated sustainability reporting?

PwC response

As discussed in Question SRG 2-5, an entity may be exempt from consolidated financial reporting, however, those exemptions are separate from and not automatically applied to sustainability reporting under CSRD. Thus, such entities will need to prepare consolidated financial information as needed to support disclosures in accordance with ESRS as well as information needed for disclosures under the EU Taxonomy Regulation. A full set of consolidated financial statements is not required.

A parent entity that is exempt from preparing a management report and/or financial statements may lack established processes and controls to prepare the required consolidated financial information included in or referenced in the sustainability report. For example, the EU Taxonomy disclosures and some ESRS disclosures include or reference information from the financial statements (for example, ESRS E1 requires disclosure of energy intensity based on net revenue[28]).

Parent entities may also need to prepare consolidated financial information beyond specific line items used in sustainability disclosures in order to properly assess financial impacts, risks and opportunities. For example, entities must consider all types of consolidated assets to determine the anticipated financial effects from physical climate risks.

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[28] Commission Delegated Directive (EU) 2023/2772, Annex I, *European Sustainability Reporting Standards*, ESRS E1, *Climate change,* paragraphs 40–43, page 80.

Question SRG 2-10

Which GAAP should be used to prepare consolidated financial information if no consolidated financial statements are prepared?

PwC response

Consistent with the discussion in Question SRG 2-3, we believe the entity should prepare consolidated financial information based on the GAAP required in accordance with the laws of the applicable EU Member State.

Question SRG 2-11

Is an in-scope EU subsidiary entity eligible for the reporting exemptions if its EU or non-EU parent entity has a different financial period end?

PwC response

The CSRD does not have explicit provisions addressing this situation. Entities should monitor developments in EU Member States for any modifications made in transposition. In addition, please refer to the separate interactive publication [coming soon] for the status of adoption in each of the EU Member States.

Question SRG 2-12

Are reporting exemptions available for associates or joint ventures accounted for under the equity method or proportionally consolidated in the financial statements?

PwC response

The exemptions detailed in SRG 2.2.4 are specific to subsidiary entities. We do not believe they can be applied to associates or joint ventures accounted for under the equity method or proportionally consolidated.

2.2.4.1 Subsidiary exemption through inclusion in report of EU parent

An in-scope EU subsidiary or subgroup will be exempt from issuing its own CSRD reporting if its information is included in the consolidated management report of an EU parent (including a holding company or intermediate entity) that (1) is prepared in accordance with ESRS, (2) includes all subsidiaries of the EU parent (that is, the full consolidated group), including subsidiaries located outside the EU and (3) meets the other criteria for exemptions (see SRG 2.2.4).

An EU parent entity in scope that is an intermediate holding entity, not the ultimate EU parent entity, is also eligible to apply the subsidiary exemption.

2.2.4.2 Subsidiary exemption through inclusion in report of a non-EU parent

An in-scope EU subsidiary or subgroup will be exempt from its own CSRD reporting if it is included in the consolidated report of a non-EU parent (whether an intermediate holding company or the global ultimate parent) that is (1) prepared in accordance with ESRS or in a manner deemed equivalent to those standards by the European Commission, (2) includes all subsidiaries of the parent (that is, the full consolidated group), including non-EU subsidiaries, and (3) meets the other criteria for exemptions (see SRG 2.2.4).

Although EU entities are required to include ESRS disclosures in their management report, the CSRD permits non-EU companies to provide the required disclosures as part of their consolidated

sustainability reporting. Therefore, while for the exemption referred to in SRG 2.2.4.1, an EU-subsidiary must be included in the consolidated management report of its EU parent, an EU subsidiary can be exempt if it is included in a consolidated sustainability report of its non-EU parent prepared in accordance with the ESRS (or in a manner deemed 'equivalent' to those standards by the European Commission).

Question SRG 2-13

What reporting frameworks or standards would be considered 'equivalent' to the European Sustainability Reporting Standards?

PwC response

To date, the European Commission has not made any equivalency determinations, and it is unclear how long that process may take. Further, given certain differences in scope and key concepts (such as materiality) among other existing or proposed disclosure frameworks, it remains to be seen whether the European Commission will identify any other frameworks as equivalent. At this time, companies expecting to be in scope of the CSRD would be well served to assume they will need to prepare the full disclosures required by ESRS.

The non-EU parent's consolidated sustainability report and assurance opinion must be published in accordance with the publications requirements that the exempted subsidiary is otherwise subjected to in accordance with the laws of the EU Member State governing the exempted subsidiary.[29]

Note that practical application of the subsidiary exemption through inclusion in the reporting of a non-EU parent may be complex. Entities may perform an assessment with advice from legal counsel to determine whether the criteria for an exemption have been met.

Example SRG 2-4 illustrates a subsidiary exemption through inclusion in the report of a non-EU parent entity.

Question SRG 2-14

If an in-scope EU subsidiary entity is included in the consolidated sustainability reporting of its non-EU parent, at what level should the required disclosures under Article 8 of the EU Taxonomy Regulation be reported to meet the reporting exemptions?

PwC response

One of the criteria to qualify for an exemption in Article 19a(9)(c) of the Accounting Directive states "if the parent undertaking is established in a [non-EU] country, the disclosures laid down in Article 8 of [the EU Taxonomy] covering the activities carried out by the exempted subsidiary undertaking established in the Union and its subsidiary undertakings are included in the management report of the exempted subsidiary undertaking, or in the consolidated sustainability reporting carried out by the parent undertaking established in a [non-EU] country".[30]

See SRG 17, *EU Taxonomy — general* [coming soon], for more information on the reporting requirements of Article 8 of the EU Taxonomy Regulation.

[29] Directive 2013/34/EU, Article 19a, paragraph 9.
[30] Directive 2013/34/EU, Article 19a, paragraph 9(c).

2.2.4.3 *Artificial consolidation (temporary exemption available until 6 January 2030)*

Until 6 January 2030, EU subsidiaries (or subgroups) in scope of CSRD with a non-EU ultimate parent may prepare a consolidated CSRD report using 'artificial consolidation' (that is, a CSRD report combining the information of all EU subsidiaries in scope, similar to combined financial statements).[31] Subsidiary entities would be exempt from separate reporting if the combined report includes all subsidiaries of the non-EU parent that are in the scope of the CSRD and the other criteria for exemptions are met (see SRG 2.2.4).

The EU subsidiary that prepares and publishes the report must be one of the subsidiaries that generated the highest net turnover (revenue) generated in the EU in at least one of the preceding five years.[32] However, the report must still be published in accordance with the laws of the EU Member State governing the subsidiaries in scope for the subsidiaries to be exempt.[33]

After the transitional period, EU subsidiary entities will be required to report individually or meet the requirements for subsidiary exemption through inclusion in the consolidated reporting of an EU or non-EU parent entity (see SRG 2.2.4.1 and SRG 2.2.4.2).

Question SRG 2-15

How is 'greatest net turnover generated in the EU' calculated for purposes of determining which entity included in an artificial consolidation is obligated to report?

PwC response

There is no explicit guidance addressing how 'greatest net turnover generated in the EU' should be calculated. As discussed in SRG 2.2.3 and Example SRG 2-2, there may be multiple acceptable approaches, absent clarification in the transposition process. The method used should be consistently applied and transparently disclosed.

If more than one entity has had the greatest net turnover in one of the prior five years, it does not matter which entity issues the report.

Question SRG 2-16

Do combined financial statements need to be prepared for the EU subsidiary entities included in an artificial consolidation?

PwC response

No. There is no legal obligation to prepare combined financial statements for the artificial consolidation. That said, EU subsidiary entities are still obligated to prepare disclosures under Article 8 of the EU Taxonomy Regulation (see SRG 17, *EU Taxonomy – general* [coming soon], for information on EU Taxonomy disclosures). As discussed in Question SRG 2-9, the EU Taxonomy disclosures and certain ESRS disclosures include or reference information from the financial statements and thus may create a constructive obligation to perform a formal combination to determine certain specific amounts, although a full set of combined financial statements would not be required.

[31] Directive 2013/34/EU, Article 48i, paragraph 1.
[32] Directive 2013/34/EU, Article 48i, paragraph 2.
[33] Directive 2013/34/EU, Article 48i, paragraph 3.

Question SRG 2-17

Does the 6 January 2030 end to the artificial consolidation exemption apply to periods ending prior to that date or does the report need to be filed by that date?

PwC response

It is unclear if the date refers to periods ending prior to 6 January 2030 or if such reports need to be published by 6 January 2030. We expect EU Member States to provide clarification on this matter during transposition.

Question SRG 2-18

How should an artificial consolidation be applied if each EU subsidiary entity — under the same non-EU ultimate parent entity — has different intermediate non-EU parent holding entities?

PwC response

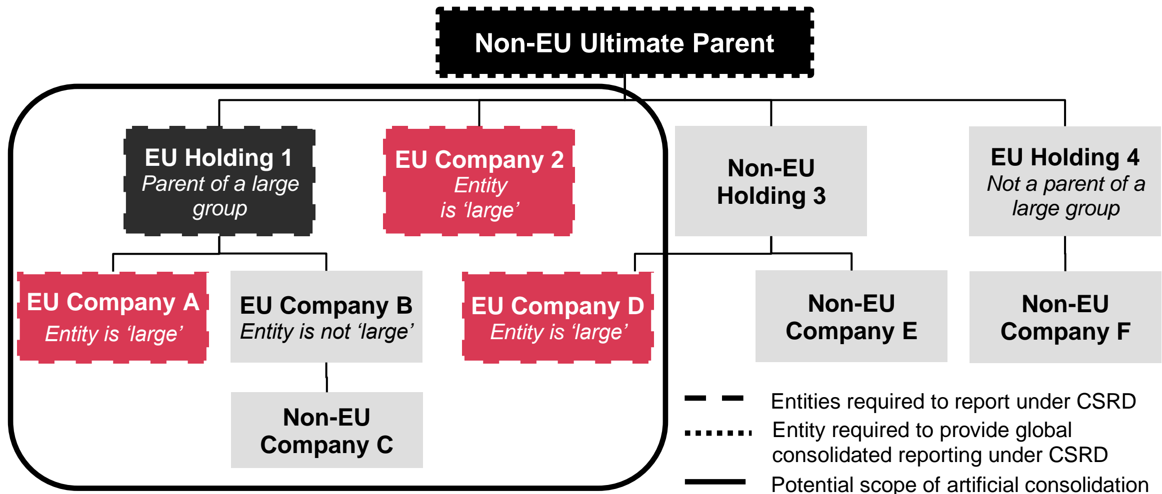
It is unclear if EU subsidiary entities held by different intermediate companies can be combined in the same sustainability reporting under artificial consolidation. The phrase 'parent undertaking' in Article 48i(1) of the Accounting Directive may mean the non-EU ultimate parent entity, or could mean any non-EU entity within an organisation that is a parent entity

The former may mean one CSRD report for all EU subsidiary entities with a common non-EU ultimate parent and the latter may mean that only EU subsidiary entities under a common intermediate non-EU parent holding entity can be included in the same consolidated sustainability. See Example SRG 2-4.

Example SRG 2-4

Application of reporting exemptions

A Non-EU Ultimate Parent has global operations and multiple EU and non-EU subsidiaries. Net turnover generated in the EU is in excess of the €150 million threshold in both of the last two years. In addition, all of the entities in the group have a form of organisation that meets the definition of an undertaking and none of the entities are listed in the EU.



What are the potential exemptions available to EU entities in scope of CSRD reporting?

Analysis

See analysis of the reporting requirements of the group in Example SRG 2-2. Potential exemptions and related considerations are as follows:

Subsidiary exemption

Considerations for reporting on the entity/subgroup level include:

- EU Holding 1 would include its ESRS reporting in its consolidated management report. All subsidiaries of EU Holding 1 (EU Company A, EU Company B and Non-EU Company C) must be included in the consolidated sustainability reporting, regardless of whether a subsidiary itself is in scope of CSRD.
- EU Company 2 and EU Company D would each include its ESRS reporting in its management report.
- EU Company A is required to report under CSRD; however, it is eligible to apply the subsidiary exemption because it is included in EU Holding 1's consolidated ESRS report. To qualify for the exemption, it would also need to meet the other requirements for the exemption, including providing web links to EU Holding 1's consolidated management report and the related assurance opinion as well as meet translation requirements, if any.

Artificial consolidation

The impact of application of the artificial consolidation exemption and related considerations are as follows:

- All in-scope EU entities and subgroups (EU Holdings 1 plus its three subsidiaries, EU Company 2 and EU Company D) potentially could be included in 'consolidated sustainability reporting' (that is, an artificial consolidation which combines their information into one report), prepared in accordance with CSRD and ESRS.
- The EU subsidiary that prepares and publishes the report must be one of the subsidiaries that generated the highest net turnover (revenue) generated in the EU in at least one of the preceding five years.
- The combined report would exempt EU Company A, EU Company 2 and EU Company D from reporting separately under the CSRD. Each company would also need to meet the other requirements for the exemption, including providing web links to the artificial consolidation prepared by EU Holding 1 and the related assurance opinion.
- This option is available until 2030 (see Question SRG 2-17).

Note, however, as discussed in Question SRG 2-18, there are two potential views on the grouping of entities in an artificial consolidation. View one would support grouping all entities under a common non-EU ultimate parent company (as illustrated in the diagram and discussion above). There is, however, an alternative view that only entities under a common holding company could be grouped. In this interpretation, artificial consolidation would need to exclude EU Company D — because it is owned by a different parent than EU Holding 1 and EU Company 2, which are both direct subsidiaries of Non-EU Ultimate Parent.

Consolidated reporting by Non-EU Ultimate Parent

Another reporting option would be for Non-EU Ultimate Parent to prepare global consolidated reporting as discussed below.

- Under this reporting approach, Non-EU Ultimate Parent would prepare a consolidated sustainability report in accordance with ESRS (or in a manner that is equivalent to ESRS). No sustainability reporting standards have yet been determined to be equivalent.
- The global consolidated sustainability report would include all subsidiaries — EU and non-EU — regardless of whether they are individually in the scope of CSRD.
- The global consolidated report would exempt EU Holding 1, EU Company A, EU Company 2 and EU Company D from reporting separately under the CSRD. Each company would also need to meet the other requirements for the exemption, including providing web links to the global consolidated sustainability report prepared by Non-EU Ultimate Parent and the related assurance opinion.

Prior to adopting a global consolidated reporting approach by a non-EU ultimate parent, reporting entities should evaluate the potential implications. For further discussion, including an analysis of the considerations that may influence the decisions about which exemption elections to make, see PwC's publication, *Take the next step - decide how to report under CSRD*.

2.2.5 Special scoping considerations for certain financial institutions in the EU

EU entities that meet the definitions of credit institutions and insurance or reinsurance undertakings are subject to industry-specific directives in addition to the Accounting Directive. These industry-specific directives provide definitions unique to those entities in scope as further discussed in this section.

2.2.5.1 Credit institutions

Credit institutions are governed by Regulation (EU) No 575/2013 (the 'Capital Requirements Regulations' or CRR)). The CRR defines a credit institution as an entity with the business to, regardless of its legal form:[34]

- "take deposits or other repayable funds from the public and to grant credits for its own account"; or
- carry out activities related to "dealing on own account" and certain "underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis" when the total value of consolidated assets meets certain thresholds.

Specific considerations for determining whether a credit institution is subject to CSRD are discussed below.

Size criteria

Credit institutions are subject to the same size criteria as other EU entities to determine whether they are required to report under CSRD (see SRG 2.2.1). In addition, a smaller credit institution may also be in scope of the CSRD if it is a 'small and non-complex institution' as defined in Article 4(145) of the CRR.

Definition of net turnover for credit institutions

One of the criteria for determining whether an entity will be required to provide sustainability reporting under CSRD is net turnover (see SRG 2.2.1). Net turnover for credit institutions is specifically defined in the Council Directive 86/635/EEC (the 'Banking Account Directive') as the sum of the following.[35]

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[34] Regulation (EU) No 575/2013, Article 4, paragraph 1.
[35] Council Directive 86/635/EEC, Article 27, paragraphs 1, 3, 4, 6 and 7, Article 28, paragraphs B1-B4 and B7, and Article 43, paragraph 2(c).

- Interest receivable and similar income
- Income from securities:
- Income from shares and other variable-yield securities
- Income from participating interests
- Income from shares in affiliated undertakings
- Commissions receivable
- Net profit or net loss on financial operations
- Other operating income

This definition is also applicable to an EU branch or subsidiary of a non-EU parent entity that meets the definition of an EU credit institution. A branch and a subsidiary for a credit institution are defined as follows:

- A 'branch' is "a place of business which forms a legally dependent part of an institution and which carries out directly all or some of the transactions inherent in the business of institutions".[36]
- A 'subsidiary' is an entity that is permanently affiliated with a central body that supervises it.[37]

Credit institutions that meet the definition of a subsidiary may apply the subsidiary exemption if they meet the criteria[38] (see SRG 2.2.4). Further, certain credit institutions are excluded from CSRD reporting as follows:

- Funds that do not meet the definition of undertakings
- Alternative investment funds (AIF)[39]
- Undertakings for collective investment in transferable securities (UCITS) funds[40]
- Certain credit institutions that EU Member State may opt to exclude as permitted by Article 1(3)(b) (for example, central banks and post office giro institutions) [41]

Except as noted above, the general CSRD terms and requirements apply to credit institutions consistent with other entities.

2.2.5.2 *Insurance and reinsurance undertakings*

Insurance and reinsurance undertakings are governed by Council Directive 91/674/EEC (the 'Insurance Directive') and Directive 2009/138/EC (the 'Solvency II Directive'). The Solvency II Directive defines insurance and reinsurance undertakings as follows:

- An 'insurance undertaking' is a direct life or non-life insurance undertaking that has received authorisation under Article 14 and in scope of the Solvency II Directive. [42]

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[36] Regulation (EU) No 575/2013, Article 4, paragraph 17.
[37] Regulation (EU) No 575/2013, Article 4, paragraph 16 and Directive 2013/34/EU, Article 19a, paragraph 9.
[38] Directive 2013/34/EU, Article 19a, paragraph 9.
[39] Directive 2013/34/EU, Article 1, paragraph 4, and Regulation (EU) 2019/2088, Article 2, paragraph 12(b).
[40] Directive 2013/34/EU, Article 1, paragraph 4, and Regulation (EU) 2019/2088, Article 2, paragraph 12(b).
[41] Directive 2013/34/EU, Article 1, paragraph 3(b), and Directive 2013/36/EU, Article 2, paragraphs 5(2)-(23).
[42] Directive 2009/138/EC, Article 13, paragraph 1.

- A 'reinsurance undertaking' is an undertaking authorised under Article 14 to perform activities of accepting risks given up by an insurance or a reinsurance undertaking or any member of Lloyd's, an association of underwriters.[43]
- Certain insurance and reinsurance undertakings are 'captive insurance or reinsurance undertakings', which are those with the purpose to provide insurance or reinsurance coverage exclusively for the risks of their owners who are not themselves insurance or reinsurance entities.[44]

Specific considerations for determining whether an insurance or reinsurance undertaking are subject to the scope of the CSRD are discussed below.

Size criteria

Insurance and reinsurance undertakings are subject to the same size criteria as other EU entities to determine whether they are required to report under the CSRD (see SRG 2.2.1).

Definition of net turnover for insurance and reinsurance undertakings

Net turnover for insurance and reinsurance undertakings are defined separately as gross premiums written based on the definition in Article 35 of the Insurance Directive.

Excerpt from the Insurance Directive Article 35:

Gross premiums written shall comprise all amounts due during the financial year in respect of insurance contracts regardless of the fact that such amounts may relate in whole or in part to a later financial year, and shall include inter alia:

(i) premiums yet to be written, where the premium calculation can be done only at the end of the year:

(ii) − single premiums, including annuity premiums,

− in life insurance, single premiums resulting from bonus and rebate provisions in so far as they must be considered as premiums on the basis of contracts and where national legislation requires or permits their being shown under premiums;

(iii) additional premiums in the case of half-yearly, quarterly or monthly payments and additional payments from policyholders for expenses borne by the insurance undertaking;

(iv) in the case of co-insurance, the undertaking's portion of total premiums;

(v) reinsurance premiums due from ceding and retroceding insurance undertakings, including portfolio entries,

after deduction of:

– portfolio withdrawals credited to ceding and retroceding insurance undertakings, and

– cancellations.

This net turnover definition is also applicable to an EU branch or a subsidiary of a non-EU parent entity that meets the definition of an insurance or a reinsurance undertaking.

[43] Directive 2009/138/EC, Article 13, paragraph 7.
[44] Directive 2009/138/EC, Article 13, paragraph 2 and 5.

A branch and a subsidiary for an insurance or a reinsurance undertaking are defined as follows:

- A 'branch' is "an agency or a branch of an insurance or reinsurance entity which is located in the territory of a Member State other than the home Member State".[45]
- A 'subsidiary' is an entity that is a part of a group where there is another entity within the group that exercises a centralised coordination or a dominant influence over decisions (including financial decisions) of other entities in the group[46] and the establishment or dissolution of such relationship is subject to the approval of a group supervisor.[47]

Insurance and reinsurance undertakings that meet the definition of a subsidiary may apply subsidiary exemptions if certain criteria are met (see SRG 2.2.1).

2.2.6 Timing of first-time application

Determining when reporting will initially be required will depend on an entity's facts and circumstances. Generally, however, the size criterion is the most relevant factor in determining the timing of first-time application of CSRD. Figure SRG 2-4 provides a summary of the timing of first-time application for all entities.

Figure SRG 2-4
Summary of timing of first-time application for all entities

Entities subject to CSRD	First-time application date	Relevant section
Entities subject to the current NFRD requirements	Reporting on financial years beginning on or after 1 January 2024	SRG 2.2
'Large' non-EU entities that are (1) listed and (2) have more than 500 employees	Reporting on financial years beginning on or after 1 January 2024	SRG 2.2.1.3
'Large' EU undertakings that are (1) listed and (2) have more than 500 employees	Reporting on financial years beginning on or after 1 January 2024	SRG 2.2.1.1
All other 'large' EU undertakings and EU undertakings that are parents of a 'large' group	Reporting on financial years beginning on or after 1 January 2025	SRG 2.2.1.1
Certain small and non-complex credit institutions, captive insurance entity and captive reinsurance entity	Reporting on financial years beginning on or after 1 January 2026	SRG 2.2.5
Listed SMEs	Reporting on financial years beginning on or after 1 January 2026, with an optional deferral by two years (to 1 January 2028)	SRG 2.2.2
Non-EU entities with significant activities in the EU	Reporting on financial years beginning on or after 1 January 2028	SRG 2.2.3

The CSRD does not explicitly govern whether such timing of first-time application applies to certain small and non-complex credit institutions and captive insurance and reinsurance entities that are listed

[45] Directive 2009/138/EC, Article 13, paragraph 11.
[46] Directive 2009/138/EC, Article 212, paragraph 1(c)(ii).
[47] Directive 2009/138/EC, Article 213, paragraphs 2(a)-2(c).

large undertakings. EU Member States may provide additional clarifications upon transposition of the amendments into national law.

In addition, the date by which entities will be required to publish their sustainability reporting in accordance with CSRD is governed by the EU Member States. The dates will be established upon transposition into national law but are not to exceed twelve months after the end of the entity's last balance sheet date.[48]

Question SRG 2-19

What is the timing of first-time application of the CSRD sustainability reporting requirements for newly listed issuers?

PwC response

The CSRD does not include explicit provisions addressing this situation. Entities should monitor transposition of the CSRD into national law for developments.

2.3 International Sustainability Standards Board

Individual jurisdictions will determine if application of the IFRS Sustainability Disclosure Standards is required or permitted as a basis for sustainability reporting, akin to the process for adopting IFRS Accounting Standards for financial reporting. Note that the IFRS Sustainability Disclosure standards can be applied irrespective of the accounting principles applied in the related financial statements.

In July 2023, the International Organization of Securities Commissions (IOSCO) announced its endorsement of the standards, and has called on its 130 member jurisdictions, regulating more than 95% of the world's financial markets, to consider ways in which they might adopt, apply or otherwise be informed by the standards of the ISSB in their jurisdictions. Numerous jurisdictions have announced support for the standards or are in the process of adoption. For example, in October 2023, it was announced that the standards will be incorporated into the Brazilian regulatory framework, progressing from voluntary application in 2024 to mandatory application in 2026. We expect announcements around the world to continue to accelerate.

See the separate interactive publication [coming soon] for an overview of adoption status by jurisdiction.

2.4 United States

The sustainability reporting landscape in the United States is primarily driven by the SEC's existing and proposed rules as well as sustainability disclosure laws approved by individual states.

2.4.1 US Securities and Exchange Commission

The US SEC regulates entities offering securities through public sale in the US — including both domestic and foreign private issuers — as follows:

- entities with securities publicly traded or exchange traded in any of the securities exchanges in the United States, such as the New York Stock Exchange or the NASDAQ;
- entities with securities registered with the SEC under the Securities Act of 1933 (the 'Securities Act'; and

[48] Directive 2013/34/EU, Article 30, paragraph 1.

- entities filing a registration statement under the Securities Act or the Securities Exchange Act of 1934 (the 'Exchange Act').

US public companies are required to file quarterly and annual reports following two SEC regulations:

- Regulation S-X details the form and content requirements for quarterly and annual financial statements of public companies.
- Regulation S-K states the requirements for the content of the non-financial statement portions of annual, quarterly, and other filings under the Exchange Act.

Regulation S-X and Regulation S-K also apply to registration statements (used to offer securities) filed with the SEC.

An issuer that meets certain criteria — generally related to the location of executives, board members, assets and securities holders — is a foreign private issuer (FPI).[49] FPIs are subject to the requirements of Regulation S-X, but not to Regulation S-K. Instead, guidance on the non-financial statement portions of filings under the Securities Act and the Exchange Act are written into the body and instructions of Form 20-F (filed annually by FPIs).

2.4.1.1 Existing SEC sustainability disclosure requirements

Even before the issuance of new SEC rules on climate-related risk disclosures, the existing rules include several provisions that may require companies to disclose sustainability information.

Climate-related disclosures

In February 2010, the US SEC issued an interpretive release, *Commission Guidance Regarding Disclosure Related to Climate Change*, which outlines how provisions in Regulation S-K could require the disclosure of climate change matters. These disclosure requirements apply to US-based public companies filing under either the Securities Act or the Exchange Act. While FPIs are not subject to Regulation S-K, the disclosures addressed in the interpretive release have parallels under the requirements in Form 20-F. See SRG 5, *Environmental — Climate* [coming soon], for details regarding the nature of these disclosures.

Human capital disclosures

In August 2020, the SEC issued a rule that included amendments intended to modernise some of the disclosures required in the 'description of business' section of certain filings under the Exchange Act and the Securities Act.[50] This rule applies to US public companies and the disclosure requirements do not extend to foreign private issuers. A US public company is now required to disclose, if material, the number of its employees, a description of its human capital resources and any human capital measures or objectives that the registrant focuses on in managing its business.

See SRG 12, *Social — Own workforce* [coming soon], for information about the general reporting requirements under the SEC's existing human capital disclosure rules.

Governance

Regulation S-K requires an entity reporting under the Securities Act or the Exchange Act to provide specific disclosures about the role of its board of directors and its committees, corporate governance policies and executive compensation (see SRG 16, *Governance [coming soon]*).

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[49] The criteria are defined by Rule 405 of the Securities Act and Rule 3b-4 of the Exchange Act.
[50] US SEC, *Modernization of Regulation S-K Items 101, 103, and 105.*

2.4.1.2 *Proposed sustainability disclosure rules*

In addition to existing rules requiring disclosure about sustainability matters, the SEC has released proposed climate-related disclosure rules and has announced an intention to consider whether to adopt new rules in early March 2024. The SEC has also announced that it plans to propose rulemaking expanding required disclosures of human capital matters.

2.4.2 *State disclosure laws*

California is one of several states in the US that have been working to propose rules related to sustainability disclosures. In October 2023, California changed the US sustainability reporting landscape when the California governor signed into law four sustainability disclosure bills. Three of California's new sustainability laws are related to climate disclosure.

Figure 2-5
Summary of California climate disclosure laws

	Voluntary carbon market disclosures	Greenhouse gas disclosures	Climate-risk disclosures
Bill name	Assembly Bill (AB) 1305, Voluntary carbon market disclosures	Senate Bill (SB) 253, Climate Corporate Data Accountability Act	SB 261, Greenhouse gases: climate-related financial risk
Primary disclosure topic	(1) Emissions claims, (2) use of carbon offsets, and (3) sale of carbon offsets	Scope 1, scope 2, and scope 3 greenhouse gas (GHG) emissions	(1) Climate-related financial risks and (2) the measures a company has adopted to reduce and adapt to such risks
Scope	Entities that (1) operate and make emissions claims within California, or (2) buy or sell carbon offsets within California	US entities — including US subsidiaries of non-US parent companies — with annual revenue over $1 billion that do business in California	US entities — including US subsidiaries of non-US parent companies — with annual revenue over $500 million that do business in California
Where filed	Publicly available on the company's website	Publicly available digital platform	Publicly available on the company's website

In addition, a fourth bill, SB 54, Venture capital companies: reporting, will require certain human capital disclosures. The provisions of the climate disclosure bills are incorporated in new sections within the California Health and Safety Code and the provisions of SB 54 are incorporated into the California Business and Professions Code. The laws are commonly referred to using their bill numbers.

The scope of each of the four laws is further discussed below.

2.4.2.1 Applicability of AB 1305 — Voluntary carbon market disclosures

The bill includes three different sets of disclosures, each with different scoping requirements, applicable to a company that engages in the following activities:

- *Makes emission claims — Companies 'operating' in California that make claims in the state (1) about the achievement of net zero emissions or (2) that the company, its affiliated entities, or products are (a) carbon neutral or otherwise imply they do not add to greenhouse gas emissions or (b) have significantly reduced emissions*

- *Uses or purchases voluntary carbon offsets — Companies 'operating' in California that (1) make emissions claims and (2) buy or use voluntary carbon offsets sold in California; voluntary carbon offsets exclude those that relate to a legal or regulatory mandate to reduce or prevent emissions (for example, California's Cap-and-Trade Program)*

- *Markets or sells voluntary carbon offsets — Companies that market or sell voluntary carbon offsets in California*

Certain issues with respect to application of the scoping criteria are discussed below.

'Operating' in California

AB 1305 does not provide any explanation about what it means to operate in California. We believe this would encompass companies that are 'doing business' in California (as discussed in SRG 2.4.2.2) but may also apply to any company that makes emissions-related claims in California. This could include, for example, disclosing claims on a website that is accessible in California. Because no additional guidance is given in the bill, companies should consult with their legal counsel to determine whether they are in scope.

Definition of voluntary carbon offset

The definition of a 'voluntary carbon offset' is broad and includes instruments beyond those typically referred to as such. Specifically, the definition states that it includes "any product sold or marketed in the state that … prevents the emission of greenhouse gases into the atmosphere that would have otherwise been emitted".[51]

Because the definition extends beyond greenhouse gas emissions reduction to apply to products that prevent greenhouse gas emissions, we believe the scope extends beyond 'carbon offsets' to include products such as energy attribute certificates, renewable energy credits (RECs) and renewable identification numbers (RINs, related to renewable fuels) when used for voluntary purposes.

2.4.2.2 Applicability of SB 253 and SB 261 — GHG and climate-related risk disclosures

These laws apply to what SB 253 refers to as a 'reporting entity' and SB 261 refers to as a 'covered entity', although other than a difference in the applicable revenue threshold, the definitions are the same.

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[51] Section 44475(d)(3)(A) of the California Health and Safety Code added by AB 1305.

Excerpts from SB 253 and SB 261
SB 253 — 'Reporting entity' means a partnership, corporation, limited liability company, or other business entity formed under the laws of this state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States with total annual revenues in excess of one billion dollars ($1,000,000,000) and that does business in California. Applicability shall be determined based on the reporting entity's revenue for the prior fiscal year.[52]   SB 261 — 'Covered entity' means a corporation, partnership, limited liability company, or other business entity formed under the laws of the state, the laws of any other state of the United States or the District of Columbia, or under an act of the Congress of the United States with total annual revenues in excess of five hundred million United States dollars ($500,000,000) and that does business in California. Applicability shall be determined based on the business entity's revenue for the prior fiscal year.[53]

Factors to consider in determining whether SB 253 or SB 261 apply include (1) entity type, (2) entity location, (3) total annual revenue for the prior fiscal year, and (4) whether the entity 'does business' in California.

Whether an entity is subject to the laws is based on the legal structure of the organisation ('entity type'). There is no specific exemption for nonprofit entities and we believe the bills are intended to be broadly applicable to for-profit and nonprofit organisations (except for the potential exemption for the University of California discussed below). Further, these definitions do not make an exception based on the location of the ultimate parent of the business entity — meaning that US subsidiaries of non-US companies could be in scope.

Under both definitions, applicability will be measured based on the entity's revenue for the prior fiscal year. And, the revenue thresholds are not based just on revenue generated in California. Instead, an entity that meets the type and location criteria would need to consider its total annual revenue, regardless of where the revenue was generated (including revenue generated outside the United States). Further, absent additional clarification, we believe that revenue should be calculated in accordance with the applicable accounting principles used in the annual financial statements (for example, IFRS Accounting Standards or US GAAP).

'Doing business' in California

A company that exceeds the revenue threshold in SB 253 or SB 261 would next need to assess whether it is 'doing business' in California. Although this term is not defined in the bills, it is defined in California's existing tax code, which was referenced in legislative meeting materials. The California Franchise Tax Board considers a company to be 'doing business' if it meets any of the following:

- Engages in any transaction for the purpose of financial gain within California
- Organized or commercially domiciled in California
- California sales, property, or payroll exceed specified amounts, which are adjusted annually

A company may need to assess whether it "engages in transactions for purposes of financial gain within California," as we believe this may be interpreted broadly. In addition, the specified sales, property, and payroll metrics are relatively low; in 2023, they were just over $711,000 for sales, and just over $71,000 for property and payroll.[54]

[52] Section 38532(b)(2) of the California Health and Safety Code added by SB 253.
[53] Section 38533(a)(4) of the California Health and Safety Code added by SB 261.
[54] State of California Franchise Tax Board, Doing business in California.

Further, the definition of sales within the California Revenue and Taxation Code is expansive. It states, in part, that sales represent the following.

Excerpt from California Revenue and Taxation Code Section 25120
The gross amounts realized … on the sale or exchange of property, the performance of services, or the use of property or capital (including rents, royalties, interest, and dividends) in a transaction that produces business income, in which the income, gain, or loss, is recognized (or would be recognized if the transaction were in the United States) under the Internal Revenue Code.

These definitions have some additional complexity and we recommend companies consult with their tax and legal advisors in assessing whether they meet these criteria.

Exemptions

Insurance companies (that is, business entities subject to regulation by the Department of Insurance) are fully exempt from the requirements of SB 261 because they are already required to provide reporting prepared in accordance with the Task Force on Climate-related Financial Disclosures (TCFD). In 2022, the National Association of Insurance Commissioners, which includes California's Insurance Commissioner, adopted a new standard for insurance companies to report their climate-related risks in alignment with the TCFD framework. Importantly, however, insurance companies are not exempt from the emissions disclosure requirements in SB 253.

SB 253 includes a specific exemption for the University of California unless the Regents of the University of California choose to require it. Otherwise, the bill applies to all reporting entities, as defined, that meet the stated thresholds. SB 253 also specifies that its disclosures will satisfy current reporting requirements that apply to a number of California electricity generators, industrial facilities, fuel suppliers, and electricity importers under Assembly Bill 32, the Global Warming Solutions Act of 2006.

2.4.2.3 Applicability of SB 54 — Venture capital companies

California SB 54 amended Division 8 of the Business and Professions Code and applies to venture capital companies that: [55]

- invest in or finance startups, early stage, or emerging growth companies or manage assets on behalf of third-party investors, and
- are headquartered in, have a significant presence or operational office in, invest in businesses located or with significant operations in, or solicit or receive investments from a resident of California.

Companies in scope of the new law are required to survey their venture capital investees to obtain diversity information (for example, gender identity, race, ethnicity) about the investees' founders. Based on the survey results, and beginning 1 March 2025 and annually thereafter, a covered entity will need to report information about its investments to the Civil Rights Department, which will make the information publicly available through its website.

See SRG 12, Social – *Own workforce* [coming soon], for human capital reporting requirements under the California law.

[55] Section 22949.85(a) of the California Business and Professions Code added by SB 54.

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