

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to express its views on the draft EFRAG IG 2 Value Chain (VC IG).

The Dutch Accounting standards Board welcomes implementation guidance on the complex and fundamental ESRS concept of value chain, in particular, clarification on value chain related disclosures, using estimates, primary data collection, and value chain map with reporting requirements summary. However, based on the feedback received from our constituents, we consider that especially for companies that are new to value chain reporting the document may still be too complex and not sufficiently accessible. We refer in this respect to our general comments we have made in respect of the MA IG and apply to a large extent to the VC IG as well.

To make the document more useful for the reporters and other stakeholders we suggest to provide much more clarity in the guidance, especially for the first-time reporters, in particular, as concerns the following items:

- The guidance is very **complex and technical**. We believe **the lack of simple, understandable and practical guidance texts** accompanied **by useful examples**, which illustrate the application of the ESRS legislation, limits the practical value of the current guidance document. It also increases the risk that the document is treated as additional legislative text rather than a helpful tool that lessens the administrative burden for companies of reporting on ESRS.
- Readers will find it much more helpful when more examples of how requirements would work for **different companies and sectors**, as well as **more visualisation** providing clarity on the practical application, are included.
- More clarification and examples are required regarding the key concept of **operational control**. Even for practitioners experienced in sustainability reporting, this is new and complex concept.
- The guidance does not sufficiently **clarify requirements to the quality of evidence**, e.g., dependency on the quality of data provided by suppliers, use of estimates and indirect data sources. The document very much starts from the principle that primarily all of the guidance should be collected directly, from parties in the VC and only resort to estimates and indirect data at a later stage. However, based on our experience, estimates and indirect data can be used in a reliable and much more efficient manner in many circumstances. It would be good if the IG provides examples hereof (to also illustrate situations, when “good is good enough”).
- The guidance **does not consider financial institutions** and the specific role they have in financing the global economy, and therefore still needs much interpretation by this industry with resulting divergence in practice. Although EFRAG states its plans to work on the development of further draft standards or guidelines for financial Institutions, no such planning has been made

publicly available, whereas e.g. the Corporate Sustainability Due Diligence Directive (CSDDD) has taken a more detailed view on the specific application of a similar concept as VC to the financial industry.

- Furthermore, we urge EFRAG to **continue its work with the ISSB** also on this guidance to ensure alignment to the level that the ISSB standards can be applied by internationally operating companies as a global base line for sustainability reporting.
- It is also important to consider that ESRS reporting will advance as stakeholders gain more experience. However, there is value in **sharing good real-life practices** as these will help other stakeholders advance too. This could be done in a similar way as the EFRAG's European Reporting Lab.

DASB remains at your disposal to provide further feedback.

Our detailed comments are presented below and uploaded via the online survey:

Summary in 7 key points

Intro

- We suggest avoiding introducing abbreviations (MAIG) without writing in full and explain briefly what it is about. Suggestion for adjusted text '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.'

Paragraph 7

- The first sentence "The inclusion of VC information in the sustainability statement does not affect the undertaking's reporting boundary, which corresponds to the entities included in the perimeter of the consolidated financial statements' is hard to understand. What is meant by this? Can you give an example of when this would be the case? VC information indicates what is part of the VC. It is separate from the own organisation. We suggest rephrasing it to: '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. Does this include associates and other investees which are not consolidated in the financial statements.?'
- Reference to ESRS E1 Climate change. A clarification is required on how difference in consolidation scope should be covered.

3. Comments on Chapter 2 of VCIG

Paragraph 16-17

- EFRAG provides general guidance on the identification of the actors in the VC and how they should all be considered for the reporting entity. Given the specific nature of the role of financial institutions (e.g. financing of the global economy), financial institutions are connected to a wide diversity of actors at various levels (i.e. CSRD reporting entities to natural persons) and therefore their potential impacts. Financial institutions do have leverage therefore over a lot of actors in global economy whilst providing financing over direct business relations in their value chains. However financial entities 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. Please provide guidance (also given the current position on the application of a similar concept as the value chain for financial institutions in the CSDDD) on the application of these paragraphs for financial institutions.

Paragraph 20 (d)

- The reference does not seem to be correct. It should probably be 'Appendix B of ESRS 1 (ESRS 1 paragraph 65).

Paragraph 21a

- The first sentence is missing a word and long sentence. Suggested change: 'ESRS requires disclosures concerning the process and outcomes of the materiality assessment. This is covered in ESRS 2 General disclosures (IRO-1 and SBM-3), accompanied by SBM-1.'
- The first sentence refers to 'rows 1 to 3 of the VC coverage map'. It is not clear what this is. Could a link to the visual be added?

Paragraph 21b &c

- The last sentence refers to 'rows 4 and 5 of the VC coverage map of Set 1 ESRS.' & 'rows 6 to 8 of the VC coverage map of SET 1 ESRS'. Can a link be added?

Paragraph 23 onwards.

- No reference is made to the Corporate Sustainability Due Diligence Directive (CSDDD), how to ensure the conclusions are the same. Given the clear linkage between the two directives, it is important.

Paragraph 25

- Can more guidance be given to what extent influence over customers should be taken into account here, for example for an accounting company to what extent does the fact that it can hardly influence its customers on sustainability play a role in taking it into account?

Paragraph 27

- We recommend adding a picture of how this could be done. For example, by drafting a supply chain like this and adding different actors to it:



Paragraph 28

- Large reporting entities have thousands of Tier 1 vendors which also have many vendors. It would be helpful to explain how much a company must investigate in the VC, how should they deal with confidentiality / Non-Disclosure Agreements.

- Another important explanation required would be on how a preparer could guarantee the completeness of the VC to the auditor.
- Could you add something here about the importance of including affected stakeholders in your MA process to make sure the right actors are considered? An example could be given here. For example, an entity could make an overview of the different process steps of a business and the related affected stakeholders. Based on that overview you can look at which stakeholders are most relevant in terms of impact on the business or to the business on sustainability.

2.2

Paragraph 33a

- An example on the boundary would be helpful for readers. E.g. we all use laptops, which is an important polluter. To what extent do we need to include this effect in the value chain as well; or if you sign a lease contract with CO2 compensation is that enough.
- Add more examples of different sectors which also illustrate that 'control' is not a factor in reporting at least for the social components.

2.3

Paragraph 52 table investments

- 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.).

2.4

Paragraph 54

- An example is required here. For example: a retailer active in the textiles and clothing industry could provide an overview of the most used materials in KG or number of pieces sold and the countries where these materials are sourced from which is information from the value chain of the retailer. This information is relevant to get an understanding of material IRO. This would be an entity specific piece of information that should be included, as the sector standards do not give concrete guidance for that yet. Hence EFRAG is asked to provide sector specific standards, as divergence in practice for identification of material IRO in the value chain will not result in transparent comparable reporting.

2.6

- The chapter is only focused on SMEs. Information about other categories would be valuable, e.g. entities outside EU.

4. Comments on Chapter 3: FAQ 1

- We do not fully understand the chosen format of FAQs. Answers to FAQ are expected to be continuously published and updated on website.
- The answers are not providing the additional support you would hope an IG would give. Also, in line with the content of Chapter 2, more guidance should be given regarding to SME and non-EU entities.

Paragraph 74

- Examples are very subjective and especially b is based on "if".

- VC is broader than supply chain. All examples are vendor oriented, while this is much broader understood.

5. Comments on Chapter 3: FAQ 2

- The impact of a bank loan is not clear.

6. Comments on Chapter 3: FAQ 3

Paragraph 86

- This FAQ is not really focused on downstream VC. Would be beneficial to have these examples as well or have a limitation of the value chain to only multiple tiering of the supply side of the value chain (at least for financial institutions) similar as for CSDDD.

7. Comments on Chapter 3: FAQ 4

SBM-1 97.

- We suggest to clarify how detailed should the information be. An example would be beneficial.

8. Comments on Chapter 3: FAQ 5

Paragraph 114 d

- Recommend adding also 'and preventive measures are in place against breach on human rights'.

Paragraph 114 f

- The sentence is focusing on the new suppliers only. Should this also be the case for the downstream and own business.

9. Comments on Chapter 3: FAQ 6

- The IG on this question is not very supportive. Paragraph 119 states that in general there are no obligations for VC metrics, while paragraph 122 is providing examples based on the materiality assessment. Paragraph 123 confirms VC are associates with material IRO's, which is dependent on the reporting entity.

10. Comments on Chapter 3: FAQ 7

- Should FAQ 8 be placed before FAQ 7? And should it not better to make link to reasonable effort?

Paragraph 132

Further, it would be beneficial to have the VC date based on reliability (similar to fair value measurement for financial information). For example, use the following levels:

- Level 1: VC data is received from upstream and downstream and is audited/reviewed
- Level 2: VC data is based on received data from upstream and downstream similarities
- Level 3: VC data is based on own estimates which has a high level of subjectivity

Level 3 when material requires additional disclosures regarding the systematic of determining the quantitative data.

11. Comments on Chapter 3: FAQ 8

- FAQ 8 should be placed before current FAQ 7, this makes it FAQ 7 much clearer.

12. Comments on Chapter 3: FAQ 9

Paragraph 142

- Is there a strict hierarchy; is primary data an obligation over external data? May one decide that reasonable effort is to only work with external data? An example will be beneficial in this paragraph.

13. Comments on Chapter 3: FAQ 10

No comments

14. Comments on Chapter 4: VC MAP

- 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.