VCIG: Summary and analysis of the feedback received

1. The EFRAG Secretariat has analysed and summarised the responses received on the *draft EFRAG IG 2: Value chain implementation guidance.*
2. Proposed changes to the IG are discussed in more detail in paper 07 -03.

Structure of the paper

3. This comment letter analysis contains:
   (a) Background;
   (b) Summary of respondents;
   (c) Summary of respondents' views;
   (d) EFRAG TEG views not incorporated into DCL;
   (e) Main positions in EFRAG's proposed final comment letter;
   (f) Appendix 1 - detailed analysis of responses; and
   (g) Appendix 2 – list of respondents.

Background

4. On 22 December 2023, EFRAG published its first three draft ESRS Implementation Guidance documents with a deadline for public feedback of 2 February 2024. The documents are non-authoritative and support the implementation of ESRS.
5. IG 2 describes the reporting requirements on the value chain during the materiality statement, for impacts, risks, and opportunity management as well as metrics and targets. It discusses the reporting boundary of the group for sustainability reporting including operational control. The VCIG also contains FAQs to provide further information and the 'value chain map' summarises the VC implications per disclosure requirement.

Summary of respondents

6. At the time of drafting, 68 responses to the survey have been received (excluding 8 general letters).

	Assurance provider	Civil society	Consultant	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**

	Assurance provider	Civil society	Consultant	Other	Preparer	Standard setter	User	Total
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**

Summary of respondents' views

7. The following points summarise the main concerns, issues and ideas collected from the respondent's comment letters:

Comment	**EFRAG Secretariat orientation**
Linking of entity-specific disclosures and VC paragraphs (ESRS 1 para 11 and 67)	No change required.
Operational control chapter	The chapter requires redrafting, specifically paragraphs 45 and 47.
Harmonisation of the approach of due diligence between ESRS and CSDDD.	Given uncertainties on CSDDD not possible and in context of ESRS 1 paragraph 58 not required.
More guidance value chain for financial institutions.	This would require going beyond ESRS. It will be covered by ESRS Sector standards.
More examples, specifically for downstream value chain. For the latter also more guidance	Examples provided to be included.
Explicit list of data sources (FAQ 9)	This would require going beyond ESRS.
Further guidance on "reasonable effort", "proportional effort" from actors in the value chain (paragraph 130), and the definition of "significant" products and services.	To be discussed.

(a) Many respondents noted that the VCIG should be consistent with ESRS in terms of content and language. This requirement is extended to definitions (such as the definition of value chain in ESRS and in VCIG), the use of common language between the ESRS and VCIG, and the understanding of concepts (i.e. entity-specific disclosures). Moreover, respondents pointed out that the VCIG should not go beyond ESRS requirements.

(b) Respondents provided editorial redrafting throughout the document. These are identified and explained in detail in each corresponding section of this paper.

The EFRAG Secretariat will update the VCIG where necessary for these points.

8. The following table shows the number of respondents who addressed each section by providing at least one comment.

	Number of responses
Summary	23
Chapter 1	11
Chapter 2	51
Chapter 3: FAQ 1	17
Chapter 3: FAQ 2	20
Chapter 3: FAQ 3	10
Chapter 3: FAQ 4	10
Chapter 3: FAQ 5	16
Chapter 3: FAQ 6	22
Chapter 3: FAQ 7	12
Chapter 3: FAQ 8	20
Chapter 3: FAQ 9	7
Value chain map	8

Strategic SRB discussion

9. The EFRAG Secretariat has set out its approach to updating the VCIG in more detail in paper 07-03 *VCIG: Strategic direction based on feedback*.

Questions for EFRAG SRB

10. Does EFRAG SRB have any comments on this summary?

Appendix 1: Detailed analysis of responses to questions in XYZ

Question 1

Do you have any general comments on the VC IG?

Summary of constituents' comments

General comments

11. Most respondents welcomed the clarifications on value chain topics, such as the different requirements to provide value chain information, the difference between the requirement to consider value chain in the materiality assessment and the need to collect value chain data, use of estimates, value chain map etc.

12. One respondent 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.

13. One respondent (standard setter) welcomed the VCIG, however pointed out that it may still be too complex and not sufficiently accessible. The respondent requested more clarity in the guidance in the following aspects: understandability and simplicity; more visual examples on how requirements would work for different companies and sectors; more clarification on operational control; further guidance on dependency of the quality provided by suppliers, use of estimates and indirect data sources.

14. Three respondents (standard setter, preparers) emphasised the importance of guidance for financial institutions. The VC IG does not provide any information on the scope of value chain for financial institutions.

15. Three respondents requested to have more illustrative examples on a wider range of topics. Respondents indicated that they expect examples from various ESRS, various industries and value chain elements and where business partners are not located in European countries.

16. Two preparers considered that the VCIG contained several passages that went beyond the ESRS requirements (i.e. paragraph 33, paragraph 39, paragraph 45).

17. One preparer recommended to use the terms "*shall*" and "*may*" for consistency with the ESRS.

18. One preparer requested to add a list of abbreviations at the beginning of the document and to add a flow chart/table with concrete references to chapters and requirements *(i.e. page 14, point 53: Definition of E-standard)*

19. Several respondents (preparers, assurance provider) welcomed the use of dialogue between EFRAG, ISSB and GRI. The respondents stressed the importance of ensuring maximum possible collaboration for the completion of the IGs.

20. One respondent (preparer) believed it would be helpful to clarify that independent auditors cannot place reliance on the guidance as part of their audit work.

21. One respondent (preparer) argued that the VCIG places a strong emphasis on the ESRS DR that explicitly require value chain information to be disclosed. Yet, those DR might be 'contradicted' by other DR on the value chain at a more general level - e.g. ESRS 1 on entity-specific disclosures, which could led the company to include further VC information than required in the metrics DR, if such is considered material, or ESRS 1 para 31, whereby an undertaking may omit a DR on (e.g. on metrics) if the information is not deemed material. A flowchart clearly illustrating those connections would be beneficial.

22. One respondent (preparer) recommended that the guidance should advise reporting undertakings to prioritise issues with the greatest likelihood of potential impact to the most relevant value chain partners.
23. Some of these general comments are further discussed in the context of each section.

Question 2

Do you have any comments on the summary of VCIG?

Summary of constituents' comments

Definition and implications of Value Chain

24. Seven respondents (standard setter, preparers) suggested adapting the definition of value chain used in the IG to match the definition set out in Annex 2 of ESRS. Their concern is that as it currently reads, it could lead to a restricted understanding of what should be addressed when identifying areas of the value chain that may cause impacts, risks, or opportunities.
25. Two preparers pointed out that the definition of value chain is clarified on page 6 paragraph 16, but this clarification should appear earlier in the guidance.
26. Two respondents (consultants) pointed out that further guidance is needed related to the definition of the value chain, value chain mapping, considering value chains in the materiality assessment and inclusion of value chain information in metrics.
27. One preparer noted that the treatment of value chain actors outside of the financial consolidation perimeter is a big source of uncertainty.

Entity-specific metrics

28. One respondent (preparer) considered that EFRAG should avoid undue effort by undertakings by urging them to screen for all possible entity-specific metrics. The information in the guidance does not add any new explanation beyond ESRS 1.

Due diligence and CSDDD

29. Nine respondents (standard setters, preparers, assurance provider) 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.
30. One respondent (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.
31. 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.
32. See more comments on CSDDD in FAQ 1.

Editorial comments and rephrasing

33. A standard setter noted that EFRAG should acknowledge in paragraph 2, that the value chain coverage is not required in all disclosures. The respondent suggested to rephrase as follows: *"The undertaking is not required to include value chain (VC) information in all disclosures, but in certain cases when it is connected with material IROs beyond its own operations, due to its business relationships and when it is specifically required by the disclosure requirement."*

34. The same respondent requested that EFRAG to explicitly state that the value chain coverage is not mandatory in paragraph 4.

35. The same respondent also requested a redraft of paragraph 6 because the primary intention of ESRS is not to collect primary VC information for the identification of the material IROs. Furthermore, while value chain coverage is crucial for the materiality assessment, it is not required for metrics, except in specific cases outlined in the IG (e.g., GHG emissions).

36. Two respondents (one standard setter, one preparer) requested the addition of references in paragraph 7 to ESRS E2 and E4, as the concept of operational control is mentioned in these ESRS as well. Moreover, the standard setter noted that the word “undertaking” should be deleted.

Question 3

Do you have any comments on Chapter 1?

Summary of constituents’ comments

General comments

37. A preparer suggested including a summary of the key ideas and statements provided in each FAQ in Chapter 1 (with a cross-reference to the corresponding FAQ) as the guidance in the main section of IG 2 is too limited and some information is only provided in the FAQs.

38. Two respondents (standard setter, preparer) suggested adding a reference to ESRS E1 *Climate Change* and to clarify the differences in scope of consolidation.

39. A preparer indicated that the reference to greenhouse gases or to the GHG protocol should be removed, with no reasoning provided.

40. Another preparer requested adding a list of recognised tools for reference on how to identify the impacts, risks, and opportunities in the value chain.

41. Two respondents (standard setter, preparer) requested confirmation that preparers of ESRS sustainability statements complies with ESRS if they limit their value chain disclosures to that that SMEs are required to report under the VSME standard. The EFRAG Secretariat notes that this comment does not reflect the LSME cap per CSRD. Furthermore, the VSME is a voluntary reporting standard.

Editorial changes and rephrasing

42. A standard setter proposed simplifying the first sentence of the chapter as follows: 'Entities included in the consolidated financial statements are not part of the value chain. They are considered part of the own organisation. All VC counterparts, including beyond first tier are part of the value chain and material IROs that the companies are connected to should be reported.’

43. The same standard setter suggested avoiding abbreviations such as ‘MAIG’ in the text without explaining its meaning. The respondent suggested to modify the text as follows: *'This guidance should be read together with the Materiality Assessment Implementation Guidance (MAIG). The MAIG is another key concept necessary to be able to report in line with the Corporate Sustainability Reporting Standard (CSRD) and the European Sustainability Reporting Standards (ESRS) which define what companies should report on.'* The Secretariat notes that the meaning of all abbreviations is provided in chapter 1.

44. A preparer noted that VCIG should reference both the legal texts of the CSRD and the ESRS with the correct number as set out in the EU Official Journal.

Additional examples

45. Two preparers noted that the VCIG lacks examples on how to deal with / identify value chains for services as well as other sectors.

46. Two respondents (standard setter, assurance provider) requested more examples and expanding the guidance on downstream value chain.

Question 4

Do you have any comments on Chapter 2?

Summary of constituents' comments

IROs linked to VC

47. A user suggested moving the statement "*ESRS does not require information on each and every actor in the VC*" in paragraph 28 to the summary.

48. Another preparer requested clarification whether identification of the IROs in VC goes beyond the first tier for the downstream side of the value chain too.

49. A standard setter suggested referencing recommended or recognised tools for the identification of IROs in the VC, e.g. for a CSR risk check.

50. Three respondents (standard setter, assurance provider, preparer) suggested explaining the ability to exert influence (i.e. the ability to take measures that can then also have a risk-reducing or positive effect) in addition to explaining IROs from business activities in the value chain.

51. A preparer suggested including guidance on distinguishing between "*material topics*" on the reporting entity level and topics triggered by "*subsidiary specific issues*", and on topics that are only relevant for specific locations as required by E2-5. The EFRAG Secretariat notes that this seems to be more relevant for the MAIG.

52. A preparer requested further guidance in paragraph 33, i.e. going beyond the identification of the "*hotspot*" in the VC to the required disclosure.

53. A standard setter requested clarification for paragraph 21 c) to outline which metrics require value chain information, preventing potential contradictions with other sections.

54. Two respondents (standard setter, preparer) suggested addressing of confidentiality and non-disclosure agreements with companies in the value chain.

55. A standard setter noted that it would be useful to explain how a preparer could guarantee the completeness of the VC to the auditor. The Secretariat notes that such a guarantee would not absolve the assurance provider from doing sufficient work to satisfy itself as to the completeness of the VC. EFRAG does not have a mandate to provide guidance to auditors or expand on their duties/requirements.

56. A preparer noted that the ambiguity of scope regarding the s upstream and downstream value chain, combined with the requirements for data gathering, will result in superficial disclosures that lack comparability. The consultant put emphasis on prioritising issues with the greatest likelihood of potential impacts to the most relevant value chain partners. They recommended that the guidance reflect the principles in existing international instruments, allowing entities to prioritise reporting on actors with potential disproportionate impacts due to their size and contribution to the value chain, and/or the potential risk they may pose due to their geographical location, economic activity, or other factors.

57. The same respondent suggested expanding the list of instances in which an undertaking may not have leverage (paragraph 30) by adding "*custom in the industry, the behaviours of the*

reporting entity's competitors, and the desire of suppliers and customers to reduce their reporting burdens and protect their own sensitive information."

Operational control

58. Six respondents (standard setter, preparers, assurance providers) explicitly requested more examples to explain operational control and to clarify the concept.

59. One respondent (standard setter) considered that paragraphs 34 to 47 should more distinctly outline the two successive steps in defining the reporting scope of the undertaking – namely, 1. financial control and 2. operational control analysis (mainly applied for E1).

60. One respondent (assurance provider) asked whether the concept of operational control only has consequences for the reporting on impact metrics, or if it is also relevant for the reporting on risks and opportunities. The guidance should clarify this.

61. Three respondents (one standard setter, two preparers) considered inappropriate to include leased assets (page 14) as it does not lead with a separate entity.

62. Five respondents (assurance providers, preparers) thought that the concepts (including control, joint control and significant influence) differ from those per IFRS and the accounting directive. A preparer requested a clarification on the reconciliation of the accounting treatment under financial control for financial reporting and operational control for sustainability reporting purposes.

63. An assurance provider recommended that EFRAG further clarifies whether the assessment of operational control under the ESRS shall be made for any off-balance sheet asset operated or managed by the reporting undertaking considering the existing contractual arrangement governing its use.

64. Two respondents (standard setter, civil society) requested to clarify the difference between operational control and joint control and to elaborate on the approaches. Moreover, one respondent (standard setter) requested to clarify the relationship between operational control and financial control.

65. One respondent (other) argued that operational control is described with excessive technical detail. The section would benefit from some framing.

66. One respondent (civil society) considered that there is no reference in ESRS 1 and ESRS 2 to operational control, therefore it should be deleted from paragraph 47.

67. One respondent (user) noted that the ESRS requirements to cover the company's operational control for environmental metrics may be more stringent than the GHG protocol which allows for financial control or equity share method. This may make it more difficult for companies to align with the ESRS requirements.

68. One respondent (standard setter) considered that in the introduction of the box "*Operational control (over an asset, a site, or a plant, JVs, Associates, etc.)",* it should explicitly state that operational control, as referred to in the GHG Protocol, pertains to technical operational control – signifying the ability to direct operations generating GHG emissions, not solely the ability to direct the financial operations of the entity generating GHG emissions, in relation to ESRS E1.

69. Two respondents (assurance provider, standard setter) requested clarification on the level at which operational control should be assessed (e.g. entity, site, facility) and whether it is possible that the unit of account might be different for ESRS E1, E2 and E4.

70. One respondent (preparer) requested guidance on how to interpret "*connection to its own operations*", given the range of language used in the various definitions in CSRD and the ESRS. Further clarification of when an undertaking is considered to be "connected" to another entity would be useful.

Extension to ESRS E2 and S1/S2

71. Nine respondents (standard setters, assurance providers, preparers) disagreed with the extension of operational control to ESRS S1 and S2 in paragraph 47. This was not the intention of the guidance; it was intending to indicate that the social standards depend on the contractual arrangements as per definitions in these standards rather than operational control.

72. On the contrary, one respondent (standard setter) did not disagree applying the concept of operational control by analogy. However, the respondent indicated that it should clarify that the definitions in social ESRS take precedence to the concept of operational control when assessing the reporting scope. The guidance should also explain the application of the operational control to ESRS S1 and S2 by providing examples.

73. Another standard setter considered that reference to the possibility that operational control may or may not apply to ESRS E1, E2 and E4 is unclear.

74. Six respondents (standard setters, assurance providers) disagreed with the perceived extension of the concept to ESRS E2 by analogy (in paragraph 45.)

75. An assurance provider argued that operational control is irrelevant for all social standards (and not only for ESRS S3 and S4 as indicated). Two other respondents (assurance provider, preparer) requested further guidance on the concept of operational control for S1 and S2.

Risk of double counting

76. One respondent (assurance provider) is concerned about double counting where ESRS goes beyond own reporting boundaries including operational control over an associate.

77. Two respondents (preparers) expressed concern on double counting emissions for financial institutions that are addressing the same value chain.

78. Another standard setter considered that the relationship between financial and operational control is unclear with the following example: A owns the majority of shares in B and classifies B as a subsidiary, i.e., it has financial control, however C holds shares in B and has operational control over B's operations. Then, according to ESRS 1.62, undertaking A has to include 100% of B's emissions as scope 1 and 2 emissions, while, according to the concept of operational control, C has to include 100% of B's emissions as scope 1 and 2 emissions. Differences in the concepts may lead to double counting of B's scope 1 and 2 emissions.

79. Three respondents (consultant, preparer, assurance provider) noted that paragraph 35 should be clarified. If the internal transactions are not eliminated from sustainability reporting, they will result in double counting of emissions. When reporting under scope 1, 2 and 3 as a standalone, the parent would have purchases from subsidiaries. Keeping in view that a subsidiary is not the value chain, internal transactions need to be grouped under one impact and not reported upon twice (incoming and outgoing).

80. One respondent (preparer) suggested to delete that part on the financial accounting consolidation procedures.

81. One respondent (preparer) recommended to add an ad hoc FAQ (Calculation of scope 3 emissions). This will be especially useful to avoid double counting when disclosing scope 3 emissions.

82. One respondent (assurance provider) suggested to add examples on cases where the operational control may go beyond the own reporting boundary, particularly considering that these data may already be covered by another entity's reporting boundary and there is a risk of double reporting.

Subsidiaries that are immaterial for financial statement purposes

83. Nine respondents (standard setter, assurance providers, preparers) considered current guidance, on subsidiaries that are immaterial for financial statement purposes, insufficient.

84. One respondent (standard setter) suggested to add a sentence after paragraph 36 stating that a subsidiary excluded from the financial reporting consolidation on the basis of financial materiality for practical reasons should however be assessed for sustainability materiality as materiality definition under ESRS is different from materiality applied for financial statements.

85. One respondent (assurance provider) pointed out there is no guidance on this issue in the MAIG either.

86. Two respondents (preparers) stated that this guidance suggests that the data referred to as joint operations are part of the 'Group' and therefore reported in the metrics related to 'own operations'. However, this is in contrast with what ESRS E1 paragraph 46 states. According to this respondent, joint Operations should be treated as per JVs and Associates, and therefore: consolidated 100% if the reporting undertaking holds operational control, or in the absence of operational control, either: treated as value chain actors if the JO is also in the value chain, or not reported if neither of these are true.

87. One respondent (preparer) suggested to clarify whether subsidiaries excluded from the financial reporting consolidation on the basis of materiality are deemed to be under operational control of the parent.

88. Two respondents (assurance providers) requested to clarify paragraph 36. The guidance refers to the fact that subsidiaries are excluded from the financial reporting perimeter based on materiality criteria. However, the explanation of perimeter based on the ESRS is incomplete.

Joint operations (outside operational control)

89. A respondent (assurance provider) considered current guidance insufficient.

90. One respondent (assurance provider) it might be useful to point out in IG 2 that in a joint operation, a joint operator may control (own) some assets and may also jointly control other assets. Own operations would therefore include only own assets/liabilities used through the joint operation whereas the jointly held assets/incurred liabilities are to be considered when assessing operational control and when determining the scope of the VC.

91. One respondent (assurance provider) requested an explanation on how to determine "*proportionate share*" of an impact under joint operations. Moreover, the guidance should state in what cases the proportionate share should be included in the undertaking's own operations or should be excluded.

92. Two respondents (assurance providers) requested further clarification in relation to the treatment of the jointly held assets of joint operations particularly for the undertakings applying local GAAP under which joint ventures might be proportionately consolidated.

93. One respondent (assurance provider) suggested to add an example for cases s where there could be operational control over a holding where the company may have less than 50% ownership and would not fully consolidate the holding (e.g. an associate), which is an idea that antagonises (familiar) accounting concepts.

Associates

94. Four preparers recommended using the term "associates and JVs" rather than "associates and other investees" for consistency with the ESRS.

95. One respondent (standard setter) indicated that associates and joint ventures, when solely business relationships and not actors in the VC, should be considered as potential sources of material IROs. No additional requirements apply beyond the materiality assessment. This should be pointed out in the guidance.

96. One respondent (assurance provider) encouraged EFRAG to also include more practical examples with cases not considered as value chain. For example, EFRAG could consider the example of a joint venture where a non-financial undertaking has joint control over it, that would not be considered as an actor in the value chain, but only as an investment.

97. One respondent (standard setter) suggested to include the following exception: "any joint ventures and associates acquired through acquisitions, but not intended to be retained as financial assets due to misalignment with the overall strategy and activities, may be excluded from the IRO materiality analysis."

98. A respondents (assurance provider) considered that the IG suggests that the treatment of business relationships for entities that hold associates as part of their business model are excluded from value chain and disagreed with this. It proposes that EFRAG reconsiders the respective accounting treatment when finalising the guidance to ensure connectivity (under either IFRS or the local GAAP/Accounting Directive).

99. Moreover, according to one respondent (standard setter) as it currently reads, the VCIG implies that when an associate or joint venture is an actor in the value chain, information and metrics is limited to the role of actor rather than both actor and equity interest.

100. One respondent (civil society) suggested to provide references or suggestions on how to measure impacts from investments (associates and joint arrangements that do not form part of the VC).

101. Another respondent (assurance provider) disagreed with paragraph 49. They argued that there are currently no formal reporting requirements in ESRS 1 to extend the information about the reporting undertaking to include the information on the material impacts connected with the undertaking through its business relationships outside the VC. It seems contradictory to require the disclosure of GHG emissions of associates and joint arrangements as Scope 3, even under Category 15, if such investments do not form part of the undertaking's VC.

102. Two respondents (assurance provider, preparer) requested EFRAG to clarify the distinction between "business relationships" and "actors in the value chain." The respondent encourages EFRAG to provide additional guidance to better understand in which situations an investment in an associate or a joint venture would only be considered as a business relationship (i.e. excluded from the VC).

Transitional provisions

103. One respondent (standard setter) argued 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).

104. Four respondents (preparers, assurance provider) 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 to include that portfolio coverage will be incomplete and gradually increase as more and more counterparts disclose information.

105. 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.

106. 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.

107. 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".

108. Two respondents (assurance provider, preparer) noted that it would be helpful to add guidance regarding ESRS 1. 133 a).

109. 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.

Financial institutions

110. 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).

111. 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.

112. 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.

113. 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).

114. 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)

115. The preparer therefore asked EFRAG to:

(d) address the impracticalities of conducting a materiality assessment on the impact of the whole investor chain for funds.

(e) provide guidance on how the treatment of majority and minority stakes for reporting on environmental and social impacts of portfolio companies.

GHG accounting and alignment with GHG protocol

116. Two preparers noted that paragraph 40 must be aligned with GHG protocol. The EFRAG Secretariat notes that this would be inappropriate if it contradicts ESRS.

117. An assurance provider suggested clarifying that the operational control for the purposes of reporting GHG emissions is limited to impacts datapoints only and does not extend to anticipated financial effects datapoints.

118. Two preparers requested for clarification on value chain impacts in terms of proportionality (in line with GHG protocol approach on emissions, and with the scientific approach embedded in life cycle assessment). For example, an undertaking purchasing paper for use in its office should not have to consider the potential impact on deforestation as its purchased volumes are minor compared to overall volumes produced by the paper industry.

119. A preparer stated that, in the table in paragraph 52, GHG emissions should be separated from other metrics (pollution, biodiversity). Moreover, it would also be useful to separate GHG scope 1,2 and scope 3. The preparer also requested explicit calculation methodologies of scope 3 emissions.

120. Two respondents (assurance provider, preparer) disagreed with the definition of “reporting undertaking” in the table following paragraph 52. The assurance provider also pointed out that the reporting boundary per paragraph 53 could differ from the definition under the GHG protocol. The EFRAG Secretariat notes that this is the case as explained in ESRS E1.

SMEs

121. A preparer recommended that EFRAG confirms that reporting undertakings will not be required to demand information from SMEs in the value chain which goes beyond their own public CSRD disclosures (those disclosures by the SMEs). The EFRAG Secretariat notes that this is not what is meant by the LSME cap and that most SMEs will not be required by CSRD to provide disclosures.

Decision tree

122. An assurance provider pointed out that the decision tree suggests (also by the "+" sign) that the operational control concept's sole purpose is to add further entities/facilities/sites etc. to the own operations, but not to exclude.

123. A consultant requested clarification that the decision tree applies only to the E standards (if this is the case). The EFRAG Secretariat notes that paragraph 53 (introducing the decision tree) states: “The following decision tree summarises some of the important aspects related to the E-standard (sic) above.”

124. A preparer suggested deleting the decision tree as it creates more interpretation questions than providing concise guidance. The EFRAG Secretariat notes that the decision tree in paragraph 53 and the table in paragraph 52 attempts to reflect the same information in chapter 5.3 in different ways to help different stakeholders understanding the technicalities.

125. A consultant noted that the answer for the final scenario of the decision tree is inadequate. It should expand to all E standards. The respondent considered that the answer should be the following: "*Include as "business relationships" via investment, shareholding positions, etc. for the purposes of the materiality assessment and subsequent disclosure."* The EFRAG Secretariat notes that this would contradict paragraph 50 in the VCIG in part but will explain again the implications around the materiality assessment.

Editorial changes and paraphrasing

126. Another consultant regards "there are no specific indication (…) on how to measure impacts connected with the undertaking through its associates/investments" as unclear.

127. Respondents corrected references in the table in paragraph 52 and in paragraph 20(d).

128. One respondent from civil society suggested moving paragraph 59(c) to the top given its relevance for the transitional period.

129. One respondent (assurance provider) suggested to clarify or redraft paragraph 21(d). They suggest the following sentence: “These disclosures shall consist, where necessary, of appropriate metrics covering the relevant part of the VC in relation with a material IRO."

130. Another assurance provider proposed changing share of IROs to share of impact in the sentence in the grey box "Include as VC for the share of IROs attributable to the reporting undertaking's products and services as for other actors in the VC (ESRS 1 par 63, 67 and ESRS E1 par 46)".

131. According to a preparer page 12, paragraphs 45 and 47 should be deleted. The former would hamper comparability, and the latter goes beyond ESRS and CSRD.

132. Three preparers recommended reconsideration of the following statement as too conclusive: *"Scope 3 GHG emissions are expected to be material for many or most undertakings"*.

133. One preparer requested rephrasing or deleting paragraph 19. The first sentence seems to indicate that for a considerable number of DRs and datapoints VC information is required.

134. A preparer stated that the current wording of paragraph 52: “the following table illustrates specifically how to treat impacts arising from investments of the undertaking depending on their accounting treatment in the financial statements” indicates that using the thresholds is mandatory. It should be rephrased to 'shall indicate.' A consultant requested clarification whether the undertaking has to consider associates/joint ventures in its materiality assessment.

135. A preparer noted that the mapping table referred to in paragraph 52, titled *'Measuring impacts by metrics in topical standard'* should be redrafted to the following: 'Operational control' or 'GHG emissions to the extent of operational control. (ESRS 1 par. 67)' to make it consistent with paragraphs 40-47.

136. A standard setter suggested adding a reference to FAQ 9 in paragraph 29 and deleting the word “data” in paragraph 31 as well as deleting the word “major” in paragraph 33 and delete “or most”.

137. The same standard setter suggested rephrasing paragraph 32 as follows: "CSRD and ESRS require that the sustainability statement include material information about the upstream and downstream VC."

138. A preparer requested deleting the reference *“expected to be material"* in paragraph 33 (c) as the guidance should not refer to conclusions which are in the remit of the reporting undertaking.

139. One consultant suggested rephrasing paragraph 58 as follows: "The transitional provisions apply regardless of whether the VC actor(s) are SME(s). The transitional provisions are optional, i.e. undertakings can decide whether to take advantage of the additional time to prepare for disclosure. 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."

140. A standard setter suggested deleting the last ‘and’ in paragraph 63.

141. Another standard setter recommended to check the accuracy of comments in the table in paragraph 52 (the concept of *de facto* control) and the proportional consolidation definition. The EFRAG Secretariat notes that the concept of *de facto* control is explained in IFRS 10 B38 to 50.

Additional examples

142. Two respondents (standard setter, assurance provider) requested additional examples to reduce the risk of different interpretations on operational control. The assurance provider requested examples of leasing given the differences in underlying logic between IFRS and GHG Protocol as well as where other items not on the undertaking's balance sheet included either within own operations or the value chain.

143. A consultant suggested adding an explicit environmental example for paragraph 33. Another respondent (civil society) suggested adding examples on work-life balance as well as an EU company with employees and workers in different countries, inside and outside the EU.

144. A preparer suggested including a graph that clearly illustrates the dimensions of the supply chain and value chain definitions.

145. A standard setter suggested adding examples to explain operational control that apply outside situations of financial control within the framework of a contractual relationship (e.g., concession, service, or franchise agreements, etc.) to manage entities, sites, operations or assets or activities (particularly for high-impact sectors).

146. The same standard setter suggested adding additional examples of situations where an associate or a joint venture do or do not form part of the VC. The EFRAG Secretariat notes the example in paragraph 48.

147. Another standard setter suggested adding more examples of different sectors which also illustrate that 'control' is not a factor in reporting the social components. The respondent also suggested to add a comment accompanying paragraph 54 (i.e. a retailer active in the textile industry could provide an overview of the most used materials in kilograms or the number of pieces sold and the countries where these materials are sourced as example of value chain information.)

Question 5

Do you have any comments on FAQ 1?

Summary of constituents' comments

General comments

148. Five respondents (two standard setters, three preparers) noted that FAQ 1 does not provide the additional comprehensive support that would be expected from an implementation guidance.

CSDDD

149. Five respondents (standard setter, preparers, assurance provider) mentioned that this FAQ does not provide sufficient guidance on how to interpret and manage the VC under ESRS and CSDDD. The respondents suggested that EFRAG should consider the CSDDD in this implementation guidance because the reporting boundaries under the ESRS should not jeopardise companies' intention to map their value chain according to the CSDDD.

150. A preparer noted that the draft CSDDD uses the term '*established business relationships'* to define relationships which are: direct or indirect, expected to be lasting, in view of their intensity or duration and which do not represent a negligible or merely ancillary part of the value chain. The CSDDD does not foresee in general principle to go beyond tier 1.

Upstream vs downstream value chain

151. A standard setter highlighted that the implementation guidance is vendor-oriented, focused on supply chain. There is lack of guidance on broader aspects of the value chain.

152. More comments on downstream value chain addressed in FAQ 3.

Beginning and end of value chain

153. Six respondents (standard setter, preparer, assurance providers) acknowledged the existing explanations under FAQ1 but suggested to add more guidance and specifications as to where the value chain begins, and where it ends.

Example on Biodiversity

154. Two consultants commented on paragraph 74(c) that the example does not identify biodiversity loss itself as a source of risk to the reporting undertaking. According to the respondents, the loss of habitat and biodiversity in and of itself could negatively impact the reporting undertaking as much as "*the request by local authorities to restore the damaged habitats*", for example by reducing supply of natural inputs whose production depends on ecosystem services such as pollination.

Beyond Tier 1

155. Two respondents (assurance provider, preparer) suggested adding examples that go beyond tier 1.

156. An assurance provider stated that the guidance should emphasise the importance for undertakings to have good governance and internal control systems to identify the location of IROs in the value chain and the extent of the value chain (when relevant).

157. A preparer considered there should be more guidance on how to assess the connections of tier 2, 3 and 4 to the undertaking.

158. On the other hand, another preparer 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 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).

Dependencies

159. A preparer considered that the considerations outlined for assessing risks and opportunities in paragraph 74 only address the aspect of dependencies which could be misleading.

160. 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).

161. One respondent (other) stated that it is not clear whether the phrase "*identifies potential changes in the availability, price and quality of such resources"* refers to quantitative or qualitative assessment of dependencies.

Additional examples

162. Regarding paragraph 71(b), standard setter mentioned that the VCIG should include examples of relevant risks and opportunities arising from business relationships beyond the scope of accounting consolidation. Another respondent (preparer) noted that the current example in paragraph 74(b) is too complex.

163. One respondent (assurance provider) recommended adding the words *"where applicable"* or "*where relevant*" in paragraph 72.

Question 6

Do you have any comments on FAQ 2?

Summary of constituents' comments

164. A standard setter stated that the impact of bank loans is unclear, and further guidance is needed.

165. A standard setter suggested clarifying whether investees' metrics should be consolidated at investment fund level when the fund holds most of the voting rights.

Equity Investments

166. Five respondents (users, consultants, preparer) noted that paragraph 77 wrongly suggests that material IROs for equity investments are only disclosed under the scope of Category 15 of GHG emissions. One of the consultants suggested redrafting paragraph 77 to the following: "As described in paragraph 49, the only specific investment-related disclosure requirement in the topical ESRS relates to Category 15 of GHG emissions where significant under ESRS E1. However, other material IROs related to equity investments should always be disclosed where relevant to other disclosure requirements, or as entity-specific disclosures."

167. A preparer suggested deleting the term "*equity*" in paragraph 77 and speak of investments in general to align with paragraph 50.

Financial assets

168. 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.

169. 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.

170. Two preparers noted that, if financial assets are considered business relationships, the guidance implies in practice an enormous burden in an area where companies have very limited or no control. This is in contradiction with the "reasonable administrative burden" principle that has been acknowledged during the development of the ESRS.

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

Financed emissions

172. Two respondents (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.

Business relationships

173. A preparer noted the lack of definition for "business partners". The VCIG should clarify whether this concept includes only entities, or also individuals.

174. The same preparer asked for the distinction between "business relationships", "business relationships in the upstream/downstream value chain" and "actors in the value chain". The respondent requested clarification whether "business relationships" are always deemed to be part of the upstream/downstream value chain.

175. Another preparer requested clarifying that the existence of a business relationship between a reporting undertaking and its business partner does not require reporting of all impacts of the business partner by the reporting undertaking. The EFRAG Secretariat notes that ESRS refers to the impacts related to the reporting entity.

Question 7

Do you have any comments on FAQ 3?

Summary of constituents' comments

General comments

176. An assurance provider recommended presenting the information on the use of estimates in one place (currently in paragraphs 89, 126, 131 and 151).

177. A consultant suggested adding guidance on identifying relevant parts of the value chain (paragraph 79).

178. A user recommended providing guidance on the role that industry initiatives and similar data sharing collaboration projects can play. These can support preparers in overcoming some of the challenges linked to data availability in the value chain.

179. A standard setter suggested adding "*Where applicable*", to the first sentence in paragraph 89 to ensure consistency with paragraph 79. Another respondent (civil society) suggested adding data from international organizations, experts, civil society and non-governmental organisations, governments analysts and academics.

180. Two consultants acknowledged that paragraph 92 is very helpful but suggested it would be more useful to describe the impacts that are associated with commodities, components, and products. The EFRAG Secretariat notes that the paragraph refers to palm oil and coltan.

Editorial changes and rephrasing

181. Three preparers considered that the language used in FAQ 3indicates that the proposed materiality process is mandatory. It should be stated that the materiality process set out in IG1 is a mere suggestion. Moreover, the three preparers recommended to use words such as "may" or "can".

182. A standard setter proposed changing the wording in paragraph 85 to the following: "The strategy of the undertaking will influence its business model which will focus on its own operations but also include aspects around its up- and downstream value chain. All of this will be considered in its materiality assessment."

183. A preparer suggested deleting paragraphs 94(a) and (b) as both refer to "*may*" ARs.

184. Two respondents (standard setter, preparer) considered that the sentence in paragraph 90 should be rephrased as it appears to be incomplete including consideration of deleting the word "whether".

185. Three preparers recommended citing ESRS 1 paragraph 41 in FAQ 3, to add clarity on the due diligence process. Another preparer suggested deleting this FAQ entirely, as it is redundant being covered in the MAIG.

186. Two consultants suggested adding, where appropriate, the following statement: "To understand where material impacts are most likely to occur in its VC, the undertaking can consider both sector-specific guidance such as IFRS and GRI and the sector-specific ESRS, and the list of sustainability matters in ESRS 1 Appendix AR 16."

187. A respondent (civil society) recommended mentioning other important elements to ensure that undertakings understand the context where they operate. The respondent suggested including the following in paragraph 86: *"What is the socio-economic context of the country? Is there a risk to exacerbate systemic human rights issues, including systemic child rights issues?"*

Additional examples

188. 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.

189. 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).

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

191. Two respondents (civil society, assurance provider) suggested adding examples for paragraph 93. The assurance provider 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.

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

Question 8

Do you have any comments on FAQ 4?

Summary of constituents' comments

General comments

193. Two assurance providers recommended clarifying how far entities must go to identify and evaluate material IROs in their value chain, distinguishing between own operations and those of the value chain itself.

194. 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.

195. Four respondents (standard setter, civil society, consultants) had comments on the wording and the usefulness of paragraph 97. Two consultants suggested adding "(*including indirect suppliers*)" after the term "*suppliers*" in paragraph 97c) (i). The standard setter 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.

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

Editorial changes and rephrasing

197. A standard setter proposed changing the wording in paragraph 96 to the following: "ESRS 2 paragraph 5(c) requires disclosing to which [to be deleted: the] extent the sustainability statement covers the undertaking's upstream and downstream VC. Therefore, in addition to metrics, this applies to all the steps below, to the extent that material IROs arise in the upstream and downstream VC."

198. An assurance provider suggested deleting paragraph 109 as it solely refers to ESRS 2. The EFRAG Secretariat notes that paragraph 109 forms the basis of the next paragraph.

Question 9

Do you have any comments on FAQ 5?

Summary of constituents' comments

General comments

199. One respondent (other) requested clarifying whether reporting on lack of PAT and plans to adopt them is possible for a transition period or indefinitely.

200. A consultant recommended providing example of high-impact commodities to support undertaking's prioritisation in gathering data, assessing IROs and designing PAT.

201. A standard setter suggested adding the following statement: *"As referenced in ESRS 2 AR 2, undertakings may disclose whether it relies on any European standards approved by the European Standardization System (ISO/IEC or CEN/CENELEC standards), as well as the extent to which data and processes that are used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard."*

Editorial changes and rephrasing

202. A preparer indicated that the reference to "paragraph (b) above" in paragraph 117 is not clear.

203. A standard setter suggested paraphrasing paragraph 116 to the following: "As a reminder, the undertaking can comply by disclosing that it has not adopted policies and/or actions with reference to the relevant sustainability matter and provide reasons for this or that its policies only cover its own operations".

204. The same standard setter pointed out that the first sentence of paragraph 114 is ambiguous. Paragraphs 64 (b), 67 (b) and 70 (b) require the description of the policy. However, this does not imply that the policy, actions and targets should encompass the entire value chain.

205. Regarding paragraph 114, a standard setter suggested rephrasing as follows: "Yes, for material IROs (including those in the VC), where the undertaking has PATs, it should disclose this whether and how the policy covers the value chain" (ESRS 2 paragraphs 64(b), 67(b) and 70(b))". Another standard setter recommended adding "and preventive measures are in place against breach of human rights" (paragraph 114 (d)) and to clarify whether 114 (f) also refers to downstream value chain.

206. Three consultants requested clarifying the meaning of the following statement in paragraph 118: "*These do not necessarily result in the need to collect VC data from actors in the VC solely for the purpose of reporting. The undertaking is expected to leverage on* *information that is collected for business purposes, e.g., E4-1 par 13, E4 2 IRO 1 par 17(a), E4-4 par 32(c)."* One respondent indicated that it is confusing and may discourage ambition.

207. An assurance provider suggested corrections to the ESRS 2 references in paragraph 114.

Question 10

Do you have any comments on FAQ 6?

Summary of constituents' comments

Entity-specific disclosures

208. Three standard setters considered that there were contradictions between the approach of entity-specific value chain metrics in the implementation guidance and the ESRS. This is elaborated below.

209. Four respondents (standard setter, preparers, assurance provider) 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.

210. Two standard setters stated that FAQ 6 seems to introduce an obligation to provide entity-specific value chain metrics, contradicting ESRS.

211. A preparer requested consideration of entity-specific disclosures for transitional provisions related to value chain. According to the respondent, when an undertaking concludes that IROs in the value chain are material and are not covered by topical standards, it will not be required to include value chain information in its report for the first three years of reporting (except datapoints derived from other EU legislation).

212. A standard setter emphasised that impact information of suppliers should be identified as an IRO, but metrics are not necessarily required at entity-specific level.

213. A preparer suggested adding the following statement to paragraph 119(a): "*companies or groups that do not exceed the average number of 750 employees on the reporting date can omit the data points on Scope 3 emissions and total GHG emissions in the first year of preparing their sustainability statement."*

Life Cycle Assessment

214. Two consultants requested clarification of what the use of life cycle assessments means for disclosure related to land-use change within the VC. The guidance does not specify what companies need to report if they "*may also disclose their land-use based on a Life Cycle Assessment*" per ESRS E4-5 paragraph 36.

Metrics

215. 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.

216. A preparer suggested disclosing an exhaustive list of metrics that an undertaking should gather from the value chain.

Editorial changes and paraphrasing

217. Two consultants pointed out that paragraphs 119 and 122 may be misleading when read in conjunction. The respondents suggested to remove "mostly not" in paragraph 119 and emphasise that "the inclusion of VC information in metrics is largely related to the outcomes of the materiality assessment" as described in paragraph 122. Moreover, the respondents suggested to include a more concrete example for 122 (a). They suggest considering adding the following sentence: "*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, for example, production of feed stuff in tropical forest areas with high biodiversity."*

218. A standard setter suggested including 'may' in paragraph 124 whilst a consultant pointed out that the paragraph is vague. According to the consultant, the paragraph does not specify so-called available best reporting practices. Adding more specificity here by mentioning concrete examples relevant for different ESRS (i.e. TNFD for environmental ESRS) may be helpful.

219. One respondent (other) suggested reconsidering the terms used to refer to *"affected communities*". Terms like "*silent stakeholders*" may not be appropriate and should be carefully reconsidered.

Question 11

Do you have any comments on FAQ 7?

Summary of constituents' comments

General comments

220. Two respondents (standard setter, preparer) stated that FAQ 7 lacks references to risk categorisation of impacts. This is helpful in the analysis of significant impacts.

221. A preparer argued that more emphasis should be placed on the link to the core activities of the undertaking and the relevance of the information represented, excluding less relevant information.

222. A consultant stated that paragraph 131 is very important as it highlights the problems of value chain actors to estimate their impacts and therefore provide guidance how these can be estimated.

Quantitative vs qualitative information

223. Four respondents (three preparers, civil society) highlighted the importance that the VCIG gives to quantitative information over qualitative information. Paragraph 125 states "*quantitative measures of the impact are the most objective*". However, the ESRS do not provide a hierarchy of qualitative versus quantitative information.

Requesting information to suppliers

224. Three preparers requested aligning paragraph 127 to ESRS 1 paragraph 68. According to the respondents, this sentence introduces additional requirements in the VCIG as it mistakenly assumes that companies have the ability to always request information directly from 'major tier 1 suppliers' and end users. Additional requirements may force to impose contractual clauses with suppliers that could jeopardise the business relationship. The EFRAG Secretariat notes that the language in the paragraph is not prescriptive and the reference to major tier 1 suppliers is only an example.

Additional examples

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

226. 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).

227. An assurance provider requested an explanation of the concept “level of accuracy” used in paragraph 133.

228. 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.

229. 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.

230. Three respondents (standard setter, preparer, assurance provider) acknowledged the proportionality principle of obtaining information of value chain component. However, the respondents pointed out that the second sentence of paragraph 130 insinuates that all significant suppliers should be queried, which in their opinion is beyond any of the requirements set forth in the ESRS. The respondents suggested to rephrase or delete this sentence.

Proportionality

231. Seven respondents (standard setter, preparers, civil society) suggested clarifying certain aspects of paragraph 130.

232. Four respondents (standard setter, preparers, civil society) suggested including further clarification and guidance on the terms “*significant*” and “*most significant*”. The civil society respondent explained that suppliers could also be excluded based on a risk-based approach, not necessarily those that deliver “*insignificant products or services*”.

Editorial changes and paraphrasing

233. A standard setter proposed deleting the following sentence in paragraph 126: "For the materiality assessment and for the inclusion of VC data required by metrics, the undertaking may either obtain information directly from actors in its VC or use estimates or proxies or combine both approaches." The respondent argued that it is unclear what “VC required by metrics” the sentence is referring to. The same respondent argued that EFRAG should explicitly talk about *direct* business relationships, because there is no way to quantify the impacts from other actors except through audits.

234. A preparer suggested rephrasing paragraph 126 to “examples may include”.

235. One 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.

236. 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.

Financial institutions

237. 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.

Question 12

Do you have any comments on FAQ 8?

Summary of constituents' comments

General comments

238. A standard setter suggested to that FAQ 8 should be a subheading of FAQ 7.

239. Two consultants suggested adding a reference to local verification schemes in paragraph 134.

240. The same respondents suggested specifying, in paragraph 139, why data on an undertaking's environmental footprint is deemed unreliable and what undertakings should use instead.

241. A preparer welcomed FAQ 8 but asked for further clarification on how firms should effectively manage liability risks in the case that sustainability reporting is eventually included in financial statements. According to the respondent, sustainability reporting based on estimates, proxies, and sector-average data incurs significant liability risk for firms. Documenting the reporting process

242. Four preparers argued that paragraph 141 should be deleted because neither the CSRD nor the ESRS oblige companies to document the reporting process.

Editorial changes and paraphrasing

243. One standard setter suggested replacing the word "*collects*" by the word "*gathers*" in paragraph 134. The EFRAG Secretariat notes that the word in the delegated act is 'collect'.

Additional examples

244. Two preparers asked for additional examples of data and industries to further clarify the concept of "*reasonable effort" (*see also FAQ 9).

Question 13

Do you have any comments on FAQ 9?

Summary of constituents' comments

List of databases and sources used

245. Six respondents (standard setters, preparers, consultant) suggested adding a comprehensive, explicit list of data sources in the VCIG. Of these, three respondents (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.

246. 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.

247. Regarding paragraph 144, three of preparers in paragraph 245 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.

248. 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.

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

250. A civil society respondent suggested to add *‘data from United Nations organisations’* to the list of sources in the box on page 28.

Assessment of relevance

251. 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.

Reasonable effort

252. Six respondents (standard setter, assurance provider, preparers) requested further guidance on the concept of “*reasonable effort*”. Clarification whether there is a strict hierarchy (primary data versus external data) on what is considered “reasonable effort” would be helpful.

253. The standard setter suggested adding an example where external data is the reflection of reasonable effort rather than primary data.

Editorial changes and paraphrasing

254. A standard setter pointed out that the collection of primary data in value chain is not the purpose of ESRS. According to the respondent, the title of FAQ 9 should be redrafted, as well as paragraph 143 and 150, to avoid references to data collection.

255. A consultant noted that the box below paragraph 144 needs more clarity arguing that the content is vague and covers only a few of external data sources. The consultant suggested to expand this list with additional specific references.

256. A preparer suggested rephrasing paragraph 147 by replacing 'therefore has an issue' with 'therefore seeks to collect data on'.

Question 14

Do you have any comments on the Value Chain map?

Summary of constituents’ comments

General comments

257. A preparer noted that the ESRS E5-5 only covers “own operations” and not “value chain”.

258. A preparer welcomed the Value Chain map as useful but it could benefit from some enhance clarity. Regarding row 10, the SFDR RTS do not foresee any value chain metrics to be included in disclosures by SFDR in-scope entities. Thereby, the sentence "*VC to be covered to the extent that foreseen in the relevant technical standards*" (row 10) should be deleted, and subsumed as part of row 11, so that SFDR is treated in the same manner as other EU law.

259. The preparer also noted that the VC coverage map includes in row 7 references to E2-5 and E5-5. However, there is no specific definition of the VC coverage of these disclosure in the coverage map.

260. According to three respondents (preparer, two assurance providers) there is a contradiction regarding whether there are value chain requirements for S1 *Own workforce* between rows 4 and 6. This was echoed by another preparer.

261. An assurance provider suggested adding footnotes to the VC map, indicating that entity-specific information covering the VC map may be needed (i.e. with respect to anticipated financial effects). The EFRAG Secretariat notes that this is already in paragraph 155.

262. Regarding row 9, a preparer requested specification of the definition of "*qualitative*" datapoints.

Editorial changes and paraphrasing

263. An assurance provider recommended deleting paragraph 157 given the cross reference and similarity to paragraph 114.

264. Two preparers noted the omission of E5-6 in the coverage map.

265. Two respondents (standard setter, preparer) noted that the table in the VC map is very difficult to read and should be restructured to be more understandable.

266. A preparer noted the typo in the table in Appendix A: *the Anticipated financial effects from pollution-related IROs* should be classified as DR E2-6 (not DR E2-5).

267. Two preparers considered the reference to DR E5-5 under "*Disclosure of procured materials*" an editorial error (wrong classification).

268. An assurance provider thought it would be helpful to clarify whether "*shall reflect*" in row 4 of the value chain coverage map of Set 1 ESRS means "*shall disclose*" or "*shall consider disclosing*".

Appendix 2 – List of respondents

1. The responses analysed in this document (i.e. those received by 5 February 2024) are as follows:

ID	Name of entity	Country	Type of respondent
103	Accountancy Europe	Belgium	Assurance provider
124	AFME	United Kingdom	Preparer
147	Allianz SE	Germany	Preparer
144	American Chamber of Commerce to the European Union	Belgium	Preparer
160	amfori	Belgium	Preparer
100	ASSIREVI	Italy	Assurance provider
118	Assonime	Italy	Preparer
80	Austrian Association for Building Materials and Ceramic Industries	Austria	Preparer
155	Austrian Federal Economic Chamber	Austria	Preparer
128	Austrian Financial Reporting Advisory Committee (AFRAC)	Austria	Standard setter
135	Autorité des normes comptables (ANC)	France	Standard setter
148	BMW AG	Germany	Preparer
101	Bouygues Construction	France	Preparer
105	BVI	Germany	User
117	Cefic	Belgium	Preparer
107	CEN and CENELEC	Belgium	Standard setter
119	CEOE	Spain	Preparer
141	Cleversoft	Germany	User
129	Climate & Company	Germany	Consultant
99	Climate Focus	Germany	Consultant
140	Confederation of Danish Industry	Denmark	Preparer
91	Confederation of German Employers' Associations	Germany	Preparer
145	Confindustria	Belgium	Preparer
	Council of Economists of Spain	Spain	Assurance provider
127	Danish National Funding Mechanism	Denmark	Standard setter
159	Deloitte	UK	Assurance provider
	Deutsches Aktieninstitut e.V	Germany	Preparer
132	DIGITALEUROPE	Belgium	Preparer
49	DRSC e.V.	Deutschland	Standard setter
142	DUFAS (Dutch Fund and Asset Management Association)	Netherlands	User
47	EAA/MBIC/ Finance Watch	Belgium	Consultant
	EcoDa	Belgium	Preparer
143	EnBW	Deutschland	Preparer
112	Eumedion	The Netherlands	User
114	Eurelectric	Belgium	Preparer
153	EuroCommerce	Belgium	Preparer
131	Eurogas	Belgium	Preparer
109	European Association for the Aerospace, Security and Defense Industry (ASD)	Belgium	Preparer
	European Association of Co-operative Banks (EACB)	Belgium	Preparer
125	European Banking Federation	Belgium	User
	European Banking Federation	Belgium	Preparer
93	European Federation of Accountants & Auditors for SMEs	Belgium	Assurance provider
	European Issuers	Belgium	Preparer
146	Finance Executive Association (FEA), the Netherlands	Netherlands	Preparer
123	FoodDrinkEurope	Belgium	Preparer
156	French Banking Federation	France	User
122	GDV	Germany	Assurance provider
102	German Confederation of Skilled Crafts and Small Businesses (ZDH)	Germany	Preparer

ID	Name of entity	Country	Type of respondent
	ICAC	Spain	Standard setter
96	ICJCE	Spain	Assurance provider
134	Institut der Wirtschaftspruefer in Deutschland (IDW)	Germany	Assurance provider
106	Invest Europe	Belgium	User
151	Ipieca	United Kingdom	Preparer
87	Kammer der Steuerberaterinnen & Wirtschaftsprüferinnen (KSW)	Austria	Assurance provider
130	KPMG EMA	United Kingdom	Assurance provider
136	Malta Institute of Accountants	Malta	Assurance provider
121	Mazars	France	Assurance provider
95	Mercedes-Benz Group AG	Germany	Preparer
154	MSCI	United Kingdom	User
	NBIM	Norway	User
157	O.I.B.R. Foundation	Italy	Standard setter
85	OIC - Organismo Italiano di Contabilità	Italy	Standard setter
97	PGE Polska Grupa Energetyczna S.A.	Poland	Preparer
92	PRI	United Kingdom	User
126	PwC	Belgium	Assurance provider
98	refinq	Austria	Preparer
161	Schneider Electric	Belgium	Preparer
158	Shift	USA	Civil society
110	The Biodiversity Consultancy	UK	Consultant
150	The Dutch Accounting Standards Board	Netherlands	Standard setter
94	UNEP-WCMC	United Kingdom	Other
84	UNICEF	Belgium	Civil society
139	VDMA e.V.	Germany	Preparer
149	Veolia	France	Preparer
115	WSBI-ESBG	Belgium	Preparer