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Value Chain Implementation Guidance – for approval Cover Note

This is the same paper as for the meeting of 15 November 2023 except for paragraph 6.

Objective

1. The objective of the session is for the EFRAG SRB to approve the value chain implementation guidance and release for feedback subject to editorial changes.

Important information

2. EFRAG can only issue non-authoritative guidance in its role as technical advisor to the EC. Furthermore, while drafting guidance, EFRAG cannot develop concepts or requirements that go beyond the content of the July 2023 delegated act. The guidance aims to illustrate the delegated act but not go beyond it. For new provisions, separate standard-setting activities in accordance with the standard-setting process has to be concluded.
3. EFRAG is also in the process of establishing a process to answer questions from constituents similar to the IFRIC decisions under the IFRS framework.

Next steps

4. The EFRAG SRB envisages releasing the guidance in draft for public feedback for a period of four weeks as per EFRAG's due process procedures.

SR TEG meeting, 6 November 2023

Comments from SR TEG

5. EFRAG SR TEG approved the content of the VCIG on its meeting of 03 July 2023. Since then, the SR TEG has been regularly updated on the changes editorial and others made to the document. In its meeting on 18 October 2023, the EFRAG SR TEG members were asked to identify potential red flags that would have affected their support for the document. No red flags were identified. However, the EFRAG Secretariat has received further suggested changes, including during the meetings on 5 September 2023 and 6 November 2023. As the EFRAG SR TEG had already approved the content in July, there has been not an explicit second vote on the same document.

Latest changes suggested by SR TEG and SRB

6. Enhance AR 40 for clarity. An SRB member asked for a more realistic example of operational control.
7. Modify the new decision tree to start with the reporting entity.



8. Clarification that “group” as per the Accounting Directive, includes parent and its subsidiaries and under both IFRS and the accounting directive do not refer to associates or joint ventures. Also, clarification that ESRS is clear on the extent of financial control boundary. This boundary was expanded by the operational control concept for ESRS E1 (GHG emissions), ESRS E2 (pollution) and ESRS E4 (biodiversity). Where an undertaking has operational control of a site, the GHG emissions will be reported as scope 1 and scope 2, but separately from the consolidated group per ESRS E1 paragraph 50(b), the GHG emissions will be disclosed separately.
9. Discussion whether the VCIG should mention that ‘operational control’ may be applied by analogy to ESRS E3 and E5. Several SR TEG members argued that not referring to operational control in these standards was an oversight, whereas other SR TEG members argued out that expanding the concept of operational control will add uncertainty. The EFRAG Secretariat noted that it would be appropriate for reporters to specify if operational control was used for some E metrics but not others. This has now been included in paragraph 33.

Comments from an SRB member based on TEG version

10. The Secretariat received a comment on the drafting of paragraph 37 in the document as it did not include reference to the materiality assessment or entity-specific disclosures. This has been rectified in this version.
11. The Board member commented on FAQ 8 that there is still clear guidance missing on when collecting quantified data / reporting metrics on VC impacts is necessary. This can be explained on the basis of criteria for materiality of information. The EFRAG Secretariat considers that the addition of metrics on an entity-specific basis is no exception to the general criteria for the addition of entity specific information (Para 11 and AR 1 to AR 5 of ESRS 1), so considers that no additional explanation is needed.

Editorial changes foreseen

12. Alignment with MAIG is the top priority. In the review of the document for this meeting, the EFRAG Secretariat also noted that nuancing references to VC information could be improved and clarified. This includes cases where aggregating and making sense of GHG emission data in the VC is very complex, therefore, it may be more valuable to focus on other aspects such as the existence or not of an energy management policy or the investment in energy efficiency. This will not produce information about impact metrics, but form part of IRO management indicators.

Additional agenda papers

13. In addition to this paper, the EFRAG Secretariat presents the following additional papers:
 - a. Agenda paper 02-02 Updated VCIG (clean); and
 - b. Agenda paper 02-03 Updated VCIG (in tracked changes).



Questions for EFRAG SRB

14. Do EFRAG SRB members approve the document for public feedback subject to editorial changes?

