

## DISCLAIMER

### *General disclaimer for SR TEG public agenda papers*

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as [Draft] ESRS, comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

### *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 S3 Affected communities is set out in paragraphs 1–39 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.

Draft

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## Objective

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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 its local communities, in areas where risks are most likely to be present and most significant, 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 the undertaking's impacts and dependencies on affected communities, and how the undertaking manages them; and
  - (d) the effects of risks and opportunities, related to the undertaking's impacts and dependencies on affected communities, 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, the [draft] Standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on affected communities in relation to:
  - (a) communities' economic, social and cultural rights (e.g. adequate housing, adequate food, water and sanitation, land-related and security-related impacts);
  - (b) communities' civil and political rights (e.g. freedom of expression, freedom of assembly, impacts on human rights defenders); and
  - (c) particular rights of Indigenous communities (e.g. free, prior and informed consent, self-determination, cultural rights).
3. The [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 affected communities and indigenous peoples specifically.
4. The [draft] Standard also requires an explanation of how such impacts, as well as the undertaking's dependencies on local communities, can create material risks or opportunities for the undertaking. For example, negative relationships with local communities may disrupt an undertaking's operations or harm its reputation, while constructive relationships can bring business benefits, such as stable and conflict-free operations and a greater ease of recruiting locally.

## Interaction with other ESRS

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5. 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 S2 Workers in the value chain and ESRS S4 Consumers and end-users.

## Disclosure requirements

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### *General Requirements*

6. The provisions of this [draft] Standard shall be read in conjunction with and reported alongside the disclosure required by ESRS 2.

7. Appendix B of this [draft] Standard contains specific application guidance to report on affected communities 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 S3-1 – Policies related to affected communities***

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8. **The undertaking shall describe its policies that address the management of its material impacts on communities, as well as associated material risks and opportunities; and provide a summary of the content of the policies<sup>1</sup>.**
9. 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 local communities specifically, as well as policies that cover material risks or opportunities related to affected communities.
10. The disclosure required by paragraph 9 shall contain the summarised information on the undertaking's implemented policies to manage its material impacts, risks and opportunities related to affected communities (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 affected communities.
11. The undertaking shall highlight any particular policy provisions for preventing and addressing impacts on Indigenous communities.
12. The undertaking shall describe human rights policy commitments that are relevant to communities, including policies to monitor compliance with the UN Global Compact principles and OECD Guidelines for Multinational Enterprises, as well as those that address<sup>2</sup>:
  - (a) respect for the human rights of communities, and indigenous peoples specifically;
  - (b) engagement with affected communities; and
  - (c) measures to provide and/or enable remedy for human rights impacts.
13. The undertaking shall disclose the extent of the alignment of its policy or policies with internationally recognised standards relevant to communities and indigenous peoples specifically, 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 UN Declaration on the Rights of Indigenous Peoples and/or International Labour Organisation's Convention concerning Indigenous and Tribal Peoples (ILO No. 169). The undertaking shall also

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<sup>1</sup> 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").

<sup>2</sup> 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 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").

disclose the extent to which violations in relation to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises that involve affected communities have been reported in its upstream and downstream value chain and, if applicable, an indication of these<sup>3</sup>.

14. 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 affected communities have been reported and, if applicable, disclose these<sup>4</sup>.

### ***Disclosure Requirement S3-2 – Processes for engaging with affected communities about impacts***

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15. **The undertaking shall explain its general processes for engaging with affected communities and their representatives about actual and potential material impacts on them.**
16. 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 affected communities, 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 of affected communities are taken into account in the decision-making processes of the undertaking.
17. The undertaking shall explain whether and how the perspectives of affected communities inform its decisions or activities aimed at managing actual and potential material impacts on communities. This shall include, where relevant, an explanation of:
  - (a) whether engagement occurs with affected communities or their legitimate representatives directly, 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 this engagement happens and the results inform the undertaking's approach; and
  - (d) where applicable, how the implementation of, and, where relevant, outcomes from engagements are monitored.
18. Where affected communities are indigenous peoples, the undertaking shall also explain how it takes into account and ensures respect of their particular rights in its stakeholder engagement approach, including their right to free, prior and informed consent with regard to their cultural, intellectual, religious and spiritual property; activities affecting their lands and territories; and legislative or administrative measures that affect them.
19. If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with affected communities, 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.

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<sup>3</sup> 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").

<sup>4</sup> 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").

***Disclosure Requirement S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns***

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20. **The undertaking shall describe the process it has in place to provide for or cooperate in the remediation of negative impacts on affected communities that the undertaking has identified it has caused or contributed to, as well as channels available to affected communities to raise concerns.**
21. The objective of this Disclosure Requirement is to allow an understanding of the formal means by which affected communities can make their concerns and needs known directly to the undertaking, and/or through which the undertaking supports the availability of grievance mechanisms by its business relationships, how follow up is performed with these communities regarding the issues raised, and the effectiveness of these channels.
22. The undertaking shall describe:
- (a) the channels it has in place for affected communities 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 by its business relationships;
  - (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 affected communities, including details on ensuring remediation is just, fair, and equitable; 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.
23. The undertaking shall explain whether and how it assesses that affected communities are aware of and trust these structures or processes as a way to raise their concerns or needs and have them addressed, and whether the undertaking has policies in place regarding the protection of individuals that use them against retaliation.<sup>5</sup>
24. 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 by its business relationships, 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 S3-4 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities***

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25. **The undertaking shall explain the time-bound and outcome-oriented targets related to:**
- (a) reducing negative impacts on affected communities; and/or
  - (b) advancing positive impacts on affected communities; and/or
  - (c) managing material financial risks and opportunities related to affected communities.
26. 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

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<sup>5</sup>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”).

addressing negative impacts, and/or advancing positive impacts, on affected communities, and/or in managing material risks and opportunities related to affected communities.

27. The summary of the description of the targets to manage its material impacts, risks and opportunities on affected communities shall contain the information requirements defined in ESRS 2 Disclosure Guideline MT-DG1 On Targets, progress and tracking effectiveness.
28. The undertaking shall disclose the process for setting the targets, including whether and how the undertaking engaged directly with affected communities, 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.

**Disclosure Requirement S3-5 – Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions**

29. **The undertaking shall disclose its approaches to taking action on material impacts on affected communities, and to mitigating material risks and pursuing material opportunities related to affected communities and effectiveness of those actions.**
30. 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 affected communities,
  - (b) seeks to achieve positive material impacts for affected communities; while
  - (c) recognising that in both instances, the ultimate aim is to deliver improved outcomes in affected communities' 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 affected communities.
31. 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 affected communities 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 affected communities; and
  - (c) how it tracks and assesses the effectiveness of these actions, investments and programmes in delivering intended outcomes for affected communities.

32. In relation to paragraph 31, 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 communities, including any action in relation to its own practices regarding land acquisition, planning and construction, operation or closure practices, as well as whether wider industry or collaborative action with other relevant parties will be required; 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.



33. 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 affected communities 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 affected communities.
34. The undertaking shall disclose whether and how it ensures that its own practices do not cause or contribute to material negative impacts on local communities, including, where relevant, its practices in relation to planning, land acquisition and exploitation, finance, extraction or production of raw materials, use of natural resources, and management of environmental impacts. This may include explaining what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.
35. 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.
36. In the event of actual material negative impacts on affected communities 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).

## **Appendix A: Defined Terms**

This appendix is an integral part of the [draft] ESRS S3 Affected communities.

<b>Affected communities</b>	A group living or working in the same area that has been or may be affected by a reporting undertaking's operations or through its value chain. Affected communities can range from those living adjacent to the organisation's operations to those living at a distance. Affected communities includes actually and potentially affected Indigenous peoples.
<b>Indigenous peoples</b>	Indigenous peoples are generally identified as 1) tribal peoples in independent countries whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations; 2) peoples in independent countries who are regarded as indigenous on account of their descent from the populations which inhabited the country, or a geographical region to which the country belongs, at the time of conquest or colonisation or the establishment of present state boundaries and who, irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions.

## **Appendix B: Application Requirements**

This appendix is an integral part of the [draft] ESRS S3 Affected communities. It describes the application of the requirements set for in paragraphs 1-36 and has the same authority as the other parts of this [draft] ESRS S3 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 impacts on communities related to the undertaking's operations due to extreme and sudden weather conditions.

### **ESRS 2 General Disclosures**

#### ***Affected communities-related specific application guidance on ESRS 2 Disclosure Requirement SBM 5 (paragraphs 51 (a) and (b)), on Interests and expectations of stakeholders***

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- AR 2. The Section on ESRS 2 Disclosure Requirement SBM 5 requires 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 local communities, 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 local communities, including respect for their human rights (and their rights as indigenous peoples, where applicable), inform its strategy and business model. Local communities are a key group of affected stakeholders.
- AR 4. While local communities 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 local communities' legitimate representatives or those of credible proxies that have insight into their situation.

#### ***Affected communities-related specific application guidance on ESRS 2 Disclosure Requirement SBM 4, (paragraphs 46 (a) to (c)) on Material impacts, risks and opportunities and their interaction with strategy and the business model***

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- AR 5. When responding to ESRS 2 Disclosure Requirement SBM 4 paragraphs 46 (a) to (c), the undertaking shall explain whether and how actual and potential impacts on local communities 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 local communities 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., construction or commencement of projects with timelines that do not allow sufficient time for consultation with groups affected by the projects), its value chain (e.g., land use in countries in which ownership is often contested or records are unreliable or land users such as indigenous groups are unrecognised), or its cost structure and the revenue model (e.g., aggressive strategies to minimise taxation, particularly with respect to operations in developing countries).
- AR 6. Impacts on local communities that originate in the business model or strategy can also bring material risks to an undertaking. For example, if an undertaking's strategy involves moving into higher risk geographies in pursuit of certain commodities, if local communities resist its presence or object to its local practices, this may create extensive and costly delays, and affect the undertaking's ability to secure future land concessions or permits. Similarly, if an undertaking's business model relies on

intensive water extraction at its plants, to the extent of affecting access to water for local communities' consumption, hygiene and livelihoods, this may result in reputationally-damaging boycotts, complaints and lawsuits.

**Affected communities-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 disclose in the scope of its reporting under ESRS 2 whether all affected communities who can be materially 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 communities subject to material impacts by its operations or through its upstream and downstream value chain, and specify whether they are:
  - i. communities directly living or working around the undertaking's operating sites, factories, facilities or other physical operations, or more remote communities affected by activities at those sites (for example by downstream water pollution);
  - ii. communities along the undertaking's value chain (for example, those affected by the operations of suppliers' facilities or by the activities of logistics or distribution providers);
  - iii. communities at one or both endpoints of the value chain (for example, at the point of extraction of metals or minerals or harvesting of commodities, or communities around waste or recycling sites);
  - iv. communities of indigenous peoples;
- (b) 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., marginalised populations suffering impacts on their health and quality of life in a highly industrialised area), or whether they are related to individual incidents (e.g., a toxic waste spill affecting a community's access to clean drinking water) or to specific business relationships (e.g., a peaceful protest by communities against business operations that was met with a violent response from the undertaking's security services). This includes consideration of impacts for affected communities that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased transition mineral mining, solar panel production etc.;
- (c) in the case of positive impacts, a brief description of the activities that result in the positive impacts (e.g., capacity-building to support more and new forms of local livelihoods) and the types of communities that are positively affected or could be positively affected, including their geographic location; and
- (d) any material risks and opportunities for the business arising from impacts and dependencies on local communities.

AR 8. In describing the main types of communities 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 communities with particular characteristics or those living in particular contexts, or those undertaking particular activities may be at greater risk of harm. For example, this may be because the community is physically or economically isolated and is particularly susceptible to introduced diseases or has limited access to social services and therefore relies on infrastructure set up by the undertaking. It may be because where land worked by women is purchased by the undertaking and payments go to male heads of households, women become further disenfranchised in the community. It may also be because the community is indigenous, and its members seek to

exercise cultural or economic rights to the land owned or used by the undertaking – or by one of its business relationships – in a context where their rights are not protected by the state. Special attention should be given to the intersectionality of characteristics such as ethnicity, socioeconomic status, migrant status and gender that may create overlapping risks of harm for certain communities – or for distinct parts of those communities, since local communities are often heterogeneous in nature.

AR 9. In describing the material financial risks and opportunities for the business arising from impacts and dependencies on local communities, the undertaking shall explain which, if any, of those material risks and opportunities arise from its material positive or negative impacts on local communities. This could be because a material impact on local communities could affect the undertaking's future cash flows, for example, if Indigenous communities have not given their free, prior and informed consent for a project on their lands, and operations must be halted due to protests and blockades.

AR 10. The business risks, which can lead to material financial risks, could also arise because of the undertaking's dependency on local communities where low likelihood but high impact events may affect the undertaking's future cash flows, for example, where a natural disaster leads to a catastrophic industrial accident involving the undertaking's operations, resulting in severe harm to local communities.

## **Disclosure Requirements**

### **Disclosure Requirement S3-1 – Policies related to affected communities**

AR 11. The summary shall include the key information necessary to ensure a faithful representation of the policies in relation to affected communities and, therefore, the undertaking shall consider explanations of significant changes to the policies adopted during the reporting year (e.g., new or additional approaches to engagement, due diligence and remedy).

AR 12. The policy may take the form of a stand-alone policy regarding communities 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 13. When explaining how external-facing policies are embedded, undertakings may, for example, consider internal-facing community engagement and resettlement policies and alignment with other policies relevant to affected communities.

AR 14. 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, joint venture partners), because they have a direct interest in their implementation (for example, communities, investors) or both. 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, community representatives and organisations), 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 S3-2 – Processes for engaging with affected communities about impacts**

AR 15. The undertaking shall explain any steps it takes to gain insight into the perspectives of communities that may be particularly vulnerable to impacts and/or marginalised, and into the perspectives of specific groups within communities, such as women and girls. In particular, the undertaking shall explain how the engagement includes a good faith negotiation with affected Indigenous Peoples to obtain their Free, Prior and Informed Consent (FPIC) where the undertaking affects the lands, territories or resources that Indigenous Peoples customarily own, occupy or

otherwise use; or relocates them from land or territories subject to traditional ownership or under customary use or occupation; or affects or exploits their cultural, intellectual, religious and spiritual property.

AR 16. Where engagement occurs with Indigenous peoples, the undertaking shall also explain whether and how Indigenous peoples have been part of designing the agenda, nature, and timeliness of the engagement.

AR 17. 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 18. When preparing the disclosures described in paragraph 17 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. This includes training on Indigenous People's rights, including on Free, Prior and Informed Consent.

AR 19. 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 20. To illustrate how the perspectives of communities have informed specific decisions or activities of the undertaking, it may provide examples from the current reporting period.

AR 21. Explanations of how the undertaking takes into account and ensures respect of the particular right of Indigenous communities to free, prior and informed consent, include information about processes to consult with Indigenous people to obtain their free prior and informed consent, including all processes carried out in the previous financial year and any planned processes; as well as information on any legal disputes related to land rights and free prior and informed consent.

### ***Disclosure Requirement S3-3 – Processes to remediate negative impacts and channels for affected communities to raise concerns***

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AR 22. In fulfilling the requirements set out by the disclosure criteria of ESRS S3-3, 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 23. To provide greater insight into the information covered in the Disclosure Requirement, undertakings may provide insight into whether and how communities 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. Relevant insights include information on whether affected

communities can access channels in a language they understand, and whether they have agreed to such channels.

AR 24. Channels for raising concerns or needs, include grievance mechanisms, hotlines, dialogue processes or other means through which affected communities or their legitimate representatives can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include channels provided by the undertaking directly, and is to be reported in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on communities, 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 25. 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 affected communities 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 affected communities (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 26. 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 communities 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 communities to use them anonymously (for example, through representation by a third party).

AR 27. When reporting on processes to provide and enable remedy for Indigenous people, the undertaking shall duly consider their customs, traditions, rules and legal systems.

AR 28. In explaining whether and how the undertaking knows that affected communities 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 affected communities themselves. Examples of sources of information are surveys of community members that have used such channels and their levels of satisfaction with the process and outcomes. In describing the effectiveness of channels for affected communities to raise concerns, the undertaking may be guided by the following questions, based on the "effectiveness criteria for non-judicial grievance mechanisms", as laid out in the UN Guiding Principles on Business and Human Rights. The below considerations may be applied on an individual channel basis or for the 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 accessible?
- (c) do the channels have known procedures, set timeframes and clarity on the processes?
- (d) do the channels ensure reasonable access to sources of information, advice and expertise?
- (e) are the channels transparent and providing sufficient information to meet any public interest at stake?
- (f) does the outcome 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 S3-4 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities***

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- AR 29. 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 affected communities;
  - (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 30. Any targets reported related to impacts shall clearly relate to the intended outcomes to be achieved in the lives of a certain number of affected communities. 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 fully restore livelihoods of local communities following resettlement could both reduce impacts on those communities and reduce associated business risks such as community protests.
- AR 31. The undertaking may also distinguish between short, medium and long-term targets covering the same policy commitment. For example, an undertaking may have as a main objective to employ community members at a local mining site, with the long-term goal of staffing 100% locally by 2025, and with the short-term objective of adding x percent of local employees every year up and until 2025.
- AR 32. 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 S3-5 – Taking action on material impacts, and approaches to mitigating material financial risks and pursuing material financial opportunities related to affected communities, and effectiveness of those actions and approaches***

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- AR 33. 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 social investment or other development programmes 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 34. 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 35. Given that material negative impacts affecting local communities 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 Indigenous rights to business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at minimising security-related impacts on communities or participating in company-community partnerships).

AR 36. 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 37. When disclosing whether and how it considers actual and potential impacts on affected communities 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 38. 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 39. With regards to initiatives or processes the undertaking has in place that are based on affected communities' needs and their level of implementation, undertakings may disclose:

- (a) Information about whether and how affected communities and legitimate representatives or their credible proxies play a role in decisions regarding the design and implementation of these investments or programmes; and
- (b) Information about the intended or achieved positive outcomes for affected communities of these investments or programmes.

AR 40. The undertaking may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for affected communities 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 5 to "achieve gender equality and empower all women and girls" the undertaking may be taking thoughtful measures to include local women in the consultation process with a local community to meet standards of effective stakeholder engagement, which can help empower the women in the process itself, but potentially also in their daily lives.

AR 41. When reporting on the intended positive outcomes of its actions for affected communities a distinction is to be made between evidence of certain activities having occurred (e.g., that x number of women community members have been provided with training on how to become local suppliers to the undertaking,) from evidence of actual outcomes for affected communities (e.g., that x women community members have set up small businesses and have had their contracts with the undertaking renewed year-on-year).

AR 42. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, undertakings may e.g. consider programmes that aim to improve local infrastructure surrounding an undertaking's operations, such as roads, that have led to a reduction in the number of severe traffic accidents involving community members.

AR 43. When disclosing the financial risks and opportunities related to an undertaking's impacts or dependencies on affected communities, the undertaking may consider the following business risks that could lead into financial risks and business opportunities in pursuing opportunities:

- (a) business risks related to an undertaking's impacts on affected communities might include the reputational or legal exposure, as well as operational risks, where local communities protest

against resettlements or the loss of access to lands, leading to costly delays, boycotts, or lawsuits;

- (b) business risks related to an undertaking's dependencies on affected communities might include the loss of business continuity where indigenous communities decide to withdraw their consent to a project on their lands, forcing the undertaking to significantly modify or abandon the project;
- (c) business opportunities related to an undertaking's impacts on affected communities might include more easily financing projects and being a partner of choice for communities, governments and other businesses; and
- (d) business opportunities related to an undertaking's dependencies on affected communities might include the development of positive relationships between the undertaking and indigenous communities that enable existing projects to expand with strong support.

AR 44. When explaining whether dependencies turn into risks, the undertaking shall consider external developments.

AR 45. 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 46. The undertaking shall consider the extent to which its processes to manage material risks related to affected communities are integrated into its existing risk management processes and how.

AR 47. 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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