Annual financial and sustainability reporting, tax and regulatory update

Board Leadership Center

25 October 2023

IFRS® update

Finding clarity in the complexity of accounting

Frederic Poesen, Audit Partner and Head of KPMG's IFRS Institute in Belgium

Agenda

01 Newly effective IFRS requirements

02 Forthcoming IFRS requirements

01

Newly effective requirements

Newly effective requirements

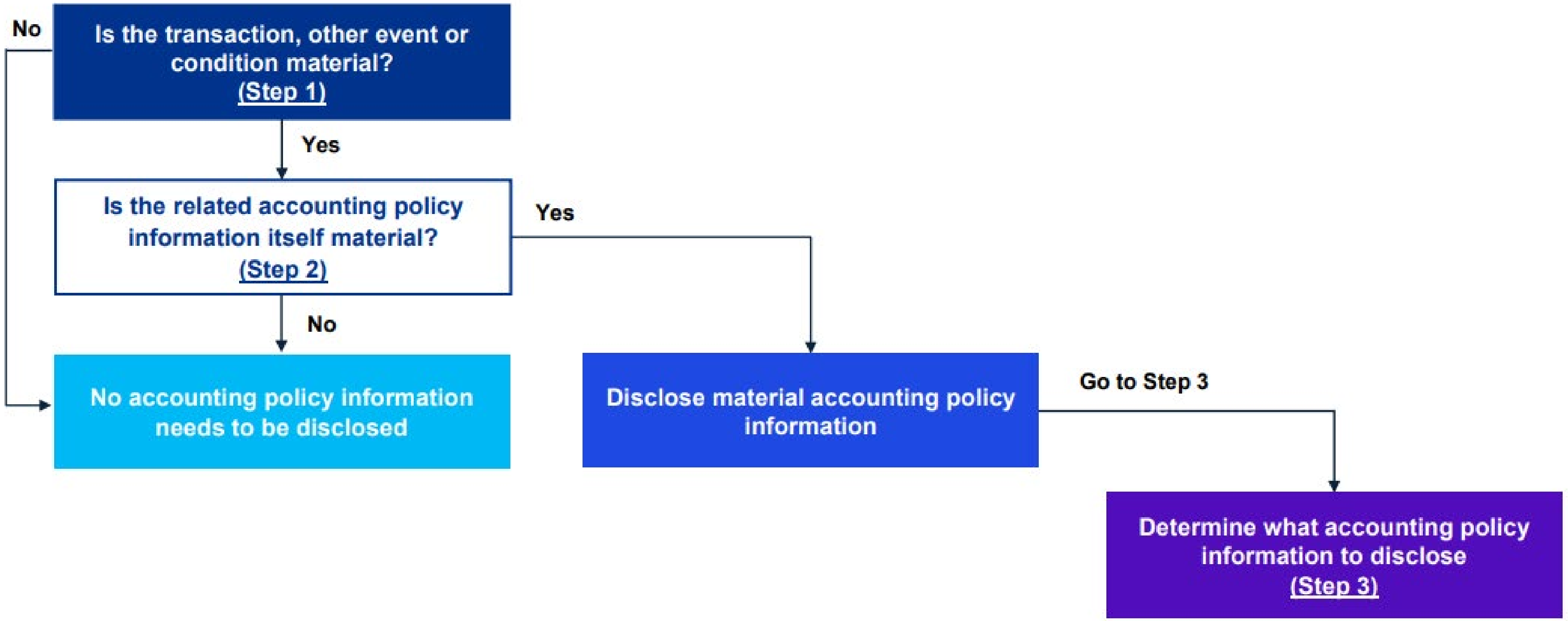
Effective date	New IFRS accounting standards or amendments	Web article	EFRAG endorsement status
1 January 2023	IFRS 17 *Insurance Contracts*, including amendments *Initial Application of IFRS 17 and IFRS 9 – Comparative Information*	Web article (with links to in-depth analysis)	Endorsed
	Definition of Accounting Estimates – Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Web article	Endorsed
	Disclosure Initiative: Accounting Policies – Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*	Web article	Endorsed
	Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 *Income Taxes*	Web article	Endorsed
23 May 2023*	**Amendments to IAS 12 – *International Tax Reform – Pillar Two Model Rules***	Cfr. next slides	Not yet endorsed – Cfr. next slides

New

* The amendments introduce a relief from deferred tax accounting for the global minimum top-up tax under Pillar Two, which applies immediately, and new disclosure requirements, which apply from 31 December 2023. No disclosures are required in interim periods ending on or before 31 December 2023.

Material accounting policies

When making materiality judgements about what accounting policy information to disclose, companies can follow a **three-step approach**:



Disclosure of material accounting policies

Illustrative example – Consolidation of subsidiaries (1/2)

Enhancing an existing accounting policy

1 Is the transaction, other event or condition material?

Yes. The Company controls a number of subsidiaries that are material to the Group.

2 Is the related accounting policy information itself material?

Yes. Management has determined that it has 'de facto' control over Subsidiary X despite owning less than half of X and having less than half of the voting power. Because management considers this an area of significant judgement, it determines that accounting policy information about consolidation of subsidiaries is itself material to the financial statements.

3 Determine what accounting policy information to disclose

Management notes the following.

- The 'control' definition provided in Part A is standardised information derived from IFRS 10 *Consolidated Financial Statements*. This information might be useful for users because local GAAP requirements differ from IFRS Accounting Standards.
- The consolidation procedures provided in Part B replicate the requirements in IFRS 10. These might not be useful for users because they are not company-specific and result in boilerplate accounting policy information. Further, management assesses that its users are familiar with how consolidated financial statements are prepared.

Existing accounting policy extract

"

A. Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has 'de facto' control over Subsidiary X despite owning 22% of the ordinary shares (see Note G for further details).

B. Consolidation procedures

The Group's consolidated financial statements:

- combine like items of assets, liabilities, equity, income, expenses and cash flows of the Company with those of the subsidiaries;
- offset (eliminate) the carrying amount of the Company's investment in each subsidiary and the Company's portion of equity of each subsidiary; and
- eliminate in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group (profits or losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full). "

See enhanced accounting policy

Illustrative example – Consolidation of subsidiaries (2/2)

Enhancing an existing accounting policy (cont.)

3 Determine what accounting policy information to disclose (cont.)

Management revises its accounting policy information by:

- removing the standard consolidation procedures; and
- retaining the standardised information about the 'control' definition.

Enhanced accounting policy extract

"Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has 'de facto' control over Subsidiary X despite owning 22% of the ordinary shares (see Note G for further details)."

Relief from deferred tax accounting confirmed

- Temporary mandatory relief from deferred tax accounting for the impact of the top-up tax
- Disclosures will have to meet a certain objective (supporting guidance will be provided by IASB) and will have to be based on Pillar II laws (*see next slide*)
- Applies immediately, and new disclosure requirements apply from 31 December 2023
- No disclosures are required in interim periods before 31 December 2023

Final amendments published on May 23, 2023

Web article

New disclosures IAS 12 Income Taxes

Once tax law is enacted but before top-up tax is effective

- Disclose information that is *known or can be reasonably estimated* and helps users of financial statements to **understand the exposure** at the reporting date.
- Does not need to reflect all the specific requirements in the legislation – can provide an indicative range.
- Disclosures may include **quantitative and qualitative information**:
  - Qualitative information: How the company is affected and in which jurisdictions the exposure arises – e.g. where the top-up tax is triggered and where it will need to be paid.
  - Quantitative information: The proportion of profits that may be subject and the average effective tax rate applicable to those profits, or how the average effective tax rate would have changed if Pillar Two legislation had been effective.
- If information is not known or cannot be reasonably estimated at the reporting date, disclose a statement to that effect and information about progress in assessing the exposure.

After top-up tax is effective

Only one disclosure is required – i.e. current tax expense related to top-up tax.

New disclosure requirements **apply** only **to financial statements from 31 December 2023**.

Financial reporting before endorsement of deferred tax relief

Some countries may enact or substantively enact Pillar II before the amendments are endorsed (i.e. EFRAG) ➔ what are the related financial reporting impacts?

In our view, pending endorsement, an entity may develop an accounting policy for the GloBE top-up tax

➔ do not recognize deferred tax impacts on the GloBE top-up tax or remeasure existing deferred taxes

➔ recognize incremental effect of the GloBE top-up tax as a current tax when it is incurred

➔ when material: consider to provide relevant disclosures [IAS1.117,117B(c)]

Consult with your (statutory) auditor

Follow-up on endorsement status

02

Forthcoming requirements

Forthcoming requirements

Effective date	New standards or amendments	Web article	EFRAG endorsement status
1 January 2024	Lease Liability in a Sale and Leaseback – Amendments to IFRS 16 *Leases*	Web article	Not yet endorsed
	Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants – Amendments to IAS 1 *Presentation of Financial Statements*	Web article	Not yet endorsed
	Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures – Supplier Finance Arrangements*	Web article	Not yet endorsed
1 January 2025	**Lack of Exchangeability – Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates***	Web article	Not yet endorsed
To be determined	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* *		

New

New

* The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

Non-current liabilities with Covenants – Amendments to IAS 1 Presentation of Financial Statements

Current requirements

- Current classification when no *unconditional right* to defer settlement for at least 12 months after the reporting date. [IAS 1.69]
- Unaffected by management's intention or expectations.
- Quid conditions (i.e., covenants)?
  - No specific guidance
  - No specific disclosure requirements related to covenants included in IAS 1 (! although other IFRS accounting standards indirectly require disclosures on covenants e.g.: IFRS 7.33 , IFRS 7.18 , …)

Future requirements

- Does not longer have to be unconditional, the right to defer settlement must exist *at the reporting date and have substance*.
- Remains unaffected by management's intention or expectations.
- Quid conditions (i.e., covenants)?
  - Consider only those which are to be complied with *on or before reporting date*.
  - Those with which the company must comply after reporting date (i.e., future covenants) do not affect classification but trigger *additional* disclosures to help understand the risk.

Non-current liabilities with Covenants – Amendments to IAS 1 Presentation of Financial Statements – Example

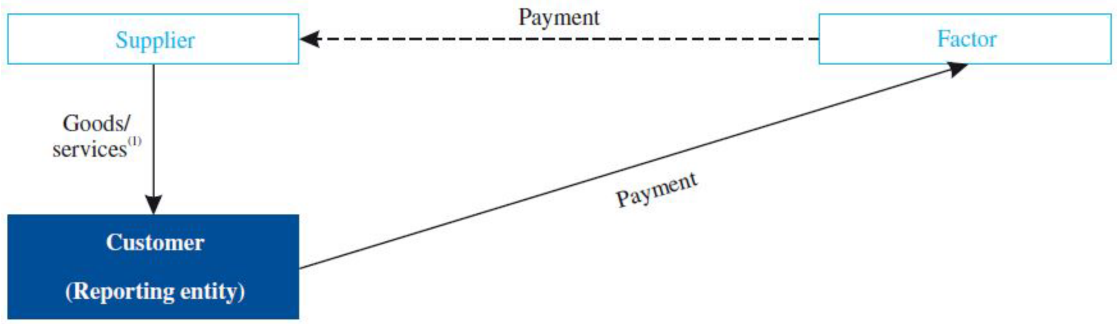
Loan subject to covenants

- A company has a loan that is repayable in five years.
- The loan includes a covenant requiring a working capital (WC) ratio of at least 1.2 on 31 December 2024 and 1.5 on 30 June 2025. The loan becomes repayable on demand if the ratio is not met on any of the specified covenant testing dates.
- The company is preparing its annual financial statements for the year ending 31 December 2024. The WC ratio at 31 December 2024 is 1.3 and the company expects the ratio to be 1.4 at 30 June 2025.

	Loan covenant	Impacts classification at 31 December 2024?
Reporting date	WC ratio of at least 1.2 (tested at 31 December 2024)	**Yes.** Because the company complies with the covenant at the reporting date, it will classify the loan as **non-current.**
Future covenant	WC ratio of at least 1.5 (tested at 30 June 2025)	**No.** Covenants that the company must comply with after the reporting date do not affect the classification of the loan at the reporting date. However, new **disclosures** will apply.
Future expectation	Expected WC ratio of 1.4 at 30 June 2025	**No.** Management's expectation of compliance with the future covenant is irrelevant for classification purposes, but new **disclosures** will apply.

Supplier finance arrangements?

= reverse factoring arrangement (also referred to as supplier finance arrangements, supply chain finance, payables finance, …)



Note
1. Goods/services – Guidance in this section focuses on arrangements related to goods or services received from the supplier that are operating in nature (e.g. inventory) rather than, for example, the acquisition of property, plant and equipment.

Presentation in Statement of Financial Position (! First consider derecognition of original trade payable)

- As part of 'trade and other payables' only when those liabilities have a similar nature and function to trade payables; or
- Separately when the size, nature or function makes separate presentation relevant.

[IAS 1.55, 58, 70, 37.11(a), IU 12-20]

Presentation in Statement of Cash Flows

No specific guidance in IAS 7 *Statement of Cash Flows* (operating or financing?) ➔ apply judgement and assess whether a single cash outflow or multiple cash flows occur.

Disclosure of supplier finance arrangements

Which arrangements are in scope?

Applies to supplier finance arrangements with *all* of the following characteristics:

- A finance provider pays amounts a company (the buyer) owes its suppliers;
- A company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date.

Does **not** apply to arrangements for financing receivables or inventory.

What are the new disclosure requirements?

- Provide information that enables users (investors) to assess the effect of the arrangements on the entity's liabilities and cash flows, and its exposure to liquidity risk.
- Disclose the type and effect of non-cash changes of the financial liabilities which are part of the arrangement.

Disclosure of supplier finance arrangements – Example

May need to obtain this information from finance providers directly

Supplier finance arrangements		
Qualitative information		
[Disclose terms and conditions* (e.g. extended payment terms and security or guarantees provided)]		
Quantitative information		
	End of reporting period 31.12.20X4	**Beginning of reporting period 1.1.20X4**
Carrying amount of financial liabilities		
Presented in trade and other payables**:	2,000	1,500
– of which suppliers have received payment from finance provider	1,500	1,100
Range of payment due dates* **		
Liabilities that are part of the arrangements	XX-XY days after invoice date	XZ-ZX days after invoice date
Comparable trade payables that are *not* part of the arrangements	YY-YX days after invoice date	YZ-ZZ days after invoice date

* The terms and conditions of arrangements that have dissimilar terms and conditions need to be disclosed separately.
** If liabilities related to a supplier finance arrangement are presented in more than one line item, a company needs to disclose each line item and the associated carrying amount presented in that line item.
*** When the range is wide, explanatory information may be needed about the range of payment due dates.

Lack of Exchangeability

When to estimate a spot rate

A currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose. **When a currency is not exchangeable**, a company needs to estimate a spot rate.

Estimating a spot rate

- Spot rate should reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.
- When estimating a spot rate, a company can use:
  - an observable exchange rate without adjustment; or
  - another estimation technique.

New disclosures

Help users assess the impact of using an estimate exchange rate on the financial statements

KPMG

Your questions

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Sustainability Reporting Update

Steven Mulkens, Executive Director and Sustainability Reporting Lead, KPMG Belgium

Agenda

01

Update on CSRD and ESRS

CSRD journey: achievements and road ahead

21 April 2021
EU Commission issued the first CSRD proposal.

10 November 2022
CSRD proposal was adopted by the EU Parliament.

22 November 2022
The ESRS final drafts for sector agnostic standards have been released.

28 November 2022
CSRD proposal was adopted by the EU Council.

16 December 22
Final CSRD was published in the official journal of the European Union.

05 January 2023
Final CSRD came into force.

31 July 2023
Adoption of the sector-agnostic ESRS via Delegated Act by the European Commission (1)

30 June 2024
2nd set of standards to be adopted containing also the sector-specific standards (2) and standards for third-country undertakings

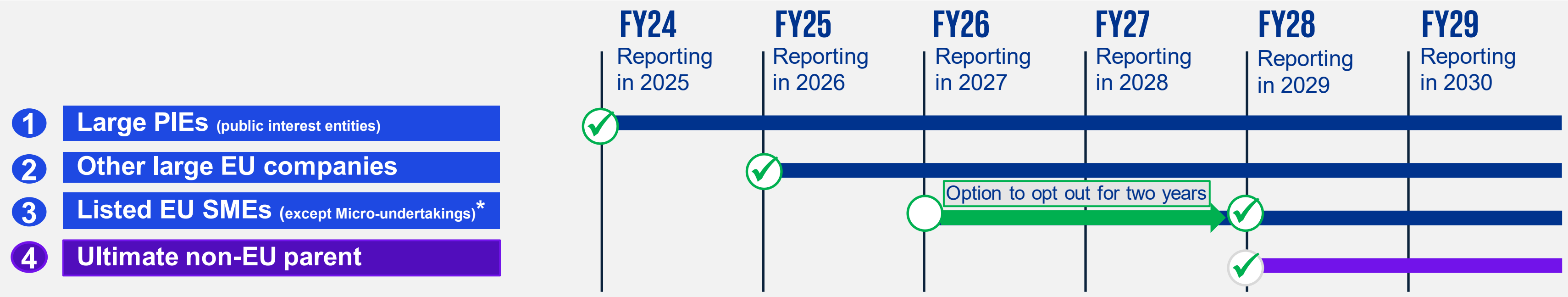
Every 3 years
Review of the standards is planned.

(1) The regulation enters into force after a scrutiny period of 2 months (which can be extended by 2 more months), after publication in the European Official Journal. To date the Delegated Act was not objected by the EU Parliament or the EU Council.

(2) Based on EFRAG updates (still subject to changes), sector specific standards will be developed based on the priority of the sector. It has been announced however that EFRAG will first focus on providing additional guidance on the sector-agnostic standards, prior to continuing the development of the sector-specific standards, which could further delay the issuance of the sector-specific standards. The adoption of the sector standards and the standards for non-EU companies is expected by June 30, 2026, based on a proposal from the EU Commission to the EU Parliament and EU Council..

Who is in scope of CSRD?

The scope of reporting entities over the years



EU-based companies (general scoping)

1

Companies **subject to** the existing **Non-Financial Reporting Directive** (NFRD) and other large listed entities

i.e. large public-interest companies with more than 500 employees

2

All large companies not currently subject to the NFRD

Meeting at least two of the following:

- > 250 employees (annual average)
- > €40M in net turnover
- > €20M in total assets

3

Listed SMEs* and small and non-complex institutions and captive insurers

***Option to opt out until FY29 (effective date of FY28)**

Meeting at least two of the following:

- > 10 employees (annual average)
- > €700K in net turnover
- > €350K in total assets

Non-EU parent scoping

4

Non-EU parent companies which have substantial activities in the EU will be obliged to report in accordance with non-EU parent company standards on a consolidated basis.

Reporting requirements in accordance with non-EU parent company **ESRS** (currently under development – expected to be slightly reduced)

An ultimate non-EU parent company would be subject to the CSRD if it has:

- Substantial activity in the EU – i.e. it generated net turnover > €150M in the EU for each of the last two consecutive years; <u>and</u>
- at least:
  - one subsidiary that meets the general scoping of the CSRD; <u>or</u>
  - one branch (in general, a physical presence) that generated net turnover > €40M in the preceding year

EU Sustainability Reporting Standards (ESRS) architecture

Topics of the CSRD

- Cross-cutting
- Environmental
- Social
- Governance

Reporting Levels

Sector-agnostic Standard

Cross Cutting Standards	Environment	Social	Governance
ESRS 1 – General requirements **ESRS 2 –** General disclosures	**ESRS E1 –** Climate change **ESRS E2 –** Pollution **ESRS E3 –** Water & Marine Resources **ESRS E4 –** Biodiversity & Ecosystems **ESRS E5 –** Resource Use & Circular Economy	**ESRS S1 –** Own workforce **ESRS S2 –** Workers in the Value-Chain **ESRS S3 –** Affected Communities **ESRS S4 –** Consumers & End-Users	**ESRS G1 –** Business Conduct

Sector-specific Standards

Entity-specific information

Reporting Areas

Governance

Governance processes, controls and procedures put in place to monitor, manage and oversee sustainability matters
ESRS 2, chapter 2 Governance

Strategy

How the undertaking's strategy and business model interact with its material impacts, risks and opportunities, including how the undertaking addresses those impacts, risks and opportunities
ESRS 2, chapter 3 Strategy

Impact, risk and opportunity management

For each material topic, the process(es) by which impacts, risks and opportunities are identified, assessed and managed through policies, actions and resources
ESRS 2, chapter 4 Impact, risk and opportunity management

Metrics and targets

How the undertaking measures its performance, including targets set and progress towards meeting them
ESRS 2, chapter 5 Metrics and targets

Topics covered in ESRS

Category	No	Sub-topics	DR	AR	Par.
Cross-cutting	ESRS1	General requirements	0	18	137
	ESRS2	General disclosures	16	26	81
		Subtotal	**16**	**44**	**218**
Environmental	ESRS E1	Climate change	9	81	70
	ESRS E2	Pollution	6	34	41
	ESRS E3	Water & marine resources	5	34	33
	ESRS E4	Biodiversity & Ecosystems	6	40	45
	ESRS E5	Resource use & Circular Economy	6	36	43
		Subtotal	**32**	**225**	**232**

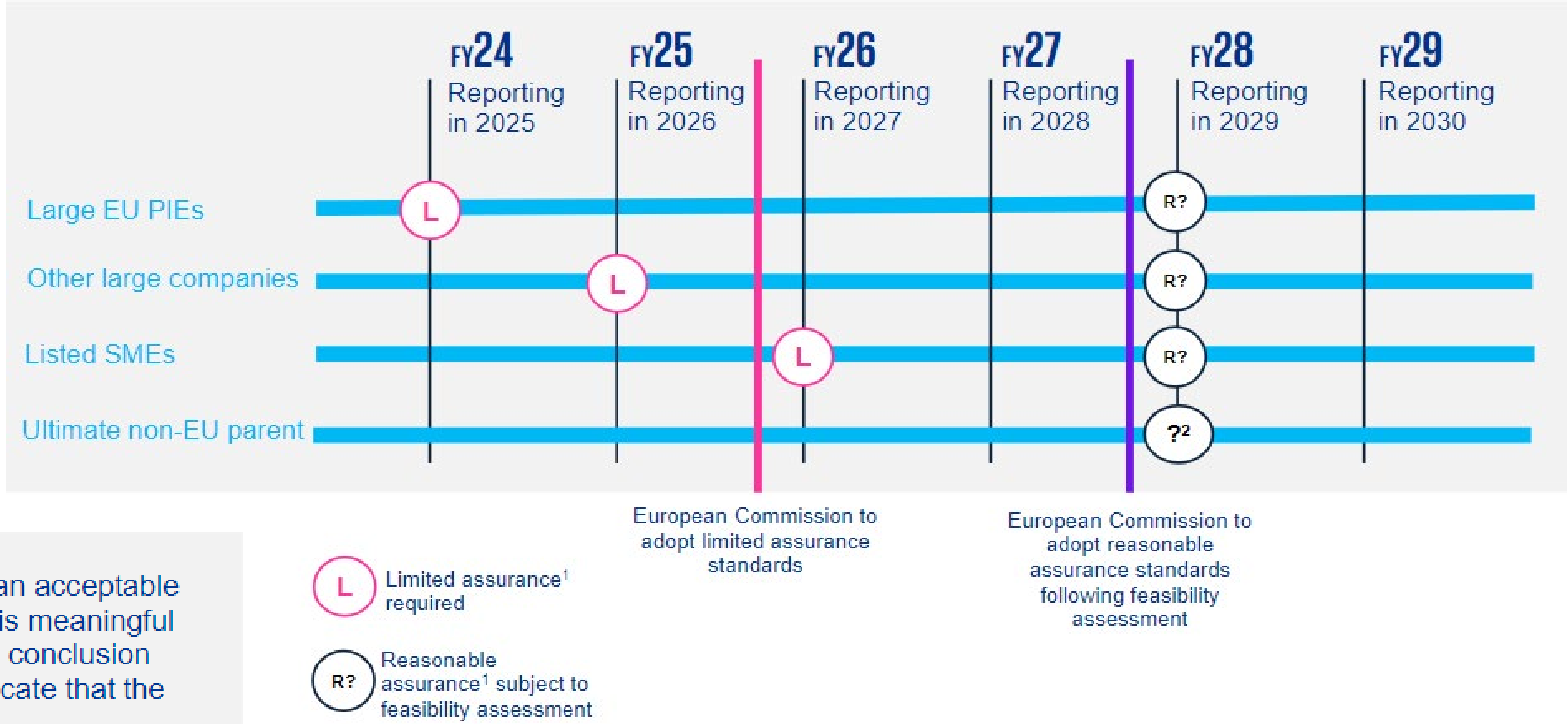
Category	No	Sub-topics	DR	AR	Par.
Social	ESRS S1	Own workforce	17	106	104
	ESRS S2	Workers in the value chain	5	48	42
	ESRS S3	Affected communities	5	47	42
	ESRS S4	Consumer & end-users	5	45	41
		Subtotal	**32**	**246**	**229**
Governance	ESRS G1	Business conduct	6	17	33
		Subtotal	**6**	**17**	**33**
		Total	**86**	**532**	**712**

DR = Disclosure Requirements
AR = Application Requirements
Par. = Paragraphs

Mandatory Assurance

CSRD would require assurance across all topics

- **Limited assurance** from the date of initial reporting
- Ambition to move to **reasonable assurance** in time



Limited assurance is a level of assurance at an acceptable level that, based on professional judgement, is meaningful for the intended users. It results in a negative conclusion (i.e. 'nothing has come to our attention to indicate that the information is materially misstated').

Expressing reasonable assurance requires the assurance provider to obtain sufficient appropriate evidence to conclude that the sustainability information is prepared, in all material respects, in accordance with the applicable reporting criteria (positive conclusion).

1 Read more about ESG Assurance in Audit. The assurance requirements would have no bearing on a company's responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting.

2 Assurance would be based on jurisdictional requirements of the third country parent or that of a member state. In the absence of an assurance opinion, the company would need to issue a statement indicating this.

Comparison global standard-setting projects

Two ISSB Standards

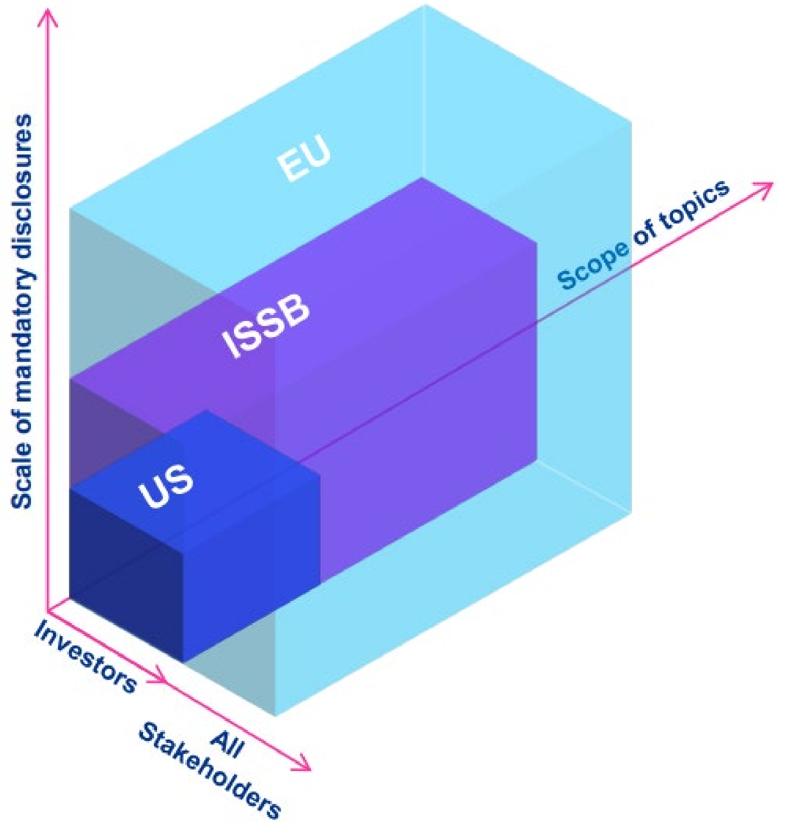
- Investor focus (financial materiality)
- General principles, including proposed requirement to report across all significant sustainability-related risks and opportunities (not just climate)
- Topic-specific standard on climate[1]
- Climate-first option available in the first year of reporting

Twelve EU Standards (ESRS)

- Multi-stakeholder focus, including investors (double materiality)
- Core principles for disclosure
- Granular requirements published for sustainability impacts, risks and opportunities

One US climate proposal

- Investor focus
- Detailed requirements to report on climate only
- Future proposals expected (e.g. human capital)



1 Additional detailed guidance on other topics is planned for the future. In May 2023, the ISSB released a consultation on the agenda priorities to inform its two-year workplan on future topics – e.g. biodiversity

02

Final set of ESRS – Key changes

Key changes in the ESRS following the Delegated Act as issued by the European Commission in July 2023 (in comparison to the final drafts as issued by EFRAG in November 2022)

ESRS Overview of significant changes vs EFRAG's Drafts Nov 2022

Materiality assessment

All standards and **all disclosure requirements and data points** within each topical standard will be **subject to materiality assessment** except for the disclosure requirements specified in the "General disclosures" **ESRS 2** and **IRO-1** of each topical standards.

Mandatory detailed disclosure of the **rationale when E1 on climate is considered immaterial**. **Datapoints from other EU regulations** that are not material **need to be indicated**.

Voluntary disclosures

The Commission **converted several mandatory datapoints** proposed by EFRAG into voluntary datapoints
e.g., biodiversity transition plan and certain indicators about self-employed people and agency workers in the undertaking's own workforce

Coherence with EU legal framework

Technical modifications to ensure better alignment with other provisions in the Accounting Directive and with other relevant pieces of legislation, e.g., *added reference to Annex II of the E-PRTR Regulation (European Pollutant Release and Transfer Register) listing relevant pollutants*

Additional phasing-ins

Undertakings would be allowed to omit metrics (data) on their value chains for a period of 3 years (except for the datapoints derived from other EU legislation as listed in ESRS 2 Appendix B). In addition, there would be specific phase-ins of between 1 and 3 years for certain information, some of which will be available for undertakings with up to 750 employees only

Further flexibilities

Introduction of certain flexibilities for some of the mandatory datapoints
e.g., more flexibility in disclosures on the financial impact of sustainability risks

Interoperability with global standards

Modifications to the draft ESRS have been made to increase consistency with other reporting standards such as the ISSB and GRI standards

Overview on phase-in provisions available for all undertakings

Reliefs available for the first years of application	Year 1	Year 2	Year 3	Year 4 and after
Entity-specific information (ESRS 1.130 ff)	• Use of entity-specific disclosures reported in prior periods subject to meeting the qualitative characteristics of information • Complement disclosures with an appropriate set of additional disclosures using available best practice, frameworks and/or reporting standards (GRI, SASB etc.)			Entity-specific information to be derived in accordance with ESRS 1
Value chain information (ESRS 1.132 ff)	• information on policies, actions and targets may be limited to information available inhouse and publicly available information • Metrics are not required to include value chain information except for datapoints derived from other EU legislation			Value chain information to be reported in accordance with ESRS
Comparative information (ESRS 1.136)	Comparative information not required	Comparative information required		
Anticipated financial effects related to environmental issues (SBM-3; E1-9; E2-6; E3-5; E4-6; E5-6)	Information may be omitted	Qualitative information only, if preparation of quantitative disclosures is impracticable		Quantitative information to be reported
Certain datapoints relating to own workforce • Characteristics of non-employee workers in the undertaking's own workforce (S1-7) • Collective bargaining coverage and social dialogue information for employees in non-EEA countries (S1-8) • Social protection (S1-11) • Percentage of employees with disabilities (S1-12) • Training and skills development (S1-13) • Specific information on health and safety (S1-14) • Work-life balance (S1-15)	Certain datapoints may be omitted	All datapoints have to be reported, if material		
Revenue by ESRS sectors and list of additional ESRS sectors (ESRS 2.40 (b) and (c))	Information are to be reported starting form the application date of sector-specific standards only			

- Phase-in relief for first year(s) of application
- Intermediary transitional provision
- Full scope reporting according to ESRS requirements
- Relief only available until application date for sector-specific ESRS

Overview on phase-in provisions for undertakings with up to 750 employees

<table>
<tr><th>Reliefs available for the first years of application</th><th>Year 1</th><th>Year 2</th><th>Year 3</th><th>Year 4 and after</th></tr>
<tr><td>Entity-specific information
(ESRS 1.130 ff)</td><td colspan="3">• Use of entity-specific disclosures reported in prior periods subject to meeting the qualitative characteristics of information
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<tr><td>Scope 3 and Total GHG emissions
(E1-6)</td><td>Information may be omitted</td><td colspan="3">Scope 3 and Total GHG emissions to be provided, if material</td></tr>
<tr><td>Information on own workforce (S1)</td><td>Minimum based on ESRS 2.17</td><td colspan="3">All datapoints in topical standards to be provided, if material</td></tr>
<tr><td>Information on
• Biodiversity (E4)
• Workers in the Value Chain (S2)
• Affected Communities (S3)
• Consumers and End-users (S4)</td><td colspan="2">Minimum information based on ESRS 2.17</td><td colspan="2">All datapoints in topical standards to be provided, if material</td></tr>
<tr><td>Revenue by ESRS sectors and list of additional ESRS sectors (ESRS 2.40 (b) and (c))</td><td colspan="4">Information are to be reported starting form the application date of sector-specific standards only</td></tr>
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- Phase-in relief for first year(s) of application
- Intermediary transitional provision
- Full scope reporting according to ESRS requirements
- Relief only available until application date for sector-specific ESRS

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Tax update

Silvie Broekx, Tax Director, KPMG Belgium

Contents

Key EU direct tax initiatives

- EU Minimum Tax Directive
- Public Country-by-Country Reporting
- Misuse of shell entities
- EU list of non-cooperative jurisdictions
- Directive on administrative cooperation
- New EU corporate tax base
- Withholding tax relief procedure (FASTER)

01

BEPS 2.0 - The EU perspective

Silvie Broekx – Tax Director

Global Anti-Base Erosion (GloBE) rules – Global minimum tax

What ?

Minimum level of tax of **15%**

Who ?

MNEs with revenue above **750 MEUR** in at least 2 of the 4 years prior to the FY

How ?

Top-up tax for difference between jurisdictional ETR and global minimum tax

Pillar Two - Timeline

2021

October 2021
Agreement at OECD/G20 IF level

End of 2021
Release of OECD GloBE Model Rules & EU Directive

2022

March 2022
Commentary on GloBE rules

End of 2022
EU Pillar 2 Directive adopted
Release of the GloBE Implementation Framework components (e.g. transitional safe harbors and penalty relief)

2023

Feb 2, 2023
Release of Administrative Guidance

July 2023
Release of GIR and (potentially) QDMTT safe harbor guidance expected

Somewhere in 2023
Release of further OECD guidance expected

2024

2024
IIR targeted to be in effect

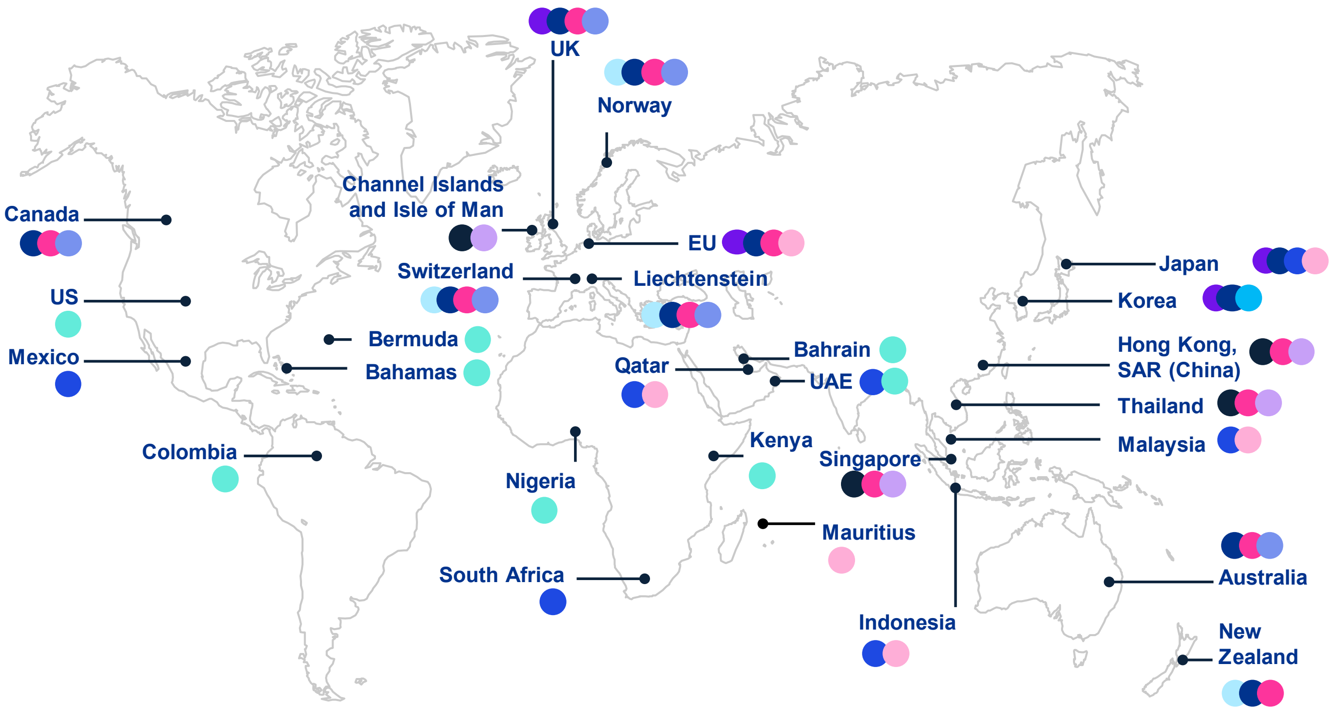
2025

2025
UTPR targeted to be in effect

2026–2030

Dec 31, 2029
Optional EU deferral to apply IIR and UTPR

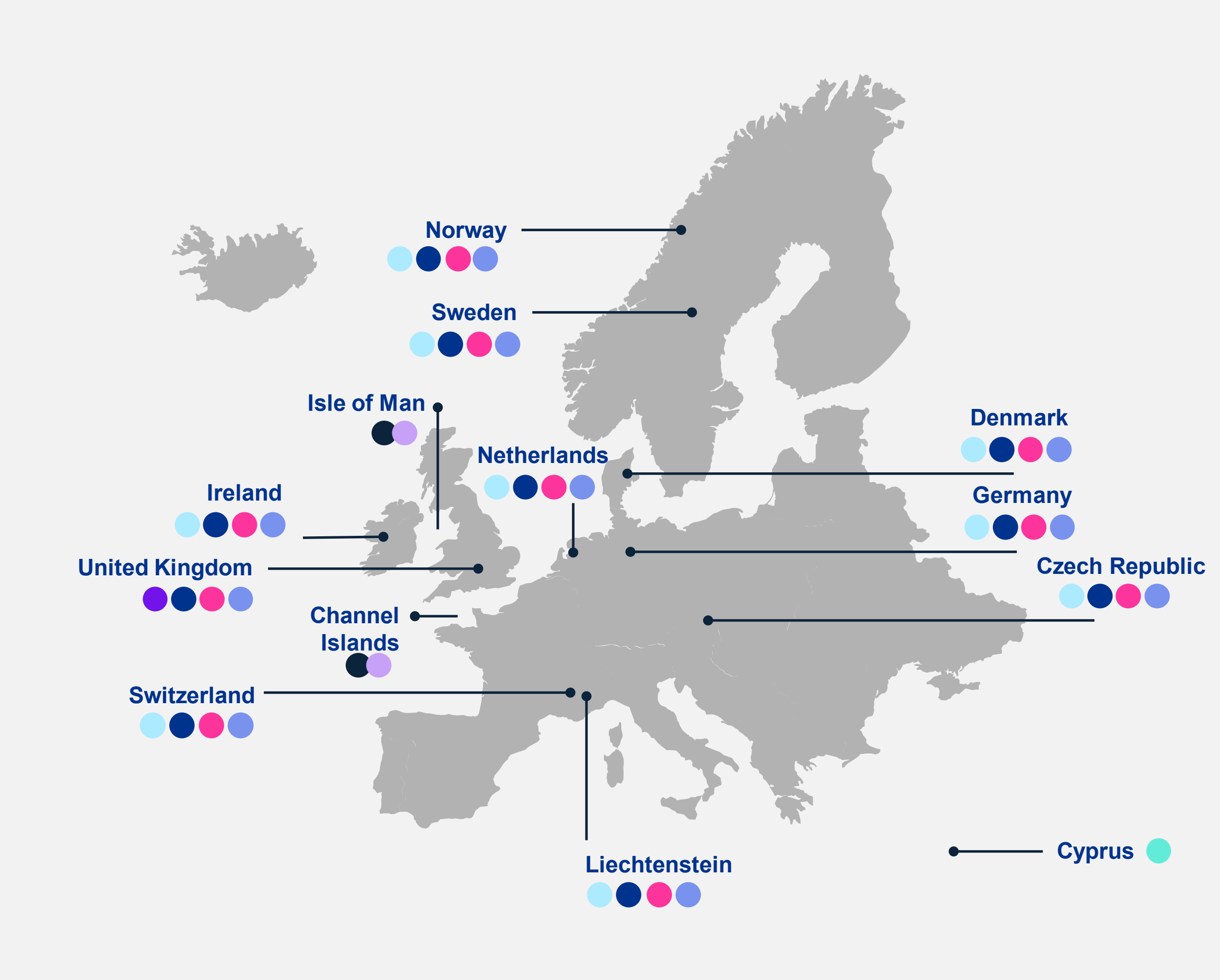
Overview of local Pillar Two implementation



Legend

- Legislation passed/approved
- Draft legislation released
- IIR (2024)
- IIR (2025)
- UTPR (2024)
- UTPR (2025)
- Intention to apply IIR/UTPR (timing uncertain)
- DMTT (2024)
- DMTT (2025)
- Intention/option to apply DMTT (timing uncertain)
- Other related legislation/announcement

Overview of local Pillar Two implementation | Europe



Legend

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- DMTT (2024)
- DMTT (2025)
- Intention/option to apply DMTT (timing uncertain)
- Other related legislation/announcement

Observations from local draft legislation

General observations

- Close alignment with Model Rules / EU Directive
- Reference to the OECD Commentary and Administrative Guidance materials

Domestic top-up tax (DMTT)

- Plans to introduce a DMTT
- Rule order in line with Administrative Guidance (i.e. DMTT comes first)

Safe harbors

- QDMTT safe harbor included (EU countries)
- Transitional safe harbors included

Administration

- Registration + Local self-assessment return + GloBE Information Return
- Special provisions for local groups
- Penalties

Practical observations / challenges

01

Scope / group analysis

- Determination of UPE / POPEs etc.
- Determination of JVs, MOCEs, Investment Entities
- Treatment of ownership changes during the FY

02

CbCR analysis

- CbCR data suitable for transitional safe harbor?
- Impact of CFC taxes, dividend income, unrecognized DTAs, etc.
- CbCR for permanent establishments

03

Data analysis

- Individual CE information based on CFS
- Tracking deferred tax liabilities and assets
- Availability / exchange of information within group

04

Detailed modelling

- Complexity of the rules / adaptions through AG
- Separate calculation for DMTTs?
- Election management

05

Accounting considerations

- When is legislation “substantively enacted”?
- Quantitative and qualitative data for Q1 2024 reporting
- Accounting for group recharge
- Impact on impairment assessment

01

Harmonised WHT relief process (FASTER)

Faster and safer tax excess refund – FASTER

The aim of the initiative

To streamline what are considered to be burdensome WHT relief procedures for cross-border investors in the securities market.

Issues include

- Cost and inefficient procedures
- Lack of clarity over documentation requirements
- Lack of digitalization and reliance on paper filings

Building blocks

- MS to choose between relief-at-source system and a quick refund system in a set time frame (or both)
- Registration, due diligence and reporting obligation for financial intermediaries
- Digital tax residence certificate

Next steps

- EC proposal released on June 19, 2023
- Public consultation until end of August 2023 (potentially extended)
- Adoption: unanimity required (Council) and non-binding European Parliament opinion
- Entry into force on January 1, 2027

01

PE Survey

Work from anywhere - PE risks

Has your local government / tax authority issued guidance on how to assess permanent establishment (PE) risks triggered by teleworkers?

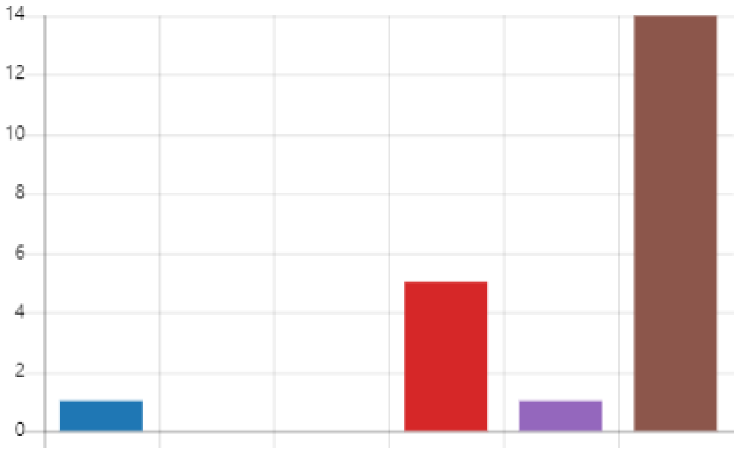
More Details

- Opinion / guidance issued 4
- Advanced tax rulings issued 3
- No, but we would expect the ... 14
- Other 5

What is the maximum number of days the employee could use a home office in your jurisdiction without triggering a PE for their employer?

More Details

- Up to 30 days 1
- Up to 60 days 0
- Up to 96 days 0
- Up to 183 days 5
- More than 183 days 1
- n/a 14



Work from anywhere – Change in attitude since the pandemic?

Has your jurisdiction introduced a scheme to attract teleworkers e.g. digital nomad schemes, special rules for start-ups?

Note: digital nomad is a person who earns a living working online in various locations of their choosing, rather than a fixed business location)

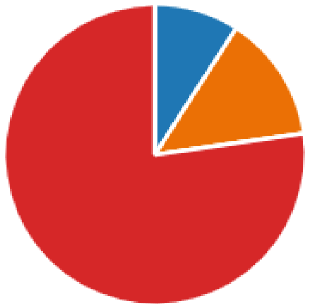
More Details

Yes	4
No	17

Has this topic resulted in any of the following actions by the tax authorities in your jurisdiction in recent years (please disregard cases related to the COVID-19 pandemic)

More Details

Tax audits	2
Rulings / circulars	3
Priority in their agendas for th...	0
No / limited actions to date	17



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02

Belgium Tax audits & new legislation

Tax audits

Withholding tax return

Reductions/exemptions/ formalities

Provisions

Beneficial ownership & substance over form

Danish cases

Exemptions of payment of payroll WHT

Partial exemption professional WHT for R&D and shift labor

Innovation income deduction

Transfer pricing

New legislation & Draft legislation

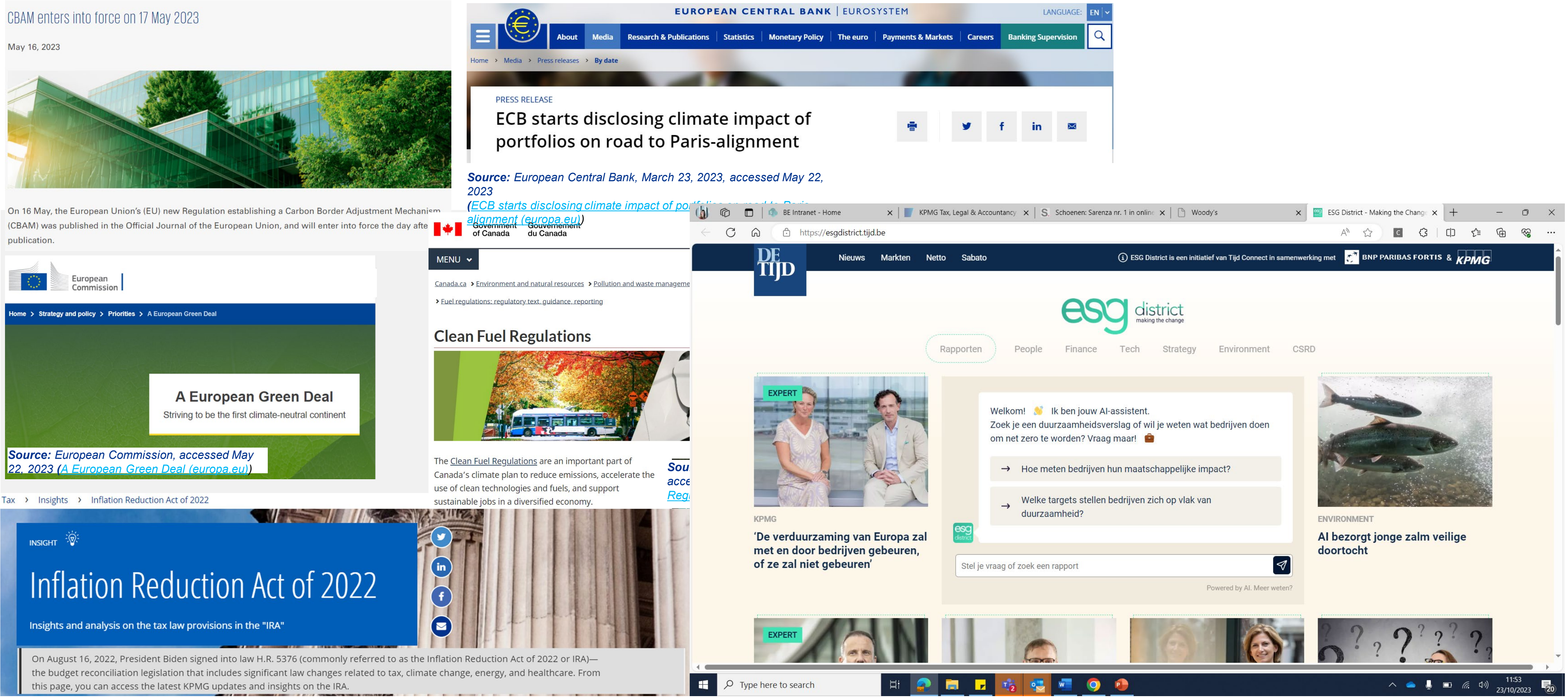
- Longer assessment periods
- Longer objection period
- New mobility budget
- Transition towards a green company car fleet
- …

- VAT rate of 6% no longer applicable for sale by retail estate developers as from January 1st, 2024
- Stricter conditions for beneficial REIT-tax regime
- Registration duties on ground lease and building rights from 2 to 5 %
- Stricter CFC-rules and Cayman tax
- Mandatory e-invoicing for B2B taxable persons as from 1 January 2026
- Increase of Annual tax on credit institutions
- …

03

EU Green Deal - related topics update

Global developments in the news



CBAM enters into force on 17 May 2023

May 16, 2023

On 16 May, the European Union's (EU) new Regulation establishing a Carbon Border Adjustment Mechanism (CBAM) was published in the Official Journal of the European Union, and will enter into force the day afte publication.

EUROPEAN CENTRAL BANK | EUROSYSTEM

LANGUAGE: EN

About | Media | Research & Publications | Statistics | Monetary Policy | The euro | Payments & Markets | Careers | Banking Supervision

Home > Media > Press releases > By date

PRESS RELEASE

ECB starts disclosing climate impact of portfolios on road to Paris-alignment

Source: *European Central Bank, March 23, 2023, accessed May 22, 2023 ([ECB starts disclosing climate impact of portfolios on road to Paris-alignment (europa.eu)])*

European Commission

Home > Strategy and policy > Priorities > A European Green Deal

A European Green Deal

Striving to be the first climate-neutral continent

Source: *European Commission, accessed May 22, 2023 ([A European Green Deal (europa.eu)])*

Government of Canada / Gouvernement du Canada

MENU

Canada.ca > Environment and natural resources > Pollution and waste manageme

> Fuel regulations: regulatory text, guidance, reporting

Clean Fuel Regulations

The Clean Fuel Regulations are an important part of Canada's climate plan to reduce emissions, accelerate the use of clean technologies and fuels, and support sustainable jobs in a diversified economy.

Tax > Insights > Inflation Reduction Act of 2022

INSIGHT

Inflation Reduction Act of 2022

Insights and analysis on the tax law provisions in the "IRA"

On August 16, 2022, President Biden signed into law H.R. 5376 (commonly referred to as the Inflation Reduction Act of 2022 or IRA)—the budget reconciliation legislation that includes significant law changes related to tax, climate change, energy, and healthcare. From this page, you can access the latest KPMG updates and insights on the IRA.

https://esgdistrict.tijd.be

DE TIJD | Nieuws | Markten | Netto | Sabato

ESG District is een initiatief van Tijd Connect in samenwerking met BNP PARIBAS FORTIS & KPMG

esg district making the change

Rapporten | People | Finance | Tech | Strategy | Environment | CSRD

EXPERT

KPMG

'De verduurzaming van Europa zal met en door bedrijven gebeuren, of ze zal niet gebeuren'

Welkom! Ik ben jouw AI-assistent.
Zoek je een duurzaamheidsverslag of wil je weten wat bedrijven doen om net zero te worden? Vraag maar!

→ Hoe meten bedrijven hun maatschappelijke impact?

→ Welke targets stellen bedrijven zich op vlak van duurzaamheid?

Stel je vraag of zoek een rapport

Powered by AI. Meer weten?

ENVIRONMENT

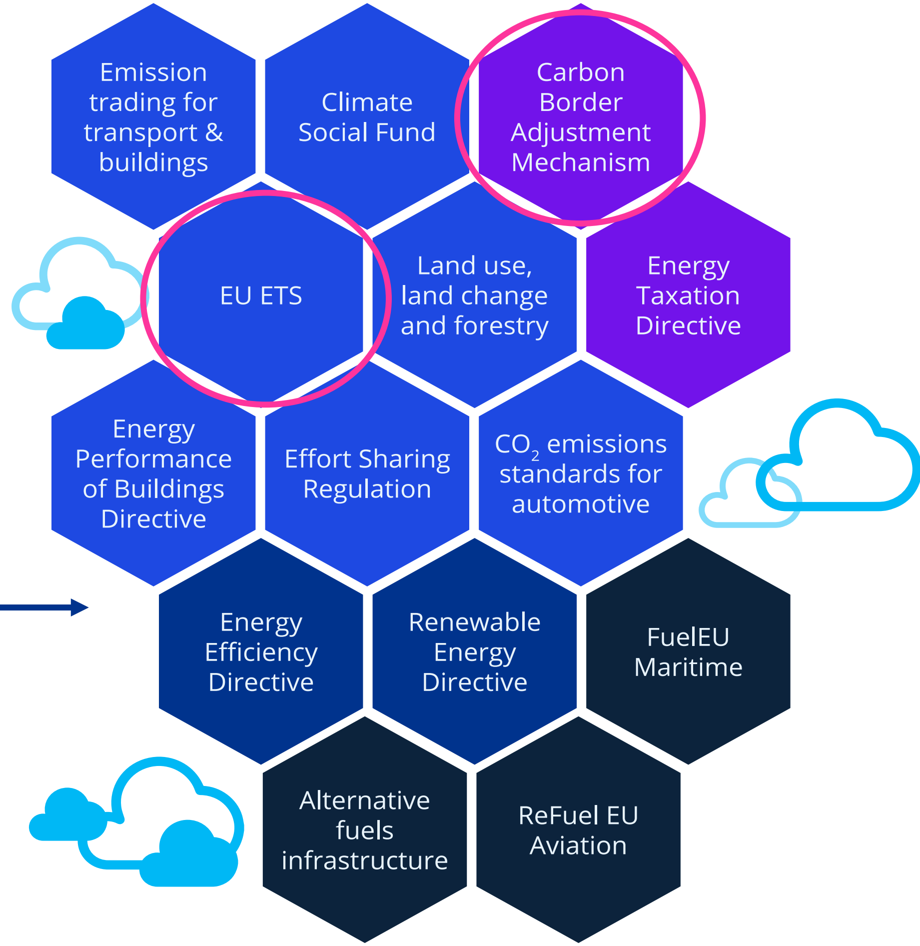
AI bezorgt jonge zalm veilige doortocht

The European Green Deal & Fit for 55

General action plan to fight climate change.

Preparatory path to meet the targets of the EGD.

Fit for 55 Package



Milestone target: Reduce greenhouse gas emissions by **55% by 2030.**

EU Insights: Tax components of the European Green Deal

Plastic Tax
- Revenue collection based on **non-recycled plastic consumption**

Up to Each Member State whether or not to introduce own plastics tax

Fit for 55
Package components

Energy Taxation Directive (ETD)
- Tiered rates based on sustainability of fuels
- **Change from unitary to EUR/GJ**
- Removal/phasing out of exemptions

Increased transport costs incentive to transition to more sustainable motor fuels

Carbon Border Adjustment Mechanism (CBAM)
- **Shadow ETS** mirroring phase out of free permits
- **Limited sectors**: Aluminum, iron and steel, cement, fertilizer, hydrogen and electricity plus the potential to expand

Increased costs for importing certain goods/ Prevent carbon leakage

New Emissions Trading Scheme (ETS 2)
- New separate ETS for **road transport and buildings** based on fuel consumption / 2027

New carbon price that will more directly impact consumers

Existing Emission Trading System (ETS 1)
- Accelerated emission reduction by **lower cap** and **free allowance reduction**
- **Inclusion of shipping**

Increased cost / incentive to reduce emissions

EU Emissions Trading System (ETS)

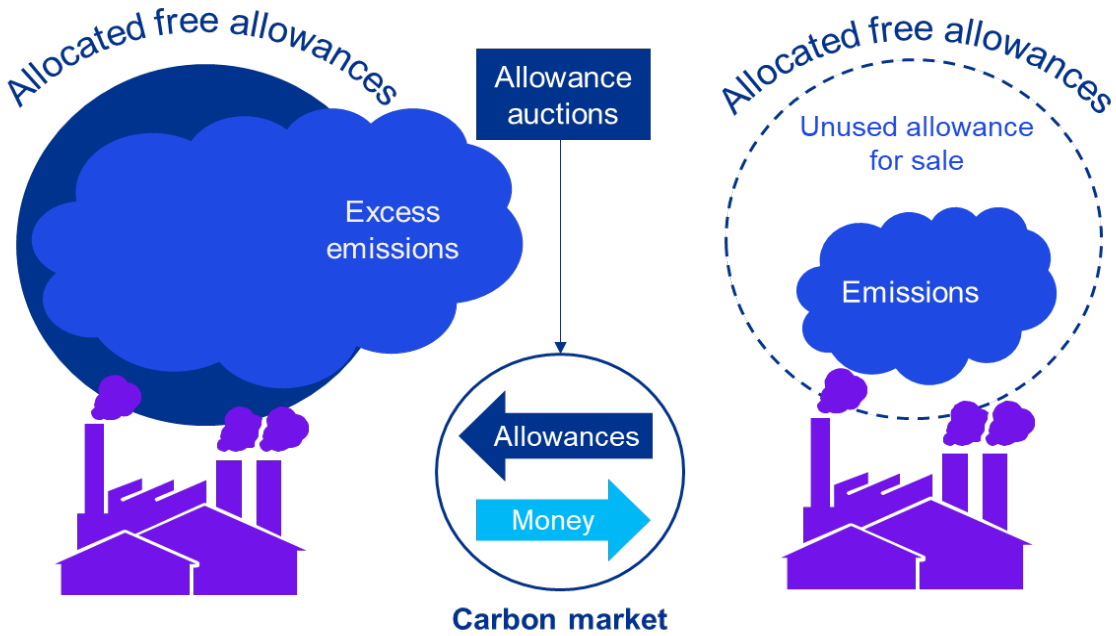
The EU ETS is a cap and trade system that places a market-based price on carbon emissions of specified goods in certain covered sectors (~ €80 per ton end May 2023).

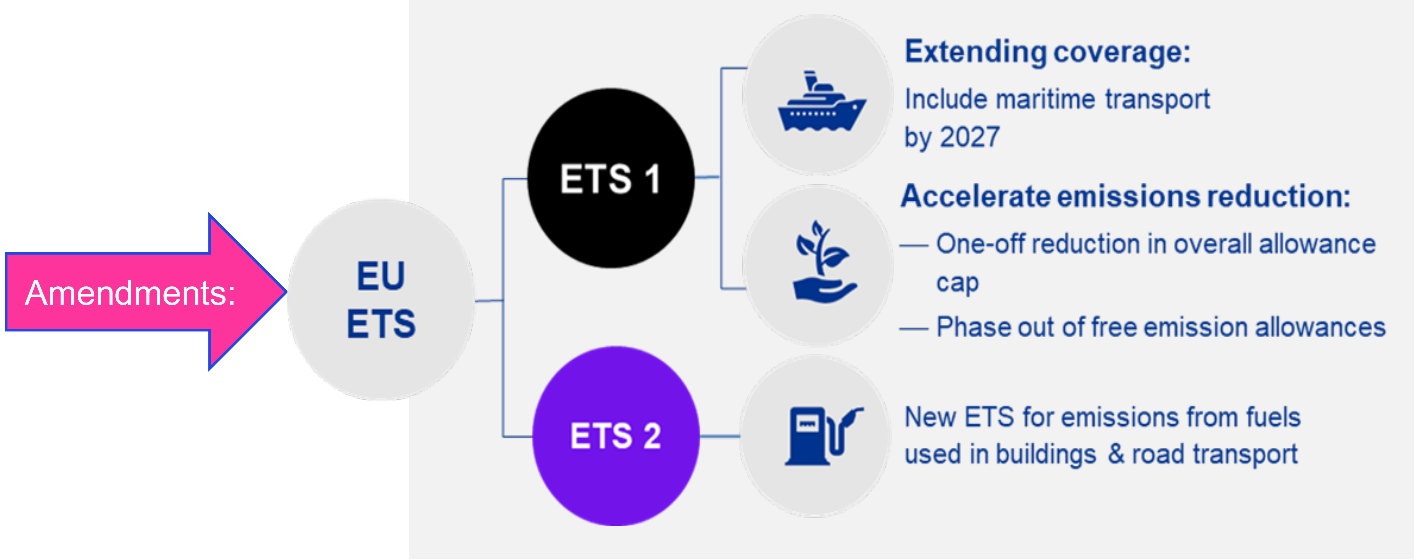
1 EU Allowance (EUA) = 1 ton of CO2

Supply of allowances is reduced over time

Designed to change behavior and reduce pollution

Free allowances issued to safeguard EU competitiveness





Amendments place carbon-intensive sectors at risk of carbon leackage

CBAM overview

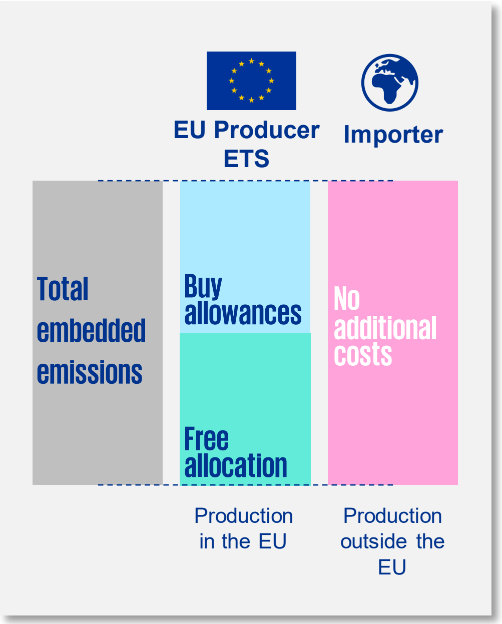
Climate neutrality

CBAM is designed to function in parallel with the EU ETS which encourages high-emission industries in the EU to reduce emissions.

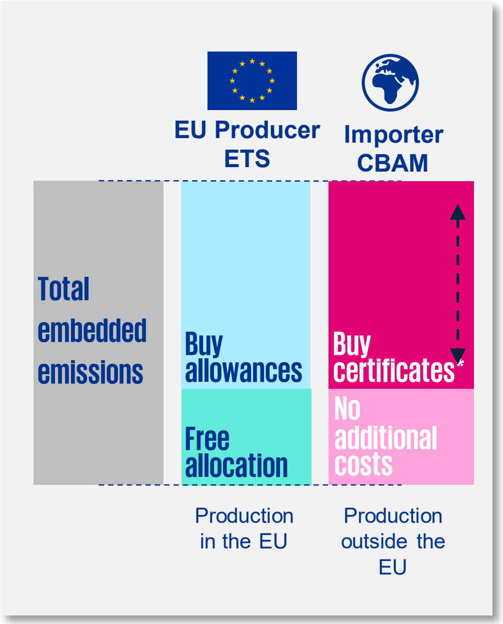
CBAM aim

- Counteract the risk of carbon leakage arising from the removal of the free ETS allowances.
- Encourage other countries to establish carbon pricing policies.

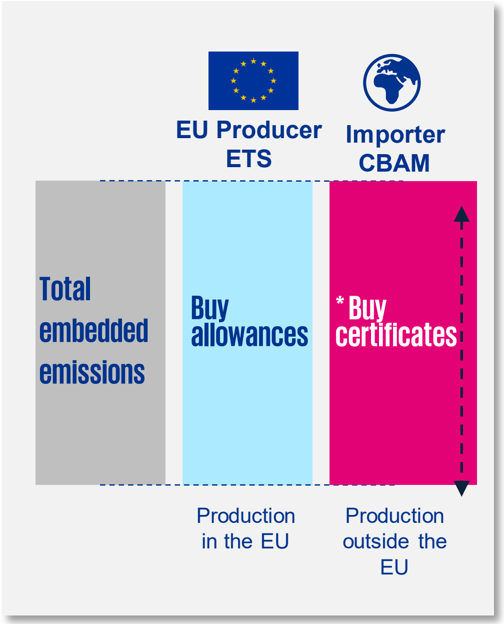
Current State



Future State



After 2036



* adjusted for any mandatory carbon prices effectively paid in the exporting country

CBAM initial scope

Electricity | Iron & steel | Cement | Fertilisers | Aluminium | Hydrogen

- Direct emissions
- Indirect emissions included under certain conditions
- Certain precursors

Cement (covered goods by CN code)

2507 00 80 – *Kaolin and other kaolinic clays, calcined*
2523 10 00 – *Cement clinkers*
2523 21 00 – *White Portland cement, whether or not artificially coloured*
2523 29 00 – *Other Portland cement*
2523 30 00 – *Aluminous cement*
2523 90 00 – *Other hydraulic cements*

Preparing for implementation

Dec 2022 — CBAM political agreement reached in trilogue

Apr 2023 — Formal adoption & final text published

June / July 2023 — Draft implementing acts to be published

1 Oct 2023 — Enter in force of transitional period:

- Quarterly reporting
- Measurement of emissions

2024/2025 — New impact assessment

1 Jan 2026 — End of transitional period:

- Registration of authorised declarants
- Financial obligations
- Yearly CBAM declarations
- Reporting and verification of emissions
- Expansion of scope of covered products (50% of all ETS sectors)

2034 — CBAM covers all the sectors covered by ETS (100%)

Preparation period

- Before 1 October 2023
- Review the scope and determine the impact of CBAM
- Check data availability (Understand the geographical composition of embedded emissions)

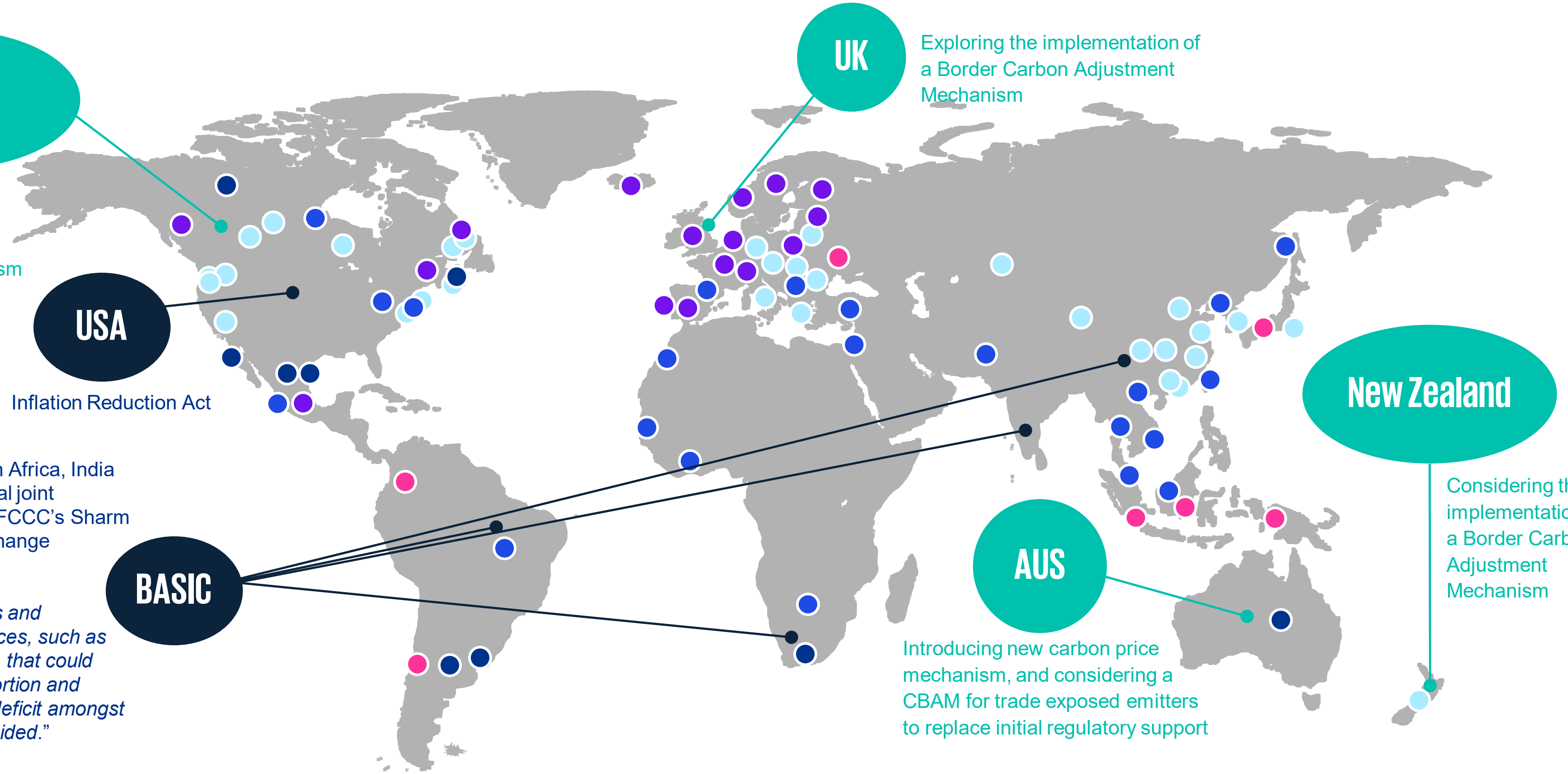
Transitional period

- 1 Oct 2023 – 31 Dec 2025
- Reporting without paying
- CBAM report quarterly: Embedded emissions and carbon price paid in country of origin
- Financial impact and monitor scope

Final period

- 1 January 2026 and further
- Authorization
- Certification
- Calculation & Verification
- Declaration & deduction

Global reaction to the EU's CBAM



BASIC (Brazil, South Africa, India and China) Ministerial joint statement at the UNFCCC's Sharm el-Sheikh Climate Change Conference:

"*Unilateral measures and discriminatory practices, such as carbon border taxes, that could result in market distortion and aggravate the trust deficit amongst Parties, must be avoided.*"

- ETS implemented or scheduled for implementation
- ETS or carbon tax under consideration
- ETS and carbon tax implemented or scheduled
- Carbon tax implemented or scheduled for implementation
- ETS implemented or scheduled, ETS or carbon tax under consideration
- Carbon tax implemented or scheduled, ETS under consideration

Source: Carbon pricing dashboard, World Bank, Accessed 05/07/2022, https://carbonpricingdashboard.worldbank.org/map_data
Note: Australia was added to take into account recent AUS announcements

Energy Taxation Directive (ETD)

The ETD sets out rules and minimum rates for the taxation of energy products and electricity

Proposed amendments to the ETD			
Energy content	**Anti-fossil fuel pricing**	**Widening the tax base**	
Energy tax calculated on the basis of energy content rather than volume measure of fuel	Higher rates for fossil fuels and lower rates to less polluting fuels	Extends application of ETD to fuel used in the aviation and maritime industry for intra-EU travel	Significantly reduces the autonomy of member states to offer exemptions and rebates on fuel tax

Proposed enforcement: 1 January 2023 → ***Undefined delay***

Prospective national plastic taxes

Several countries are introducing plastic taxes

Jurisdiction	Tax rate	Details	When
United Kingdom	£ 0.20 per kg (£ 0.21083 / kg from 1 April 2023)	Any packaging consisting mostly of plastic with less than 30 percent recycled content	1 April 2022
Spain	€ 0.45 per kg	Non-reusable plastic packaging	1 January 2023
Italy	€ 0.45 per kg	Non-reusable plastic packaging	Expected 1 July 2024

Other countries are introducing plastic regulations – non-tax (Extended Producer Responsability)

Poland	0.2 PLN per kg / 0,03 PLN per unit of product (annual maximum)	Single-use plastic products	1 January 2024
Portugal	€ 0.30 per package	Extension from single use packaging made of plastic to single use packaging made of aluminium	Extension as of 1 September 2023

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Regulatory update

Emmanuel Leroux, Senior Counsel, KPMG Law

CSRD: Directors' and Supervisory Bodies' Duties

Status: implementation in BE legislation pending

Recap role of directors: collectively responsible for compliance

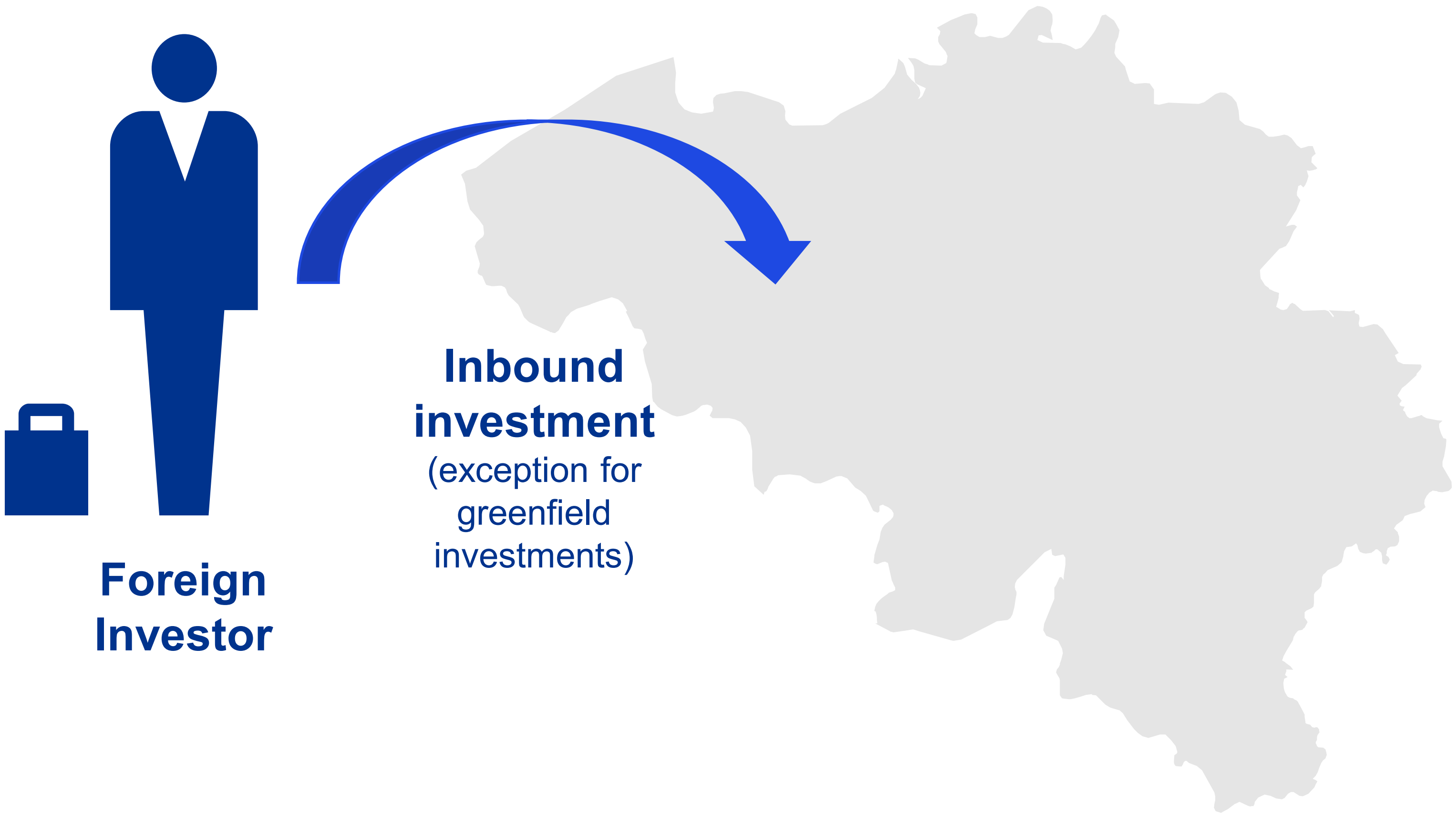
- (consolidated) financial statements;
- (consolidated) annual/governance reports;
- (consolidated) corporate governance statements

Reporting should even provide information about the role and expertise that these directors and supervisory bodies have regarding ESG in the company

Law re Whistleblower Protection and reporting

Companies with 50 – 250 FTE have to implement internal reporting channels by 17/12/2023

Foreign Direct Investment screening in Belgium



Foreign Direct Investments

Private person or company with their main or statutory residence outside the EU

AND

EU based companies with an Ultimate Beneficial Owner (ex. article 1:33 to 1:36 CAC) outside the EU

Which kind of investments - % and Sectors

25% stake of voting rights in Belgian companies active in

- Technologies and raw materials critical for security (incl. health security), national defence, military equipment, dual-use items, technologies for strategic importance; i.e. AI, robotics, semiconductors, cyber security, aerospace - and space security, energy, quantum-, nuclear- and nanotechnologies;
- Vital infrastructure for energy, transportation, water, health, electronic communication and digital infrastructure, media, data processing or data storage, aerospace, electoral or financial infrastructure and satellite navigation systems;
- The provision of critical inputs, including energy and food security;
- Access to sensitive information, including personal data, or the ability to control such information;
- The private security sector; and
- Freedom and pluralism of the media

25% stake of voting rights in Belgian companies (with a turnover of >25M) active in

- Technologies of strategic importance in the biotechnology sector

10% stake of voting rights in Belgian companies (with a turnover of >100M) active in

- Military (defence), energy, cyber security, electronic communication and digital infrastructure

→ Public screening is a mandatory condition precedent to closing the investment

KPMG Law

DRAFT CSDDD

Corporate Sustainability Due Diligence Directive

EUROPEAN COMMISSION

Brussels, 23.2.2022
COM(2022) 71 final

2022/0051 (COD)

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937

(Text with EEA relevance)

{SEC(2022) 95 final} - {SWD(2022) 38 final} - {SWD(2022) 39 final} - {SWD(2022) 42 final} - {SWD(2022) 43 final}

CSDDD: Expected Timeline

2023

Proposal launched in the beginning of 2022 by the EC

Expected to enter into force mid 2024

2024

Expected that a formal agreement will be reached at the beginning of 2024

CSDDD could enter into force not long after that

2026

Member states have until 2026 to transpose the Directive into national legislation

2027

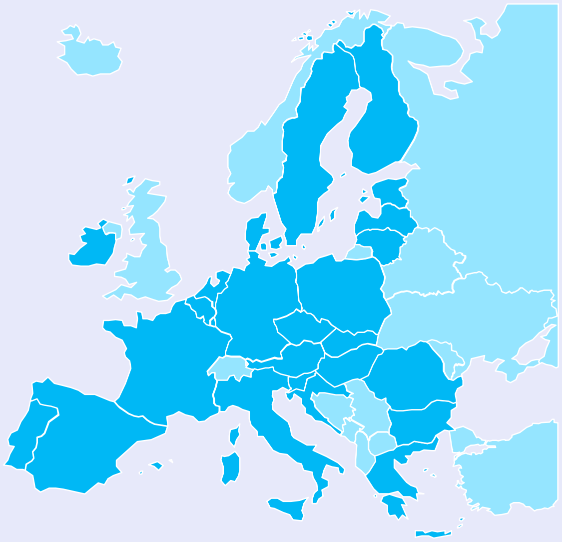
Possible application of CSDDD obligations to the largest companies (1000+ employees & global net turnover of 300M EUR)

2029

Likely the date that all companies under the scope of CSDDD will have to meet the requirements

1. Supply Chain Due Diligence – Scope (EU)

* Commission and Council's proposal

Group 1	Group 2
500+ employees and 150 M + worldwide net turnover	250+ employees and 40 M + worldwide net turnover
	AND 20 M + generated in one or more high impact sectors - the manufacture of textiles, leather and related products (including footwear), and the wholesale trade of textiles, clothing and footwear - agriculture, forestry, fisheries (including aquaculture), the manufacture of food products and beverages, and the wholesale trade of agricultural raw materials, live animals, wood, food, and beverages; or - the extraction of mineral resources, the manufacture of basic metal products, other non-metallic mineral products and fabricated metal products (except machinery and equipment), and the wholesale trade of mineral resources, basic and intermediate mineral products.

Measured at individual company level

For 2 consecutive financial years

1. Supply Chain Due Diligence – Scope (Non-EU)

Non EU

Active in the EU with turnover threshold // Group 1 and 2 generated in the EU

! Indirect scope

European Council

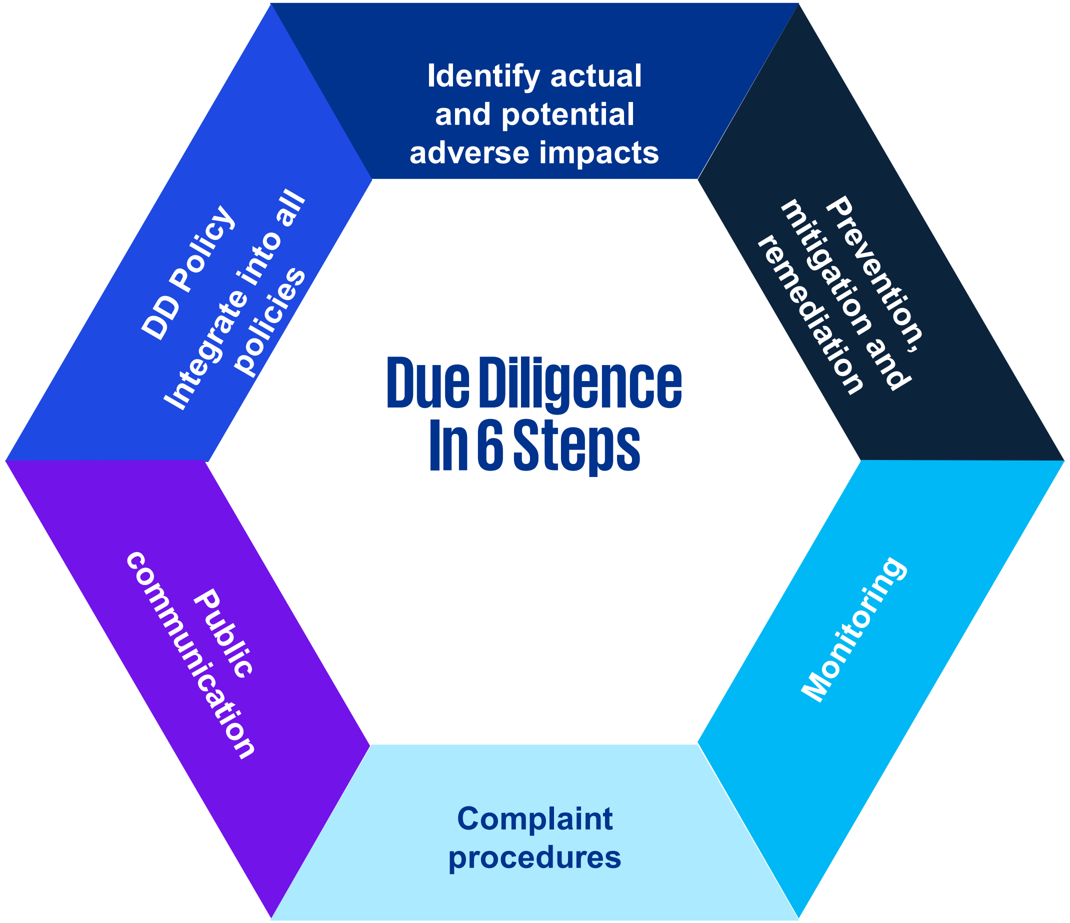
impact on persons resulting from an abuse of one of the human rights listed in the Annexes

(14) This Directive aims to ensure that companies active in the internal market contribute to sustainable development and the sustainability transition of economies and societies through the identification, prevention and mitigation, bringing to an end and minimisation of potential or actual adverse human rights and environmental impacts connected with companies' own operations, operations of their subsidiaries and their business partners in the companies' chains of activities. This Directive is without prejudice to the responsibility of Member States to respect and protect human rights and the environment under international law.

Upstream and downstream "business partners"

an impact on the environment resulting from violation of one of the prohibitions and obligations listed in the Annex I, Part II

1. Supply Chain Due Diligence – Obligations



2. Climate Plan

= Group 1

European Council

Article 15

Combating climate change

Member States shall ensure that companies referred to in Article 2(1), point (a), and Article 2(2), point (a), shall adopt a plan, including implementing actions and related financial and investments plans, to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119, and where relevant, the exposure of the undertaking to coal-, oil- and gas-related activities, as referred to in Articles 19a(2), point (a)(iii), and 29a(2), point (a)(iii), of Directive 2013/34/EU. This plan shall, in particular, identify, on the basis of information reasonably available to the company, the extent to which climate change is a risk for, or an impact of, the company's operations.

2. Member States shall ensure that, in case climate change is or should have been identified as a principal risk for, or a principal impact of, the company's operations, the company includes greenhouse gas emission reduction objectives in its plan.

3. Company's Liability

European Council

(15) Companies should take appropriate steps to set up and carry out due diligence measures, with respect to their own operations, their subsidiaries, as well as their direct and indirect business partners throughout their chains of activities in accordance with the provisions of this Directive. This Directive should not require companies to guarantee, in all circumstances, that adverse impacts will never occur or that they will be stopped. For example, with respect to business partners where the adverse impact results from State intervention, the company might not be in a position to arrive at such results. Therefore, the main obligations in this Directive should be 'obligations of means'. The company should take the appropriate measures which can reasonably be expected to result in prevention or minimisation of the adverse impact under the circumstances of the specific case. Account should be taken of the specificities of the company's business operations and its chain of activities, sector or geographical area in which its business partners operate, the company's power to influence its direct and indirect business partners, and whether the company could increase its power of influence.

3. Company's Liability

National provisions are of overriding mandatory application in case of conflicts of law => extraterritorial

Article 22

Civil liability of companies and a right to full compensation

1. Member States shall ensure that a company can be held liable for a damage caused to a natural or legal person, provided that:

   (a) the company intentionally or negligently failed to comply with the obligations laid down in Articles 7 and 8, when the right, prohibition or obligation listed in Annex I is aimed to protect the natural or legal person; and

   (b) as a result of a failure as referred to in point (a), a damage to the natural or legal person's legal interest protected under national law was caused.

   A company cannot be held liable if the damage was caused only by its business partners in its chain of activities.

2. Where the company was held liable in accordance with paragraph 1, a natural or legal person shall have the right to full compensation for the damage occurred in accordance with national law. Full compensation under this Directive shall not lead to overcompensation, whether by means of punitive, multiple or other types of damages.

= preventing and mitigating potential adverse impacts, and bringing actual adverse impacts to an end and minimising their extent

European Council

4. Directors' liability?

EC and EP:

- **duty of care to take sustainability matters into account**
- **Penalties for non-compliance**

v.

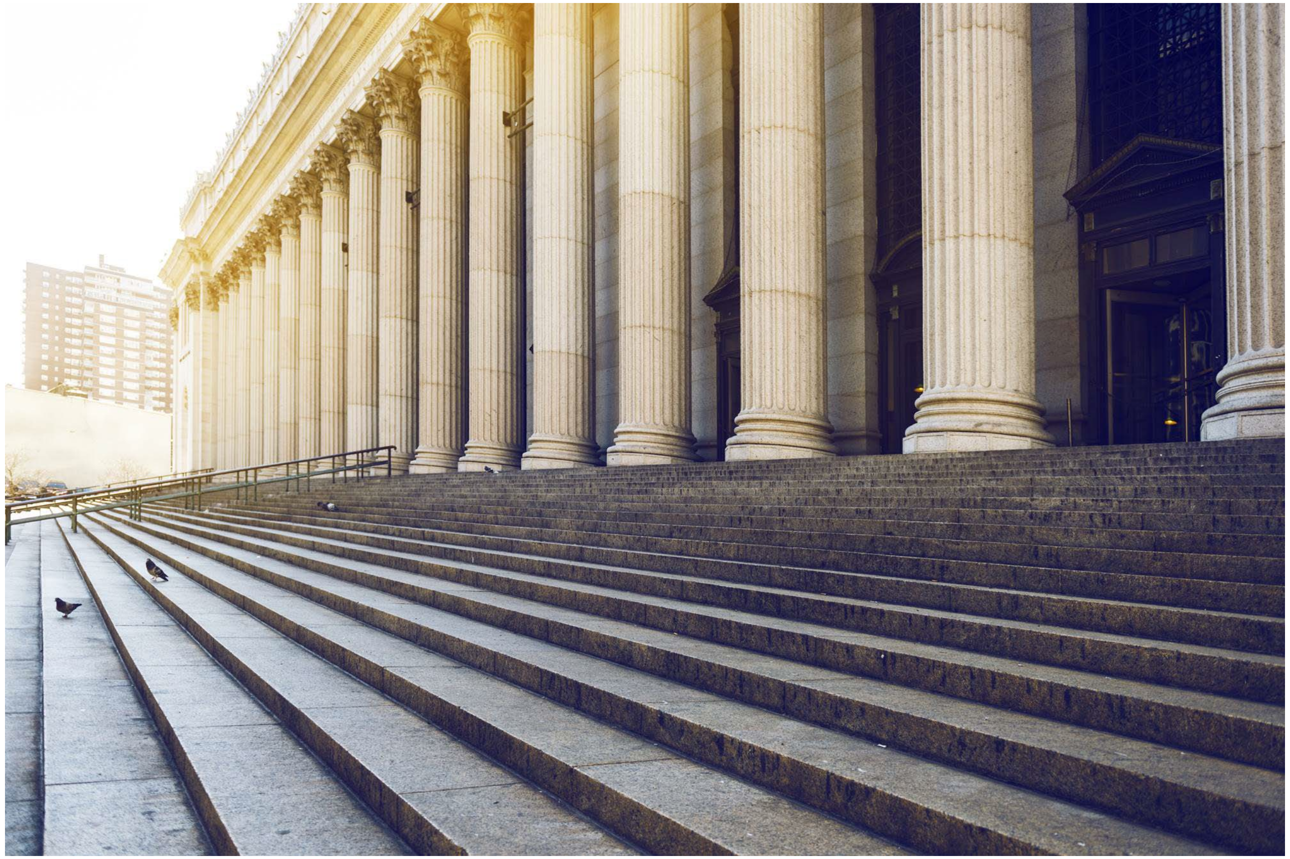
Council: /

5. Supervision

National administrative authorities with supervisory powers of investigation and power to order appropriate actions or impose administrative sanctions

→ Due diligence

→ Climate plan



CSDDD: Points of attention / impact

May require changes to procurement processes and contract terms

- Mostly for supply contracts
- Implementation of new contractual clauses to provide effective access to mitigation and remediation
- Mandatory verification of partners (bear costs at SME partners)

Due diligence clauses

- Company's falling under the scope of CSDDD will have to implement the right to audit (carry out due diligence) on their entire value chains (e.g. direct and indirect suppliers)
- To hedge their own liability under CSDDD (! fair, reasonable and non-discriminatory)

Contractual assurances regarding ESG and human rights

- Company's falling under the scope of CSDDD will likely ask contractual assurances of their business partners across the entire value chain **=> indirect impact on smaller companies and worldwide!**
- Have to verify that their direct and indirect business partners are complying with their contractual assurances

KPMG
Law

DRAFT GCD

Green Claims Directive

Proposal by the EC

EUROPEAN
COMMISSION

Brussels, 22.3.2023
COM(2023) 166 final

2023/0085 (COD)

Proposal for a

DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on substantiation and communication of explicit environmental claims (Green Claims Directive)

GCD: Expected Timeline

2023

Proposal launched by the European Commission (March)

2024

Expected that a formal deal will be agreed in 2024

Possible adaptation by the European Parliament and the Council of the EU

2025

Start-up period for the implementation of the directive

2026

Start-up period for the implementation of the directive

2027

Full-scale operation of the directive

“Protection of consumers”

Increasing transparency and trust in relation to environmental claims

The GCD aims to establish common rules for environmental claims and labelling on products in the EU

= regulate the use of environmental claims in marketing communication in Europe

The proposal includes:

- Clear criteria on how companies should prove their environmental claims and labels;
- Requirements for these claims and labels to be checked by an independent and accredited verifier (third party); and
- New rules on governance of environmental labelling schemes to ensure they are solid, transparent and reliable

“Protection of consumers”

Addressed greenwashing practices:

- unclear or not well-substantiated environmental claims;
- displaying a sustainability label that is not based on a certification scheme or not established by public authorities;
- making a generic environmental claim without the ability to provide recognised excellent environmental performance relevant to the claim;
- making an environmental claim related to future environmental performance without clear, objective, and verifiable commitments and targets and independent monitoring system, among others.

A claim is:

- any message or representation, not required by applicable law, that states or implies a positive impact on the environment;
- this includes text, images, graphic or symbolic representation, labels, brand names, company or product names.

Penalties (proposed)

Proposed penalties:

- Fines
- Confiscation of revenues
- Temporary exclusion from public procurement processes and public funding

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