

Schneider Electric Response to EFRAG's public consultation

Draft EFRAG IG 2: Value chain implementation guidance (VCIG)

Chapter and Subchapter	Page number and reference	What is the concern?	What are we proposing?
Summary in 7 key points	page 4, NB page 4, para 1	The IG2 only refers to a company's upstream and downstream value chain. Therefore, the definition of value chain used in the IG doesn't fully correspond to the definition of value chain set out in Annex 2 to the ESRS.	We recommend to clarify this fact to avoid confusion. A clarification is included on p. 6 para 16 – but we suggest to introduce the definition earlier, e.g. in the NB on p. 3.
Summary in 7 key points, Chapter 2.3.	page 4, para 7 page 12, para 50	This para refers to 'associates and other <u>investees</u> ' included in the consolidated financial statements. This does not correspond with the ESRS (in particular para 67 ESRS 1) which refer to 'associates and JVs'. The term 'investee' is broader than 'associates and JVs' and is only used in para 50 ESRS E1.	We recommend sticking to the official terminology used in the ESRS and only refer to 'associates and JVs' when making general recommendations.
E.g. Chapter 2	page 6, para 20d page 7, para 21a FAQ 4, para 94, 106 et seq.	According to this para, the ESRS requires disclosures concerning the process <u>and outcomes</u> of the materiality assessment. Please refer to our comments with regard to the IG1 regarding the reporting on outcome of materiality assessment.	Cf. our comment on IG1 - reference to the outcome shall be deleted.
Chapter 2.1.	page 9, para 28		We welcome this clarification but recommend citing whole para 64 ESRS for completeness.
Chapter 2.3	Page 9, par 32	CSRD and ESRS require that the sustainability statement include information about the upstream and downstream value chain	CSRD and subsequently ESRS require that the sustainability statement include information about the upstream and downstream value chain, whereas at the same time, CS3D limit downstream disclosure with the notion of chain of activity: clarification is needed on the assurances of an alignment of scope of the value chain between CSRD and CS3D
Chapter 2.2.	page 10, 33(c)	The statement is that "Scope 3 GHG emissions are expected to be material for many or most undertakings" is a conclusive statement on materiality but is sitting in the IG2.	We consider this line is an overstep from what "guidance" should be and is making a conclusion. At least, this line should be referred to in IG1 as its quite impactful to double materiality assessment.
Chapter 2.3.	page 13, para 52	The current wording ('the following table illustrates specifically how to	Rephrasing to 'shall indicate'.

		treat impacts arising from investments of the undertaking depending on their accounting treatment in the financial statements') indicates that using the thresholds is mandatory.	
Chapter 2.3,	para 40	Paragraph 40 needs to be aligned with the GHG protocol. The GHG protocol allows for exceptions for de minimis emissions (e.g. not accounting for the emissions from fertilizers used for landscaping) but this guidance has a "shall" statement which seemingly conflicts w/GHG protocol guidance.	Clarify that para 40 does not mean that "all" emissions have to be reported (as this would not be aligned with the rest of the ESRS nor with the GHGP).
FAQ 1	para 71	"share" of value chain actor impact attributable to the undertaking	Complement item a/ with : environmental impacts related to the undertaking within its value should be limited to the share attributable/associatable to its product / activities.
FAQ 3	page 18, 80	It is not clear which due diligence process is referred to.	We recommend citing the whole para 45 ESRS 1 to clarify which due diligence process is referred to.
FAQ 3	FAQ 3	In some parts the language used in this para indicates that the proposed materiality process is mandatory.	First it shall be expressly stated that the proposed DMA process set out in the guidance and the IG1 is a mere suggestion and that neither the CSRD nor the ESRS oblige companies to carry out the DMA in a specific way. Secondly, the overall wording should be rephrased to make this clear, i.e. by using 'may' or 'can' etc.
FAQ 7	FAQ 7, para 125	This para states quantitative measures of the impact are the most objective. However, the ESRS do not provide for a hierarchy of qualitative and quantitative information.	We are very concerned that para introduces a hierarchy on the value of quantitative over qualitative information where the ESRS treats them equally.
FAQ 7	FAQ 7, para 127	The draft IG2 introduces an additional requirement on information in the supply chain and assumes that companies have the ability to always directly request information from "major tier 1 suppliers" and end users. In fact, an undertaking may have greater difficulty to impose contractual clauses in this regard as this could jeopardize the business relationship. The introduction of an additional requirement is neither in line with the ESRS (ESRS 1 para 68) nor realistic	This para should be aligned with para 68 ESRS 1 which states: 'The undertaking's ability to obtain the necessary upstream and downstream value chain information may vary depending on various factors, such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. When the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging'.

			Delete the references to “major tier 1 supplier” and “end-user.”
FAQ 7	Page 26, para 131		Rephrase to 'examples may include'.
FAQ 8	Page 28, para 141	<p>This para states that companies shall document its efforts, the outcomes and how the information has been incorporated in the reporting process for the company's own governance and for auditors. However, neither the CSRD nor the ESRS oblige companies to document the reporting process. If and how companies document the process shall be left up to the companies. Further, in practice especially documenting all efforts is not feasible because this would mean that every call, meeting etc. would need to be documented. This would be an unbearable burden for companies. In addition, but explicitly referring to the auditing process, it is likely that auditors - who will use this guidance in practice - will expect companies to provide documentation even though companies are generally not obliged to provide such documentation.</p>	<p>Delete this para.</p> <p>If not deleted, the para shall at least be more generalized, e.g. by only stating that 'Companies may document the reporting process' or 'Companies may document the material decisions related to the reporting process.'</p>
FAQ 9	Page 28, para 144 - 145	<p>This para explicitly lists non-profit organisations such as the World Justice Project, or other NGOs' as an example for external data sources. However, only independent sources shall be used as external sources. Further, there is no legal basis for explicitly mentioning the World Justice Project.</p>	<p>We welcome the clarification that companies are not required to use fee-based external sources.</p> <p>We suggest deleting example 'non/profit organisations such as the World Justice Project or other NGO' and replace with 'other independent reports'. In any event, the explicit reference to the WJP shall be deleted.</p>