Issue Paper – Proposal for additional Datapoints in Sustainable Finance/ Business Partner module related to value chain

This paper has not yet been discussed with SR TEG

VSME v3

DISCLAIMER

Objective

2. The objective of this paper is to report to the SRB the analysis led by Secretariat on the datapoints that entail a value chain dimension in ESRS for large undertakings (adopted as EU delegated acts in July 2023) and assess i) to what extent they are covered in VSME v3 and ii) if not covered whether consideration shall be given to include them in the SF/Business Partners module of VSME.

Background

3. During the outreach with corporates that need data from their suppliers, conducted by EFARG secretariat in October, an element of discussions concerned the list of datapoints that have <u>a value chain dimension in ESRS</u> for large undertaking (EC Delegated Acts) and for which large undertakings may need to request information to their supply chain, including to SMEs.

4. SR TEG and SRB have considered the value chain cap as part of <u>methodological approach to LSME.</u> In art 29b, CSRD says that the sustainability reporting standards for large undertakings (ESRS Set 1 issued as delegated act in July 2023) shall not specify disclosures that would require undertakings to obtain information from small and medium sized undertakings in their value chain that exceeds the information to be disclosed pursuant to the LSME ESRS. This implies taking in proper consideration the need for the ESRS not to pose unproportionate burden to small and medium-sized undertakings, and to result relevant to the capacities and to the scale and complexity of their activities. Hence, ESRS LSME ED has been streamlined to the maximum extent possible and includes the minimum value chain information that are necessary from the perspective of the users' needs of LSME sustainability statements. This VC information is also useful to preserve the possibility to report these datapoints for large undertakings (meet the users' needs for the reporting of large undertakings in collecting the necessary data). In this sense the value chain cap is an integral component of the decision tree for the design of LSME ESRS.

5. This has led to the inclusion in LSME ESRS of the following 7 value chain cap datapoints that where possible, have been further simplified to the maximum extent:

DR in EC DA July 2023	ESRS LSME ED Section correspondence	DR title
Disclosure Requirement SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model	Section 2	Disclosure Requirement 7 (SBM-3) - Material impacts and risks and their interaction with strategy and business model (+ Voluntary Disclosure 8 (SBM-4) – Material opportunities)
Disclosure Requirement E1-1 – Transition plan for climate change mitigation	Section 3	Application Requirement (Policies and Action climate) AR 16 (transition plan) and AR 11 (decarbonization levers)

Value Chain datapoints in VSME v3

Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions	Section 4	Disclosure Requirement E1-2 – Gross Scopes 1, 2, 3 and Total GHG emissions
Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits	Section 4	Disclosure Requirement E1-3 – GHG removals and GHG mitigation projects financed through carbon credits
Disclosure Requirement E2-5 – Substances of concern and substances of very high concern	Section 4	Disclosure Requirement E2-2 – Substances of concern and substances of very high concern
Disclosure Requirement E4-5 – Impact metrics related to biodiversity and ecosystems change (land use)	Section 4	Disclosure Requirement E4-1 – Impact metrics related to biodiversity and ecosystems change (land use)
Disclosure Requirement E5-4 – Resource inflows (qualitative)	Section 4	Disclosure Requirement E5-1 – Resource inflows (qualitative)
Disclosure Requirement E5-5 – Resource outflows (limited to purchased materials and treatment of waste) (qualitative)	Section 4	Disclosure Requirement E5-2 – Resource outflows (qualitative)

6. In the discussion on VSME and in the methodological approach, the above list of datapoints has not been considered, due to the fact that legal function of value-chain cap is set by LSME ESRS.

7. However, during the discussions with corporates that need information from their SME suppliers, the question emerged on whether additional datapoints would have to be included in the SF/Business partner module, to potentially meet the data demand of the large counterparts in the value chain that may request this data when reporting according to ESRS.

EFRAG Secretariat preliminary considerations – prior to SR TEG meeting

8. The secretariat has analyzed the current coverage of datapoints with "value chain dimension" in VSME v3 and the result is as follows:

Value Chain datapoints in VSME v3

DR in EC DA July 2023	ESRS VSME V3 Section correspondance	DR title
Disclosure Requirement E1-1 Transition Plan for climate change mitigation	Sustainable Finance/Business Partner Module	
Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3*	Environment Metrics (Basic Module) GHG Scope 3	Disclosure B 3 – Energy and greenhouse gas emissions
Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits*	Not in VSME	
Disclosure Requirement E2-5 – Substances of concern and substances of very high concern*	Not in VSME	
Disclosure Requirement E4-5 – Impact metrics related to biodiversity and ecosystems change (Land Use)	Environment Metrics (Basic Module)	Disclosure B 5 – Biodiversity
Disclosure Requirement E5-4 – Resource inflows (qualitative)	Environment Metrics (Basic Module)	Disclosure B 7 – Resource use, circular economy, and waste management
Disclosure Requirement E5-5 – Resource outflows (limited to purchased materials and treatment of waste) (qualitative)	Environment Metrics (Basic Module)	Disclosure B 7 – Resource use, circular economy, and waste management

9. The datapoints that are currently missing in the VSME v3 are the following three:
    1. Disclosure Requirement E1-6 – GHG Scopes 3* and Total GHG emissions. Total can be calculated so we could focus on GHG Scope 3
    2. Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits
    3. Disclosure Requirement E2-5 – Substances of concern and substances of very high concern

10. Concerning the N1, GHG Scope 3 emissions, the secretariat highlights that this datapoint is currently excluded from the SF/Business Partner module because in the internal written feedback process (EFRAG SR TEG and SRB) and during the

outreaches, it was underlined that SMEs would not be able to report this datapoint, without a publicly accessible tools for calculation in place.

11. The secretariat considers that these datapoints have to be included in the SF module, in order to qualify as a tool to replace the questionnaires including those that are needed by large corporates to cover the value chain information in their ESRS sustainability statements.

12. The secretariat suggests that an additional question is included in the consultation on VSME ED (when approved) regarding those value chain cap datapoints. Important to note that the legal value chain cap set by CSRD remains LSME ESRS. Hence the basis for conclusions for VSME would have to explain the rational for inclusion in terms of fulfilling the market needs.

13. **This paper will be discussed in EFRAG SR TEG on 26 October 2023.**