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Value Chain Implementation Guidance Updated Cover Note

Objective

1. The objective of the session is to collect remaining comments, if any, before the document approval scheduled for 15 November 2023. Members are therefore invited to provide remaining fatal flaw comments in this meeting.

Important information

2. EFRAG can only issue non-authoritative guidance in its role as technical advisor to the EC. Furthermore, while drafting guidance, EFRAG cannot develop concepts or requirements that go beyond the content of the July 2023 delegated act. The guidance aims to illustrate the delegated act but not go beyond it. For new provisions, separate standard-setting activities in accordance with the standard-setting process has to be concluded.
3. The content of the guidance presented for this meeting has not been validated by the ISSB, GRI or FISMA.
4. EFRAG is also in the process of establishing a process to answer questions from constituents similar to the IFRIC decisions under the IFRS framework.

Next steps

5. The EFRAG SRB envisages releasing the guidance in draft for public feedback for a period of four weeks as per EFRAG's due process procedures.

SR TEG meeting, 18 October

Points of more detailed discussion

6. Some members commented that in their language 'data' is a narrower meaning – usually referring to quantitative information whereas "information" has broader meaning.
7. IT systems for data collection should be deleted from paragraph 123 in the context of the purpose of the guidance and there is no intention to push such managerial type changes for undertakings.
8. Inclusion of reference to CSDDD but in the end not included given the uncertainty in the current context. The document will be updated as appropriate once the CSDDD is legally binding.
9. Use of proxies in the value chain where a member proposed a distinction based on the effectiveness of use of proxies for different E topics. In his opinion, some topical proxies for example for biodiversity or impacts on indigenous



communities cannot be extrapolated extensively on the assumption that it would faithfully represent reality. This means that single name data vs proxies in some fields is inaccurate, and the guideline should explicitly acknowledge that. To this end, EFRAG Secretariat highlighted the concept of reasonable effort, where in some cases proxies may not represent reasonable effort. Furthermore, the disclosures in ESRS 2 paragraph xxx and the reference to “resulting level of uncertainty” addresses concerns around reliability.

10. Agreement that paragraph 116 on documentation goes beyond the agreed scope of the guidance.
11. Concept of operational control in ESRS E1 is not clear, however, to provide more information would require going beyond content of set 1. Agreement that further amendments may be required.

Changes agreed by SR TEG

12. EFRAG SR TEG agreed to the following:
 - a. Including the first change in agenda paper 04-02 in the guidance while excluding the remaining changes in the paper.
 - b. Add guidance from AR 40 to section on *Operational control* in Chapter 2.3.
 - c. FAQ 3: Align Step A with the MAIG.
 - d. FAQ 7: Delete ‘to obtain reliable data’ in paragraph 103.
 - e. FAQ 8: Replace ‘data’ with ‘information’ in paragraph 110. Delete most of paragraph 116 – leaving the first sentence without ‘clearly’; and
 - f. Par 123, remove ‘consider investment in technology’ and cross refer to paragraph 48 to highlight not all actors have to be considered.
13. On proposals for streamlining received on 17 October – SR TEG agreed that the EFRAG Secretariat will evaluate these to delete duplications but preserve items that are deemed useful such as examples.
 - a. Merge FAQ 1 with section 2.1;
 - b. FAQ 3: Delete paragraphs 59, 60, 62-63 and 65;
 - c. FAQ 8: merge paragraph 115 with 110 and delete point on documentation in paragraph 116 and delete box with examples of external data sources (page 22)
 - d. FAQ 9: Delete paragraphs 121 and 122 (repeats par 118 to 120) keep only examples, and
 - e. FAQ 10 – merge into FAQ 9; and
 - f. Further reductions in verbose phrasing and the avoidance of qualitative terms in descriptions.

Additional agenda papers

14. In addition to this paper, the EFRAG Secretariat presents the following additional papers:
 - a. Agenda paper 04-02 *Feedback on VCIG* – the main paper for discussion;
 - b. Agenda paper 04-03 Updated VCIG (clean); and
 - c. Agenda paper 04-04 Updated VCIG (in tracked changes).



Questions for EFRAG SRB

15. On agenda paper 04-02: Does EFRAG SRB members agree with the Secretariat proposals in paragraphs 5, 9 to 15; 18 to 21 and 24?
16. Do EFRAG SRB members agree with the recommendations and comments of SR TEG summarised in paragraphs 6 and 7 above? These points will be incorporated in the draft for approval in the next and final iteration of this Guidance.
17. Do EFRAG SRB members have any remaining comments of substance that could affect their vote on the document in the next meeting?

