VCIG

Secretariat orientation based on feedback

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Fredré Ferreira

EFRAG
sustainability reporting

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Summary of respondents

Respondents by country

Country

	Total
Austria	**5**
Belgium	**24**
Denmark	**2**
France	**5**
Germany	**15**
Italy	**5**
Malta	**1**
Netherlands	**4**
Poland	**1**
Spain	**4**
UK	**8**
USA	**1**
Norway	**1**
Total	**76**

Stakeholder

	Total
Assurance provider	13
Civil society	2
Consultants	5
Other	1
Preparer	36
Standard setter	9
User	10
Total	**76**

Stakeholder by country

	Assu. Prov.	Civil society	Cons.	Other	Preparer	Standard setter	User	Total
Austria	1				3	1		**5**
Belgium	3	1	2		15	1	2	**24**
Denmark					1	1		**2**
France	1				2	1	1	**5**
Germany	2		2		8	1	2	**15**
Italy	1				2	2		**5**
Malta	1							**1**
Netherlands					1	1	2	**4**
Poland					1			**1**
Spain	2				1	1		**4**
UK	2		1	1	2		2	**8**
USA		1						**1**
Norway							1	**1**
Total	**13**	**2**	**5**	**1**	**36**	**9**	**10**	**76**

For further information about stakeholder reclassification, please see appendix.

Main concerns

Summary of main concerns

SR TEG members will receive a verbal update of SRB discussions and directions on 20 March 2024.

Comment	EFRAG Secretariat orientation
Linking of entity-specific disclosures with VC; metrics are not required for VC disclosures.	No change required. An explicit reference is not needed as entity-specific is a principle-based approach that applies to disclosures across their categories.
Operational control (Chapter 2.3)	The chapter requires redrafting specifically on the description of OC relating to assets and sites as well as drafting about ESRS S1.
Harmonisation of the approach of due diligence between ESRS and CSDDD.	Editorial changes proposed in context of ESRS 1 paragraph 58.
Financial institutions	Editorial changes proposed
More examples, specifically for downstream value chain. For the latter also more guidance	Include the examples.
Explicit list of data sources (FAQ 9)	No change. This would require going beyond ESRS.
Reasonable effort	
Transitional provisions (chapter 2.5)	No changes proposed
Miscellaneous comments	Editorial changes proposed
Drafting and editorial comments	These are being evaluated and where helpful included in the updated draft

Linking paragraph 11 and 63/65

- Some argue that the VCIG should not refer to ESRS 1 paragraph 11, ESRS 1 AR 1 to AR 5 when saying that entity-specific value chain (VC) metrics are required from an entity-specific perspective as ESRS does not explicitly link these.
- A standard setter emphasized that metrics are not necessarily required at entity-specific level and that the ESRS limit quantitative information extended to the value chain to two metrics (in ESRS E1 *Climate Change*) therefore the VCIG should not contradict, nor go beyond ESRS requirements.

- Chapter 5 of ESRS 1 does not limit VC to only information on policies, actions and targets (i.e. excluding metrics). It refers to 'information … provided in the sustainability statement shall be extended…'. Sustainability statement as defined in glossary of delegated act: The dedicated section of the undertaking's management report where the information about ***sustainability matters*** prepared in compliance with Directive 2013/34/EU of the European Parliament and of the Council and the ESRS is presented.
  - Clearly in this context 'information' includes metrics. Therefore, even without the linkage to paragraph 11, it is clear that VC metrics may be required.
  - As the MDRs in ESRS 2 already requires information about the coverage of the VC in PAT, it is unclear what else Chapter 5 as well as the transitional requirements in chapter 11 could refer to if not metrics.
- Paragraphs 11 and 63/65 is clear that disclosure on material IROs cannot be avoided simply because there is no requirement in ESRS.
- The Secretariat notes that the reading as proposed by the Secretariat is prevalent in application of principles in financial reporting and does not consider this to be going beyond the principles in ESRS.

Chapter 2.3: Comments received

EFRAG

- Operational control
  - Scope of operational control (OP)
  - Paragraph 45: OC mentioned in ESRS E1, E2 and E4, example of overlap of pollution (E2) of water (E3)
  - Social standards drafting
  - Scope 3 example to be added
  - Only for impacts and not financial effects (DR E1-9)
  - Risk of double counting

- Alignment with the GHG protocol and that par 40, 53 contradicts the GHGP
- Guidance insufficient on subsidiaries excluded from financial reporting on the basis of materiality
- Comments re inclusion of leased assets in Chapter 2.3 on operational control

Operational control (OC): Secretariat initial orientation

Scope of operational control

- Respondents noted differences in the E standards around applicability of OC. The Secretariat proposes that this and the rationale for these are discussed by SR TEG and if relevant appropriate redrafting is proposed, within the limits of an IG.
- The Secretariat considers that OC is applicable only when mentioned in the DA, i.e. in E1 for GHG emissions. To be confirmed with TEG.
- The EFRAG Secretariat notes that there is no notion in ESRS E1 that OC by another entity reduces the perimeter of the disclosures for the reporting undertaking and considers that to provide guidance to the contrary would be contradictory to the limitations of an IG (i.e. double counting is inevitable in SR). To be confirmed with TEG.

General

- To clarify that joint control, control and significant influence are FR concepts and not covered in ESRS.
- Add example of Scope 3 with operational control, supply transactions and investment only

Other OC aspects: Secretariat initial orientation (2)

- **GHG protocol alignment**: The EFRAG Secretariat notes that it cannot change paragraph 40 of the VCIG as it explains ESRS E1. The GHGP allows a choice between financial and operational control; ESRS E1 requires to apply operational control. This will be mentioned in the VCIG.
- Subsidiaries excluded from **financial reporting** on the basis of **materiality**: the Secretariat proposes to add a clarification to paragraph 36.
- Clarification about leased assets (i.e. when already on balance sheet under IFRS no need to consider OC).

CSDDD

- EFRAG should ensure coherence in terms of value chain coverage with regards with the current applicable due diligence legislation and with the forthcoming CSDDD. The CSDDD proposal limits the downstream disclosures with the notion of ‘chain of activity’ excluding customers, sale or use of the product.
- The VCIG should not build on the assumption that due diligence requirements are legally binding at a European level.
- The VCIG should indicate that the underlying investments of individual portfolio management activities are not part of the value chain for the purpose of CSRD reporting.

The EFRAG Secretariat notes the following:

- *The definition of upstream and downstream value chain is not dependent on CSDDD but has been incorporated into the delegated act.*
- *The content of the VCIG around due diligence does not assume that due diligence is applicable to all those in scope of CSRD/ESRS. This is why the drafting is framed as ‘if in place’ or ‘may’.*
- Therefore, the EFRAG Secretariat is not proposing any changes to the current drafting, except to add “if applicable” to paragraph 80 of the VCIG.

Financial institutions:

- VCIG does not provide any information on the scope of value chain for financial institutions.
- VC definition is not fit for purpose for FIs.
- On FAQ 2 where preparers noted that the guidance implies an enormous burden in practice. The Secretariat notes that the FAQ is based on ESRS 1 AR 12 (b)

For details of requests on financial institutions, please see the appendix.

Secretariat orientation

- ESRS currently does not cover specificities relating to the value chain of financial institutions and that this will be covered by the sector standards for Banking, Capital Markets and Insurance.
- Changing the definition of value chain or business relationships etc. cannot be addressed in an IG but requires standard setting.

The EFRAG Secretariat therefore does not propose any further changes to the drafting.

Examples

- The EFRAG Secretariat notes that the development several additional and more complex examples at this stage would be incompatible with the need to issue the guidance timely.
- Request to include example related to confidentiality and non-disclosure agreements with companies in the value chain. Secretariat orientation is that this does not change the requirement to include in MA or disclosures where relevant except for ESRS 1 paragraphs 105 to 108.
- One example in addition to the one on cooldrinks will be developed.

For detailed comments received on examples, please see Appendix

Explicit list of data sources

Many respondents requested further guidance on the applicability criteria on indirect sources, tools, and methodologies to help collect primary data, and a list of data sources to use to estimate indirect data. Whereas some consider it should only be free data sources.

The EFRAG Secretariat does not propose further changes except for including ILO and data from UN organisations.

- The EFRAG Secretariat notes that no other sources were provided by respondents. However, the intention is to provide preparers and others with a non-exhaustive list of examples of sources that can be used. A definitive list would be inappropriate to be included in an IG and would be contrary to the principles-based nature of ESRS.
- As for providing principles for high-quality secondary data such as SMART principles outlined in TNFD, the EFRAG Secretariat considers this would be exceeding the authority of the IG. The EFRAG Secretariat proposes to include a reference to the qualitative characteristics of information in FAQ 9.
- The EFRAG Secretariat is perplexed by the request of three of preparers not to rely on examples of external data sources (e.g. NGOs) and removing the example of the "World Justice Project" as the intention was to provide examples of sources of information.
- The Secretariat does not understand why the list of some fee-based sources is misleading or why additional sources to ESRS is not appropriate, especially as these are examples.

‘Reasonable effort’

- Requests for additional examples of data and industries to further clarify the concept of “reasonable effort” (under FAQ 8).
- Clarification whether there is a strict hierarchy (primary data versus external data) on what is considered “reasonable effort” would be helpful.

- Given the judgement in this concept the EFRAG Secretariat considers that any additional guidance would have to reflect this, and only simplistic examples would be possible.
- **TO BE DISCUSSED**

Transitional provisions: Comments received

- Paragraph 62 does not bring enough clarity on the applicability of this transitional period to metrics listed in ESRS 2 Appendix B (which covers VC in only a few cases).
- Should mention that portfolio coverage will be incomplete initially and improve as more counterparts disclose information.
- Clarify in paragraph 66(b) whether this provision is meant to be a stopgap or placeholder until sector-specific standards are published.
- Value chain phase-in allowance appear contradictory as preparer still has to explain why it does not have the information.
- A nuanced perspective in paragraph 60 could be to acknowledge that this situation may persist beyond three years.

Transitional provisions: Secretariat initial orientation

Comment	Secretariat orientation
• Par 62 of VCIG: – Insufficient clarity – Coverage of initial portfolio incomplete but increasing with time – Few VC metrics in Appendix B	• No changes. This would go beyond what is in DA and the Secretariat is uncertain of what could be added within the limits of an IG.
• Transition provision para. 131 ESRS 1 should be extending till sector-specific standards	• No indication of this in DA. This would be an amendment to ESRS
• Contradictory nature of phase in	• This would be an amendment to ESRS
• Situation may persist beyond three years	• Would go beyond ESRS/IG
• Comment that reporters may report on VC earlier	• Clarification to be added

Miscellaneous comments

Comment received	Secretariat orientation
FAQ 1: • More extensive guidance required • Importance of good governance and internal controls to identify material IROs in VC	• Could add that the VC starts with mining/ sowing of seeds and ends with items ending in landfills. However, cannot limit the VC as contrary to ESRS requiring all material IROs in the VC. • Goes beyond IG scope
FAQ 2: disclosures on investments: Proposal to add to paragraph 77: "However, other material IROs related to equity investments should always be disclosed where relevant to other disclosure requirements, or as entity-specific disclosures." Another proposes to clarify that financial assets are likely to give rise to material IROs.	The Secretariat considers this to go beyond what is in ESRS currently.
FAQ 6: Examples of best reporting practices (ESRS 1 par. 131(b)), refer to TNFD for E1 to 5.	No changes. Not mentioned by ESRS 1.
FAQ 7: • How to assess and quantify the impacts of the VC from business relationships • Suggestion to emphasise the core activities of the undertaking and the relevance of the information represented excluding less relevant information. • Another suggestion that EFRAG should refer to direct business relationships, as can only quantify the impacts from other actors except through audits.	The Secretariat proposes no changes to the drafting in this regard. • Assessment forms part of the materiality assessment • The VCIG does not suggest including irrelevant information • The definition of VC and specifically business relationships include relationships beyond the first tier and estimates possible where relevant
Leases: • Comment on differences in treatment between GHGP and IFRS and should be further explained	• GHGP and IFRS differences where evident when the draft ESRS developed, no changes proposed.

Appendix – summary of the relevant comments

Stakeholder re-classification

Civil society including consumer organisations, NGOs and trade unions	Reclassified as:
Accountancy Europe	Assurance provider
European Federation of Accountants & Auditors for SMEs	Assurance provider
AFME	Preparer
amfori	Preparer
Cefic	Preparer
CEOE	Preparer
Confederation of German Employers' Associations	Preparer
Confindustria	Preparer
Eurelectric	Preparer
European Association for the Aerospace, Security and Defense Industry (ASD)	Preparer
EPRA (European Real Estate Association)	Preparer
Invest Europe	Preparer/User
Ipieca	Preparer
OIBR	Standard setter
VDMA e.V.	Preparer
WSBI-ESBG	Preparer
UNEP-WCMC	Other
Standard setter	**Reclassified as:**
FSR - Danish Auditors	Assurance provider
Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)	Assurance provider
Kammer der Steuerberater:innen und Wirtschaftsprüfer:innen (KSW)	Assurance provider
Danish Business Authority	Preparer
FoodDrinkEurope	Preparer

Respondents indicated their stakeholder category as part of the survey. However, several respondents such as preparer organisations self-identified as civil society (probably because the organisation itself is a not for profit, as is the case with EFRAG). However, this does not mean that they represent the views of civil society. Some indicated themselves as standard setter.

The Secretariat reclassified these stakeholders based on website research and an SR TEG member validated this. The revised categories are reflected on this slide.

Linking paragraph 11 and 63/65: Comments received

- Four respondents (standard setter, preparers) argued that the VCIG should not refer to ESRS 1 paragraph 11, ESRS 1 AR 1 to AR 5 nor ESRS 1 paragraph 65 when supporting the statement that an undertaking is required to provide entity specific value chain (VC) metrics or to integrate VC data into their metrics when, according to the outcome of its materiality assessment, it is necessary from an entity-specific perspective. The respondents underlined the fact that ESRS does not make an explicit connection between these parts of the standard, and it should be resolved by amending the ESRS and not by addressing it with non-authoritative implementation guidance.
- A standard setter emphasized that metrics are not necessarily required at entity-specific level. The standard setter also indicated that paragraph 57 should focus on qualitative information because quantitative metrics in the ESRS are not requested on the value chain (exception of proxies and sector averages).
- A standard setter argued that the ESRS limit quantitative information extended to the value chain to two metrics (in ESRS E1 *Climate Change*) therefore the VCIG should not contradict, nor go beyond ESRS requirements.

Paragraphs 206, 209, 212 and 101 in agenda paper 07-02

Linking paragraph 11 and 63/65: ESRS

11. In addition to the disclosure requirements laid down in the three categories of ESRS when an undertaking concludes that an impact risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities. Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.

63. The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). In extending the information about the reporting undertaking the undertaking shall include material impacts risks and opportunities connected with its upstream and downstream value chain: (a) following the outcome of its due diligence process and of its materiality assessment; and (b) in accordance with any specific requirements related to the value chain in other ESRS.

64. Paragraph 63 does not require information on each and every actor in the value chain but only the inclusion of material upstream and downstream value chain information. Different sustainability matters can be material in relation to different parts of the undertaking's upstream and downstream value chain. The information shall be extended to include value chain information only in relation to the parts of the value chain for which the matter is material.

65. The undertaking shall include material value chain information when this is necessary to: (a) allow users of sustainability statements to understand the undertaking's material impacts, risks and opportunities; and/or (b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this Standard).

Quotes from ESRS 1 *General requirements*

Linking paragraph 11 and 63/65: VCIG

21 (d) Finally, when an undertaking concludes that a material IRO is not sufficiently covered by an ESRS, it shall provide additional disclosures to enable users to understand its IROs. (ESRS 1 paragraph 11 and AR 1 to 5). This may include information, including when appropriate metrics, about a material IRO in the VC.

54. The two overarching requirements in ESRS 1 that are applicable are:

(a) paragraph 63 requiring information on material IROs connected with the undertaking's upstream and downstream VC; and

(b) paragraph 11 requiring entity-specific information when a reporting undertaking concludes that a material IRO is not covered sufficiently by an ESRS, to enable users to understand such IRO. Such entity-specific information is expected to cover both IROs in own operations and IROs in the upstream and downstream VC, when they are material.

122. Beyond the specific provisions on metrics in the sector agnostic ESRS, the undertaking shall provide additional VC information metrics or integrate VC data into their metrics, when according to the outcome of its materiality assessment, this is necessary from an entity-specific perspective (ESRS 1 paragraph 11 and AR 1 to 5 read with ESRS 1 paragraph 65). In particular, ESRS require the undertaking to consider appropriate entity-specific metrics needed for understanding of the impacts or tracking effectiveness of companies' actions. Possible examples are the following: (a) impact data of suppliers should be included in the reported metrics, when the undertaking depends in its upstream VC or supply chain from activities that have a high impact on the environment; (b) the percentage of workers in value chains in high-risk areas being covered by social security schemes; and/or (c) the percentage reduction in health and safety incidents compared to incidents in the prior period or as compared to a base period where the quality of the information can be assured.

123. It is important to note that this is relevant only for those activities of VC actors that are associated with material IROs and not for all VC actors

Quotes from the VCIG

CSDDD: Comments received

EFRAG

- Nine respondents (standard setters, preparers, civil society) recommended that EFRAG ensures coherence in terms of value chain coverage with regards with the current applicable due diligence legislation and with the forthcoming CSDDD. The CSDDD proposal limits the downstream disclosures with the notion of ‘chain of activity’ excluding customers, sale or use of the product.
- One preparer noted that until the CSDDD is finalised and there are no consistent, level-playing field requirements on due diligence, the VCIG should not build on the assumption that due diligence requirements are legally binding at a European level.
- According to one respondent, following the downstream value chain limitations outlined in the forthcoming CSDDD, VCIG should indicate that the underlying investments of individual portfolio management activities are not part of the value chain for the purpose of CSRD reporting. Similarly, paragraph 159 of FA.

(Paragraphs 27 to 30 of agenda paper 07-02)

CSDDD: VCIG

EFRAG

13. … For example, the due diligence aspects related to the materiality assessment (and VC aspects) are covered in that guidance rather than here.

17. ESRS have been developed according to this legal requirement. CSRD does not provide any further definition or guidance about VC. However, with reference to impacts CSRD refers to international instruments of sustainability due diligence which specify how the undertakings are expected to identify, address and report on impacts across their VC.

80. The ESRS clarify that the materiality assessment process is informed by the due diligence process.

99. The mapping of the VC for material impacts is expected to use the sustainability due diligence process, when it is in place. However, the due diligence process may go beyond such mapping per se as explained below, …

100. Subsequently, the undertaking shall describe its materiality assessment process, including in relation to the VC, and the extent to which it may be informed by the due diligence process.

107. The preparation of this disclosure may use the evidence of impacts from the due diligence process, such as the concentration of types of impacts by country or operational step.

References are to VCIG

CSDDD: **ESRS 1 Chapter 4**

58. The outcome of the undertaking's sustainability due diligence process (referred to as "due diligence" in the international instruments mentioned below) informs the undertaking's assessment of its material impacts, risks and opportunities. ESRS do not impose any conduct requirements in relation to due diligence; nor do they extend or modify the role of the administrative management or supervisory bodies of the undertaking with regard to the conduct of due diligence.

59. Due diligence is the process by which undertakings identify prevent mitigate and account for how they address the actual and potential negative impacts on the environment and people connected with their business. These include negative impacts connected with the undertaking's own operations and its upstream and downstream value chain including through its products or services as well as through its business relationships. Due diligence is an on-going practice that responds to and may trigger changes in the undertaking's strategy business model activities business relationships operating sourcing and selling contexts. This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

60. These international instruments identify a number of steps in the due diligence process including the identification and assessment of negative impacts connected with the undertaking's own operations and its upstream and downstream value chain including through its products or services as well as through its business relationships. Where the undertaking cannot address all impacts at once the due diligence process allows for action to be prioritised based on the severity and likelihood of the impacts. It is this aspect of the due diligence process that informs the assessment of material impacts (see section 3.4 of this Standard). The identification of material impacts also supports the identification of material sustainability risks and opportunities which are often a product of such impacts.

61. The core elements of due diligence are reflected directly in Disclosure Requirements set out in ESRS 2 and in the topical ESRS as illustrated below…

Explicit list of data sources: comments received

10. One assurance provider requested EFRAG to consider further guidance on the applicability criteria on indirect sources, tools, and methodologies to help collect primary data, and a list of potential sources to use to estimate indirect data.

242. Six respondents (standard setters, preparers, consultant) suggested adding a comprehensive, explicit list of data sources in the VCIG. Of these, three respondents (two standard-setters, one preparer) encouraged the provision of a list of recognised databases and secondary data sources for calculation of scope 3 emissions in the VCIG. The respondents argued that it would minimise the current burden on undertakings, and it will reduce the costs.

243. Two consultants suggested including a list of quality criteria for secondary data. According to these respondents, FAQ 9 does not seem to explicitly address principles for ensuring high-quality secondary data such as SMART principles outlined in TNFD.

244. Regarding paragraph 144, three of preparers in paragraph 257 recommended further guidance to using independent quality sources but should not rely on examples of external data sources (e.g. NGOs). To this end, the respondents expressed concern on the lack of legal basis for explicitly mentioning "World Justice Project" and suggested deleting it.

245. Two preparers also pointed out that the list of some fee-based sources is misleading. One of these underlined the importance of an explicit clarification in FAQ 9 that companies are not required to use fee-based external sources. The other recommended the use of publicly available sources and not reverting to sources that are not requested by the ESRS.

246. A standard-setter suggested adding the International Labour Organisation as source for social protection by country to the box 'Examples of external data sources'.

247. A civil society respondent suggested to add 'data from United Nations organisations' to the list of sources in the box on page 28.

252. A consultant noted that the box below paragraph 144 … covers only a few of external data sources. The consultant suggested to expand this list with additional specific references.

References to agenda paper 07-02

Financial institutions: clarifications asked

108. A preparer requested a clarification that the financial sector can limit value chain relationships to contractual relationships (given its extremely large number of relationships). It also asked for confirmation that there are no specific requirements relating to the metrics required to be disclosed in relation to investments of financial undertakings (other than scope 3 GHG emissions).

109. Three respondents (standard setters, preparer) considered the current guidance as inadequate as it is unclear whether paragraph 52 applies to FIs. Specifically, whether associates of credit institutions are only actors in the value chain if they are part of the financial sector and thus part of the business model of the credit institution.

110. Another preparer pointed out that IG 2 paragraph 52 does not distinguish between investments with/without further transactions. Clarification whether the investee company is an actor in the value chain of the reporting undertaking (as for associates and joint ventures) would be useful.

111. A standard setter requested guidance on the application of paragraphs 16 and 17 to financial institutions (who do not have any legal rights or contractual arrangements to use as influence on obtaining information of these parties and particularly their vast value chains regarding their IRO's).

112. A preparer noted that:

(a) the current definition of value chain is not fit for purpose for the investor-investee relationship. The nature of the investment value chain differs from value chains in the real economy. Unlike suppliers and purchasers, investors and investees often have no operational and contractual ties. This should be specified in the guidance.

(b) many firms act as subadvisors or delegated portfolio managers for other entities. Such other entities would be considered part of the value chain as end-users. It should be clarified whether the environmental and social impacts of such entities should be reported.

(c) it is currently unclear what is expected from regulated financial institutions in terms of reporting on environmental and social impacts at portfolio company level. They suggested clarifying the reporting expected from limited and general partners (LPs and GPs) .

References to agenda paper 07-02

Financial institutions: clarifications asked

EFRAG

156. On the other hand, another preparer [Allianz SE] considered that going beyond tier 1 of the reporting undertaking’s upstream value chain as a general principle is too far reaching, but this would be appropriate in limited cases such as for manufacturers with multiple tier supply chains. In the case of financial institutions, it [Allianz SE] emphasised the need to add that only a few tiers will be relevant (i.e. (e.g. scope 3 Category 15 emissions of a financial institution could the scope 3 emissions of a banking investee, but not the scope 1, 2 or 3 emissions of the banking investee's investees).

157. The same preparer requested that the IG acknowledges that dependencies is not relevant for financial institutions (i.e. insurance of climate-related hazards as the main risk driver).

166. A user noted that according to the VCIG, financial assets (including equity and debt investments) would be considered business relationships under ESRS, but this is not stated explicitly in the Standards. The respondent added that, as financial assets need to be considered in the materiality assessment – and that associated material IROs would need to be reported on – the VCIG should clarify that financial institutions should focus their assessment of financial assets on those that are likely to give rise to material sustainability IROs.

167. A user suggested adding whether (and if so in what terms) the financial market participants' type of involvement with an impact through their financial assets (direct linkage, causation, or contribution to) should affect the materiality assessment and reporting.

169. Another preparer asked for clarification whether a financial institution conducts a materiality assessment of its portfolio (value chain).

170. Two assurance providers asked for clarification regarding operational control of financed emissions as it is not clear how to put into practice the elements of “financing” and “investment” in the context of value chain. The respondent pointed out that if a financial institution is state-owned, the value chain may extend to all relevant actors that the respective government engages with. The EFRAG Secretariat notes that financed emissions under ESRS form part of sector-specific standards in contrast with IFRS S2 Climate-related Disclosures.

235. A user noted that the VCIG mentions that customers should be included in the VC reported by the entity. It would be beneficial for financial institutions to define "customers" in this context. According to the respondent, it would be beneficial a confirmation from EFRAG that insured objects and claimed settlement activities would be included in the "customer" part of Value Chain (subject to materiality assessment) similarly to other relationships as defined in the standards.

References to agenda paper 07-02

Examples: comments received

EFRAG

249. Three respondents (assurance provider, consultants) considered that the example illustrating “relevant” and “not relevant” information in paragraph 147 is too general and lacks a clear rationale. The assurance provider suggested clarifying why the assessment of relevance is done during the reporting of metrics, and not during the materiality assessment.

186. A standard-setter pointed out that FAQ 3 does not cover the downstream value chain and recommended added examples of downstream value chain or point out this limitation.

187. One respondent (civil society) recommended adding an example on how the undertaking's strategy and business model may be connected to possible material IROs in the VC context (paragraph 84).

188. An assurance provider recommended to graphically present the example provided in paragraph 86.

189. Two respondents (civil society, assurance provider) suggested adding examples for paragraph 93. The assurance provider [ASSERIVI] recommended presenting the three types of involvement (cause, contribute, or linked) in a graph. Another respondent pointed out that without an example, it is not clear how each type of involvement could lead to a different assessment or categorisation. The EFRAG Secretariat notes that this is explained in the MAIG FAQ referred to in the VCIG.

190. One respondent (assurance provider) considered FAQ 3 to be relevant and useful but proposed a graphical representation of the example for improved clarity.

192. An assurance provider pointed out that there is no guidance on how VC information should be disclosed in the context of an undertaking’s materiality assessment (paragraph 110). ESRS 2 SBM-3 48 (b) requires information about the discussion of IROs, whereas 48 (e) only asks for the effects of the IROs on business model.

193. Four respondents (standard-setter, civil society, consultants) had comments on the wording and the usefulness of paragraph 97. Two consultants [Climate & Company, Climate focus] suggested adding "(including indirect suppliers)" after the term "suppliers" in paragraph 97c) (i). The standard setter [DASB] suggested giving examples on SBM 1 as set out in paragraph 97. Another respondent (civil society) suggested explaining (or providing examples) of the terms “key” and “main features” from a risk-based perspective.

References to agenda paper 07-02

Examples: comments received

194. One respondent (civil society) noted that paragraph 113 would benefit from an example of quantitative and qualitative information.

223. A consultant suggested providing an upstream example when suppliers are unable to provide IPBES pressure information (e.g. land use/water use/pollution information).

224. Two consultants suggested including more examples for incidents of child or forced labour in the VC where suppliers might want to omit relevant information (paragraph 128).

226. A standard-setter argued that the bakery example in paragraph 130 is too obvious and straightforward, therefore may not be practical for the purpose of the guidance.

227. Three preparers suggested providing more examples in paragraph 130. These include distinguishing between smaller and larger companies, and examples to illustrate actors in the downstream part of the value chain.

233. A preparer suggested deleting paragraph 132. The respondent noted that the wording suggests a significant high level of granularity which differs from the simple use of estimates. According to the respondent, this example suggests that estimates would then need to be translated into materiality from the perspective of the reporting entity across customers.

234. Another preparer noted that the example in paragraph 132 represents the ambiguity of scope in the guidance. There is no industry-wide standard or a consistent methodology for calculating electricity use induced from beverage cooling in countries that vary in geography, economic development, and other substantive factors.

References to agenda paper 07-02

Transitional provisions: Comments received

102. Four respondents (preparers, standard setter, preparer) stated that paragraph 62, does not currently bring enough clarity on the applicability of this transitional period to metrics listed in ESRS 2 Appendix B. One respondent (preparer) suggested including that portfolio coverage will be incomplete and gradually increase as more and more counterparts disclose information.

103. Another respondent (standard setter) stated that wording of paragraph 62 should be revised, because very few metrics from EU Datapoint cover the entire value chain.

104. One respondent (consultant) suggested to clarify, in paragraph 66(b) whether this provision is meant to be a stopgap or placeholder until sector-specific standards are published.

105. One respondent (preparer) stated that value chain phase-in allowance in a way appear contradictive. The ESRS guidance states there is a 3-year phase in allowance, but at the other hand the guidance on the transitional framework seems to state that if the VC information is not available in the first three years, an undertaking must provide explanations for not having the information. Undertakings are not allowed to make use of the “relief”.

106. Two respondents (standard setter, preparer) noted that it would be helpful to add guidance regarding ESRS 1 paragraph 133 a).

107. One respondent (standard setter) considered that paragraph 60 adds complexity without adding value. A nuanced perspective could be considered by acknowledging that this situation may persist beyond three years.

137. One consultant suggested adding the following to paragraph 58 : If undertakings have access to the needed VC data within the initial three years of sustainability reporting, they can decide to forgo the transitional provisions and begin reporting VC information earlier.

References to agenda paper 07-02

Transitional provisions: VCIG

58. The transitional provisions are intended to provide reporting undertakings with more time to prepare for the new reporting regime in case not all the necessary information regarding VC is available. The transitional requirements are optional, i.e., the undertaking can decide whether it wants to use them or not and they apply whether the VC actor is an SME or not.

59. The steps an undertaking can consider during this time may include: (a) Stakeholder engagement and other enhancements to the materiality assessment; (b) Preparation of technological and other infrastructure required for the reporting; (c) Updating of contracts with actors in the VC to reflect status of new implemented policies or target tracking, such as foreseeing the provision of periodic information; and (d) Improved knowledge about the structure of the VC, specific actors involved and associated impacts and dependencies.

60. The transitional requirements (ESRS 1 paragraph 132) foresee that if not all the necessary VC information is available during the first three years of the reporting undertaking's sustainability reporting under ESRS, the undertaking shall explain: (a) The efforts made to obtain the necessary information; (b) The reason why it could not obtain the necessary information; and (c) Its plans to obtain the necessary information in the future.

61. In addition, during the transitional period, reporting undertakings may limit information to in-house data (such as data available to the undertaking and publicly available information) to disclose information on policies, actions and targets for the VC (ESRS 1 paragraph 133 (a)).

62. In addition, with reference to metrics, the undertaking is not required to include upstream and downstream VC information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B (see ESRS 1 paragraph 133 b)) during the transitional period.

63. Starting from its fourth year of reporting under ESRS, the undertaking shall include VC information according to ESRS 1 paragraph 63 (ESRS 1 paragraph 135) and as explained in this document. 64. In addition to the transitional provisions described above, Appendix C of ESRS 1 specifies that for ESRS E1-6 Gross Scopes 1, 2, 3 and Total GHG emissions, undertakings or groups with less than average of 750 employees at balance sheet dates, may omit datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement. Similarly, the disclosure requirements for ESRS S2 Workers in the value chain; ESRS S3 Affected communities and ESRS S4 Consumers and end-users may be omitted for the first two years by undertakings who have 750 or less employees during the financial year

References to the VCIG

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35 Square de Meeûs, B-1000 Brussels
info@efrag.org - www.efrag.org

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THANK YOU