A large, abstract graphic of a wave dominates the upper half of the page. The wave is composed of many thin, overlapping lines that create a sense of motion and depth. The colors transition from a deep purple on the left to a bright cyan on the right, with shades of blue and magenta in between. The wave appears to be moving from left to right across the frame.

# Regulatory wave

**ESG challenges on the horizon**

[kpmg.ch/sustainability](https://kpmg.ch/sustainability)

# Developments in key markets

## Switzerland

The Swiss Federal Council has introduced **mandatory non-financial reporting** requirements in the **Swiss Code of Obligations** roughly in line with the current EU non-financial reporting directive for certain public interest entities fulfilling defined thresholds.

Reporting requirements include disclosures on:

- Environmental matters (incl. CO<sub>2</sub> goals)
- Social and employee matters
- Respect for human rights
- Anti-corruption and bribery

Furthermore, Swiss companies are required to conduct due diligence regarding child labor and/or conflict minerals, if in scope of the new requirements.

The Federal Council also initiated the consultation on the ordinance on climate reporting by large Swiss companies in line with the TCFD recommendations. The ordinance is expected to come into force together with the new requirements on non-financial reporting.

## US

The Securities and Exchange Commission (SEC) has proposed The Enhancement and Standardization of Climate-Related Disclosures, which would make sustainability reporting mandatory for nearly all registrants. It would require both domestic and foreign registrants to include climate-related information in their registration statements and periodic reports.

## European Union

At EU level, the Corporate Sustainability Reporting Directive (CSRD) is set to extend the current Non-Financial Reporting Directive (NFRD). The CSRD requires companies in scope to report on sustainability risks affecting the company and the company's impact on society and environment (double materiality, TCFD), the process to select material topics, forward-looking information including targets and progress, and information relating to intangibles (social, human and intellectual capital). Companies will have to report according to mandatory European Sustainability Reporting Standards (ESRSs, currently being developed) and obtain mandatory limited assurance.

The new regulations also include the obligation to disclose EU Taxonomy KPIs. It is supporting an understanding of the share of "green" activities (aligned with EU environmental, or social targets). The Taxonomy requires financial market participants as well as corporates to communicate key figures relating to their EU Taxonomy-aligned economic activities.

The European Commission has also adopted a proposal for a directive on corporate sustainability due diligence, which aims to foster sustainable and responsible corporate behavior throughout global value chains. This regulation is still in the proposal phase.

## ISSB

The release of proposed IFRS Sustainability Disclosure Standards signals a seismic change for global corporate reporting. The International Sustainability Board (ISSB – part of the IFRS Foundation) aims to create a global baseline for sustainability reporting that is focused on the needs of investors. Currently the application is optional.

# Who's affected, where?

## Switzerland

### Non-financial reporting and TCFD

Swiss public interest entities, which together with the Swiss or foreign undertakings that they control, employing in two consecutive financial years at least 500 full-time equivalents on average for the year, and exceeding at least one of the following thresholds in two consecutive financial years: CHF 40 million turnover or CHF 20 million total assets.

### Due diligence

Companies whose seat, head office or principal place of business is located in Switzerland and which place in free circulation or process in Switzerland minerals containing tin, tantalum, tungsten or gold or metals from conflict-affected and high-risk areas exceeding defined thresholds; or companies of a certain size which offer products or services for which a reasonable suspicion exists that child labor was used in its production/delivery. The Ordinance on Due Diligence and uppercase in relation to Minerals and Metals from Conflict-Affected Areas and Child Labor defines the specifics and exemptions.

## US

### Climate-related disclosures

Registrants with Exchange Act reporting obligations pursuant to Exchange Act Section 13(a) or Section 15(d), and companies filing a Securities Act or Exchange Act registration statement, including Foreign Private Issuers. Currently suggesting a phased implementation approach starting with 1) large accelerated filers, 2) accelerated and non-accelerated filers and 3) smaller reporting companies.

## European Union

### CSRD and EU Taxonomy

All listed companies and all large companies with operations in the EU meeting two out of three criteria: 250 employees and/or over EUR 40 million turnover and/or over EUR 20 million total assets. Currently proposing a phased approach for implementation.

### Due diligence

- Group 1: All EU limited liability companies of substantial size and economic power (with 500+ employees and EUR 150 million+ in net turnover worldwide).
- Group 2: Other limited liability companies operating in defined high impact sectors, which do not meet both group 1 thresholds, but have more than 250 employees and a net turnover of EUR 40 million or more worldwide. For these companies, rules will start to apply two years later than for group 1 companies.
- Group 3: Non-EU companies active in the EU with a turnover threshold aligned with Group 1 and 2, generated in the EU.

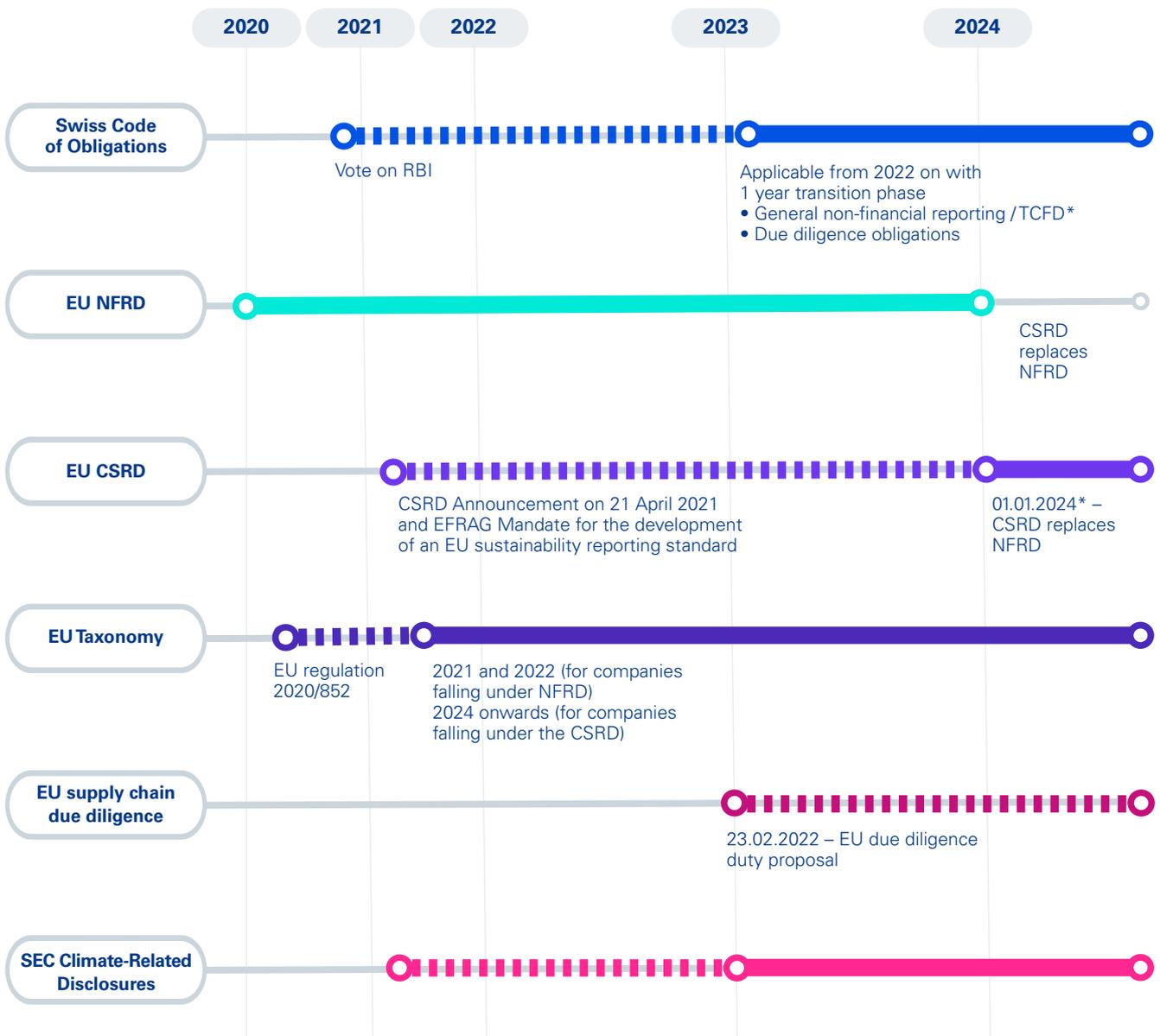
## Indirectly impacted companies

Although certain smaller/private companies are not in the scope of some of the proposed regulations, the effects would likely filter down to them as well. This could be in regards to:

- Being part of the value chain of an in-scope entity and therefore the customer/supplier is requesting information in regards to GHG emissions
- Pressure from investors, lenders, customers and others to improve their sustainability credentials and related reporting
- Disclosing additional non-financial information to gain a competitive advantage

# Timeline

The upcoming regulatory initiatives around sustainability reporting are demanding, especially for Swiss players who are often subject to Swiss reporting requirements on top of the relevant regulations in other countries. To take timely action and achieve cross-functional involvement in policy implementation, firms must ensure they have a clear view of regulatory milestones and how they will impact the organization. Note that most of these new regulations are still in the proposal phases and currently proposed timelines might still change.

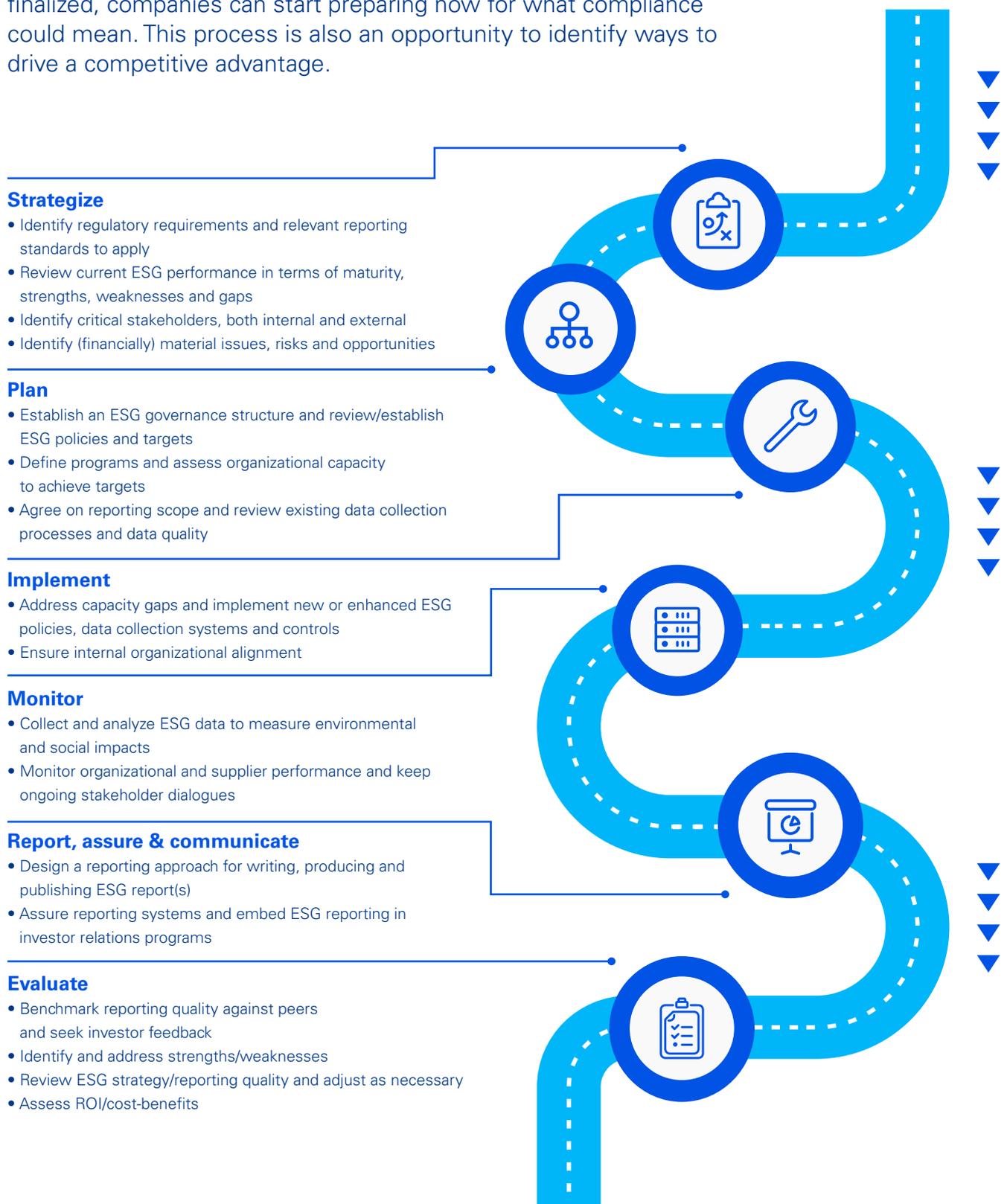


- Voluntary
- Announcement
- Obligation

\*Timelines and content still in proposal phase – current proposal suggests implementation for the 2023 financial year. A new proposal suggests a phased implementation starting in financial year 2024.

# Readiness roadmap

Even though not all of the upcoming regulatory initiatives have been finalized, companies can start preparing now for what compliance could mean. This process is also an opportunity to identify ways to drive a competitive advantage.



# How KPMG can help

For many organizations, getting reporting and assurance right can be a real challenge. The range of ESG metrics and reporting frameworks is vast and depends on the company's sector, size, locations and status as a public interest entity or dependence on access to finance in general. At the same time, expectations around ESG disclosures are increasing, placing higher quality demands on companies' reporting in terms of credibility, verifiability and comparability.



**Our ESG specialists combine their expertise with capabilities across IT advisory, process management, financial services and more. We embrace a multidisciplinary approach to deliver services including:**

- Analyzing the regulatory landscape and providing an overview on **applicable regulations** regarding transparency that apply to your group and your subsidiaries
- **Explaining** the current **reporting landscape** and identifying the most relevant standards to be applied for your company
- **Identifying material topics** to report on, including related KPIs to measure progress
- **Creating reports** in line with generally accepted reporting frameworks and standards as well as current and upcoming Swiss, EU and SEC regulations
- **Re-designing** governance and controls frameworks on non-financial information
- **Transforming** IT and data gathering processes
- **Assuring** non-financial information, applying internationally accepted standards
- Keeping you informed of **developments and the implications** for your company.

If you have any questions,  
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