

# Take the next step — decide how to report under CSRD

October 2023

## What's inside

Four steps to decide how to report	2
Step one — Assess reporting obligations and exemptions	3
Step two — Gather company-specific information	4
Step three — Overlay corporate strategy and objectives	10
Step four — Understand trade-offs	11
Next steps	12
Appendix	13

Assessing whether a company is in scope of the European Union (EU) Corporate Sustainability Reporting Directive (CSRD) has some inherent complexities. There are, for example, several ways in which a company can be scoped into the EU's new mandatory sustainability reporting requirements. The scope of companies directly impacted is also expansive — including US and other non-EU headquartered companies — making scoping a question that merits priority focus by companies with operations in the EU.

For all of its prescriptive requirements, however, the CSRD provides exemptions that allow for some discretion for non-EU headquartered companies in determining which entities in the organization need to prepare their own reporting. As a result, a company may have options in its approach to fulfilling its CSRD reporting requirements. Deciding which approach is best will be driven by multiple company-specific factors, including its specific reporting requirements and the needs of its stakeholders.

Management of any non-EU headquartered company considering reporting options must grapple with one crucial question: does individual subsidiary or global group reporting (or something in between) best balance the company's sustainability communication strategy with effective and efficient compliance with the reporting requirements. The answer will depend on a company's individual facts and circumstances and may have a dramatic impact on the nature and extent of resources needed to prepare for reporting.

Companies will benefit from taking a methodical approach to this assessment, contemplating the qualitative and quantitative factors that influence the benefits and burdens of complying under different scenarios. And because this reporting decision will dictate how a company assesses materiality and drives the design of new systems, processes, and controls, it is a critical step to take now.

This *In the loop* is designed to provide practical considerations that may inform a company's determination of the most effective reporting approach for its organization under the CSRD. Each company's assessment will nevertheless be influenced by its own facts and circumstances, some of which may not be addressed in this document.



## Background on CSRD

This document provides a high level refresher of the scoping requirements of the CSRD as well as available exemptions for reporting. Application of the guidance contained herein, however, requires a more fulsome understanding of the CSRD. In addition, understanding the related reporting requirements under the CSRD (in the European Sustainability Reporting Standards and the EU taxonomy) will provide needed insight to the nature and extent of disclosure required. See our separate publication, [Worldwide impact of CSRD — are you ready?](#) for further information.

## Four steps to decide how to report

Making an informed assessment on CSRD reporting begins with a thorough understanding of the requirements and reporting options. Companies will then need to gather information about company-specific factors and potentially make certain assumptions to allow them to weigh the pros and cons of various alternatives.

Although the CSRD reporting assessment may not be linear, in general, we recommend the following four steps, each of which is described in more detail below.



Fortunately, there is a broad spectrum of reporting possibilities — ranging from individual entity reporting, to artificial consolidation (similar to combined reporting), to global consolidated reporting — which may provide a company with flexibility in its reporting approach. But the initial decision is not a permanent commitment; what makes the most sense may evolve over time. For example, a company may start with reporting at the individual entity level to allow time to develop the necessary processes and controls with an ultimate goal of reporting under ESRS at the global consolidated level in future years. Any decision to change reporting approach, however, should consider current stakeholder needs.

### *Cross-functional decision making*

Given the character and extent of information that will be publicly available when CSRD reports are filed, the reporting decision should not be made in a vacuum by any one individual or group. Instead, we believe any reporting recommendation should be developed and validated by a cross-functional team that includes representatives from the sustainability team, finance, IT, investor relations, legal, and others — particularly those with oversight responsibility for the entities with a reporting obligation.

Except in the simplest of cases, any reporting approach chosen will have pros and cons. Thus, inclusion of individuals with a broad swath of viewpoints and perspectives will allow for the most balanced and thoughtful response.

### *Documentation*

In addition to active engagement from key internal stakeholders and decision makers, leading companies will prepare contemporaneous documentation around the factors considered and conclusions reached. Specific information that companies should document as part of formalizing their reporting decisions includes:

- a scoping evaluation, including all in-scope subsidiaries and any scoping assumptions and judgments,
- available exemptions, and
- company-specific information related to each of the relevant factors.

Determining how to report will be an iterative process as the landscape continues to change and evolve in response to the transposition process, future guidance on non-EU dedicated standards, and changes in the company's structure, business, or sustainability communications strategy.

### **Governance**

An entity's administrative, management, and supervisory bodies are responsible for ensuring that the (consolidated) management report is drawn up and published in accordance with the requirements of the CSRD. Regardless of the reporting approach taken, a company should consider the appropriate governance structure needed to prepare and oversee its reporting.

## Step one — Assess reporting obligations and exemptions

The foundation of a company's approach to CSRD reporting is understanding how the CSRD applies and what exemptions are relevant. This information sets the stage for assessing the reporting strategy.

All companies with securities listed on an EU-regulated market  
(with limited exceptions)

"Large" EU companies that are not listed

EU companies that are a parent of a "large group" and not listed

### Scoping requirements

A company will need to consider which entities within its organization are in the scope of the CSRD. Although additional country-specific considerations may be introduced when EU Member States incorporate the CSRD provisions into national law (required by early July 2024), reporting generally will be required for companies with debt or equity securities listed on an EU-regulated market as well as companies that are not listed and that are (1) "large" or (2) the parent of a "large" group. In addition to subsidiary reporting requirements, global consolidated reporting by non-EU headquartered companies will be required beginning in fiscal year 2028 (reporting in 2029) if a certain amount of revenue is generated in the EU. This additional reporting can be done using to-be-developed standards specific to this reporting requirement.

### Exemption possibilities

While each EU subsidiary in scope has a separate reporting obligation by default, there are exceptions to that reporting requirement if certain conditions are met.

Subsidiary exemption	Artificial consolidation
An EU subsidiary (or subgroup) may be exempt from its own sustainability reporting requirements if it is included in the CSRD reporting of: <ul style="list-style-type: none"><li>• an EU parent prepared in accordance with ESRS, or</li><li>• a non-EU parent prepared in accordance with ESRS or "equivalent" standards (none have yet been deemed equivalent).</li></ul>	A special variant of the subsidiary exemption is (temporarily) available for EU subsidiaries (or subgroups) with a non-EU parent. Until 2030, these entities may be exempt from separate reporting if they are included in a report prepared using ESRS and "artificial consolidation" (i.e., combining EU subsidiaries and subgroups in scope, similar to combined financial statements).

It is possible that a company may not be permitted to apply either of these exemptions, depending on the reason it is in scope (i.e., a "large" undertaking with debt or equity securities listed on an EU regulated exchange would not be eligible) and whether an EU Member State decides in its transposition process to limit the availability of reporting exemptions or require country or entity-level information.

When and how to apply these exemptions requires careful consideration. Certain fact patterns may be more straightforward; for example, EU subsidiaries may be exempt from reporting on a standalone basis if they are consolidated by an EU company that is the parent of a large group — such as an EU holding company — that is required to report on a consolidated basis. Other facts and circumstances, however, may require more subjective analysis and there may be reasons beyond efficiency that influence the reporting decision (as discussed in step three, see page 10).

For more information about CSRD scoping and the reporting exemptions, see our publication, [Worldwide impact of CSRD - are you ready?](#)

## Step two — Gather information on company-specific factors

Ultimately, the options available to a company about the level at which to report are a factor of the reporting requirements and available exemptions. But the reporting decision will be influenced by a number of factors, including the availability of information, ease of accessing data, timing of reporting requirements, and other items impacting the relative effort involved in reporting — under both ESRS and the EU taxonomy — at various levels.

### CSRD reporting requirements

Although companies may weigh many factors in determining the optimal reporting strategy, the approach to reporting may be dictated by a few primary considerations. We recommend that companies evaluate these first, as they may reduce the options available in reporting.

Listed on an  
EU-regulated market

#### *Listed on an EU-regulated market*

With limited exceptions, reporting will be required for entities with debt or equity securities listed on an EU-regulated market (i.e., issuers).<sup>1</sup> “Large” issuers are not eligible for any reporting exemptions. Separate reporting for the listed entity would generally be required even if the company otherwise chooses artificial consolidation or global consolidation.

Country-specific  
requirements

#### *Country-specific requirements*

As part of the CSRD transposition process, a country may decide to limit the availability of reporting exemptions or may require separate country or entity-level information, for example, by requiring reporting on a standalone basis for any companies located in that country. To date, no countries have completed the process of transposing the CSRD into their own national law; however, companies should continue to monitor the transposition process and consider any limitations on utilizing the exemptions as applicable.

In addition, a company's plan for reporting likely will be decided *before* the transposition process is complete given the transposition deadline of July 2024. Thus, a company will need to apply its best judgment considering all other factors and then layer in any incremental country-specific requirements when available.

### Data availability and organizational structure

Perhaps the biggest drivers that will influence a company's reporting decision are data availability and the nature of its organizational structure. In many cases, even a company that ultimately would like to prepare global group consolidated reporting in accordance with ESRS may determine that separate reporting — or a runway from separate reporting to consolidated reporting — may be most appropriate given its specific circumstances.

Availability of subsidiary  
sustainability information

#### *Availability of subsidiary sustainability information*

The availability of nonfinancial disaggregated data may be one of the challenges with reporting at the subsidiary or subgroup level. Many companies currently report sustainability information at a group or global consolidated level, without separate subsidiary reporting. As such, the data collection controls and processes may not be

<sup>1</sup> There are limited exceptions to the listed company reporting requirements (e.g., issuers that are “micro-undertakings” are not in scope). See our publication, [Worldwide impact of CSRD — are you ready?](#), for more information.

designed to function on a legal entity or disaggregated basis. In other cases, it may be challenging to develop and gather nonfinancial information at a level of detail to facilitate disaggregated reporting.

The incremental effort and difficulty in disaggregating (or aggregating) information for separate subsidiaries or a holding company may shift the balance toward reporting at a global consolidated level.

#### Availability of EU subgroup financial information

#### *Availability of EU subgroup financial information*

Certain metrics included in a report prepared in accordance with ESRS are reliant on financial information (e.g., greenhouse gas intensity metrics, EU taxonomy reporting). EU holding companies and intermediate entities of a non-EU headquartered company are often exempt from preparing consolidated financial statements for statutory reporting purposes. Those exemptions, however, are separate from and not automatically applied to sustainability reporting under the CSRD. Thus, an entity may be required to provide consolidated *sustainability* information under the CSRD — including metrics reliant on financial information — even though it does not prepare consolidated *financial* information at that level. There may be practical challenges to obtaining the requisite financial information to report under the CSRD at an EU subgroup level if there is currently no process in place to report its consolidated financial information.

#### Organization of IT systems and controls

#### *Organization of IT systems and controls*

The IT systems utilized to gather data may be centralized or decentralized, on-premises or cloud-based, subject to existing controls (such as those implemented for purposes of internal control over financial reporting that may also address the reliability of sustainability information) or not. Generally, the existence of decentralized IT systems creates a potential barrier to consolidated reporting. In addition, because of the potential need for manual intervention to aggregate the information, the controls would need to operate at a sufficiently disaggregated level to address the decentralized IT systems. In contrast, centralized IT systems and controls may make it easier to prepare consolidated, rather than separate, sustainability reports.

In many cases, the organization and maturity of IT systems and controls may be an important factor in determining the level of reporting. Notwithstanding other factors supporting the merits of separate (or consolidated) reporting, a company will need to ensure its controls and systems are able to support the reporting decision.

#### Number of reports required

#### *Number of reports required*

Preparing and obtaining assurance over multiple standalone entity reports may be onerous and time-consuming, particularly for companies that have numerous subsidiaries in scope of reporting. In some cases, artificial consolidation or consolidation at a non-EU parent level may provide relief, depending on how the underlying systems and data are organized, and whether the report is required to be translated into multiple languages. In contrast, an entity with only a few EU subsidiaries in scope may find separate reporting to be the most straightforward option.

#### Homogeneity of operations

#### *Homogeneity of operations*

Subsidiaries may perform different functions in the context of a broader corporate group; for instance, some entities may exist primarily for sales, marketing, and distribution in their specific locales, while others may be focused on manufacturing or design and engineering. Generally, artificial consolidation may provide greater potential efficiencies if in-scope subsidiaries have similar operations and activities because of the likelihood of overlap in impacts, risks, and opportunities among those

entities, making this reporting approach more appealing. Further, if the operations are homogenous across entities both in and out of scope, there may be additional synergies from reporting at a global consolidated level. That said, companies may be able to “lift and shift” information between in-scope entities — to some degree — if the business models are the same, simplifying certain aspects of reporting when reporting at the EU subsidiary or subgroup level.

In contrast, when operations are less homogenous — such as for a large conglomerate that operates in many sectors — it is possible that the company’s identified impacts, risks, and opportunities will differ significantly across multiple subsidiaries. In addition, notwithstanding the level at which the company decides to report, companies will need to design the materiality assessment to “ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities” and must provide a description of any significant differences between material impacts, risks, and opportunities identified at the group level compared with its subsidiaries.<sup>2</sup> As such, there may be less potential benefit from reporting at a consolidated level.

#### Subsidiary targets and goals

#### *Subsidiary targets and goals*

One question that arises is how to apply certain provisions of ESRS at the subsidiary level if, for example, governance of sustainability matters or targets are managed or set only at a group level. In this circumstance, a separate subsidiary may be able to indicate that it is managed as part of a consolidated group, referencing the broader corporate targets and risk management. It will be important, however, for the subsidiary to identify which consolidated goals are relevant to its own operations as well as to provide some context for its relative contribution toward achievement of those goals. A sales subsidiary, for example, may conclude that it does not need to disclose a broader corporate goal for water reduction, although a subsidiary that owns coal-fired generation may need to provide information about both the corporate goal for reducing greenhouse gas emissions as well as its relative contribution to current emission levels.

Even with disclosure that calibrates corporate information to the subsidiary, however, reporting at a global consolidated level may provide stakeholders with more meaningful and relevant information, depending on how the company is governed and how its ambitions are set (i.e., if the company is viewing CSRD reporting as a compliance exercise or as an opportunity to move towards more strategic reporting).



#### **Assurance requirements**

The CSRD includes a mandatory assurance obligation for all reported sustainability information, beginning with limited assurance and expanding to reasonable assurance at a later date. Many of the factors companies will contemplate when deciding on a reporting approach, including data availability, organization of systems and controls, and the extent and type of assurance that already may be obtained voluntarily, may impact the assurance process. Regardless of the reporting approach chosen, the reported information will need to be assured.

#### Relative size of in-scope entities

#### *Relative size of in-scope versus out-of-scope entities*

Companies should analyze the relative size of in-scope entities (and impacts and risks) compared to the overall operations of the consolidated enterprise. Even entities

<sup>2</sup> EC, [Delegated Regulation, Annex I](#), ESRS 1, *General requirements*, paragraphs 102-103, page 15.



with a large number of EU subsidiaries (or subgroups) in scope may determine that global consolidated reporting is less efficient since global reporting brings *all* subsidiaries worldwide into scope for reporting, including those that would not have otherwise been included.

## Timing of reporting

Currently, companies may need to file financial reports along varying timelines depending on debt covenants, country-specific statutory requirements, and other commitments. In addition, subsidiaries may have varying year ends, which may create additional challenges. Companies will need to consider whether artificial consolidation or global consolidated reporting will trigger earlier overall reporting timelines compared to reporting at the individual subsidiary level.

### First-time application deadline

#### *First-time application deadline*

In-scope entities may have different timelines for first-time application of CSRD. A subsidiary required to report under the Non-Financial Reporting Directive (NFRD), for example, may be required to report on 2024 information in 2025, which may be earlier than other entities in the group. Further, certain countries expanded the scope of companies required to report under NFRD and may retain or modify this as part of the transposition of CSRD.

Differing first-time reporting timelines may weight standalone reporting as a more efficient option, at least for a period of time. This would also allow additional time for implementation for entities that are not required to report until a later date.

### Availability of ESRS phase-in relief

#### *Availability of ESRS phase-in relief*

Certain ESRS requirements are phased in for all companies while others provide additional time for those entities (or groups) with 750 or fewer employees. We would expect this transition relief threshold to be applied at the level of the reporting entity (which could be the separate EU subsidiary or subgroup, the artificially consolidated group, or the consolidated group, depending on which entity is preparing the report). Thus, reporting at a lower level may qualify a company for additional transition relief that would not be available under the other reporting alternatives given the higher headcount at those levels.

### Required filing deadline

#### *Required filing deadline*

Subsidiary entities may have different statutory year ends than their parents. Further, jurisdictional filing deadlines may vary across subsidiary entities. These differing year ends or filing deadlines may sway a company toward separate subsidiary reporting if, for instance, the earliest reporting entity has to file significantly earlier than other entities in scope.

## Other reporting requirements

A company's broader sustainability reporting requirements is another set of factors that may influence its decision on the level of CSRD reporting.

### Ultimate non-EU parent reporting

#### *Ultimate non-EU parent reporting under the €150 million threshold*

Beginning in fiscal year 2028 (reporting in 2029), a form of global consolidated reporting will be required for most non-EU headquartered companies with subsidiaries

in the scope of CSRD.<sup>3</sup> Options to comply with the consolidated reporting requirement include reporting under:

- to-be-developed “third-country” reporting standards (also referred to as “non-EU dedicated” standards);
- ESRS; or
- “equivalent” standards (although none have been identified to date).

Some companies may look ahead to this requirement and conclude that starting global consolidated reporting following ESRS in the first year will ultimately reduce the reporting burden, as this approach would satisfy both current and future requirements.

Companies are reminded, however, that the non-EU dedicated standards will be reduced in scope compared to the ESRS. We believe companies should consider future consolidated reporting requirements as one factor in developing their reporting strategy but that it alone would not support consolidated reporting in the first year. Some companies may instead decide to transition to global consolidated reporting under ESRS when the consolidated reporting requirement goes into effect (or perhaps when the option for artificial consolidation expires in 2030). For other companies, however, application of the non-EU dedicated standards at the consolidated level, with separate reporting under ESRS for companies in scope, will be the most effective reporting strategy for the foreseeable future. This decision should be made in the context of the other relevant factors.



#### Non-EU dedicated standards

Although the non-EU dedicated standards have not yet been issued for public consultation, the CSRD specifies certain requirements for those standards which provide some insight into their expected scope. Notably, the CSRD outlines three areas of information that are required for ESRS that are not also required for the non-EU dedicated standards:

- The resilience of the group's business model and strategy in relation to risks related to sustainability matters
- The opportunities for the group related to sustainability matters
- A description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on those matters, and how the group manages those risks<sup>4</sup>

In addition, it is possible that the non-EU dedicated standards could include other changes to the requirements, although the likelihood and scope of any such changes is unknown. Companies, however, will need to make their decision without full information because adoption of the non-EU dedicated standards has been proposed to be delayed until June 30, 2026 (with no proposed change to the 2028 reporting timeline).<sup>5</sup>

<sup>3</sup> Even if the ultimate parent does not have securities listed on an EU-regulated exchange, consolidated reporting will be required if (1) at least one entity in the consolidated group is in the scope of the CSRD or the group has an EU branch with more than €40 million net turnover (revenue) in the prior fiscal year and (2) consolidated net turnover (revenue) generated in the EU exceeds €150 million for each of the last two consecutive fiscal years.

<sup>4</sup> [Directive 2013/34/EU](#), Article 40a, paragraph 1

<sup>5</sup> [Proposal](#) for a Decision of the European Parliament and of the Council amending Directive 2013/34/EU as regards the time limits for the adoption of sustainability reporting standards for certain sectors and for certain third-country undertakings, October 17, 2023



#### EU holding company or intermediate entity

#### *EU holding company or intermediate entity*

The existence of an EU holding company (that is the parent of a large group) will likely answer the question of whether to separately report for its subsidiaries — given the availability of the subsidiary exemption for these entities (see page 3). Companies will still need to assess, however, whether to report at the EU holding company level or for the global consolidated group, or to form an artificially consolidated group that includes the EU holding company. This decision should be made in the context of the other relevant factors, including whether the holding company reporting scopes in a substantial amount of the consolidated group.

#### Other mandatory reporting requirements

#### *Other mandatory reporting requirements*

The need to comply with other mandatory reporting requirements at the parent level or across a majority of other subsidiaries may lend itself more toward global consolidated reporting. For example, companies required to comply with other frameworks, such as the California climate disclosure bills or the IFRS® Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB), may be able to comply with multiple frameworks through consolidated reporting.<sup>6</sup> Companies will need to evaluate, however, whether consolidated reporting will satisfy country-specific requirements. Given that countries considering adoption of the ISSB standards are still in the evaluation stage, whether consolidated or country-specific reporting will be required in those jurisdictions — and if so, whether reporting in accordance with ESRS would satisfy these requirements — is another unknown in the evaluation process.

Although companies may find efficiencies in aligning processes to gather data if the same (or similar) information is needed for multiple reporting regimes, they should also be cautious about defaulting to consolidated reporting. For example, the California climate rules focus on only one of the twelve ESRS standards. Thus, this reporting requirement alone likely would not support a decision to move to consolidated CSRD reporting.

#### Status of voluntary reporting

#### *Status of existing voluntary reporting*

Some companies have robust, well-established reporting, consistent sustainability accounting policies, and fulsome data quality controls and controls over the review of existing voluntary disclosures. A company that is already preparing a substantial portion of required metrics on a global consolidated basis may obtain greater efficiencies from filing a consolidated report in accordance with ESRS.



#### **Consideration of other regulatory filings**

A question may arise as to whether any reporting for purposes of the CSRD should be included in other regulatory filings (e.g., SEC Forms 10-K, 8-K, or 6-K or similar reporting in other jurisdictions). We do not necessarily believe inclusion in SEC filings would be required, based on review of the filing requirements of Form 8-K and Form 6-K, as well as the requirements for exhibits. Companies should also consider, however, Regulation S-K Rule 12b-20, which requires the disclosure of any information needed to make the required disclosures not misleading.<sup>7</sup> We recommend that companies analyze the applicable regulatory requirements in consultation with legal counsel.

<sup>6</sup> For more information on these requirements see our publications, [California's not waiting for the SEC's climate disclosure rules](#) and [Navigating the ESG landscape](#)

<sup>7</sup> [SEC Regulation S-K, Rule 12b-20](#)

## Step three — Overlay corporate strategy and objectives

Analyzing the information obtained in step two may involve some judgment and should incorporate input from the full cross-functional team. In addition, prior to making a final recommendation to senior management and the board, the team should evaluate the decision through the lens of the company's overarching sustainability goals and reporting objectives.

Specifically, the underlying detailed factors may point to one reporting alternative as most efficient given the company's specific circumstances, especially when considering questions like corporate structure, data availability, and timing. The final decision, however, should also overlay perspectives on the company's sustainability communication strategy, including questions such as the following:



*How is sustainability incorporated in the company's strategy?*

A company that has embraced sustainability as a corporate strategy may want to highlight the related risks and opportunities holistically to its stakeholders. Consolidated global reporting may provide the best platform to articulate the importance of sustainability compared to disparate subsidiary reporting.



*Do the company's peers have a consistent approach to reporting?*

Investors or other stakeholders may have specific demands or expectations for a company's sustainability reporting, based on the common practices of a company's peers or other factors. Depending on the nature of these expectations, some aspects of the company's operations may be of more or less interest to specific stakeholders. For example, a company should consider whether investors will have an expectation of consolidated reporting because that is the industry trend or there is an overall movement toward replacing disparate voluntary reporting with standardized regulatory reporting.



*Are different stakeholders interested in different information?*

Employees in a particular region, or other stakeholders in a specific country may desire separate information about that subsidiary to better understand the local impact of operations. They may view a consolidated report as less meaningful if they are focused on evaluating information in the context of a specific location. This concern, however, may be able to be overcome with selected subsidiary reporting within a consolidated report.



*Does the reporting provide meaningful information?*

Individual subsidiary reporting may be more or less meaningful depending on various factors, including whether subsidiaries cover different sectors or functions for the entity. Stakeholders may find it frustrating to aggregate information from a multitude of reports. And, even an artificially consolidated group may not be as meaningful to existing investors and other stakeholders if it has only been created for the purpose of CSRD reporting.

Efficiency may not be the driving factor when determining the level at which to report; rather, management's objectives and the intended audience of the reporting are also important considerations. Incorporating these broader factors in the final reporting decision will help ensure the company's reporting is aligned with its sustainability strategy and goals.

## Step four — Understand trade-offs

Given the number of factors that may influence an entity's reporting decisions, companies should consider taking a qualitative and quantitative approach to this analysis using the information previously discussed. The table below highlights the interplay of multiple factors and some of the possible outcomes from various reporting scenarios.

Reporting level	Possible pros	Possible cons
<b>Entity/subgroup level reporting</b> <i>(Each EU entity or subgroup in scope of the CSRD reports individually)</i>	<ul style="list-style-type: none"> <li>Depending on the number of subsidiaries, separate reporting may be simpler than implementing an artificial group</li> <li>Potentially higher specificity of impacts, risks, and opportunities, providing more transparency at the entity level</li> <li>Financial information (and therefore processes) may already exist for legal entities and/or subgroups in scope</li> <li>Likely lower level of effort compared to full consolidated reporting (especially prior to group level reporting required for FY 2028)</li> <li>Additional time for companies to develop processes for investor-grade reporting for the global consolidated group</li> </ul>	<ul style="list-style-type: none"> <li>Possibly resource intensive and inefficient depending on group structure</li> <li>Materiality assessment may be more complex if entities in the subgroup are involved in multiple business segments and value chains</li> <li>Systems for data collection and reporting may not be mature enough for CSRD reporting at the individual entity level</li> <li>Preparing EU subgroup financial data (e.g., for intensity metrics) may pose a challenge if the holding company has not historically reported on a consolidated basis</li> <li>Potential lack of consistency across subsidiary reporting if prepared in isolation across the group</li> </ul>
<b>Artificial consolidation</b> <i>(All in-scope EU entities / subgroups are presented in one combined report)</i>	<ul style="list-style-type: none"> <li>Depending on the number of subsidiaries, artificial consolidation may result in initial lower cost and effort compared to full consolidated reporting</li> <li>Efficiencies in preparing one report covering all in-scope entities instead of multiple reports</li> <li>Supports a uniform approach across in-scope entities and may provide stakeholders with a more complete overview of the activities of all in-scope entities</li> <li>May serve as a useful on-ramp to global consolidated reporting</li> </ul>	<ul style="list-style-type: none"> <li>Investors and other stakeholders may find it challenging to reconcile disclosures made publicly by the parent or individual subsidiaries versus the artificially consolidated group</li> <li>Information may not be meaningful to stakeholders as it does not relate to one specific entity or the consolidated group</li> <li>Preparing the related combined financial data (e.g., for intensity metrics) may pose a challenge</li> <li>Option is only available until 2030 so reporting at the in-scope entity or consolidated level will eventually be required</li> </ul>
<b>Consolidated reporting by the ultimate parent</b> <i>(Ultimate non-EU parent reports sustainability information on a global consolidated basis, including in-scope EU subsidiaries and subgroups)</i>	<ul style="list-style-type: none"> <li>Investors and other stakeholders may expect group level reporting and, even if not expected, group reporting may replace the need for certain voluntary reporting</li> <li>Satisfies the need for separate consolidated reporting in FY 2028</li> <li>Report may be able to meet other mandatory reporting requirements</li> <li>Possible to centralize disclosure processes</li> <li>Ability to leverage current workflow of group-wide disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Additional costs and efforts to report for the entire consolidated group compared to limiting to only in-scope entities</li> <li>Some level of disaggregated information may still be required for proper understanding of material topics</li> <li>Parent company would need to report under full ESRS to qualify for exemption, not the forthcoming non-EU dedicated standards, which are expected to be lesser in scope</li> </ul>

## Next steps

Choosing a reporting option is a watershed decision that will determine the direction of next steps and allow for more tailored planning decisions to be set in motion. And selecting a path now, even with imperfect information about potential country-level reporting requirements and the scope of the non-EU dedicated standards, will help ensure that the result of this labor will balance efficiency with the achievement of strategic objectives. Developing the systems, processes, and controls necessary for effective compliance will be a significant undertaking requiring dedicated financial and people resources regardless of the reporting alternative elected. And documentation of the decision process will provide a roadmap for companies to help evaluate how changes in circumstances could impact the conclusion reached.

In making the final decision on the reporting approach, companies will need to balance available reporting options with potentially diverging stakeholder needs. One important point to remember in making this determination: a company's reporting approach may evolve over time. A decision to report on a particular basis in year one does not cement that decision for reporting in later years when a company's processes and systems may have evolved and stakeholder needs have crystallized. Maintaining optionality for future reporting may be another objective as a company develops its year one approach.

The frameworks that used to be on the horizon have arrived and deadlines are looming. Further delays in making important strategic decisions will have longer term implications that can be avoided by decisive action today.

For more PwC accounting and reporting content specific to sustainability matters, visit the US [ESG/Sustainability reporting](#) page or the global [Environmental, Social and Governance](#) page.

To have a deeper discussion, contact your local PwC sustainability specialist or:

### International

**Peter Flick**  
Partner  
[peter.flick@pwc.com](mailto:peter.flick@pwc.com)

**Andreas Ohl**  
Partner  
[andreas.ohl@pwc.com](mailto:andreas.ohl@pwc.com)

**Olivier Scherer**  
Partner  
[olivier.scherer@pwc.com](mailto:olivier.scherer@pwc.com)

### United Kingdom

**Mark O'Sullivan**  
Director  
[mark.j.osullivan@pwc.com](mailto:mark.j.osullivan@pwc.com)

### United States

**Heather Horn**  
Partner  
[heather.horn@pwc.com](mailto:heather.horn@pwc.com)

**Emily Kirsch**  
Director  
[emily.kirsch@pwc.com](mailto:emily.kirsch@pwc.com)

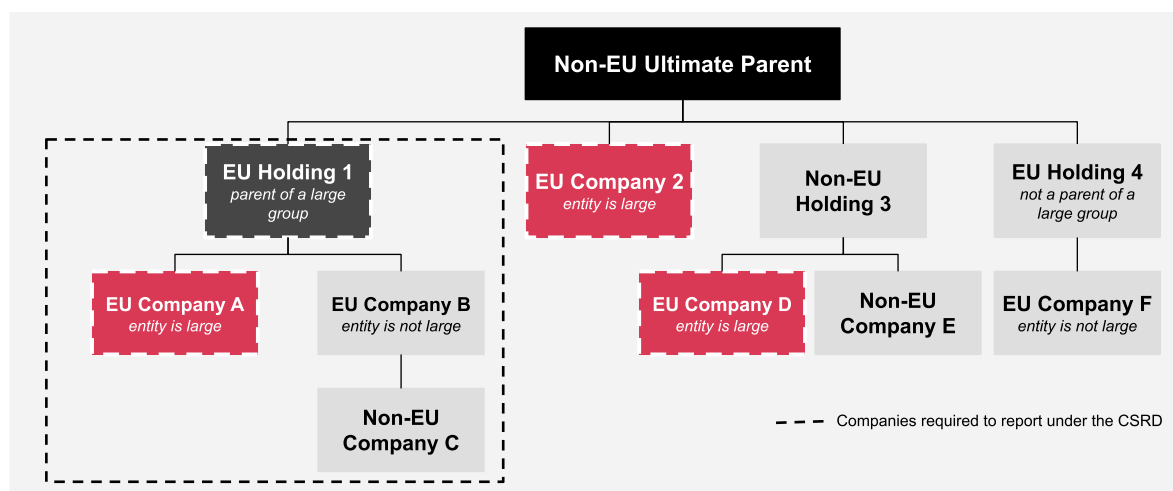
**Valerie Wieman**  
Partner  
[valerie.wieman@pwc.com](mailto:valerie.wieman@pwc.com)

## Appendix

### Illustrative examples of each reporting approach

The following simplified fact pattern is provided to illustrate reporting under each of the three approaches. Not all aspects of the exemptions and reporting requirements are detailed for each approach. Further, it is assumed that all entities are eligible to take the available exemptions and none of the entities are listed on an EU-regulated market.

#### Approach #1 — Entity/subgroup level reporting



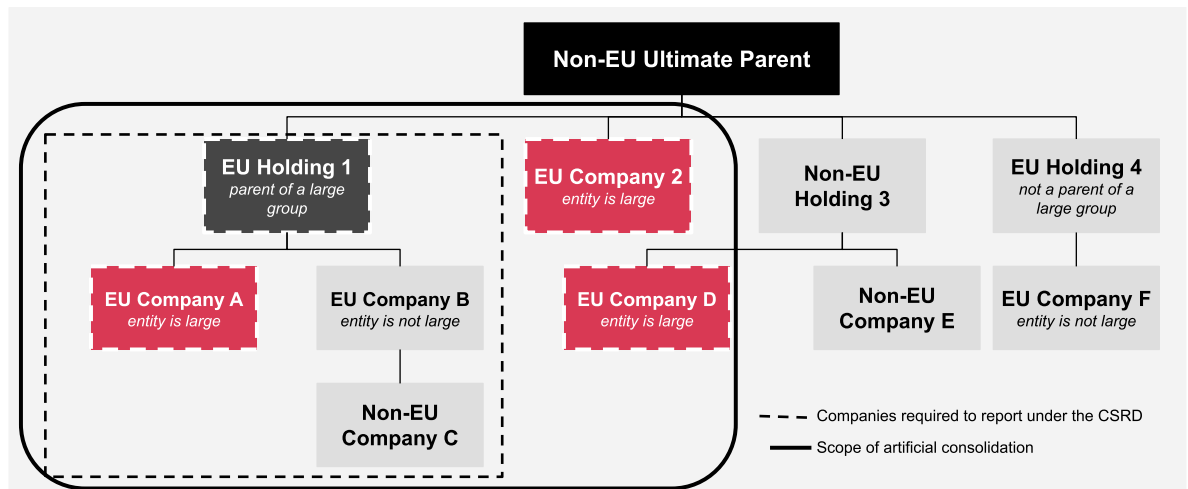
#### Scoping

<b>Large EU entity</b>	Reporting in accordance with ESRS required in 2026 on 2025 data for EU entities that are "large" (EU Company A, EU Company 2, and EU Company D)
<b>Parent of a large group</b>	Reporting in accordance with ESRS required in 2026 on 2025 data for parent of a "large" group, including all subsidiaries (EU Holding 1 inclusive of EU Company A, EU Company B, and Non-EU Company C)
<b>Non-EU Ultimate Parent</b>	Reporting in accordance with non-EU dedicated standards will be required in 2029 on 2028 data, including all EU and non-EU subsidiaries
<b>Out of scope entities</b>	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).

#### Considerations for reporting on an entity/subgroup level

- **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 the CSRD.
- **EU Company 2** and **EU Company D** would each include their ESRS reporting in their management report.
- **EU Company A** is required to report under CSRD; however, it uses the subsidiary exemption because it is included in EU Holding 1's consolidated ESRS report. 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 translation requirements, if any.

## Approach #2 — Artificial consolidation



### Scoping



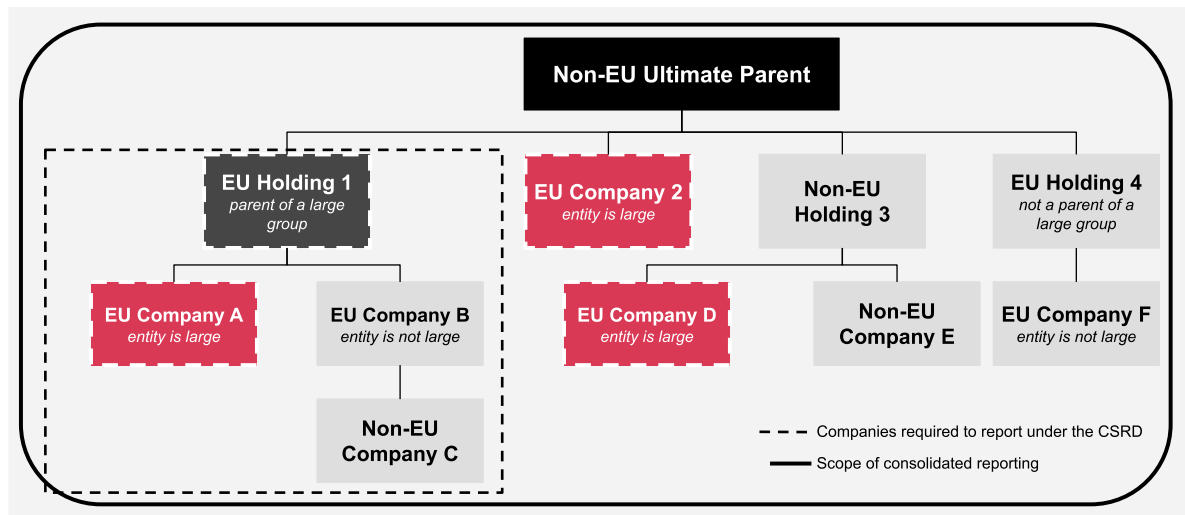
See page 13 for more information on scoping.

### Considerations for reporting using artificial consolidation

- All in-scope EU entities and subgroups (**EU Holding 1 plus its three subsidiaries, EU Company 2, and EU Company D**) would be included in “consolidated sustainability reporting” (i.e., 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 turnover (revenue) in at least one of the preceding five years. For purposes of this example, assume that EU Holding 1 prepares and publishes the report.
- 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.
- Option is available until 2030.



### Approach #3 — Consolidated reporting by the non-EU ultimate parent



#### Scoping



See page 13 for more information on scoping.

#### Considerations for reporting by the non-EU ultimate parent

- 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 B, 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.