ACCOUNTANCY EUROPE.

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ESRS PERSPECTIVES: VALUE CHAIN

SUMMARY OF VIEWS

The [European Sustainability Reporting Standards] (ESRS) have been effective since 1 January 2024 for the first companies in the [Corporate Sustainability Reporting Directive's] (CSRD) scope. The ESRS introduce a new reporting framework in Europe, and include many new concepts which stakeholders may find challenging.

Accountancy Europe has contributed to every step of the ESRS' development and finalisation, including to [EFRAG's guidance]. In this series of publications, we summarise the ESRS' provisions on these concepts and share our views on ESRS aspects that merit further guidance and clarification. To provide background information for our views, we have summarised the existing ESRS' provisions on these concepts and where applicable, incorporated EFRAG's guidelines. We have not interpreted or provided guidance on these matters.

BACKGROUND INFORMATION

Value chain is a key element in the ESRS. EFRAG issued the non-authoritative *IG2 Value Chain Implementation Guidance* (EFRAG's VC IG) to support application.

> *The full range of activities, resources and relationships related to the undertaking's business model and the external environment in which it operates.*
>
> *A value chain encompasses the activities, resources, and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of- life […].* [1]

[1] Definition extracted from Table 2 of Annex II "Acronyms and glossary of terms" in the ESRS.

VALUE CHAIN AND MATERIALITY ASSESSMENT

For ESRS purposes, a company identifies and assesses impacts, risks and opportunities (IROs) in the value chain to determine the material IROs to report. Therefore, the (double) materiality assessment expands from own operations and includes the upstream and downstream value chain.

REPORTING VALUE CHAIN INFORMATION

The sustainability statement includes value chain information as: (1) a component of the materiality assessment, and (2) a result of the materiality assessment, i.e., the material IROs connected with the entity through its direct and indirect business relationships in the upstream and/ or downstream value chain. The latter is not a requirement to consider every actor in the value chain, but rather material value chain information to report as determined from the double materiality assessment.

The entity's (sometimes limited) abilities to obtain direct information in its value chain makes it challenging to collect and report reliable value chain information. Collecting primary data directly from the value chain partners is ideal, but in many cases, the entity does not have leverage on partners. In such cases, the entity estimates value chain information by using reasonable and supportable information, such as sector-average data or other proxies.

PHASE-INS

ESRS recognise the difficulties in collecting value chain information and provide phase-ins, subject to certain conditions, for the first three years of the reporting under the ESRS, to ease application:

- for policies, actions and targets: it is possible to limit value chain information to that available in-house
- for metrics, value chain information can be omitted, except for EU legislation derived datapoints.

OUR VIEWS

We welcome the ESRS and EFRAG's VC IG. We appreciate that many of our suggestions for improvements have been taken into account both in the standards and the guidance. However, we believe that the following key matters need further clarification and interpretation by the European Commission (EC), as well as guidance, which could be provided by EFRAG.

VALUE CHAIN BOUNDARIES

It is key to determine where the value chain starts and ends, to:

- include it as part of the materiality assesment when identifying material IROs, and
- report value chain information that meets the qualitative characteristics of information.

This is particularly important for conglomerates and financial institutions, which may have very large value chains. More guidance and examples, including the factors to consider when determining these boundaries, would help ease reporting burdens.

Moreover, it is important to clarify the "Listed SME cap" and its application upon finalisation of the respective standard.

OPERATIONAL CONTROL

Accountancy Europe appreciates the useful guidance and examples on operational control in EFRAG's VC IG. However, there is a need for a full clarification or interpretation in the environmental ESRS on this principle on:

- assessing operational control, including criteria or factors to be used/considered and how judgement is exercised
- treating business relationships for various entities, particularly those holding associates in their business model.

The concept of operational control is also particularly challenging for financial institutions. We call for the respective and upcoming sector-specific standards to address this matter. On this note, it is also important to clarify how these provisions are aligned to those of the Corporate Sustainability Due Diligence Directive.

ALIGNEMENT WITH INTERNATIONAL STANDARDS

The ESRS have been aligned with the International Sustainability Standards Board's (ISSB) standards as well as the Global Reporting Initiative's (GRI) standards for their respective aspects. However, we regret such collaboration did not take place for this guidance. EFRAG and the EC, the ISSB and GRI should continuously work together in aligning practices in addition to standards as it will minimise compliance costs and lead to efficiencies in processes and reporting.