

State of Tax, Legal & People

CSRD: Touchpoints with tax, legal and HR

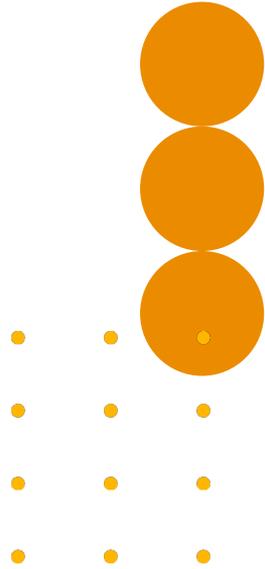
2 April 2024



Welkom



- Wordt dit webinar live bekeken, dan komt u in aanmerking voor 1 PE-punt
- Met de knop '[Stel een vraag]' kunt u direct uw vragen stellen
- Voor overige vragen kunt u terecht bij uw PwC-adviseur of vul het formulier in op [pwc.nl](https://www.pwc.nl)
- Webcast en presentatie worden achteraf beschikbaar gesteld
- Evaluatieformulier achteraf



Agenda

1. Introduction
2. Legal perspective on CSRD
3. Tax: material or not?
4. Strategic relevance of Workforce disclosures
5. Data: where it all comes together



01

Introduction



CSRD driving behavioral change for EU and non-EU Companies

CSRD is not simply a reporting exercise. It aims to accelerate the transition to a more sustainable economy by disclosing the interaction between sustainability and business strategy including the requirement for business' to set sustainability targets and outline policies to achieve those targets. Even for companies who are front running on their sustainability reporting, CSRD will require significant up-front time and investment to satisfy compliance requirements within the specified timeframes and the need to disclose information in the business' value chain.

WHO	Potentially impacting approx. 50,000 companies globally - including large EU (Listed/Non Listed) companies.	
<p>EU Entities in scope*</p> <p>Any EU entity or group of EU entities is considered a "large undertaking" if it meets at least two of the following:</p> <ul style="list-style-type: none"> • ≥ €25M total EU assets • ≥ €50M EU net turnover (revenue) • ≥ 250 EU employees 	<p>Non-EU Entities in scope</p> <p>Non-EU Clients are subject to CSRD on a global consolidated basis if they have significant EU operations:</p> <p>Total EU net turnover (revenue) > €150M for each of the last two consecutive years and at least:</p> <ul style="list-style-type: none"> • one "large" subsidiary in the EU or a subsidiary listed on an EU-regulated market; or • one EU branch that generates revenue of ≥ €40 million in preceding year 	<p>Challenges facing our clients include:</p> <ul style="list-style-type: none"> • Strategy: Alignment of sustainability topics with corporate strategy and definition of targets and transition plans. • Scoping and materiality: determining legal entities in scope and performing the double materiality assessment. • Technology infrastructure: lack of reports and systems used for data collection and consolidation, inconsistent process to capture data, lack of automation etc. • Data quality and governance: lack of formal review process, key controls or testing, unclear governance on data and reporting. • Reporting: determining reporting level exemptions, insufficient oversight structure. • Assurance: delivering robust, auditable data. • People: limited skilled resources internally, plus a need to engage across the business.

WHEN Timing is phased, as depicted in the timeline below, with first year of application **being 2025 (based on 2024 data).**

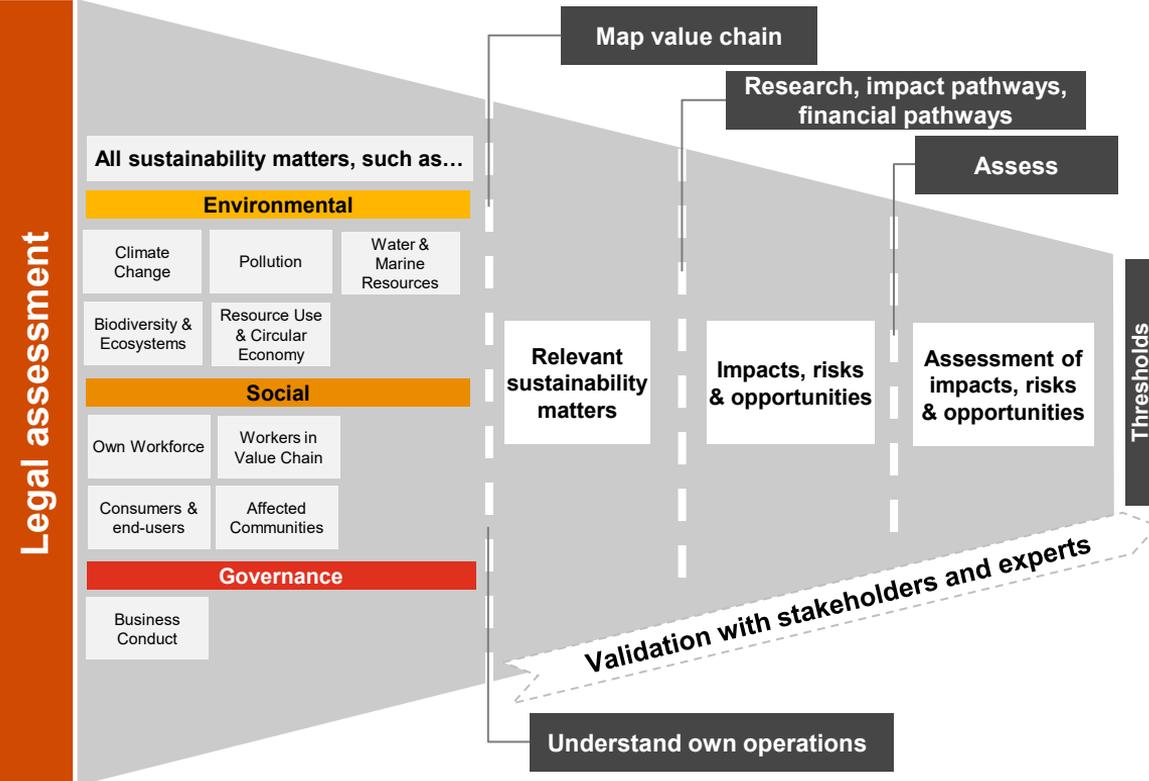
WHY **Investors, employees and consumers are calling for greater transparency - regulators are responding.** Stakeholders expect sustainability to be central to the business - and understand how value is created, destroyed, or preserved for the company and the planet and society. **CSRD has the potential to affect the way companies do business, who they do business with and how capital is allocated.**



This reflects the reporting year but note that the business year precedes the reporting year. Note that comparative period data is not required in the first year of reporting.

Phases of a CSRD project

Double materiality assessment



Gap analysis



Implementation

02

Legal perspective on CSRD



Key points for legal counsel to consider

Legal analysis and scoping *	Director's legal duties and liabilities / upskilling *	Legal entity governance	Member State transposition	Other legal touchpoints
<p>Advice re current and anticipated legislation</p> <p>Determining the application to a corporate structure and business model</p> <p>Determining the level of reporting and DMA</p>	<p>Directors' duties and liabilities</p> <p>All additional tasks make Sustainability/ESG upskilling even more important within the board and supervisory board</p> <p>Non-compliance with Sustainability legislation / regulations including regulatory, litigation and reputation risks</p>	<p>Design and implementation of corporate governance frameworks to manage risks and regulatory requirements</p>	<p>Transposition by EU Member States e.g. on types of entities in scope</p>	<p>Update of customer and/or supplier contractual terms (to include sustainability topics, disclosure of required data, etc.) and general terms & conditions.</p> <p>Work council engagement strategy and implementation</p>

Engaging stakeholders (board of directors, advisory board, employees, etc.)

* will be discussed on next slides

Legislative landscape – CSRD and CSDDD

Why, for who and when?



Why?

CSDDD

- The CSDDD introduces requirements for companies to identify, prevent, mitigate, and remediate the actual and potential negative impacts of their activities on the environment and on human rights abuses. It obliges companies to conduct due diligence in the company's own operations, their subsidiaries and their full value chain.

CSRD

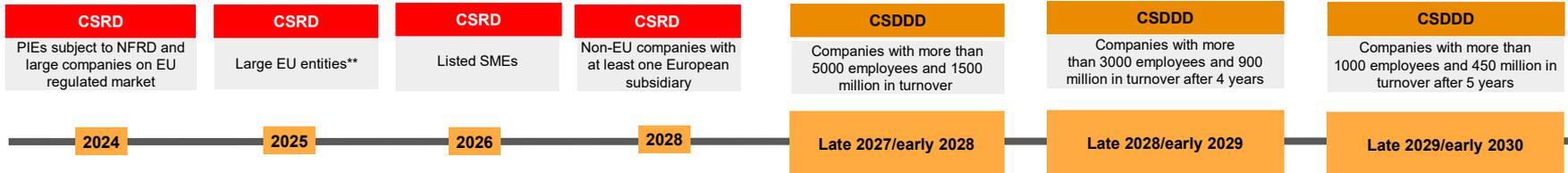
- The CSRD requires companies to report on the impact of corporate activities on the environment and society, and requires the audit of reported information. It helps investors, consumers, policymakers and other stakeholders evaluate large companies' non-financial performance.



For who and when?

- EU companies: more than 1000 employees and more than EUR 450 million net turnover
- Non-EU companies: more than EUR 450 million net turnover

- EU undertakings*
- Third country undertakings with EU subsidiary or EU branch fulfilling certain criteria and net turnover > € 150 m in the EU in each of the last two consecutive FY
- Also includes non-EU issuers, i.e. undertakings situated outside the EU



*Special rules apply to credit institutions and insurance undertakings (in particular with regard to legal form and first-time application).

**large EU entities: entities meeting two of the following three criteria: (i) more than EUR 25 million balance sheet total, (ii) more than EUR 50 million net turnover, (iii) more than 250 employees on average over the FY.

1. CSRD - Duties and Liabilities

Duty of Care

Directors are expected to understand the key environmental and human rights impacts of the organisation

This includes:

- Sustainability Reporting obligation
- Risk Management
- Policies and Procedures

Accountability and Reporting

- Transparency
- Record-Keeping

Liabilities

- Legal Liability
- Administrative Liability
- Reputational Damage

Enforcement and Remediation

- Enforcement via civil and/or criminal proceedings

1. CSRD – Legal scoping

Who?

Art. 19a EU Accounting Directive new

Art. 29a EU Accounting Directive new

EU undertakings*

Single entity

- Large undertaking
- Small and medium-sized entity (SME) if listed



Group

- Parent undertaking of a large group



Art. 40a-d EU Accounting Directive new

Third-country undertakings

- Third-country undertaking with EU subsidiary or EU branch fulfilling certain criteria; and
- Net turnover > € 150 m in the EU in each of the last two consecutive FY



Art. 4 EU Transparency Directive new

Issuers

- Also includes *non-EU issuers*, i.e. undertakings situated outside the EU



When?

Reporting in **2025** on FY 2024

Undertakings already in scope under NFRD

Reporting in **2026** on FY 2025

Large undertakings/groups new in scope under CSRD

Reporting in **2027** on FY 2026

Listed SMEs

Reporting in **2029** on FY 2028

Reporting in **2025** on FY 2024

Large issuers with > 500 employees

Reporting in **2026** on FY 2025

Other large issuers

Reporting in **2027** on FY 2026

Issuers that are SMEs

*Special rules apply to credit institutions and insurance undertakings (in particular with regard to legal form and first-time applicatio

CSDDD – A clear path to approval

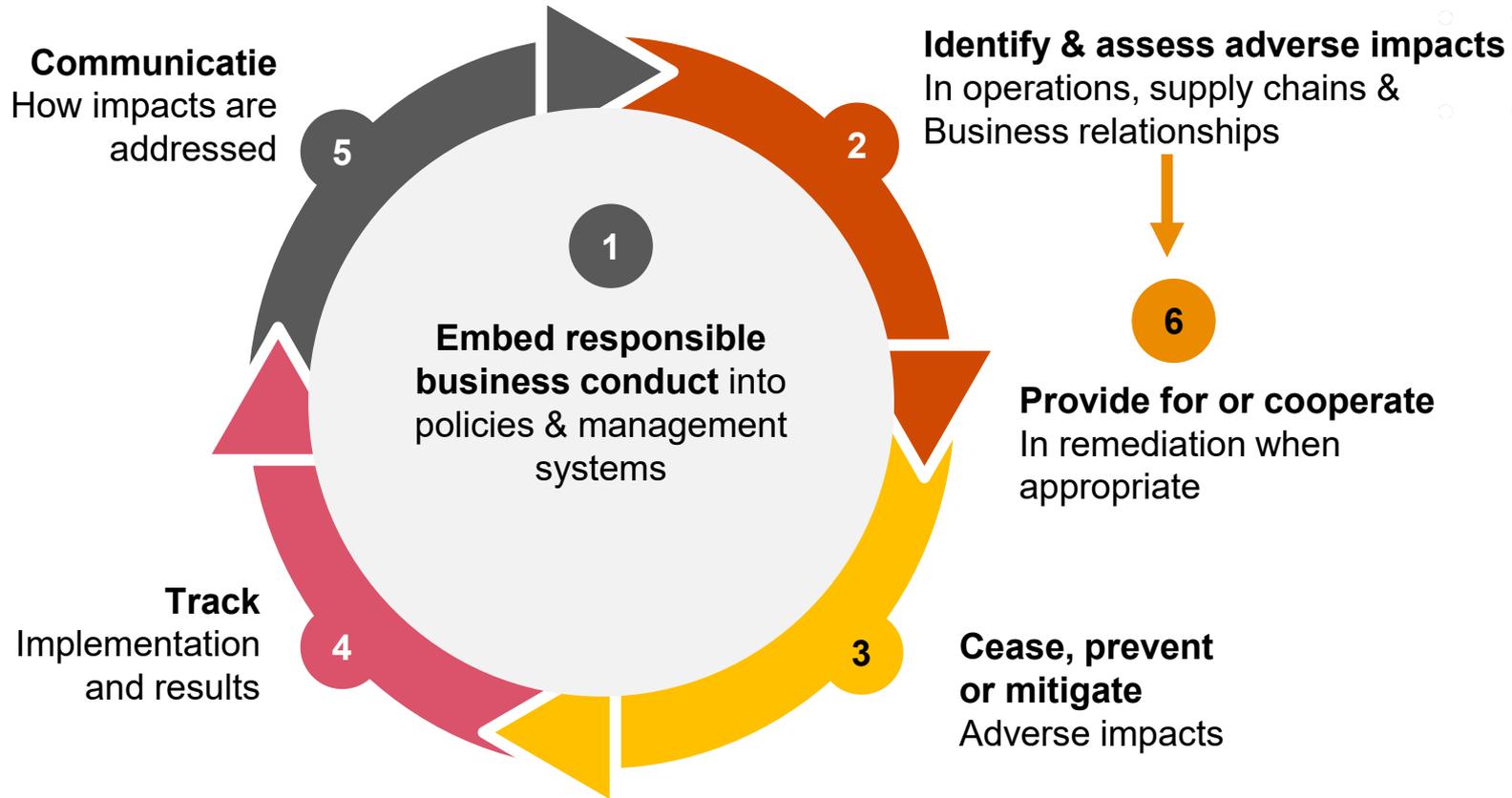
Current status

- **CSDDD** now has the **support** of the Council of the European Union (EU) and the European Parliament (EP) Committee on Legal Affairs
- EP Plenary vote scheduled for **April 2024**
- CSDDD moves closer to **formal approval** before the June EU Parliamentary elections
- If passed, the CSDDD **can be applicable** from end of 2026/ beginning 2027 to in-scope companies, with a phased-in transition period until 2030

Staying ahead of the curve

- [-]
- Businesses **operating across multiple countries** will be required to **navigate different regulations with often conflicting priorities** and associated compliance requirements. This creates new risks and liabilities
- **A call to action** for businesses to not wait for legislation to dictate their sustainability strategies

CSDDD – A clear path to approval



Position & upskilling Boards

This developing Sustainability landscape requires upskilling of the management board (MB) and supervisory board (SB) and make Sustainability/ESG knowledge even more important.

- Dutch Corporate Governance Code (**Code**) 2022:
 - Each SB and MB member needs to have the specific expertise necessary for the fulfillment of its task
 - Each SB member must be capable of assessing the main lines of the overall policy
 - The induction program for SB members should pay attention to sustainability reporting
 - In-depth knowledge is necessary for the MB and SB regarding the themes of sustainability (and digitalization)
 - It must be ensured that MB and SB members receive sufficient training and education on these themes
 - Companies can appoint a specific (digitalization and) sustainability SB member and/or a specific MB member with knowledge in this area; such an appointment does not release the other members of the MB and SB from close involvement in these themes
- CSRD/ESRS:
 - Reporting on the level of ESG-expertise present in the MB and SB and their individual members, or access to that expertise and skills (per ESRS 2 'General Disclosures' GOV 1)

03

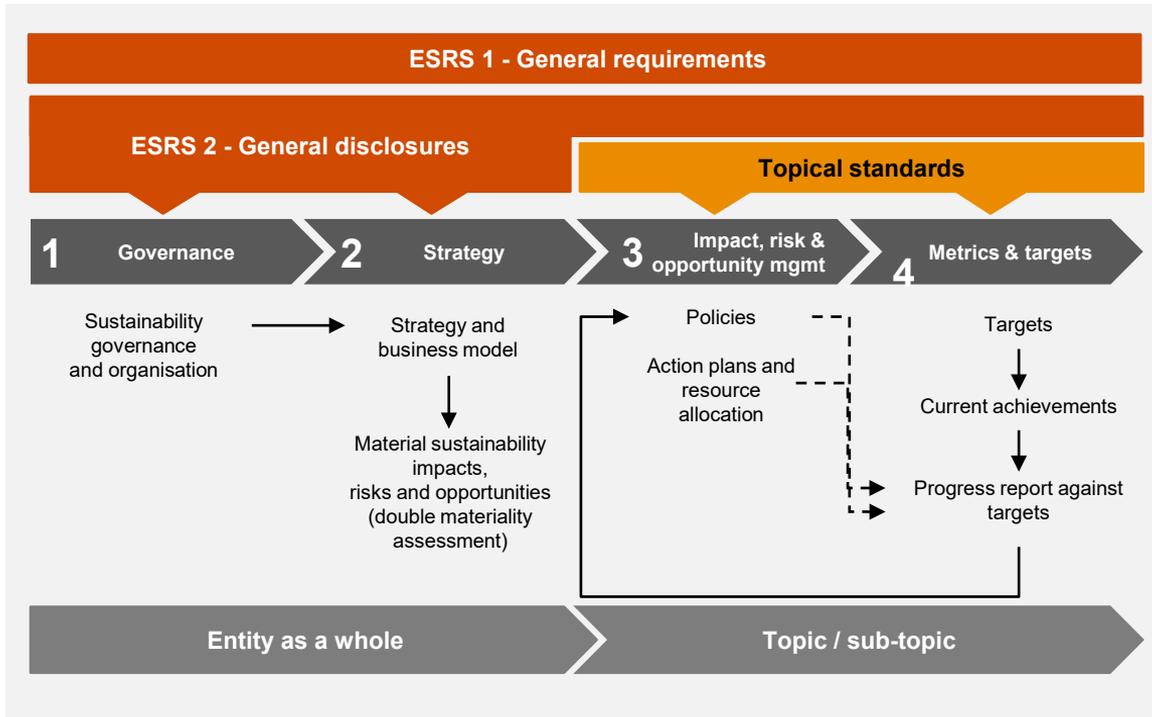
Tax: material or not?



III. CSRD reporting

European Sustainability Reporting Standards (ESRS)

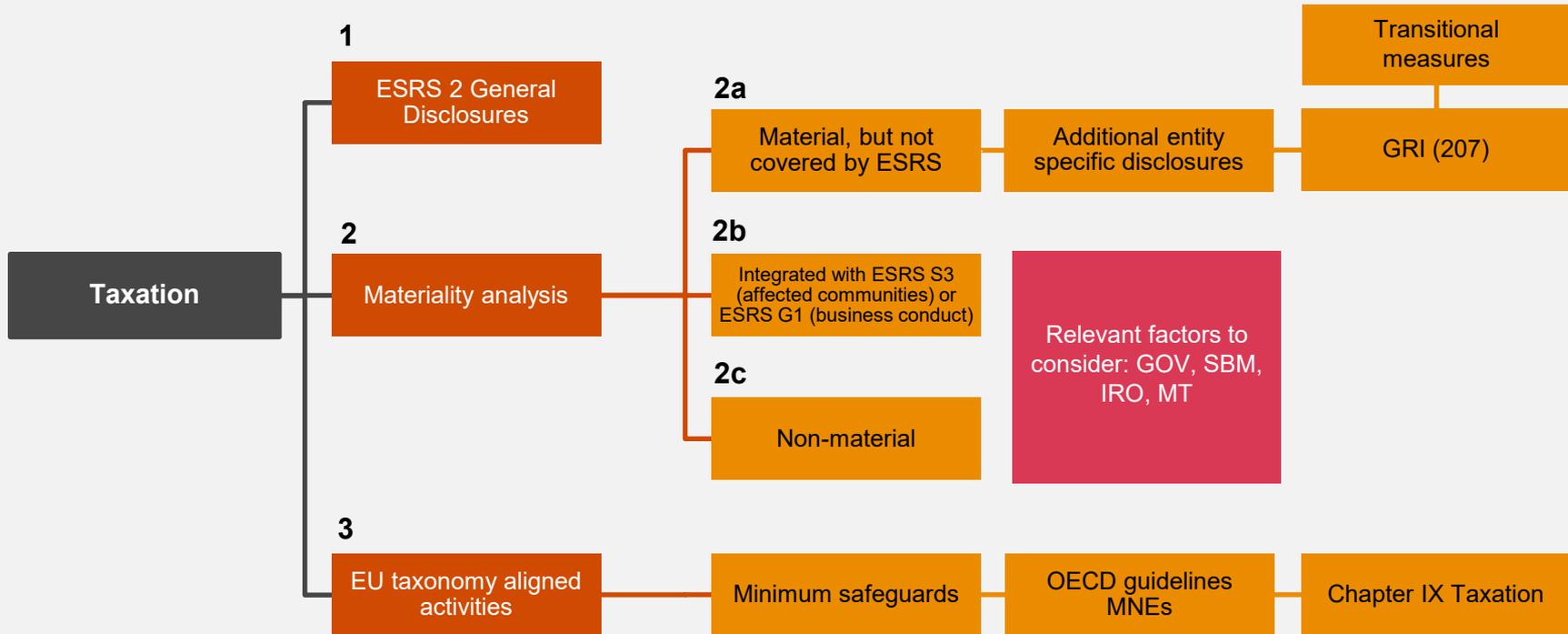
CSRD requires disclosures of strategy, policies and metrics and targets



Topical standards		
Environment	Social	Governance
ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water & marine resources	ESRS S3 Affected communities	
ESRS E4 Biodiversity & ecosystems	ESRS S4 Consumers and end-users	
ESRS E5 Resource use and circular economy		

Delegated act ESRS adopted 31 July 2023

The CSRD and ESG – the role of tax



Transparency Framework



Published tax strategy

This helps stakeholders understand a company's key tax principles and its approach to tax.



Tax governance

This provides an understanding of who has responsibility, oversight and accountability for tax - not only on a day-to-day basis, but where the ultimate responsibility for tax rests.



Tax controls and risk management

This helps stakeholders understand the policies, procedures and controls in place to monitor and mitigate tax risk.



Total tax contribution

This provides stakeholders with an understanding of the total taxes paid by a company, often distinguishing between taxes borne and taxes collected on behalf of the exchequer.

Link to sustainability related 'taxes'

CBAM

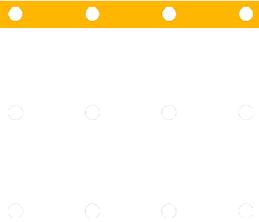
- Under **ESRS E1**, companies are required to disclose on GHG emissions and internal carbon pricing
- Leverage on CBAM data and ensure efficient use of data already available
- Financial impact of CBAM may need to be reported as a financial risk under ESRS E1 (IRO)
- Any inconsistency between CBAM and CSRD disclosures could trigger enquiries from the tax authorities

Deforestation rules

- CSRD efforts in respect of **ESRS E4** can be leveraged for compliance with EU Deforestation rules and vice versa.
- Information provided under CSRD should be in line with the information provided to the competent authorities in the various countries under the deforestation regulation (in terms of products, but also governance around risk assessment and risk mitigation).

EPR & plastic and packaging taxes

- CSRD reporting under **ESRS E5** includes metrics such as rates of resource efficiency, extended product lifetime, packaging, and sourcing.
- CSRD data can be leveraged for compliance under EPR legislation, depending on national regulations.
- Information provided under CSRD should be consistent with that under EPR compliance.

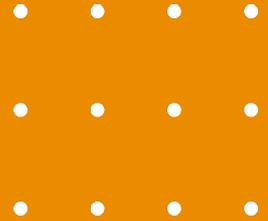


Zijn uw (S1 'own workforce') disclosures...

1. ...reporting ingestoken – *wij focussen op de metrics en data punten die de CSRD vereist*
2. ...strategisch – *de disclosures ondersteunen onze strategische positionering (als werkgever)*
3. ...*hmmm, hier zijn we nog niet mee bezig*

04

Workforce: the strategic relevance of Workforce disclosures



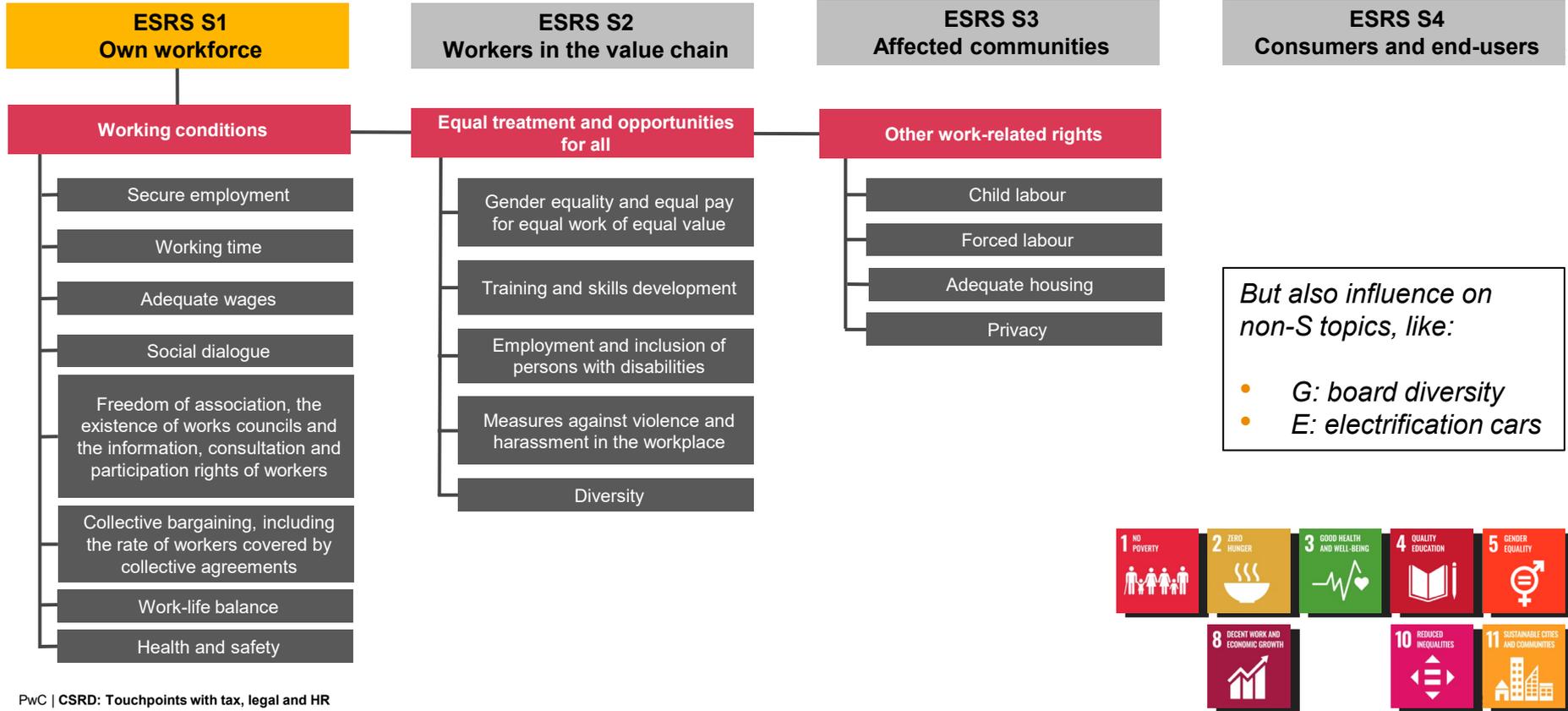
Workforce CSRD reporting

- Social is not the same as Workforce
- What is already available with respect to Workforce (even if you have not focused on the CSRD yet)?
- And for the white spots: why is it important to think carefully about the message you will bring across through your disclosures?

Topical standards		
Environment	Social	Governance
ESRS E1 Climate change	ESRS S1 Own workforce	ESRS G1 Business conduct
ESRS E2 Pollution	ESRS S2 Workers in the value chain	
ESRS E3 Water & marine resources	ESRS S3 Affected communities	
ESRS E4 Biodiversity & ecosystems	ESRS S4 Consumers and end-users	
ESRS E5 Resource use and circular economy		

Delegated act ESRS adopted 31 July 2023

ESRS S reporting



NL Labour law enforces many topics

UNIVERSAL DECLARATION OF HUMAN RIGHTS



Legislation and reporting

- Leave of absence - at least 20 days per year
- Base pay - at least monthly - equal pay
- 'ARBO' legislation - health and safety

Child labour

Forced labour

Health and safety

Work-life balance

Gender equality and equal pay
for equal work of equal value

Tax

*Work-related cost scheme
(WKR)*

Being a decent employer
Differentiating in the market

Other benefits

- Electric cars & bikes
- Training
- Working from home

Training and skills development

But gaps will generally exist:

- Specific data points
- Certain information
- Explicit policies and procedures
- Etc

To be covered by the DMA + gap analysis.... However, this should be guided by your target market positioning!

From disclosing to communication

The CSRD is about creating transparency as to how individual organisations are performing. This transparency creates comparability. Your disclosures define how others perceive you.

	Compliant disclosures	A more attractive message	Or even better...
Pay gap	The pay gap is 13.4%	... ; corrected for relevant experience in the job, our pay gap on average is 1.8%.	...We have put safeguards in place to ensure we become a more diverse organisation
<i>Perception</i>	<i>“This organisation is fine with unequal pay”</i>	<i>“This company pays equally, but (still) has very few women in the top”</i>	<i>“This company pays equally, and is actively working towards addressing the pay gap.”</i>
L&D	Employees spend on average 8 hours on training per year	... We require a minimum of 20.	...Furthermore, the trainings are tailored such that the companies' future required and available skill sets match
<i>Perception</i>	<i>“This organisation just registers hours”</i>	<i>“This organisation takes L&D seriously enough to set an ambitious target.”</i>	<i>“L&D is a strategic priority to ensure the success of the company and employability of staff”</i>

A rhetorical one: which approach would better position you to attract talent?

The anchor: 3 yr ambition plan

		Regulatory environment		Ambition setting					Reporting choice	
Own Work Force	Sub-topic	Minimum req. from CSRD	Minimum req. from other regulation	Expected peer disclosure (now and future)?	Stakeholder expectations (now and future)?	Companies' past behavior and disclosures that give rise to expectations?	- -	Conclusion: what is the companies ambition level?	Your – 1 yr out Reporting choices	Your – 3 yr out Reporting choices
		<div style="border: 1px solid black; padding: 5px;"> Defines consistent and comprehensive minimum regulatory requirements </div>		<div style="border: 1px solid black; padding: 5px;"> Defines an overall ambition level that the company sees as its North star </div>					<div style="border: 1px solid black; padding: 5px;"> Align external reporting with the regulatory minima and the companies' ambition level - 1 and 3 year horizon </div>	

↓

INPUT FOR THE GAP ANALYSIS

The 1st yr disclosure?

What are sensitive topics that may deserve more than the 'bare minimum'?

Topic	1st yr minimum	First year extra	Possible 3 yr out position
	<i>Reporting based</i>	<i>Show you understand the importance</i>	<i>Attractive employer</i>
Equal treatment – pay gap	Pay gap van 13.4%	Pay gap insight and disclosure per level per skillset / job family / department. Sketch of ambition level and next steps.	<i>'Proven' equal pay and safeguards in place to ensure this remains the case.</i>
Training	Report on actual training hours	Breakdown of actual hours and training spent. Wording linking training to strategy.	<i>Training strategy linked to skills/competency gaps</i>
Health & Safety	'Arbeidsinspectie' reports and risk analysis	Breakdown to departments / functions of incidents and long-term sickness.	<i>Managed well-being linked to turnover and absence. Psychological safety addressed.</i>
Equal treatment, Adequate Wage, Health & Safety, etc	Statement that no information is available	State that you plan to set ambition level and to define KPIs. Describe high over next steps.	<i>Equal opportunities for staff with safeguards and monitoring in place. Adequate wage is paid. Etc</i>

Poll

Hoe volwassen is uw bedrijf in zijn management van duurzaamheidsgegevens?

1. Alle gegevens die we nodig hebben, hebben wij direct bij de hand!
2. We zijn goed op weg en hebben acties gedefinieerd en dit zal de gaten in de gegevens moeten dichten.
3. Wij zitten in de beginfase van onze ESG data journey
4. Ik weet het niet



05

Data: where it all
comes together



A board meeting is taking place in a modern office with large windows overlooking a landscape with wind turbines. Five board members are seated around a wooden conference table. A large screen in the background displays a dashboard with various icons and data points. The dashboard includes a wind turbine icon with the number 38, a wind turbine icon with 68, a globe icon with 38, a sun icon with 52, a bar chart icon with 38, and a globe icon with 62. The text "Board meeting on CSRD compliance" is overlaid on the screen.

Board meeting on CSRD compliance

Each boardmember has a role to play in the journey towards data-driven CSRD compliance

The sustainability data challenge is not only about the data itself

Roles & responsibilities are unclear

Who is, or should be, responsible?

Complex and intertwined regulatory environment

Does everyone know what's coming?

Data capability

How should we process and handle sustainability data?

There is no “one solution” that solves all problems

Are you aware what technology is needed and available?

Data availability and quality

**Is the right data available?
Is the data of sufficient quality?**



So many topics and a data overflow,
which are relevant for you?



Sustainability Regulations Touchpoints

Sustainability Regulations Atlas: overlapping sustainability regulations					
CSR	Regulations	CBAM	ETS	EPR	EU Equal Pay Directive
	General requirements				
	General disclosures				
	E1 Climate change	6 DR overlap	15 DR overlap		
	E2 Pollution				
	E3 Water				
	E4 Biodiversity				
	E5 Circular economy			37 DR overlap	
	S1 Own workforce				2 DR overlap
	S2 Workers in the value chain				
	S3 Affected communities				
	S4 Consumers and end-users				
	G1 Business conduct				

CBAM example

A variety of sustainability data is collected from its source

CBAM requires you to collect data about the carbon emissions embedded in a specific set of products that is imported into the EU

Data enrichment and transformation

The data should be sorted, enriched, and transformed to report about your embedded emissions on an aggregated level

The data is used for multiple reporting purposes

A CBAM report in XML-format is drafted via an automated conversion flow. The data can subsequently be re-used, e.g. for CSRD reporting and customs declarations



Connected Compliance

End to End data management

Data sources

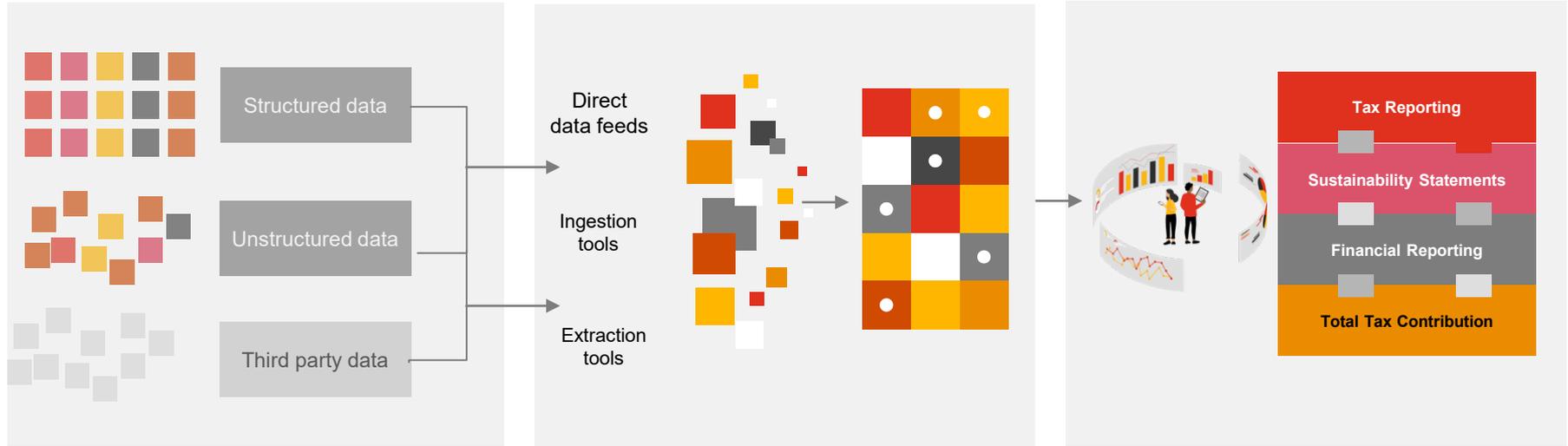
Internal data sources enriched with 3rd party data

Data transformation

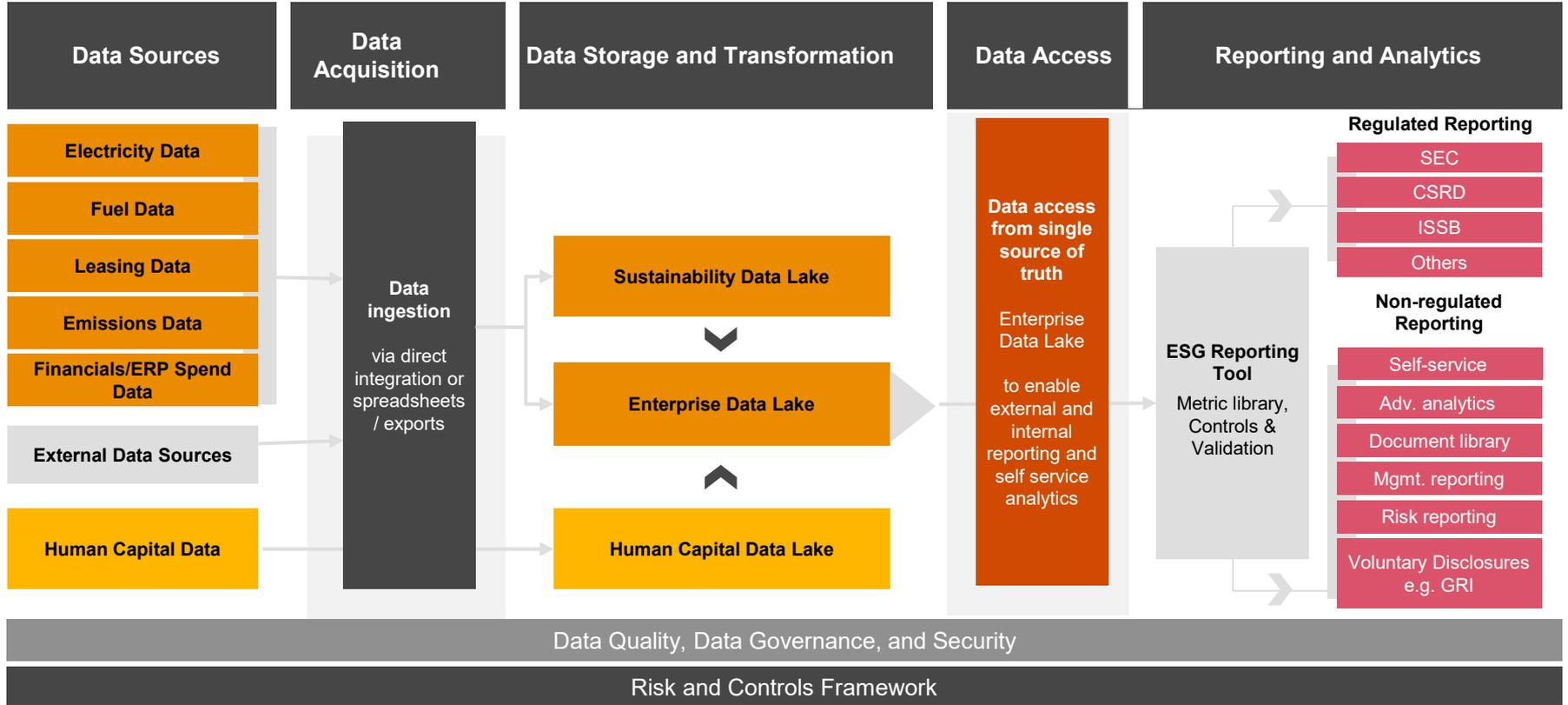
Organise and standardise data and connect digital solutions

Compliant reporting

Insights, analytics and compliant reporting



Managing your sustainability data



Actions towards effective tax and sustainability reporting



1. Understand what is **expected** from your organisation and **which regulations apply** to you.



2. Create a common understanding of **roles and responsibilities**



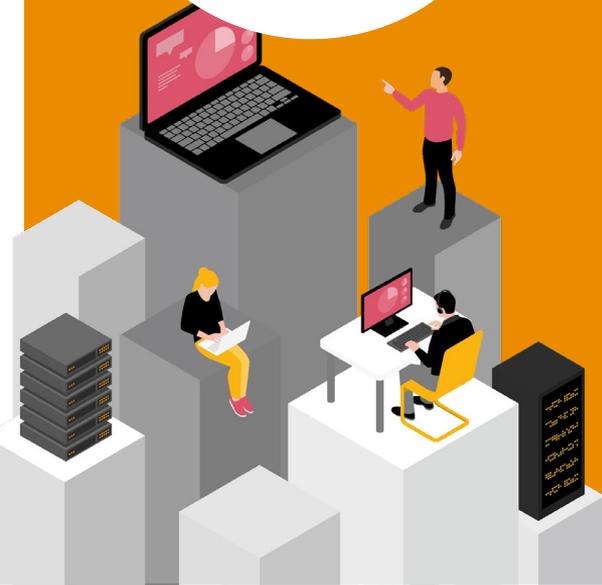
3. Understand **what data is needed**, where data is **stored** and how the data should be **used**.



4. Ensure your **data** is **accurate, complete, timely** and **trustworthy**

06

Afsluiting



- **Vragen?** Neem dan contact op met uw PwC-adviseur of laat het weten bij de evaluatie.
- Bekijk deze webcast of presentatie in een later stadium
- Blijf op de hoogte: meld u aan voor onze PwC Belasting nieuwsbrief op [pwc.nl](https://www.pwc.nl)
- Kijk op [pwc.nl/evenementen](https://www.pwc.nl/evenementen) voor de overige onderwerpen van 'State of Tax, Legal People'
- Wilt u het evaluatieformulier invullen?

Evaluatie

- Hoe waardeert u dit webinar op een schaal van 1 tot 10?
- De inhoud was relevant (Geheel mee eens / Mee eens / Neutraal / Mee oneens / Geheel mee oneens)
- Heeft u nog opmerkingen of suggesties voor ons?
- Heeft u nog specifieke vragen waarvoor u wilt dat wij contact met u opnemen?

Contact



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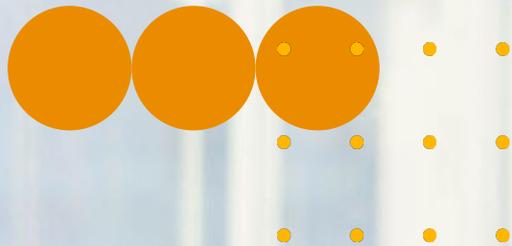


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Thank you!



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