

# [Draft] IG 1: MAIG & [Draft] IG 2: VCIG

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# DISCLAIMER



The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Some aspects around reporting boundaries have not been tested with SR TEG/SRB and so is subject to change.

# Agenda

- I** Introduction to [draft] IG & Support Material
- II** Introduction to MAIG
  - III** Key Concepts
    - IV** Materiality Assessment Process
- V** Introduction to VCIG
  - VI** VC aspects
    - VII** Reporting boundary aspects
      - VIII** Other useful aspects: Estimates & Transitional provisions



# I. INTRODUCTION TO IG & IMPLEMENTATION SUPPORT MATERIAL

<< ESRS will be challenging for companies.

And that's why we're asking EFRAG, who developed the draft standards to focus attention on providing additional guidance for companies to apply the first set of horizontal standards.

We have asked EFRAG to prioritise its efforts on that first set of horizontal standards over preparatory work for the sector standards.>>

***Opening address by Commissioner McGuinness at the launch of 2023 PwC CEO Report – Europe, 21 March 2023***

# Implementation Guidance – Status

- EFRAG published its first three draft ESRS Implementation Guidance documents for public feedback:
  - Draft EFRAG IG 1 deals with the requirements on the materiality assessment in ESRS;
  - Draft EFRAG IG 2 with the value chain aspects in ESRS;
  - Draft EFRAG IG 3 contains the detailed ESRS datapoints as a Microsoft Excel workbook with an accompanying explanatory note

EFRAG IG 1 –  
Materiality  
assessment

EFRAG IG 2 –  
Value chain

EFRAG IG 3 –  
List of ESRS  
datapoints



**Stakeholders can provide feedback by accessing the relevant surveys by 2 February 2024**



Non-authoritative document issued by EFRAG. To be read in conjunction with the other IGs



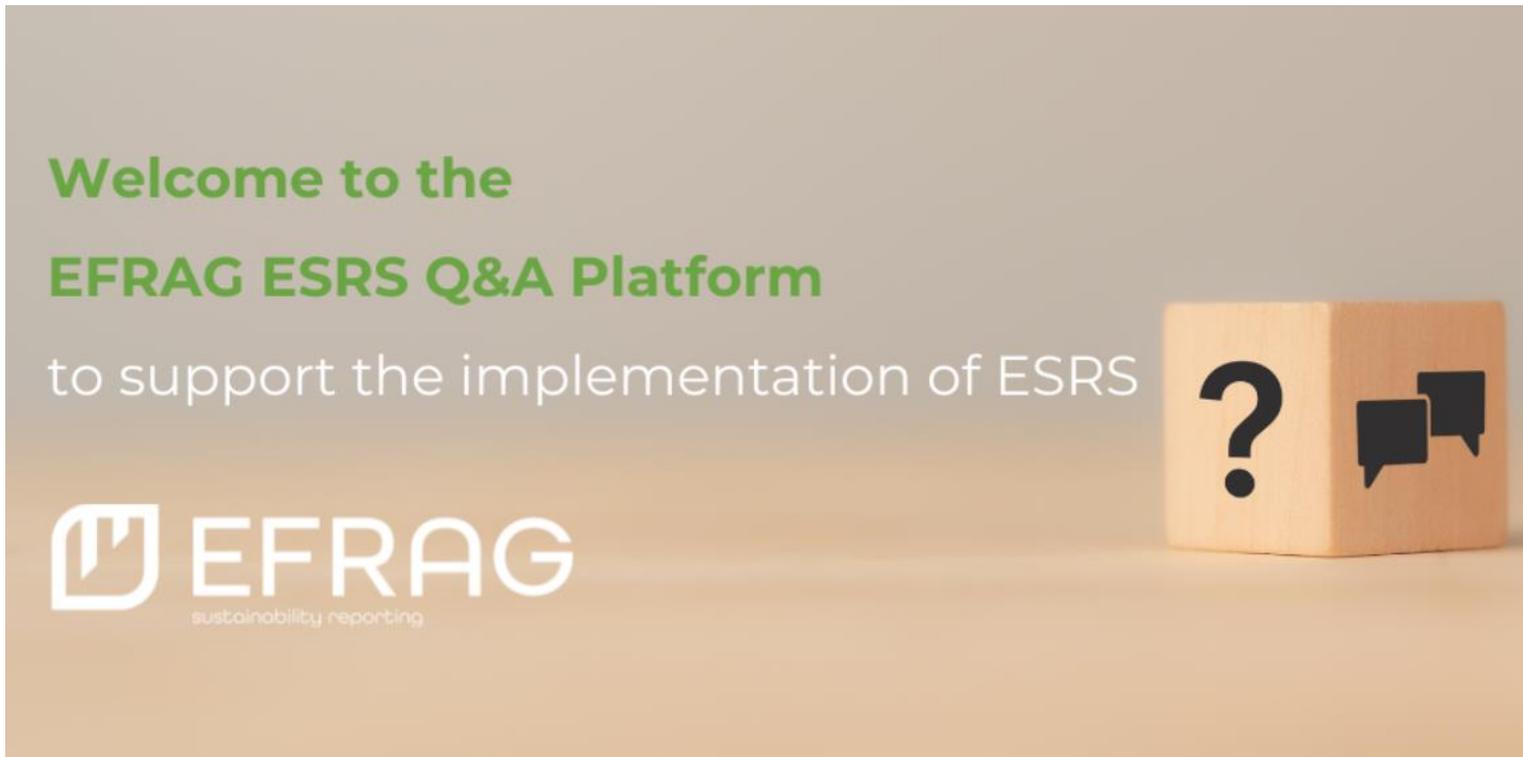
It cannot go beyond content of issued ESRS nor include new provisions. The guidance illustrates or explains the ESRS standards with examples.



When a specific approach or methodology is illustrated, it is a possible way to implement the standard. Definition of implementation approaches stays in the responsibility of management



It forms part of the implementation material. Hence, when questions are received in the Q&A platform that relate to content covered in the IG – these are rejected. Likewise, if questions lead to future implementation guidance, these are noted.



- Decision making: SRB, supported by SR TEG
- Dedicated due process procedures have been designed
- Categorization and answers are discussed in public
- Log of questions available on EFRAG website

Not exposed to public feedback

- Explanations
- Rejections

Exposes to feedback/comments

- Implementation Guidance (30 days min. public feedback)
- Possible amendments to ESRS (full due process)

# Interoperability maps

- To avoid double reporting
- Leveraging on the high-level of interoperability in the standards.
- An undertaking that applies the ESRS is expected to be able to comply with the identification of the sustainability related information on risks and opportunities under IFRS S1/S2. This reflects the **alignment of the scope of financial materiality** in ISSB standards and the ESRS. For climate **ESRS E1 covers substantially all the disclosures in IFRS S1/S2**
- Implementation support material issued jointly (**GRI has been issued, IFRS and TNFD is in progress**)
- Illustration of the correspondence of detailed requirements in ESRS that correspond to the other standard, with clarification of differences in terminology and substance (if any)
- Paving the way to digital interoperability



## II. INTRODUCTION TO MAIG [draft IG 1]

Summary in 13 key points

1. Introduction

2. The ESRS approach to materiality (Criteria & Scope)

3. How is the materiality assessment performed? (4 Steps + Thresholds)

4. How to leverage other sources? (GRI, ISSB)

5. Frequently asked questions (FAQ)



### III. KEY CONCEPTS

# Double materiality: definitions

## Materiality assessment

- Process for determination of the information to be included in the sustainability statement. It has two steps:
  1. identification of the **matters that are material**, supported by the list of matters (topics/sub topics/sub-sub topics) in AR 16 of ESRS1 and mapped to impacts, risks and opportunities; and
  2. definition of the **information to be reported per each material matter**, on the basis of the requirements in topical standards (ESRS E1/E5, S1/4, G1).

## A matter is “material”

### Impact materiality



- Material actual or potential, positive or negative impacts over short-, medium- and long-term

AND  
/  
OR

### Financial materiality



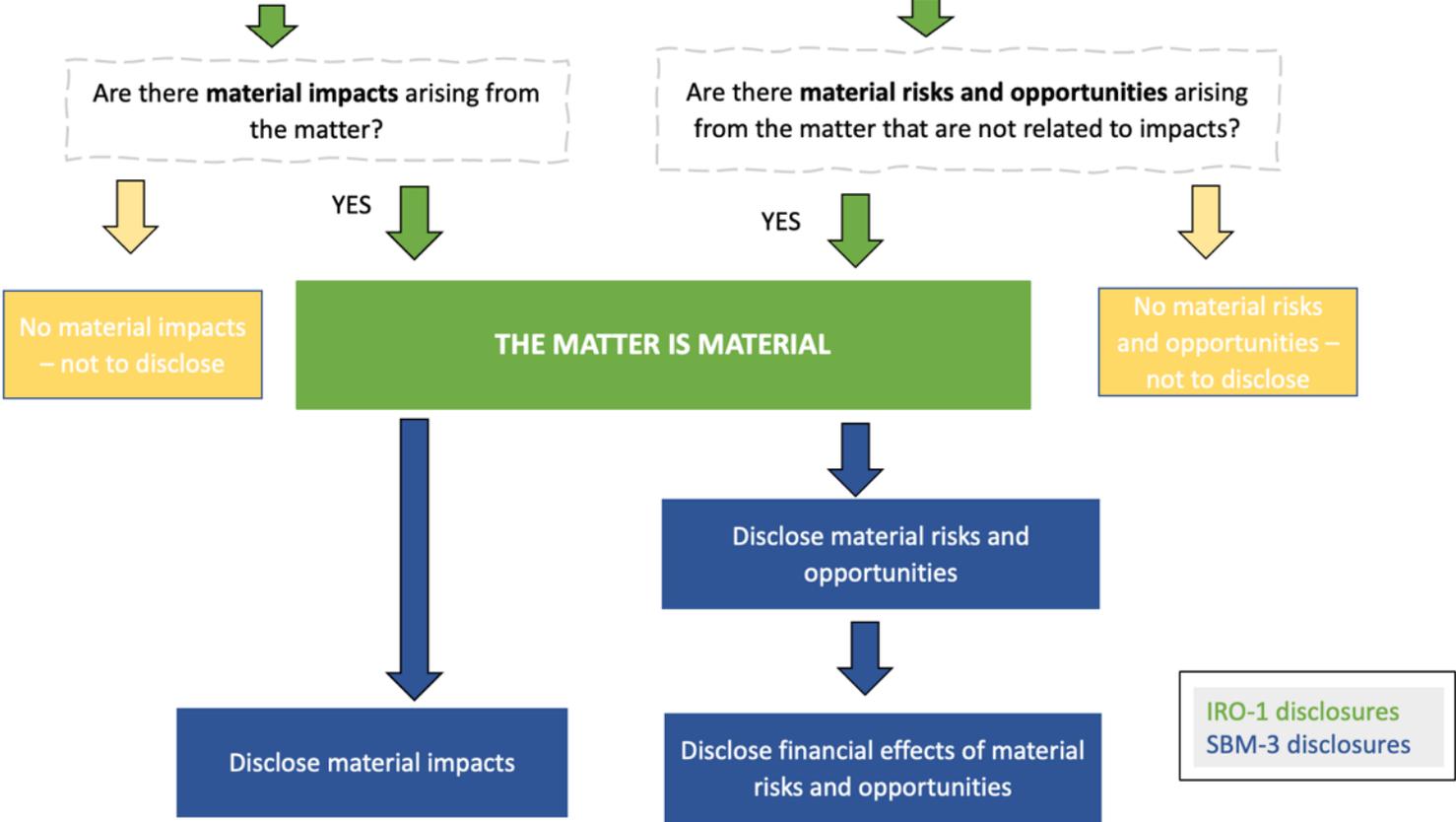
- Information material for **primary users of general-purpose financial reports** in making decisions relating to providing resources to the entity
- **Risks or opportunities** that could be reasonably expected to have/have a **material influence** on financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term

## Information reported

- *Policies, Actions and Targets* in place to manage the material matter
- Datapoints in *Metrics* that the undertakings assesses to be material

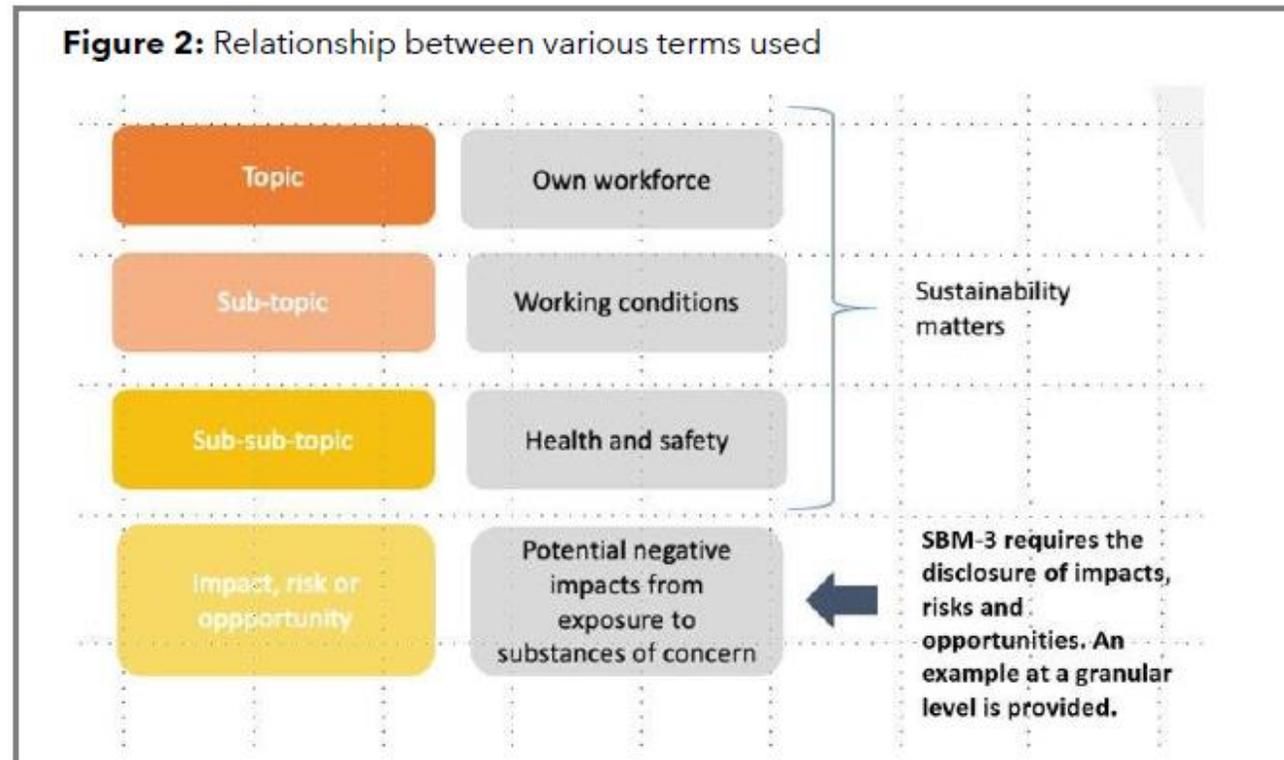
	Impacts	Risks and Opportunities
<p><b>How do you identify IROs supported by AR16 ESRS 1</b></p>	<ul style="list-style-type: none"> <li>• Activities (linked to sectors)</li> <li>• Business relationships</li> <li>• Regulatory landscape</li> <li>• Other sources (scientific analysis, benchmarks)</li> <li>• Understanding the views and interests of affected stakeholders</li> <li>• Informed by due diligence process (see UNGP/OECD)</li> </ul>	<p><b>1) Impacts</b></p> <ul style="list-style-type: none"> <li>• People and environment</li> </ul> <p><b>2) Dependencies</b></p> <ul style="list-style-type: none"> <li>• Human, natural, relationship capitals</li> <li>• Availability/price/quality</li> </ul> <p><b>3) Other risks and opportunities factors</b></p> <ul style="list-style-type: none"> <li>• e.g. climate physical risk, change in legislation on systemic impacts</li> </ul>
<p><b>How to determine which are material?</b></p>	<ul style="list-style-type: none"> <li>• Appropriate thresholds necessary</li> <li>• <b>Severity:</b> <i>Scale, scope, irremediable character</i></li> <li>• <b>Likelihood:</b> <i>Only for potential impacts</i></li> <li>• <i>Negative <b>human rights</b> impact: severity takes precedence over likelihood.</i></li> </ul>	<ul style="list-style-type: none"> <li>• Appropriate thresholds necessary</li> <li>• Likelihood and magnitude</li> <li>• Effects on the undertaking's performance, financial position, cashflows and access to capital and investors' lens</li> </ul>

- List of matters in ESRS 1 para AR 16 (if applicable, complemented by matters identified on an entity specific basis); or
- List of matters identified by the undertaking from existing materiality assessment (if applicable, complemented by list of matters in ESRS 1 para AR16)



# Clarification: matters and impacts, risks and opportunities

Par. 44: The undertaking shall disclose its material IROs, which are in turn mapped to sustainability matters (i.e., topics, sub-topics or sub-sub-topics). In preparing its disclosure according to ESRS 2 SBM-3, the aggregation rules defined in ESRS 1 chapter 3.7 also apply, the undertaking may aggregate information to the extent that it does not obscure material content (ESRS 1 chapter 3.7). Refer to Figure 2 below.

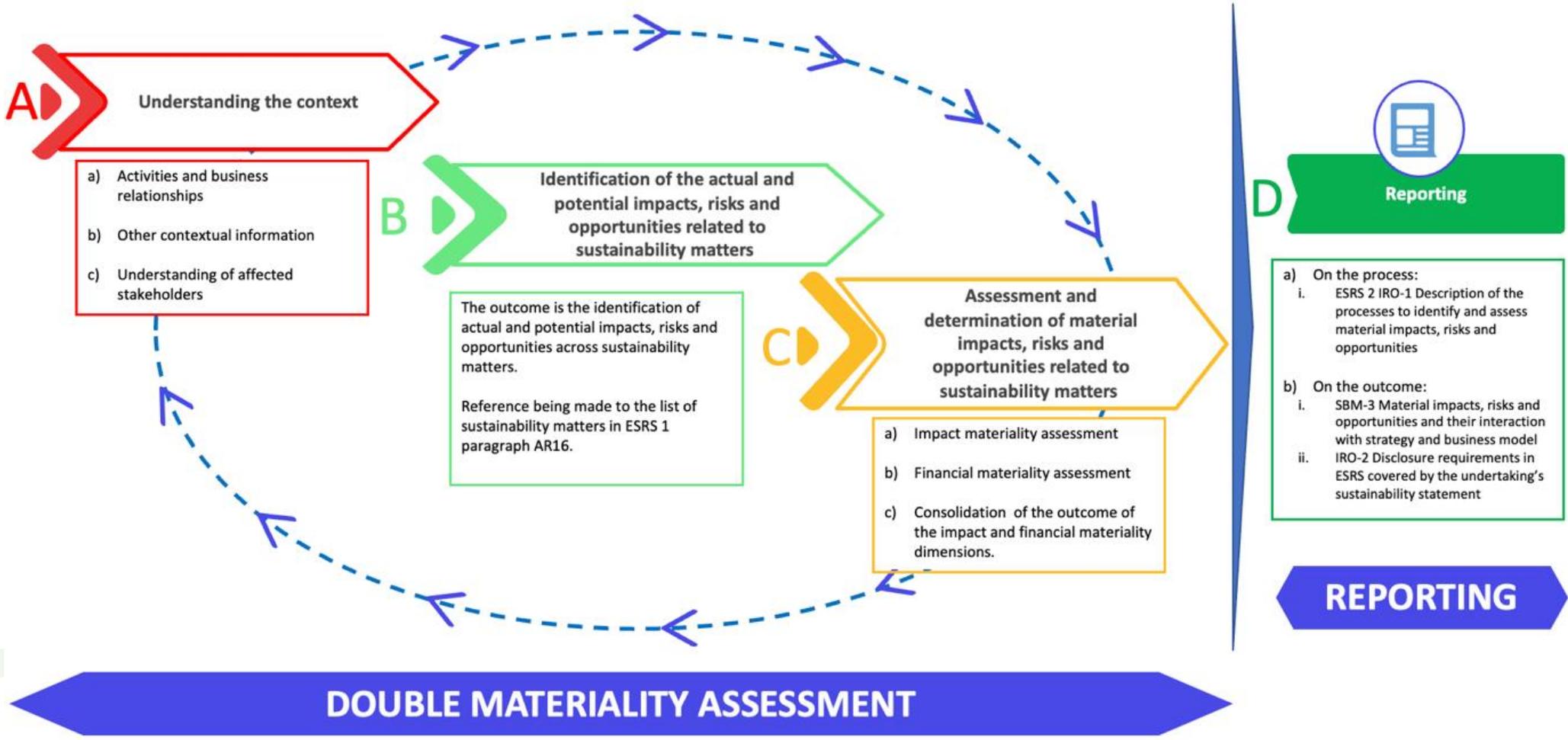


Par. 45: The undertaking needs to identify whether a topic, sub-topic or sub-sub-topic is material from any of the two perspectives because the matter is associated with an identified material impact, risk or opportunity or both.



## IV. MATERIALITY ASSESSMENT PROCESS

# Example of materiality assessment process



# Considerations for the materiality assessment process

1. **Impact materiality thresholds:** severity for actual impacts & severity and likelihood for potential impacts Refer to the illustrative visual for actuals and potential impacts. Due diligence informing impact materiality.
2. **Financial materiality thresholds:** magnitude x likelihood and investors' lenses. Impact on the undertaking's financial position, financial performance and cash flow in the short, medium or long term
3. **Leveraging from GRI Universal standards.** This would, in practice, apply to those undertakings reporting under "in accordance" with GRI.
4. **Frequency of the materiality assessment.** Annual ESRS reporting.
5. **Stakeholder engagement with AFFECTED stakeholders** This is an ongoing dialogue, leverage from existing initiatives and different groups of affected stakeholders for different matters
6. **Role of scientific evidence** in stakeholder engagement
7. **Judgement exercised** – MA IG supports how to structure such judgement
8. **Quantitative vs qualitative evidence** when assessing IROs
9. **Aggregation of information** as long as not obscuring and **no netting off of positive and negative impacts.**
10. **Materiality in a group context level with subsidiaries.** Key principles laid out
11. **Link with Art 8 taxonomy . Eligible activities and Materiality assessment**

## EFRAG's (draft) IG 1: Materiality assessment IG (MAIG)

### Feedback on EFRAG's (draft) IG 1: MAIG

2. Do you have comments on any of the following (when you answer yes, a text box will appear at the bottom of this button grid for your comments):

	Yes, I will provide my comments below	No, I do not have comments
Summary	<input type="radio"/>	<input type="radio"/>
Chapter 1: Introduction	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 2: The ESRS approach to materiality	<input type="radio"/>	<input type="radio"/>
Chapter 3: How is the materiality assessment performed?	<input type="radio"/>	<input type="radio"/>
Chapter 4: How to leverage other sources?	<input type="radio"/>	<input type="radio"/>
Chapter 5.1: FAQs on impact materiality	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 5.2: FAQs on financial materiality	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 5.3: FAQs on the materiality assessment process	<input type="radio"/>	<input type="radio"/>
Chapter 5.4: FAQs on stakeholder engagement	<input type="radio"/>	<input type="radio"/>
Chapter 5.5: FAQs on aggregation/disaggregation	<input type="radio"/>	<input type="radio"/>
Chapter 5.6: FAQs on reporting	<input type="radio"/>	<input type="radio"/>
Chapter 5.7: FAQs on art. 8 EU taxonomy	<input type="radio"/>	<input type="radio"/>

<https://survey.alchemer.eu/s3/90658579/EFRAG-s-draft-IG-1-Materiality-assessment-IG-MAIG>



## V. Introduction to VCIG

Summary in 7 key points

1. Introduction

2. Navigating value chain under CSRD and ESRS (Value Chain Map)

3. Frequently asked questions (FAQ)

4. VC Map



## VI. Value chain aspects

## Where

- Chapter 5 of ESRS 1, AR 17 and transitional provisions (10.2)
- ESRS 1 paragraph 11 or 65

## What

- **MA:** qualitative may be sufficient
- **PATs** for material IROs in topical standards covered in as far PAT covers VC
- Required **quantitative metrics:** E1-6, E1-7. For **qualitative information** refer to VC map in VCIG

## When

- Transitional requirements in ESRS 1, Chapter 10

## Take-aways from the VCIG so far

- a) The **general requirements relating to all disclosures on VC can be found in ESRS 1 *General requirements***:
- i. The general requirements for reporting on the VC are in chapter 5;
  - ii. Application Requirements AR 17 set out guidance on 'Estimation using sector averages and proxies'; and
  - iii. Transitional provisions with respect to VC in chapter 10.2.
- b) ESRS 1 requires the inclusion of material VC information **when this is necessary** to allow users to understand the undertaking's material IROs and to produce information that meets the qualitative characteristics of information set for in Appendix C of ESRS 1 (**ESRS 1 paragraph 65**).

## Take-aways from the VCIG so far

- c) ESRS required disclosures concerning the process and outcomes of the **materiality assessment** are covered in ESRS 2 General disclosures (IRO-1 and SBM-3). Where possible, quantitative measures of IROs are the most objective evidence of materiality. However, quantitative information is not always available or may result in additional costs. Sector data and other sources may be sufficient, without triggering collection of primary information from actors in the value chain.
  
- d) All the **topical standards** require undertakings to disclose their **policies, actions and targets for material IROs**; to the extent that such policies, actions and targets do in practice involve actors in the VC, this will be reflected in the disclosures. The minimum disclosure requirements with respect to policies, actions and targets require information on scope such as whether it relates to the VC per paragraphs 65(b), 68(b), 80(c) of ESRS 2.

## Take-aways from the VCIG so far

- e) There are only **few metrics** in topical ESRS that require to include VC information per se (see [FAQ 6](#) *Should VC be included in metric DRs*). ESRS S2 to S4 for instance do not include metrics only PATs.
- ESRS E1-6, E1-7,
  - ESRS E2-5 SoC procured and used; ESRS E5-5 refers to supplied material, but does not expand to suppliers
  - ESRS E4 may benefit from information from VC but do not necessarily depend on it, e.g. E4-1 par 13, E4 ESRS 2 IRO 1 par 17(a), E4-4 par 32(c)
  - Qualitative: ESRS E5-4 par 30; ESRS E1-1 for par. 16(b), etc
- f) Finally, when an undertaking concludes that a material IRO is not sufficiently covered by an ESRS, it shall provide **entity-specific disclosures**. (ESRS 1 paragraph 11 and AR 1 to 5). This may include information, including when appropriate metrics, about a material IRO in the VC.



## VII. Reporting boundary aspects

1. Start with **financial group** perimeter, i.e. parent and subsidiaries (IFRS 10.A, IAS 21.8). There is **no equivalent to** equity accounting or proportional consolidation in ESRS.
2. Consider **operational control** for ESRS E1, E2 and E4. Decide whether to apply operational control for ESRS E3 and E5.
3. For **own workers** etc. apply definitions in ESRS S1 and S2. ESRS S1 is based on contractual arrangements with workers. Employee of plant under operational control will not fall in scope of own workforce under ESRS by virtue of operational control alone.
4. For **associates/joint arrangements not under operational control**:
  - Part of value chain (i.e. buying/selling): treat as for other VC actors
  - Only investment (loans, equity): nothing in ESRS except Cat 15 for Scope 3 if significant

- 1. Glossary:** Operational control (over an entity, site, operation or asset) is the situation where the undertaking has the ability to direct the operational activities and relationships of the entity, site, operation or asset.
- 2. ESRS E1 AR 40:** in the context of GHG emissions, this may happen “when the undertaking holds the license - or permit - to operate ...”
- 3. From the VCIIG (Chapter 2.3):** This is the case where, for example, the company has the full authority to introduce and implement the operating policies, which often implies also executing such operations; or when it is legally recognized - with implied legal rights and obligations - under *certain regulations (for example the EU Emissions Trading system) as an “operator” of a facility.*

Having operational control does not mean that an undertaking necessarily has authority to make all decisions concerning an operation. For example, big capital investments will likely require the approval of all the partners that have joint control (per IFRS 11).

Sometimes a company can have joint control over an operation, but not operational control. This would require analysis of the contractual arrangements to determine *whether* any one of the partners has the authority to introduce and implement its operating policies.

- 1. Glossary:** Employees who are in an employment relationship with the undertaking ('employees') and non-employees who are either individual contractors supplying labour to the undertaking ('self-employed people') or people provided by undertakings primarily engaged in 'employment activities' (NACE Code N78).
- 2. ESRS S1 AR 3: Examples of people that fall within the scope of "Own workforce" are:**
  - (a) Examples of contractors (self-employed persons) in the undertaking's own workforce include:
    - i. Contractors hired by the undertaking to perform work that would otherwise be carried out by an employee
    - ii. Contractors hired by the undertaking to perform work in a public area (e.g., on a road, on the street).
    - iii. Contractors hired by the undertaking to deliver the work/service directly at the workplace of a client of the undertaking.
  - (b) Examples of people employed by a third party engaged in 'employment activities' include people who perform the same work that employees carry out, such as:
    - i. people who fill in for employees who are temporarily absent (due to illness, holiday, parental leave, etc.);
    - ii. people performing work additional to regular employees;
    - iii. people who are dispatched temporarily from another EU member state to work for the undertaking ('posted workers').

# Reporting boundary decision tree

**Reporting entity**  
Parent plus subsidiaries  
(including leased assets and  
own assets/ liabilities used in  
Joint Operations)  
ESRS 1 par 62



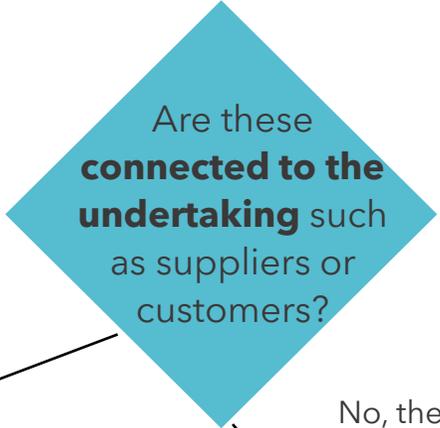
Any other sites, **Assets, Plants, Associates, Joint ventures, unconsolidated subsidiaries** (investment entities) and **contractual arrangements that are joint arrangements not structured through an entity** (i.e., jointly controlled operations and assets) under **Operational control?**

Yes, I have operational control.

Include 100% per ESRS E1 AR 40 for E1 as a separate row per E1 par. 50(b). Operational control mentioned in ESRS E2 and E4.

Include as **VC** for the share of IROs attributable to the reporter's products and services as for other actors in the VC (ESRS 1 par 63, 67' ESRS E1 par 46)

No, I do not have operational control.



Yes.

For E1: include as GHG **Scope 3** emissions category 15 'Investments' if significant (ESRS E1 par. 44(c), AR 39(a), AR 46 and AR 48).

No, they are not actors in the value chain such as suppliers or customers.

VC actors (e.g. suppliers) based on IROs impacts connected with the undertaking's products and services through its business relationships. Also applies to Associates and JVs that are VC actors

ESRS 1 paragraph 67: *"When associates or joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are part of the undertaking's value chain for example as suppliers, the undertaking shall include information related to those associates or joint ventures in accordance with paragraph 63 consistent with the approach adopted for the other business relationships in the value chain. In this case, when determining impact metrics, the data of the associate or joint venture are not limited to the share of equity held, but shall be taken into account on the basis of the impacts that are connected with products and services through its business relationships".*

Example



An undertaking, P, produces chairs with wood sourced from another undertaking that is classified as an associate (A) for financial reporting. P holds an equity share in A of 30%. P buys 10 tons of wood from A to produce its chairs. P will treat A in the same way as any other supplier when considering the impacts connected with the wood purchased from A. **Therefore, P includes the IROs related to the 10 tons of wood purchased rather than estimating its IROs by using its equity share in A.**

Also considered as part of the materiality assessment like other VC actors

Investments form part of the undertaking's business relationships (as per the definition of business relationships).

As such, they may give rise to IROs that are connected with the undertaking and that are to be considered in the **materiality assessment** and reported when material.

However, **topical ESRS** do not have specific reporting requirements that indicate how to measure these impacts, apart from GHG Scope 3 Category 15 disclosures where significant in accordance with ESRS E1 paragraph 44(c), AR 39(a) as explained in AR 46 and AR 48.



VIII. Other useful aspects:  
*Estimates & Transitional provisions*

- When the undertaking cannot collect VC information per as paragraph 63 after making **reasonable efforts** to do so, it shall estimate ... using all reasonable and supportable information ... **without undue cost or effort**.
  - Including, internal and external information, such as data from indirect sources, sector average data, sample analyses, market and peer groups data, other proxies or spend-based data.
- Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, **estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty** (see section 7.2 of this Standard). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses (ESRS 1 App. B QC 5). See **VCIG FAQ 8** *What is reasonable effort to collect VC data?* and **FAQ 9**: *How can estimates be developed when primary data cannot be collected from VC counterparties?*

- When metrics include VC data estimated using indirect sources, such as sector-average data or other proxies, the undertaking shall:
  - (a) identify the metrics;
  - (b) describe the basis for preparation;
  - (c) describe the resulting level of accuracy; and
  - (d) describe the planned actions to improve the accuracy in the future (ESRS 1 chapter 5 and ESRS 2 para 10)

FAQ 8: *Determining what is a 'reasonable effort' and 'undue cost and effort' depends on facts and circumstances specific to the undertaking. Based on FAQ 7, using free and publicly available information may in some cases be considered a reasonable effort. In determining whether an action is beyond 'reasonable effort' and 'undue cost', **the undertaking shall balance the reporting burden of obtaining direct data and the potential lower quality of the information resulting from not taking that action.** In this context it is important to note that the estimation procedures adopted by the undertaking when direct data are not used are expected to produce reporting that meets the qualitative characteristics of information.*

- **Entity-specific** disclosures (first three years of sustainability statements)
  - May include previously reported disclosures if meeting qualitative characteristics of information and additional material sector materiality matters in GRI or IFRS industry-based guidance.
- **Value chain** (first three years of sustainability statements)
  - If information not available, explain efforts, reasons and plans to obtain;
  - PAT: may limit information to in-house information
  - Metrics: not required to include except for datapoints from other EU legislation

ESRS 1 paragraphs 130 to 135

## Feedback on EFRAG's (draft) IG 2: VCIG

2. Do you have comments on any of the following (when you answer yes, a text box will appear at the bottom of this button grid for your comments):

	Yes, I will provide my comments below	No, I do not have comments
The summary of the VCIG	<input type="radio"/>	<input type="radio"/>
Chapter 1: Introduction	<input type="radio"/>	<input checked="" type="radio"/>
Chapter 2: Navigating value chain under CSRD and ESRS	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 1	<input type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 2	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 3	<input checked="" type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 4	<input type="radio"/>	<input checked="" type="radio"/>
Chapter 3: FAQ 5	<input type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 6	<input type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 7	<input type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 8	<input type="radio"/>	<input type="radio"/>
Chapter 3: FAQ 9	<input type="radio"/>	<input checked="" type="radio"/>
Chapter 3: FAQ 10	<input type="radio"/>	<input type="radio"/>
Chapter 4: VC map	<input type="radio"/>	<input type="radio"/>

<https://survey.alchemer.eu/s3/90658577/EFRAG-s-draft-IG-2-Value-chain-implementation-guidance-VCIG>

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