

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## VCIG: SRB and other proposals - Issues paper

### Objective

1. The objective of this document is to set out the SRB comments on the VCIG at its public meeting on 23 August as well as other possible additions the Secretariat is considering.

### Background

2. EFRAG SR TEG previously discussed the VCIG at in a drafting closed session on 3 July 2023. There were still concerns about repetition, the unnecessary areas covered and drafting proposals.
3. The Secretariat also received drafting proposals from the following: PierMario Barzaghi, Eric Duvaud, Filip Grigor, Christoph Töpfer, Philippe Diaz, Klaus Hufschlag, Julie Mary, Julia Menacher, Thomas Schmotz, as well as Marie Lyager from ESMA.
4. The EFRAG Secretariat also followed up on a comment from SR TEG member Anne Claire Ducrocq separately.
5. These were considered and incorporated where relevant for the version discussed by the SRB at its 12 July meeting. These documents were also uploaded to the SR TEG Sharefile folder for 13 July.
6. The main comments of the EFRAG SRB on the 12 July version was as follows:
  - a) Flaws are editorial and structural rather than technical.
  - b) Repetition not problematic but avoid confusion and therefore contradictions or inconsistencies.
  - c) Language to be streamlined and simplified.
  - d) Proposals on FAQ 16 (FAQ 15), reporting boundaries,
  - e) FAQ on EDD, 'leverage' and reference to CSDDD removed
  - f) Focus on 3 questions:
    - i. What do we mean by value chain?
    - ii. Why do considerations of value chain matter?
    - iii. Where do considerations of value chain matter?
  - g) Scope 3 FAQ included in IG on environmental issues at a later stage.
7. The illustrative examples especially the ones with extracts from current reporting elicited significant discussion about the usefulness and the risks of including these. Therefore, the EFRAG Secretariat removed these from the draft.



## EFRAG SRB feedback

8. At its first public discussion about the document on 23 August 2023, the SRB were satisfied that there has been a significant improvement in the drafting. The SRB members did not have fatal flaw comments at this stage. They made the following editorial comments:
  - a) Mention the work that EFRAG is doing on SMEs as nothing is said in the doc about them;
  - b) Over-emphasis on quantitative aspects in FAQ 6 to 8 which requires clarification;
  - c) Comments on paragraph 16 and the link to paragraph 61;
  - d) Uncertainties around financial consolidation and how they embedded in sustainability reporting;
  - e) Include indications of how to focus the search for IROs in the VC (e.g. thresholds of revenues? High-impact sectors irrespective of the revenues?) and
  - f) Treatment of intragroup transactions (own operations),
9. It was agreed that SRB members will send their comments by 31 August 2023 and a verbal update will be provided to SR TEG at its meeting on 4 September.

## Other proposals

10. As at the date of writing this paper, the EFRAG Secretariat has not received further details on these comments, but some of these have inspired further proposals by the Secretariat which would benefit from SR TEG's inputs.

### Addition for SMEs

11. One member requested that the guidance should include an example related to small medium enterprises or at least explain to them the current position. During the drafting process there had been an FAQ aiming at helping smaller entities to prepare for VC considerations and while this is not specifically aimed at SMEs, the Secretariat proposes that this may nevertheless be useful to them.
12. The proposed drafting will be an additional section in part 2 of the VCIG.

### 2.7 What about SMEs?

13. Small medium enterprises (SME's) do not fall under the scope of the sector agnostic sustainability reporting standards as adopted by the European Commission on 31 July 2023 which enters into force on 1 January 2024. Therefore, EFRAG launched two workstreams on standards for SMEs in November 2022:
  - a) A simplified standard for listed SMEs, small banks and captive insurers (together "LSME"). This is a derogation to the first set of ESRS and will be issued as a delegated act in accordance with CSRD.
  - b) The second workstream is outside EFRAG's CSRD mandate and aims to support non-listed SMEs and micro-entities when facing the ESG requests of banks or partners in their value chain.
14. EFRAG is continuing its work on these two streams and hope to release the exposure drafts for these two draft standards in the Autumn of 2023.
15. SMEs as receivers of information requests, can choose to engage early with their important suppliers and customers to start the dialogue to minimise surprises and influence the discussion.



## Focus on VC

16. A comment from an SRB meeting, prompted the EFRAG Secretariat to consider an additional FAQ in chapter 3, possibly between FAQ 3 and 4.

### FAQ 3A: May value chains be excluded from the materiality assessment process?

17. An undertaking has intricate value chain reflecting the complexities of its operations and the origins of the components of its products as well as its global customers in various industries for instance a global chemicals group. One of these value chains relate to about 2% of its annual turnover and the undertaking plans to disregard this value chain given its small size.
18. This may not be appropriate in all circumstances and more information is required. The relatively small size of the value chain's contribution to the undertakings annual turnover may not reflect the importance or severity of its impacts. The undertaking cannot assume that such a linear relationship exists. One possible element to consider when looking for material IROs of the value chain for a counterparty with a very small contribution in monetary terms, is whether such counterparty operates in a high-impact sector. The following is an indication of the sectors that are considered having a high impact on people or environment:
- a) Oil and Gas
  - b) Mining, Quarrying and Coal Mining
  - c) Road transport
  - d) Agriculture, farming and fishing
  - e) Motor vehicles
  - f) Energy production and utilities; and
  - g) Food and beverages

## Service entities

19. The current guidance does not have examples of value chains for a service organisation and the Secretariat thinks this should be addressed.
20. Possible examples could relate to estate agency, hotels, advertising agency or travel agency.

### Questions for EFRAG SR TEG

21. Does EFRAG SR TEG agree to include the additional proposals above? Please explain.
22. Does SR prefer a specific type of service entity and if so, please explain why.

