

The Finance Executive Association (FEA) contribution to EFRAG's draft IG2: Value Chain Implementation Guidance

The Dutch Finance Executive Association (FEA) appreciates the possibility to comment on the draft EFRAG IG 2 Value chain, reflecting views of nearly 30 sustainability reporting practitioners working at the largest Dutch listed companies.

We welcome this draft VC IG as it provides guidance for implementation of ESRS provisions regarding such a complex concept of the value chain.

Several elements included in the guidance are valuable for practitioners, in particular, clarification on value chain related disclosures, using estimates, primary data collection, and value chain map with reporting requirements summary.

However, we require much more clarity in the implementation support and provide key concerns below:

- We would expect that the implementation guidance goes further in **helping readers with implementation** of the complex VC concept, for example, clarifying where the value chain starts and ends from the ESRS perspective.
- More **illustrative examples** on all topics needs to be included in the guidance. We would expect examples from various ESRS and various industries and value chain elements (downstream and upstream). Some included examples we find, on the contrary, too complex for the first years of implementation (e.g., FAQ 1, paragraph 74b).
- More clarification and examples are required regarding the key concept of **operational control**. We believe that even for practitioners experienced in sustainability reporting, this is new concept.
- Guidelines on **tools and methodology** to collect primary data across the value chain will be very valuable. We understand that those might be still limited as of today, but there is a big need in aligned methodology and common databases.
- The guidance does not clarify requirements to the **quality of evidence**, e.g., dependency on the quality of data provided by suppliers. For example, paragraph 89 calls out use of "relevant and faithfully representative information" but there is no practical guidance on what this is and what is acceptable in the context of sustainability reporting. This is equally important for reporters but also for the assurance process.
- We expect the guidance to provide extra clarifications on the **sources and support for estimates**. Use of estimates in the absence of primary data is a common practice in sustainability reporting but is not a preferred method in financial reporting and for assurance. This would include, for example, criteria for applicability of **indirect sources** like regional or country statistics.
- The guidance **focuses on social KPIs and GHG emissions** and not on the other topical standards. For example, considering **ESRS E5 Circularity**, circularity by nature requires substantial information from the value chain (both upstream and downstream) because it looks at a product throughout its entire lifecycle, for which there are no examples in the implementation guidance.

We recognise that the guidance is non-authoritative and is limited to providing clarifications and examples to the ESRS. However, as practitioners, we anticipate that the non-authoritative guidance

has a high chance to become unofficially binding as a common practice, by being the main reference point for new practitioners, users, and assurance providers. Therefore, all its provisions should be considered to have equal impact on reporting quality as any authoritative guidance.

On a general note, FEA members noted the need for more robust due process in the development of ESRS standards and guidance. To deliver quality sustainability reporting, further time for implementation and meaningful consultation is necessary. In the case of MAIG and VCIG the public consultation period was short and coincided with the year-end closing process, where we as practitioners could not dedicate to the review all the time such complex topics require.

FEA ESG reporting practitioners remain at your disposal for any further inputs or clarifications.

Detailed comments are presented below and are uploaded in the online survey form.

Comments on Summary in 7 key points

- **Definition of own operations** - in Annex 2, there is **no definition of own operations**. Although the definition is implied throughout this guidance document, it should be formally included in Annex 2.
- **Alignment of definitions** – it is mentioned that the value chain definition is aligned with ISSB and GRI (page 7), but not stated whether it is aligned with CSDDD. A link to CSDDD would be valuable, given the importance of due diligence. Although CSDDD is not yet finalised, it is taking a more detailed view on the specific application of VC concept.
- **Page 4 - summary point 6** - *The undertaking shall describe in its basis for preparation the metrics using value chain estimation and the resulting level of accuracy.* There should be more guidance on these levels of accuracy and what constitutes each one.
- It would be useful to have a practical example regarding ESRS E1 Climate change application: how difference in consolidation scope should be presented and explained.

Comments on Chapter 1 Introduction

- **Page 6 / paragraph 15 (Acronyms used) GHG** refers to greenhouse gases or the GHG Protocol. The reference to GHG Protocol should be removed here.

Comments on Chapter 2. Navigating value chain under CSRD and ESRS

- **Section 2.1, paragraph 23** states “Value chain includes actors upstream and downstream from the undertaking. **Actors upstream** from the undertaking (e.g., suppliers provide products or services that are used in the development of the undertaking’s products or services). **Entities downstream** from the undertaking (e.g., distributors, customers) receive products or services from the undertaking.” It should state “actors” instead of “entities” to avoid confusion and align with the previous sentence.
- **Section 2.3, paragraph 40.** A clarification is required on the reconciliation of the accounting treatment under financial control for financial reporting and operational control for sustainability reporting purposes, e.g. for investments as per the carbon transition plan.

- **Section 2.3, paragraph 52.** The table reconciling financial accounting and ESRS treatment for investments is very helpful. However, we recommend checking the accuracy of comments (e.g., subsidiary is mentioned as control less than 50%, which should be 50% +1, or proportional consolidation definition etc.).
- **Section 2.3, paragraph 39 – Operational control:** more examples to be included, being not a typical way of accounting, it hence requires more clarity.
- **Section 2.5, paragraph 60, page 15. Value chain phase-in allowance** in a way appears contradictory. 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 has to provide explanations for not having the information (paragraph 2.5, point 60, page 15). So, it is a relief, but still it seems as if an undertaking needs to do all kinds of efforts to do obtain it, as if it is not allowed to make use of the relief.

Comment on FAQ 1

- **FAQ 1 “Where does Value chain starts and ends” paragraph 71 (a)** suggests to include impacts that are connected with the undertaking and for that paragraph 72 suggests to consider the location and characteristics of suppliers beyond the first tier of our upstream value chain, but there is no guidance on how to evaluate what is a connection beyond the first tier – how should we assess tier 2, 3 or 4 to identify if they are connected or not.
- **Page 18 – FAQ 1 74.b**– This example is quite complex and could be made more straightforward.

Comment on FAQ 6

- For inflows, paragraph **119 c** - *However, when disclosing the quantification of materials used in the production of the undertaking’s products and services, this relates only to own operations (ESRS 5 paragraph 31). The undertaking determines whether additional information on the VC is needed on an entity-specific basis.* It is not clear how an undertaking could report on inflows for production e.g., recycled content without needing to reach out to its value chain.

Chapter 4

- **Chapter 4.** A VC map itself summarising VC disclosures is very handy. However, this table is very difficult to read, and it would be helpful to restructure/re-design it to make it better understandable.