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Additional disclaimer for SR TEG public agenda papers 25 October 2022

This paper is a draft [Draft] standard prepared by the EFRAG Secretariat for approval of SR TEG and, once approved, it forms the advice that according to EFRAG Due Process SR TEG delivers to SRB as recommended content of the [Draft] final standards to be delivered to the European Commission in November 2022.

This draft reflects the tentative decisions of the SRT in the meetings from June to October 2022 (and reflects the content of the Agenda Papers prepared for those meetings). It has been developed starting from the ESRS Exposure Draft of April 2022, taking into account:

- the revised CSRD text released at the end of June;
- alignment with EDs IFRS S1, S2 and GRI standards as required by the new CSRS whenever possible;
- feedback received from the public consultation.

This draft is an intermediate version of the [Draft] standard and quality checks are still in progress that will result in editorial changes and further presentation/language streamlining. This includes editorial and presentation review, consistency of language across the standards, update of the references to paragraphs/chapters/sessions within the standard and across all the standards, alignment of definitions and glossary across all standards, possible changes of terminology due to recent IFRS decisions. The items in yellow are also subject to change (reflecting the ongoing quality check or pending other external confirmations). In ESRS 2 items in grey mark the datapoints that have been added for alignment with IFRS S1.

Changes are also possible in the next steps of SRB deliberation and approval, including changes other than editorial.

[Draft] ESRS S2 Workers in the Value Chain is set out in paragraphs 1–38 and Appendices A: Defined terms and B: Application Guidance. All the paragraphs, including those in the Appendices A and B, have equal authority. Each Disclosure Requirement objective is stated in a bold paragraph, followed by a paragraph that illustrates the principle to be followed in the preparation of the respective disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

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Objective

1. The objective of this [draft] Standard is to specify disclosure requirements which will enable users of the sustainability statements to understand:
 - (a) how the undertaking affects workers in its value chain through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential impacts;
 - (b) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
 - (c) the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the undertaking manages them; and
 - (d) the effects of risks and opportunities, related to the undertaking's impacts and dependencies on workers in the value chain, on the undertaking's development, performance and position over the short-, medium- and long-term and, therefore, on its ability to create enterprise value.
2. In order to meet the objective, this [draft] Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on value chain workers in relation to:
 - (a) working conditions (including secure employment, working time, adequate wages, social dialogue, freedom of association, existence of work councils, collective bargaining, work-life balance and health and safety);
 - (b) access to equal opportunities (including gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of people with disabilities, measures against violence and harassment in the workplace, and diversity);
 - (c) other human rights (e.g. child labour and forced labour, privacy, adequate housing).
3. This [draft] Standard derives from the draft CSRD stating that the sustainability reporting standards shall specify the information that undertakings are to disclose about social and human rights factors in relation to workers in the value chain.
4. This [draft] Standard also requires an explanation of how such impacts, as well as the undertaking's dependencies on value chain workers, can create material financial risks or opportunities for the undertaking. For example, negative impacts on value chain workers may disrupt an undertaking's operations (through customers refusing to buy its products or state agencies impounding its goods) and harm its reputation. Conversely, respect for workers' rights and active support programmes, (for example through financial literacy initiatives), can bring business opportunities, such as more reliable supply or widening of the future consumer base.
5. This [draft] Standard covers all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "own workforce" ("own workforce" includes employees, individual contractors, i.e., self-employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities'). Own workforce is covered in ESRS S1 Own workforce.

Interaction with other ESRS

6. This [draft] Standard shall be read in conjunction with ESRS 1 General Requirements, and ESRS 2 General Disclosures, as well as the ESRS S1 Own workforce, ESRS S3 Affected communities and ESRS S4 Consumers and end-users.
7. The reporting under this [draft] Standard shall be consistent, coherent and where relevant clearly linked with reporting on the undertaking's own workforce under ESRS S1, in order to ensure effective reporting.

Disclosure Requirements

General Requirements

8. The provisions of this [draft] Standard shall be read in conjunction with and reported alongside the disclosure required by ESRS 2.
9. Appendix B of this [draft] Standard contains specific application guidance to report on workers in the value chain that the undertaking shall follow when disclosing information under ESRS 2, in particular with regards to:
 - (a) the interaction between material impacts, risks and opportunities and the strategy and business model as per ESRS 2 Disclosure Requirements SBM 2, and 4; and
 - (b) the outcome of the assessment of material sustainability impacts, risks and opportunities as per ESRS 2 Disclosure Requirements IRO-2.

Policies, targets, action plans and resources

Disclosure Requirement S2-1 – Policies related to value chain workers

10. **The undertaking shall describe its policies that address the management of its material impacts on value chain workers, as well as associated material risks and opportunities; and provide a summary of the content of the policies¹.**
11. The objective of this Disclosure Requirement is to allow an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on value chain workers specifically, as well as policies that cover material risks or opportunities related to value chain workers.
12. The disclosure required by paragraph 11 shall contain the summarised information on the undertaking's implemented policies to manage its material impacts, risks and opportunities related to workers in the value chain (as required by ESRS 2 Disclosure Guideline IRO-DG 1 On policies adopted to manage material sustainability matters). In addition, the undertaking shall specify if such policies cover specific groups or all workers in the value chain.

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #11 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises").

13. The undertaking shall describe human rights policy commitments that are relevant to value chain workers, including policies to monitor compliance with the UN Global Compact principles and OECD Guidelines for Multinational Enterprises, as well as those that address²:
 - (a) respect for the human rights, including labour rights, of workers;
 - (b) engagement with value chain workers; and
 - (c) measures to provide and/or enable remedy for human rights impacts.
14. The undertaking shall also state whether its policies in relation to value chain workers explicitly address trafficking in human beings, forced or compulsory labour and child labour. It shall also state whether the undertaking has a supplier code of conduct³.
15. The undertaking shall disclose the extent of the alignment of its policies with internationally recognised standards relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights, the standards set out in Universal Declaration of Human Rights and the two Covenants that implement it, as well as the International Labour Organisation's Declaration on Fundamental Rights and Principles at Work and the core conventions that underpin it. The undertaking shall also disclose the extent to which violations in relation to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises that involve workers in the value chain have been reported in its upstream and downstream value chain and, if applicable, an indication of these⁴.
16. The summary shall state if any material impacts are not covered by or addressed in any relevant policy and explain any plans it has to address the gap. When preparing this disclosure, the undertaking shall consider whether severe human rights issues and incidents connected to its upstream and downstream value chain have been reported and, if applicable, disclose these⁵.

Disclosure Requirement S2-2 – Processes for engaging with value chain workers about impacts

17. **The undertaking shall explain its general processes for engaging with value chain workers and their representatives about actual and potential material impacts on them.**
18. The objective of this Disclosure Requirement is to allow an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with value chain workers and their legitimate representatives, or with credible proxies, about material actual and potential positive and/or negative impacts that do or may affect them, and whether and how perspectives

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #9 and #11 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively "Lack of a human rights policy" and "Lack of processes and measures for preventing trafficking in human beings").

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #4 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of a supplier code of conduct").

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises").

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #14 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").

of value chain workers are taken into account in the decision-making processes of the undertaking.

19. The undertaking shall disclose whether and how the perspectives of value chain workers inform its decisions or activities aimed at managing the actual and potential material impacts on value chain workers. This shall include, where relevant, an explanation of:
 - (a) whether engagement occurs with value chain workers or their legitimate representatives, or with credible proxies that have insight into their situation;
 - (b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of the engagement;
 - (c) the most senior role within the undertaking that has operational responsibility for ensuring that this engagement happens and the results inform the undertaking's approach;
 - (d) where applicable, Global Framework Agreements or other agreements that the undertaking has with global union federations related to the respect of human rights of workers in the value chain, including their right to bargain collectively, and including an explanation of how the agreement enables the undertaking to gain insight into those workers' perspectives, where applicable; and
 - (e) where applicable, how the implementation of and, where relevant, outcomes from engagements are monitored.
20. Where applicable, the undertaking shall explain the steps it takes to gain insight into the perspectives of workers that may be particularly vulnerable to impacts and/or marginalised (for example, women workers, migrant workers, workers with disabilities).
21. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with workers in the value chain, it shall disclose this to be the case. It may report a timeframe in which it aims to have such a process to be in place.

Disclosure Requirement S2-3 – Processes to remediate negative impacts and channels for value chain workers to raise concerns

22. **The undertaking shall describe the process it has in place to provide for or cooperate in the remediation of negative impacts on workers in the value chain that the undertaking has identified it has caused or contributed to, as well as channels available to value chain workers to raise concerns.**
23. The objective of this Disclosure Requirement is to allow an understanding of the formal means by which value chain workers can make their concerns and needs known directly to the undertaking and/or through which the undertaking supports the availability of grievance mechanisms in the workplace of value chain workers, how follow up is performed with these workers regarding the issues raised and the effectiveness of these channels.
24. The undertaking shall describe:
 - (a) the channels it has in place for value chain workers to raise their concerns or needs directly with the undertaking, including whether these are established by the undertaking itself or through participation in external mechanisms;
 - (b) its processes through which the undertaking supports or requires the availability of such channels through the workplace of value chain workers;
 - (c) its broader approach to and processes for providing or contributing to remedy where it has identified that it has caused or contribute to a material adverse impact on value chain workers; and

- (d) how it tracks and monitors issues raised and addressed, and, how it ensures the effectiveness of the mechanisms, including through involvement of stakeholders who are the intended users.
- 25. The undertaking shall explain whether and how it assesses that value chain workers are aware of and trust these structures or processes as a way to raise their concerns or needs and have them addressed. In addition, the undertaking shall explain whether the undertaking has policies in place regarding the protection of individuals that use them against retaliation.⁶
- 26. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of mechanisms in the workplace of value chain workers, it shall disclose this to be the case. It may report a timeframe in which it aims to have such a channel or processes to be in place.

Disclosure Requirement S2-4 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

- 27. **The undertaking shall explain the time-bound and outcome-oriented targets related to:**
 - (a) reducing negative impacts on value chain workers; and/or
 - (b) advancing positive impacts on value chain workers; and/or
 - (c) managing material financial risks and opportunities related to value chain workers.
- 28. The objective of this Disclosure Requirement is to allow an understanding of the extent to which the undertaking is using time-bound and outcome-oriented targets to drive and measure its progress in addressing negative impacts, and/or advancing positive impacts, on value chain workers, and/or in managing material risks and opportunities related to value chain workers.
- 29. The summary of the description of the targets to manage its material impacts, risks and opportunities on workers in the value chain shall contain the information requirements defined in ESRS 2 Disclosure Guideline MT-DG1 On Targets, progress and tracking effectiveness..
- 30. The undertaking shall disclose the process for setting the targets, including whether and how the undertaking engaged directly with workers in the value chain, their legitimate representatives, or with credible proxies that have insight into their situation in:
 - (a) setting any such targets;
 - (b) tracking the undertaking's performance against them; and
 - (c) where applicable, identifying any lessons or improvements as a result of the undertaking's performance.

⁶ This information indirectly and for certain elements supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #6 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Insufficient whistle-blower protection").

Disclosure Requirement S2-5 – Taking action on material impacts on value chain workers, and approaches to mitigating material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions

31. The undertaking shall disclose its approaches to taking action on material impacts on value chain workers, and to mitigating material risks and pursuing material opportunities related to value chain workers and effectiveness of those actions.
32. The objective of this Disclosure Requirement is twofold. First, it is to allow an understanding of the actions and types of processes, initiatives or engagements through which the undertaking,
- (a) works to prevent, mitigate and remedy the adverse material impacts on value chain workers,
 - (b) seeks to achieve positive material impacts for value chain workers; while
 - (c) recognising that in both instances, the ultimate aim is to deliver improved outcomes in value chain workers' lives.
- Second, to provide an understanding of the ways in which the undertaking is addressing the material risks and pursuing the material opportunities related to workers in the value chain.
33. In relation to material impacts, the undertaking shall explain:
- (a) what action is planned or underway to prevent, mitigate or remedy material negative impacts on value chain workers that are connected to its operations, products or services;
 - (b) any additional initiatives or processes it has in place with the primary purpose of delivering positive impacts for value chain workers; and
 - (c) how it tracks and assesses the effectiveness of these actions, programmes and processes in delivering intended outcomes for value chain workers.
34. In relation to paragraph 32, the undertaking shall describe its approaches to:
- (a) identifying what action is needed and appropriate in response to a particular actual or potential material negative impact;
 - (b) taking action in relation to specific material negative impacts on value chain workers, including any action in relation to its own purchasing or other internal practices, as well as capacity-building or other forms of engagement with entities in the value chain, or forms of collaborative action with industry peers or other relevant parties; and
 - (c) ensuring that processes to provide or enable remedy in the event of negative impacts are available and effective in their implementation and outcomes.
35. In relation to material risks and opportunities, the undertaking shall describe:
- (a) what action is planned or underway to mitigate material risks for the undertaking arising from its impacts and dependencies on value chain workers and how it tracks effectiveness in practice; and
 - (b) what action is planned or underway to pursue material opportunities for the undertaking in relation to value chain workers.
36. The undertaking shall disclose whether and how it ensures that its own practices do not cause or contribute to material negative impacts on value chain workers, including, where relevant, its practices in relation to procurement, sales and data use. This may include explaining what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

37. The summary of the description of the action plans and resources to manage its material impacts, risks and opportunities on workers in the value chain shall contain the information requirements defined in ESRS 2 Disclosure Guideline IRO-DG2 On Action plans and resources in relation to policies and targets. In addition, the undertaking shall describe the approaches and processes through which it tracks the effectiveness of the actions it takes to address impacts.
38. In the event of actual material negative impacts on workers in the value chain during the reporting period, the undertaking shall explain whether and how it has taken action to provide or enable remedy in relation to the actual material impact (to the extent of its contribution).

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Appendix A: Defined terms

This appendix is an integral part of the [draft] ESRS S2 Workers in the value chain.

Affected stakeholders	An individual or group that has been or may be affected by a reporting undertaking's operations, products or services, including through its value chain.
Credible proxies	Individuals with sufficiently deep experience in engaging with affected stakeholders from a particular region or context (for example, women workers on farms, indigenous peoples or migrant workers) who can help to effectively convey their likely concerns. In practice, this can include development and human rights NGOs, international trade unions and local civil society, including faith-based organisations.
Legitimate representatives	Individuals recognised as such under law or practice, such as elected trade union representatives in the case of workers, or other similarly freely chosen representatives of affected stakeholders.
Leverage	The ability of an undertaking to effect a change in the wrongful practices of another party that is causing or contributing to an adverse human rights impact.
Stakeholder engagement	An ongoing process of interaction and dialogue between an undertaking and its stakeholders that enables the undertaking to hear, understand and respond to their interests and concerns.
Supplier	Entity upstream from the organisation (i.e., in the organisation's supply chain), which provides a product or service that is used in the development of the organisation's own products or services. A supplier can have a direct business relationship with the organisation (often referred to as a first-tier supplier) or an indirect business relationship.
Worker in the value chain	An individual performing work in the value chain of an undertaking, regardless of the existence or nature of any contractual relationship with that undertaking. In the ESRS, the following is included in the scope of workers in the value chain: all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted in connection with the

	<p>undertaking's products, services and activities. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "Own Workforce" ("Own Workforce" includes workers who are in an employment relationship with the undertaking ('employees') and non-employee workers who are either individual contractors supplying labour to the undertaking ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities' (NACE Code N78)).</p> <p>Examples of Workers in the Value Chain:</p> <ul style="list-style-type: none">- Workers of a supplier contracted by the undertaking who work on the supplier's premises using the supplier's work methods;- A worker for a 'downstream' firm which purchases goods or services from the undertaking;- Workers of an equipment supplier to the undertaking who, at a workplace controlled by the undertaking, perform regular maintenance on the supplier's equipment (e.g., photocopier) as stipulated in the contract between the equipment supplier and the undertaking.
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Appendix B: Application Requirements

This appendix is an integral part of the [draft] ESRS S2 Workers in the value chain. It describes the application of the requirements set for in paragraphs 8-38 and has the same authority as the other parts of this [draft] ESRS S2 Standard.

Objective

- AR 1. The undertaking may highlight special issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of workers in the value chain during a pandemic.

ESRS 2 General Disclosures

Workers in the value chain-related specific application guidance on ESRS 2 Disclosure Requirement SBM 5 (paragraphs 51 (a; b)) on Interests and expectations of stakeholders

- AR 2. The Section on ESRS 2 Disclosure Requirements SBM 5 require the undertaking to provide an understanding of if and how it considers whether its business model and strategy play a role in creating, exacerbating or (conversely) mitigating significant material impacts on value chain workers, and whether and how the business model and strategy are adapted to address such material impacts.
- AR 3. When responding to ESRS 2 Disclosure Requirement SBM 5 paragraphs 51 (a) and (b), the undertaking shall explain how the views, interests, rights and expectations of (actual or potential) materially affected value chain workers, including respect for their human (including labour) rights, inform its strategy and business model. Value chain workers are a key group of affected stakeholders.
- AR 4. While value chain workers will often not be engaging with an undertaking at the level of its strategy or business model, their views can inform the undertaking's assessment of its strategy and business model. Where possible, the undertaking shall also report on the views of the (actual or potential) materially affected value chain workers' legitimate representatives (trade unions or works councils) or those of credible proxies that have insight into their situation.

Workers in the value chain-related specific application guidance on ESRS 2 Disclosure Requirement SBM 4 (paragraph 46 (a) to (c)) on Material impacts, risks and opportunities and their interaction with strategy and business models

- AR 5. When responding to ESRS 2 Disclosure Requirement SBM 3 paragraphs 46 (a) to (c), the undertaking shall explain whether and how actual and potential impacts on value chain workers as identified in ESRS 2 Disclosure Requirements IRO 1 and 2 (a) originate from or are connected to, and (b) inform and contribute to adapting, the undertaking's strategy and business model(s). Impacts on value chain workers can originate in an undertaking's business model or strategy in a number of different ways. For example, impacts may relate to the undertaking's value proposition (e.g., providing lowest cost products or services, or high-speed delivery, in ways that put pressure on labour rights in the upstream or downstream value chain), its value chain (e.g., relying on commodities of unclear provenance, without visibility to impacts on workers), or its cost structure and the revenue model (e.g., shifting inventory risk to suppliers, with knock-on effects on the labour rights of their workers).
- AR 6. Impacts on value chain workers that originate in the business model or strategy can also bring material risks to an undertaking. For example, in the context of a pandemic or other severe health crisis, undertakings that rely on contingent labour with little to no access to sick care and health benefits may face severe operational and business continuity risks as workers have no choice but to keep working while sick, further exacerbating the spread of the disease and causing major supply chain breakdowns. Or where selling goods premised on cheapest prices for customers create

operational risks as suppliers under extreme price pressure may sub-contract production, leading to lower quality, and a longer, less transparent, and less controllable supply chain. Reputational and business opportunity risks linked to the exploitation of low-skilled, low-paid workers in sourcing geographies with minimal protections for them are also increasing with media backlash and consumer preferences moving to more ethically sourced or sustainable goods.

Workers in the value chain related-specific application guidance on ESRS 2 Disclosure Requirement IRO 2 on Material information covered by the undertaking's sustainability report

AR 7. The undertaking shall explain connections between impacts on its own workforce (ESRS S1) and impacts on workers in the value chain (ESRS S2) to provide an understanding of the similarities and differences.

AR 8. The undertaking shall disclose in the scope of its reporting under ESRS 2 whether all value chain workers who can be significantly impacted through the undertaking's own operations or in its upstream or downstream value chain by a business relationship related to the undertaking's products, services and activities are included in the scope of its reporting under ESRS 2. When responding to ESRS 2 Disclosure Requirement IRO 2 paragraph 61, the undertaking shall provide the following information:

- (a) a brief description of the types of workers subject to material impacts by its operations or through its upstream and downstream value chain, and specify whether they are:
 - i. workers whose work and/or workplace is controlled by the undertaking but who are not employees, individual contractors, i.e. self-employed workers, or workers provided by third party undertakings primarily engaged in employment activities (covered through ESRS S1);
 - ii. workers working for entities in the undertaking's upstream value chain (e.g., those involved in the extraction of metals or minerals or harvesting of commodities, in refining, manufacturing or other forms of processing);
 - iii. workers working for entities in the undertaking's downstream value chain (e.g., those involved in the activities of logistics or distribution providers, franchisees, retailers);
 - iv. workers working in the operations of a joint venture or special purpose vehicle involving the reporting undertaking;
 - v. workers who (within the prior categories or additionally) are particularly vulnerable to negative impacts whether due to inherent characteristics or to the particular context, such as trade unionists, migrant workers, home workers, women or young workers.
- (b) any geographies (at country level or other levels) or commodities for which there is a significant risk of child labour, or of forced or compulsory labour, among workers in its value chain. If this is not considered a material impact for the undertaking, it shall explain why⁷;
- (c) in the case of negative impacts, whether they are widespread or systemic in contexts where the undertaking operates or has sourcing or other business relationships (e.g., child labour or forced labour in particular commodity supply chains in specific countries or regions), or whether they are related to individual incidents (e.g., an industrial accident or an oil spill) or to specific business relationships. This includes consideration of impacts for workers in the value chain that may arise from the transition to greener and climate-neutral operations.

⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting additional indicators related to principal adverse impacts as set out by indicators #12 and #13 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively "Operations and suppliers at significant risk of incidents of child labour" and "Operations and suppliers at significant risk of incidents of forced or compulsory labour").

Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased transition mineral mining, solar panel production etc.;

- (d) in the case of positive impacts, a brief description of the activities that result in the positive impacts (e.g., updated purchasing practices, capacity-building to supply chain workers), including providing opportunities for the workforce such as job creation and upskilling in the context of a 'just transition', and the types of value chain workers that are positively affected or could be positively affected, including their geographic location; and
- (e) any material risks and opportunities for the undertaking arising from impacts and dependencies on value chain workers.

AR 9. In describing the main types of value chain workers negatively affected following the process set out in ESRS 2 Disclosure Requirement IRO 1, the undertaking shall explain how it has developed an understanding of how workers with particular characteristics, those working in particular contexts, or those undertaking particular activities may be at greater risk of harm. For example, this may be because workers are young and may be more susceptible to impacts on their physical and mental development, or they are women workers in a context where women are routinely discriminated against in the terms and conditions of work, or they are migrant workers in a context where the market for the supply of labour is poorly regulated and workers are routinely charged recruitment fees. For some workers, the inherent nature of the activity that they are required to undertake may put them at risk (e.g., workers required to handle chemicals or operate certain equipment or low paid workers who are on "zero hours" contracts).

AR 10. In describing the material financial risks and opportunities for the undertaking arising from impacts and dependencies on value chain workers, the undertaking shall explain which, if any, of those material risks and opportunities arise from its material positive or negative impacts on value chain workers. This could be because a material impact on value chain workers could affect the undertaking's future cash flows, for example, if some workers in the undertaking's value chain are at risk of forced labour, and the undertaking is importing products into countries where the law allows for the confiscation of imported goods that are suspected of being made with forced labour.

AR 11. The business risks, which can lead to material financial risks, could also arise because of the undertaking's dependency on value chain workers where low likelihood but high impact events may affect the undertaking's future cash flows, for example, where a global pandemic leads to severe health impacts on workers at all stages of the value chain resulting in major disruptions to production and distribution. Other examples of business risk related to the undertaking's dependency on value chain workers include a shortage in skilled workers or political decisions or legislation affecting value chain workers working for logistics providers.

Disclosure Requirements

Disclosure Requirement S2-1 – Policies related to value chain workers

AR 12. If the policies are limited to the undertaking's own workforce and do not cover workers in upstream and downstream entities and relationships, they shall be disclosed under ESRS S1 and not in relation to this requirement.

AR 13. If reporting under ESRS S1 includes information relevant for workers in the value chain, a reference to this can be made here; reporting on the remaining elements shall then be fulfilled under this Disclosure Requirement.

AR 14. The summary shall include the key information necessary to ensure a faithful representation of the policies in relation to value chain workers and, therefore, the undertaking shall consider disclosing explanations of significant changes to the policies adopted during the reporting year (e.g., new expectations for suppliers, new or additional approaches to due diligence and remedy).

- AR 15. The policy may take the form of a stand-alone policy regarding value chain workers or be included in a broader document such as a code of ethics or a general sustainability policy that has already been disclosed by the undertaking as part of another ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy that satisfy the requirements of this Disclosure Requirement.
- AR 16. When explaining how external-facing policies are embedded, undertakings may, for example, consider internal policies of responsible sourcing, and alignment with other policies relevant to value chain workers, for example, regarding forced labour. With regard to supplier codes of conduct that the undertaking may have, the summary shall indicate whether they include provisions addressing the safety of workers, including precarious work (i.e. use of workers on short-term or limited hours contracts, workers employed via third parties, sub-contracting to third parties or use of informal workers), human trafficking, the use of forced labour or child labour, and whether such provisions are fully in line with applicable ILO standards.
- AR 17. As an illustration of the types of communication of its policies to those individuals, group of individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's employees, contractors and suppliers), or because they have a direct interest in their implementation (for example, value chain workers, investors), to help ensure that the policy is accessible and that they understand its implications, the undertaking may disclose communication tools and channels (e.g., flyers, newsletters, dedicated websites, social media, face to face interactions, unions and/or workers representatives) and / or the identification and removal of potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

Disclosure Requirement S2-2 – Processes for engaging with value chain workers about impacts

- AR 18. Legitimate representatives who have knowledge of the interests, experiences or perspectives of value chain workers could include trade unions and worker representatives. Credible proxies could include expert organisations working on specific issues such as forced labour or child labour in local contexts.
- AR 19. When describing what position or function has operational responsibility for such engagement and/or ultimate accountability, and whether it requires certain skills of, or provides training or capacity-building for, relevant staff to undertake engagement, the undertaking may disclose whether this is a dedicated role or function or part of a broader role or function. If it cannot identify such a position or function, it may state so. This disclosure could also be fulfilled with reference to ESRS 2 GOV 1.
- AR 20. When preparing the disclosures described in paragraph 19 b) and c), the following illustrations may be considered:
- a. for stage(s) at which engagement occurs, examples could be in determining mitigation approaches or in evaluating their effectiveness;
 - b. for type of engagement, these could be participation, consultation and/or information;
 - c. for the frequency of the engagement, information may be provided on whether engagement occurs on a regular basis, at certain points in a project or business process, for example, when a new harvest season begins or a new production line is opened), as well as whether it occurs in response to legal requirements and/or in response to stakeholder requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes; and
 - d. for the role with operational responsibility, whether it requires certain skills of, or provides training or capacity building to relevant staff to undertake engagement.

- AR 21. Global Framework Agreements (GFA) serve to establish an ongoing relationship between a multinational enterprise and a Global Union Federation to ensure that the company adheres to the same standards in every country in which it operates.
- AR 22. To illustrate how the perspectives of value chain workers have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

Disclosure Requirement S2-3 – Processes to remediate negative impacts and channels for value chain workers to raise concerns

- AR 23. In fulfilling the requirements set out by the disclosure criteria of ESRS S2-3, undertakings may be guided by the content of the UN Guiding Principles on Business and Human Rights and OECD Guidelines for Multinational Enterprises focused on remediation and grievance mechanisms.
- AR 24. To provide greater insight into the information covered in the Disclosure Requirement, undertakings may provide insight into whether and how value chain workers that may be affected are able to access channels at the level of the undertaking they are employed by, or contracted to work for, in relation to each material impact.
- AR 25. Channels for raising concerns or needs, include grievance mechanisms, hotlines, trade unions (where workers are unionised), dialogue processes or other means through which value chain workers or their legitimate representatives can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where the value chain workers are working, and are to be reported in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on workers, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its business relationships to answer this requirement, it may state that.
- AR 26. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. With regard to the scope of these mechanisms, undertakings may disclose whether these are accessible to all workers who may be potentially or actually materially impacted by the undertaking, or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of adverse impacts), and through which value chain workers (or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of adverse impacts), can raise complaints or concerns related to the undertaking's own activities.
- AR 27. In relation to the protection of individuals that use the mechanisms against the retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights of privacy and data protection; and whether they allow for workers to use them anonymously (for example, through representation by a third party). In relation to the protection of individuals that use the mechanisms against the retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights of privacy and data protection; and whether they allow for workers to use them anonymously (for example, through representation by a third party).
- AR 28. In explaining whether and how the undertaking knows that value chain workers are aware of and trust any of these channels, the undertaking may provide relevant and reliable data about the effectiveness of these channels from the perspective of value chain workers themselves. Examples of sources of information are surveys of workers that have used such channels and their levels of satisfaction with the process and outcomes.
- AR 29. In describing the effectiveness of channels for value chain workers to raise concerns, the undertaking may be guided by the following questions, based on the “effectiveness criteria for nonjudicial grievance mechanisms”, as laid out in the UN Guiding Principles on Business and Human Rights. The below considerations may be applied to individual channels or to a collective system of channels:

- (a) do the channels hold legitimacy by providing appropriate accountability for their fair conduct and building stakeholder trust?
- (b) are the channels known and accessible to stakeholders?
- (c) do the channels have clear and known procedures, with indicative timeframes?
- (d) do the channels ensure reasonable access for stakeholders to sources of information, advice and expertise?
- (e) do the channels offer transparency by providing sufficient information both to complainants and, where applicable, to meet any public interest?
- (f) do outcomes achieved through the channels accord with internationally recognised human rights?
- (g) does the undertaking identify insights from the channels that support continuous learning in both improving the channels and preventing future impacts?
- (h) does the undertaking focus on dialogue with complainants as the means to reach agreed solutions, rather than seeking to unilaterally determine the outcome?

For more information, see Principle 31 of the UN Guiding Principles on Business and Human Rights.

Disclosure Requirement S2-4 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

- AR 30. When disclosing the targets, the undertaking shall consider disclosing, where applicable:
- (a) the intended outcomes to be achieved in the lives of a certain number of value chain workers;
 - (b) that these are measurable/verifiable;
 - (c) their stability over time in terms of definitions and methodologies to allow for continuity in the datapoints derived from the targets; and/or
 - (d) standards or commitments which the targets are based on shall also be clearly defined in the reporting (for instance code of conducts, sourcing policies, global frameworks or industry codes).
- AR 31. Any targets reported related to impacts shall clearly relate to the intended outcomes to be achieved in the lives of a certain number of value chain workers. Targets related to risks and opportunities may be the same as or distinct from targets tied to impacts. Therefore, no distinction is to be made per se, but what the target is aiming at shall be disclosed (i.e. impact and/or risks and opportunities). For example, a target to reach living wages for supply chain workers could both reduce impacts on those workers and reduce associated business risks in terms of the quality and reliability of supply.
- AR 32. The undertaking may also distinguish between short, medium and long-term targets covering the same policy commitment. For example, an undertaking may have a long-term target to achieve an 80% reduction in health and safety incidents affecting its delivery drivers by 2030 and a near-term target to reduce the overtime hours of delivery drivers by x% while maintaining their income by 2024.
- AR 33. When modifying or replacing a target in the reporting period, the undertaking may explain the change by linking it to significant changes in the business model or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information.

Disclosure Requirement S2-5 – Taking action on material impacts, and approaches to mitigating material financial risks and pursuing material financial opportunities related to value chain workers, and effectiveness of those actions and approaches

- AR 34. The undertaking may provide contextual information as time lags may arise (for example, it may take time to understand negative impacts and how the undertaking may be involved with them through its value chain, as well as to identify appropriate responses and put them into practice). Therefore, the undertaking shall consider disclosing:
- (a) its general and specific approaches to addressing material negative impacts;
 - (b) its initiatives aimed at contributing to additional material positive impacts;
 - (c) how far it has progressed in its efforts during the reporting period; and
 - (d) its aims for continued improvement.
- AR 35. Appropriate action will vary according to whether the undertaking causes or contributes to a material impact, or whether it is involved because the impact is directly linked to its operations, products or services by a business relationship.
- AR 36. Given that material negative impacts affecting value chain workers that have occurred during the reporting period may not be caused or contributed to by the undertaking alone and may be linked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use its leverage with relevant business relationships to manage those impacts. This may include using commercial leverage (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing training or capacity-building on workers' rights to business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible recruitment or ensuring workers receive a living wage).
- AR 37. When the undertaking reports on its participation in an industry or multi-stakeholder initiative as part of its actions to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may report under ESRS S2- 4 Disclosure Requirement regarding any relevant targets set by the initiative and progress towards them.
- AR 38. When disclosing whether and how it considers actual and potential impacts on value chain workers in decisions to terminate business relationships and whether and how it seeks to address any negative impacts that may result from termination, the undertaking may include examples. In explaining how it tracks the effectiveness of its actions to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.
- AR 39. Processes used to track the effectiveness of actions can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, grievance mechanisms, external performance ratings, and benchmarking.
- AR 40. Sound reporting on effectiveness enables the understanding of the links between actions taken by an undertaking and the effective management of impacts. For example, to show the effectiveness of its actions to support its suppliers with improving their working conditions, the undertaking may report survey feedback from the suppliers' workers showing that working conditions have improved since the time the undertaking began working with those suppliers. Additional information that the undertaking may provide includes data showing a decrease in the number of incidents identified through for instance independent audits.
- AR 41. With regards to initiatives or processes the undertaking has in place that are based on affected workers' needs and their level of implementation, undertakings may disclose:

- (a) information about whether and how value chain workers and legitimate representatives or their credible proxies play a role in decisions regarding the design and implementation of these programmes or processes; and
- (b) information about the intended or achieved positive outcomes for value chain workers of these initiatives or processes.

AR 42. The undertaking may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for value chain workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 8 to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” the undertaking may be providing capacity-building to smallholders in its supply chain, resulting in increases in their income; or it may be supporting training to increase the proportion of women able to take delivery jobs in its downstream value chain.

AR 43. When reporting on the intended or achieved positive outcomes of its actions for value chain workers a distinction is to be made between evidence of certain activities having occurred (e.g., that x number of workers have received financial literacy training) from evidence of actual outcomes for workers (e.g., that x workers report that they are able to better manage their household budgets so as to meet their savings goals).

AR 44. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, undertakings may e.g. consider programmes that aim to advance women workers’ financial literacy that have resulted in more women being promoted as well as in reports of reduced sexual harassment in the workplace.

AR 45. When disclosing the financial risks and opportunities related to an undertaking’s impacts or dependencies on value chain workers, the undertaking may consider the following business risks that could lead into financial risks and:

- (a) business risks related to an undertaking’s impacts on value chain workers might include the reputational or legal exposure where value chain workers are found to be subject to forced or child labour;
- (b) business risks related to an undertaking’s dependencies on value chain workers might include the loss of business continuity where a pandemic closes significant parts of its supply chain or distribution network;
- (c) business opportunities related to an undertaking’s impacts on value chain workers might include market differentiation and greater customer appeal from guaranteeing decent pay and conditions for its gig workers; and
- (d) business opportunities related to an undertaking’s dependencies on value chain workers might include the achievement of a future sustainable supply of a commodity by ensuring smallholder farmers earn enough to persuade future generations to keep farming that crop.

AR 46. When explaining whether dependencies turn into risks, the undertaking shall consider external developments.

AR 47. When disclosing policies, targets, action plans and resources related to the management of material risks and opportunities, in cases where risks and opportunities arise from a material impact, the undertaking may cross-reference its disclosures on policies, targets, action plans and resources in relation to that impact.

AR 48. The undertaking shall consider the extent to which its processes to manage material risks related to value chain workers are integrated into its existing risk management processes and how.

AR 49. When reporting on resources allocated to the management of material impacts, undertakings may explain which internal functions are involved in managing the impacts and what types of action they take to address negative and advance positive impacts.



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