

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: Feedback and updates

Cover note

Objective

1. The objective of this session is for EFRAG SR TEG to recommend the updated VCIG to the SRB for publication.

Background

2. At the SR TEG meeting of 21 March, [Agenda paper 05-02](#) set out the feedback received in detail and [Agenda paper 05-03](#) described the Secretariat’s orientation to the following topics:

Feedback	Secretariat orientation as agreed by SRB
Linking of entity-specific disclosures with VC; whether entity-specific metrics are also required for VC disclosures;	While there may be significant judgement involved in determining the appropriate information to be provided, ESRS does not preclude the need for VC metrics as is evidenced by transitional requirements and wording in the standard.
Clarification of operational control (Chapter 2.3)	SRB agreed to ask SR TEG for its inputs. On 21 March, SR TEG agreed that: <ul style="list-style-type: none"> • the intention was alignment with GHG Protocol where OC is the reporting approach. • The definition of OC is wide (similar to the GHG Protocol) and the ESRS E 1 paragraph 46 focusses on the treatment of undertakings adjacent to the consolidated group (such as associates and joint ventures) rather than limiting the application of OC to only such undertakings. • Disclosure on financial effects (ESRS E1-9) should include undertakings under OC of reporting undertaking due to the EU ETS also applying to operators. • OC is not relevant to any of the Social standards. • OC can only extend the perimeter of disclosure, not reduce it.
Harmonise approach to due diligence between CSDDD and ESRS	For CSDDD explanation have been included
More guidance for financial institutions	To be done by the sector specific standards, otherwise going beyond the scope of an IG.
Requests for more examples	Done, please see the new FAQ 5 and 6.
Explicit list of data sources to be included in FAQ 9	Not possible to provide complete list of possible sources as this depends on the facts and circumstances of each undertaking.

Feedback	Secretariat orientation as agreed by SRB
Further guidance on reasonable effort	This depends on facts and circumstances, no opportunities to extend the current guidance without going beyond the remit of an IG.
Miscellaneous smaller comments as well as drafting and editorial comments.	Updated where relevant.

Changes made to this version

3. The document has been restructured, specifically Chapter 2.3 on reporting and disclosure boundaries to improve flow and understandability and FAQ 5 and 6 were moved to Chapter 2 as theoretical in nature.
4. Two additional FAQs were added in Chapter 3:
 - (a) New FAQ 5 which updates the example in the GHG Protocol standard for changes in IFRS and to reflect the reporting under ESRS E1; and
 - (b) New FAQ 6 which illustrates the difference in treatment of an Associate under operational control, as an actor in the value chain and as an investment only. Please note that this FAQ will be a late upload.
5. Aspects related to financial reporting were moved to a separate section labelled 'The accountants' corner' to avoid the impression that these are sustainability reporting concepts.
6. A caveat about CSDDD was included in a box in chapter 1. The areas with major changes have been highlighted in grey to facilitate review and a comparison to the version published in December 2023 have been prepared.

Questions for EFRAG SR TEG

7. At the last meeting, SR TEG considered that operational control should apply to ESRS E1-9 *Anticipated financial effects from material physical and transition risks and potential climate-related opportunities* due to the impact of the application of the EU ETS. Does this relate to physical and transition risks or will it be recognised in the financial statements?
8. The EFRAG Secretariat is considering deleting paragraph 63 related to the life cycle assessment as its relationship to the value chain is not clear:

Following from paragraph **Error! Reference source not found.**, ESRS E4 paragraph 36 also refers to life cycle assessment: "If the undertaking has identified material impacts with regards to land-use change, or impacts on the extent and condition of ecosystems, it may also disclose their land-use based on a Life Cycle Assessment." It is also covered in ESRS E4 AR 31: 'With regard to life cycle assessment for land-use, the undertaking may refer to the "Land use related environmental indicators for Life Cycle Assessment" by the Joint Research Center.'
9. Does the SR TEG have comments on the changes to the VCIG?
10. Does SR TEG recommend the VCIG to the EFRAG SRB for publication?

Agenda papers

11. In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 06-02 – VCIG: (the updated document)
 - (b) Agenda paper 06-03 – VCIG compared to version issued for public feedback (excluding structural changes as described above) and
 - (c) Agenda paper 06-04 – VCIG: FAQ 6.