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Submitted electronically to [this survey](#)

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Dear Patrick,

### **Response to the [Draft] EFRAG IG 2: *Value chain implementation guidance* (VCIG)**

EFAA appreciates the opportunity to provide our comments to the [\[Draft\] EFRAG IG 2: \*Value chain implementation guidance\*](#) (VCIG).

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members.

### **GENERAL COMMENTS**

#### **Think Small First**

EFAA is concerned to ensure that policy, regulation, and professional standards and guidance are scalable and proportionate to the capacities of SMPs and their SMEs clients **as well as** tailored to the needs and characteristics of SMPs and SMEs. We strongly encourage a 'Think Small First' approach, developing straightforward regulation and standards for SMEs and SMPs and then scaling up to suit larger more complex companies and practices. We suggest that this approach extends to guidance.

#### **Role of SMPs in Sustainability Reporting**

SMPs are a key preparer of sustainability reports of SMEs. SMEs, especially non-listed ones that will populate the value chain of companies in scope of the CSRD, often look to their external accountants, typically SMPs, to prepare their financial reports. These SMPs are perfectly placed – given their understanding of the SME client, given their expertise in reporting, given their ethical compass - to help SMEs prepare sustainability information and reports. In short EFAA believes it is likely, highly likely, that many if not most non-listed SMEs that choose to publish sustainability reports in accordance with the VSME will rely on SMPs to prepare and provide assurance on their reports.

## **Role of Implementation Guidance**

EFAA welcomes the VCIG. We have been advocating for such guidance – non-authoritative guidance that clarifies and illustrates – since such guidance is crucial to the timely, consistent, and effective implementation of the European Sustainability Reporting Standards (ESRS). We look forward to similar guidance to support the SME sustainability reporting standards, especially the one for voluntary use by non-listed SMEs (VSME).

## **Importance of Value Chain Guidance**

EFAA is especially concerned to ensure that there is sufficient guidance around value chain reporting not least because many, if not most or all, companies that are within scope of the ESRS will seek information from non-listed SMEs in their value chain. Addressing the value chain is especially challenging for large multinational enterprises (MNEs) as they typically have large and complex value chains. For example, [Holcim](#) has around 100,000 Tier 1 suppliers of which 85% are non-listed SMEs.

VCIG is written for use by companies within scope of the CSRD – that is for the likes of Holcim. While this is understandable, we suggest that the guidance might also target non-listed SMEs that are in the value chain of in scope companies like Holcim so that they can be alerted to and informed as to what information they might need to provide such companies.

## **Coordination of Implementation Support**

EFAA welcomes the European Commission (EC) and EFRAG’s focus on developing comprehensive implementation support for the ESRS. This support is essential for timely and robust adoption and implementation of the ESRS. Therefore, we strongly support the launch of EFRAG’s *ESRS Q&A platform* to complement the implementation guidance. The platform’s stated aim is “to collect and answer technical questions that remain unresolved after thorough analysis by stakeholders to support the implementation of ESRS”. We understand that EFRAG will regularly publish batches of Q&A.

While strongly supportive of the implementation support, we are concerned at the risk of duplication and repetition, and even contradictions, between the implementation guidance and Q&As. Furthermore, as the EC has yet to clarify the status of the respective pieces of implementation support, we foresee the risk of confusion. Some FAQs might need to be reframed as simply guidance. EFAA suggests that when the ESRS are first reviewed and revised any clarifications could be incorporated into the standards themselves leaving the IGs to focus on explaining and illustrating how to make judgements. Some FAQs might simply be added to the *ESRS Q&A platform*.

## **Overall Impression**

In large part the VCIG has the attributes essential for being useful guidance. It is concise and uses straightforward, easy to understand language. We like that the VCIG includes separate sections on clarifications and on FAQs. It usefully provides clarification on various value chain topics including: the different requirements to provide value chain information, such as for impacts, risks and opportunities (IRO), policies, actions and targets (PAT), and metrics; the difference between the requirement to consider value chain in the materiality assessment and the need to collect value chain data; using

estimates from indirect sources when primary data cannot be collected; “reasonable” effort in collecting primary value chain data; and the value chain map on what needs to be reported.

Notwithstanding its merits, the VCIG can be improved prior to its final publication. We urge EFRAG to provide greater clarity in the guidance, particularly for companies reporting sustainability information for the first time. Guidance could include the following: more illustrative examples across all topics, especially ones that would illustrate practical solutions on “operational control” over another entity or site; tools, methodologies or resources that help collect primary data; a list of potential sources to use to estimate indirect data; and applicability criteria on indirect sources.

The guidance also tends to be focused on entities operating in one sector. We suggest EFRAG consider whether the guidance will adequately accommodate entities that are horizontally or vertically integrated as well as entities operating in more than one sector such as conglomerates.

Finally, we wonder whether EFRAG has considered how the guidance can help in the assurance process. Some respondents to the IAASB’s ED-ISSA 5000 have asked that this assurance standard include provisions in relation to value chain to address the quality of evidence etc. EFRAG might want to consult with the IAASB.

Under ‘Specific Comments’ below we explain further how the VCIG might be enhanced.

## **SPECIFIC COMMENTS**

### **Value Chain Boundaries**

EFAA understands from the definition that the value chain includes activities, resources and relationships of the entity and the external environment it operates in. While EFRAG has made great effort to clarify the value chain boundary in various parts of the VCIG, most notably in FAQ1, we believe more guidance, including the factors to consider and examples that clarify where the value chain starts and ends, is necessary. For example, does the value chain end *where* the entity does not have the ability to influence the actor in the value chain *or* has no business relationship *or* the contributions to the added value become minimal *or* some combination of these or other factors. Upstream and downstream value chain present equally difficult feasibility challenges so further guidance and examples is needed for both.

### **Operational Control - General**

EFAA believes this concept is central to the VCIG and may warrant more comprehensive guidance along the lines of that found in the IFRS. Given it is not clear whether EFRAG has the mandate to provide such guidance we urge EFRAG to consult with the EC.

### **Operational Control - Topical Standards**

While we welcome the clarifications under the section *Operational control – E standards*, we wonder whether the VCIG should state that the ESRS E1 *Climate change* operational control provisions stemming from the GHG Protocol extend only to E2 and E4 to avoid unintended interpretations.

We also suggest the guidance includes as many examples, ideally real practical ones, as possible to illustrate the various provisions across the different ESRS. The guidance needs to clarify the difference between how value chain is determined in the E standards, which use “operational control”, and how it works for the S standards, which use “own workforce”. When assessing “own workforce” for the purposes of the S standards, we suggest the guidance accommodate, and illustrate how to deal with, situations where legal definitions and provisions differ from one European Union country to another.

### **Operational Control - Determination**

EFAA suggests that EFRAG incorporate more examples to help illustrate how to approach the concepts of control, operational control, joint control, and significant influence. We welcome examples including, but not limited to, cases where: operational control goes beyond the entity’s own (financial) reporting boundary; cases where there are joint operations as per IFRS 11 *Joint Arrangements*); cases where the company has operational control but less than 50% ownership and so would partially consolidate; and where subsidiaries are not consolidated since they were deemed not material.

EFRAG ought to reflect on the sustainability and financial reporting connectivity issues and implications as it finalizes the guidance. As many companies within scope of the ESRS will be applying national accounting standards rather than IFRS EFRAG should also consider the Accounting Directive.

### **International Alignment**

EFAA welcomes the close dialogue and collaboration between EFRAG, the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). This has been instrumental in ensuring the maximum possible interoperability of the various sets of sustainability standards. However, we question why there appears to have been little if any collaboration in the development of EFRAG’s implementation guidance (VCIG and MAIG). The value chain concept is key to all sets of standards.

Therefore, we urge EFRAG to engage with the ISSB and GRI to ensure that their respective sets of guidance are aligned including any future thinking on value chain matters: alignment of guidance, in addition to that of the standards, will ensure consistent application of the respective standards.

### **CONCLUDING COMMENTS**

We trust that the above is clear but if you have any questions, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin  
President

Paul Thompson  
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