

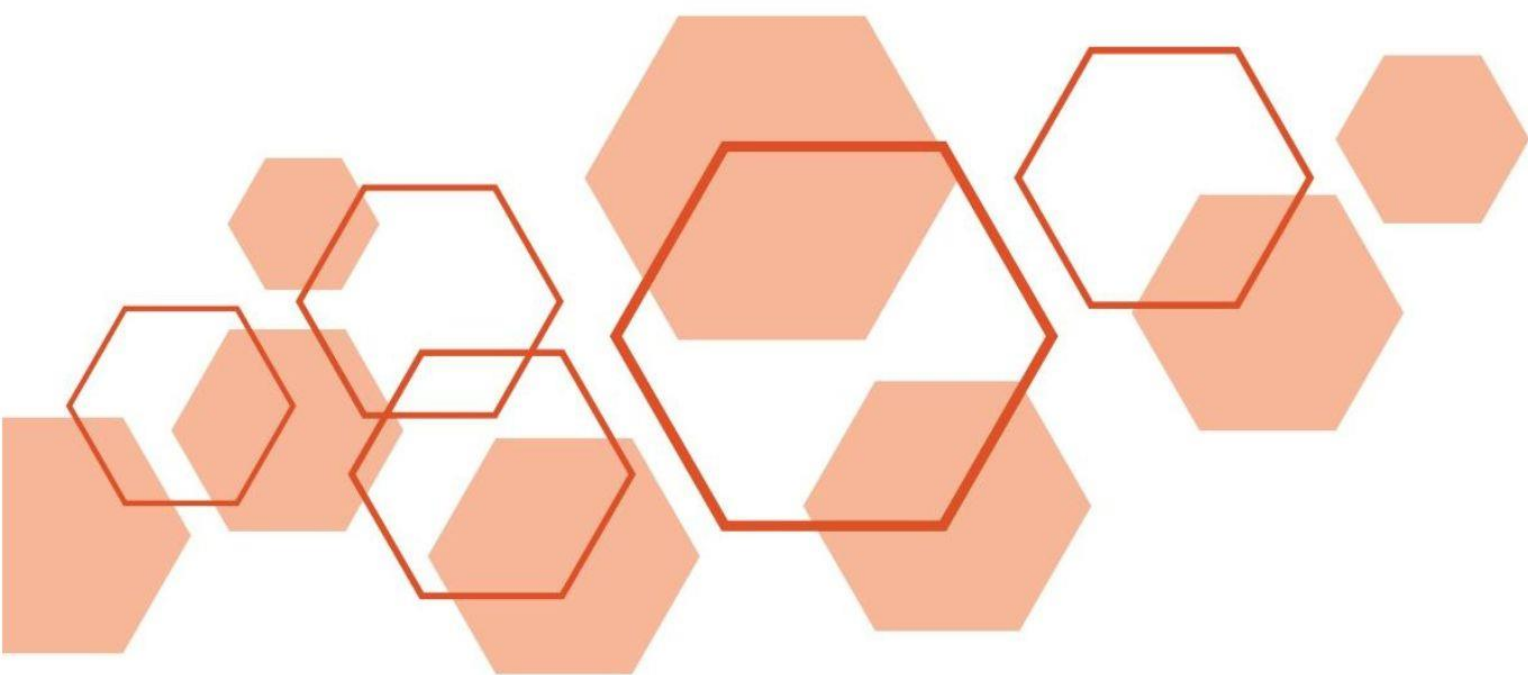
# DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

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## ESRS S2

### Workers in the value chain

Basis for conclusions



This Basis for conclusions (March 2023) relate to the draft ESRS issued in November 2022.

**DISCLAIMER**

This Basis for Conclusions accompanies but is not part of the [draft] ESRS S2 *Workers in the value chain*. It summarises the considerations of the EFRAG SRB and the references to other standard setting initiatives or regulations used in developing the proposed contents of the [draft] Standard.

It does not reflect the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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## Objective

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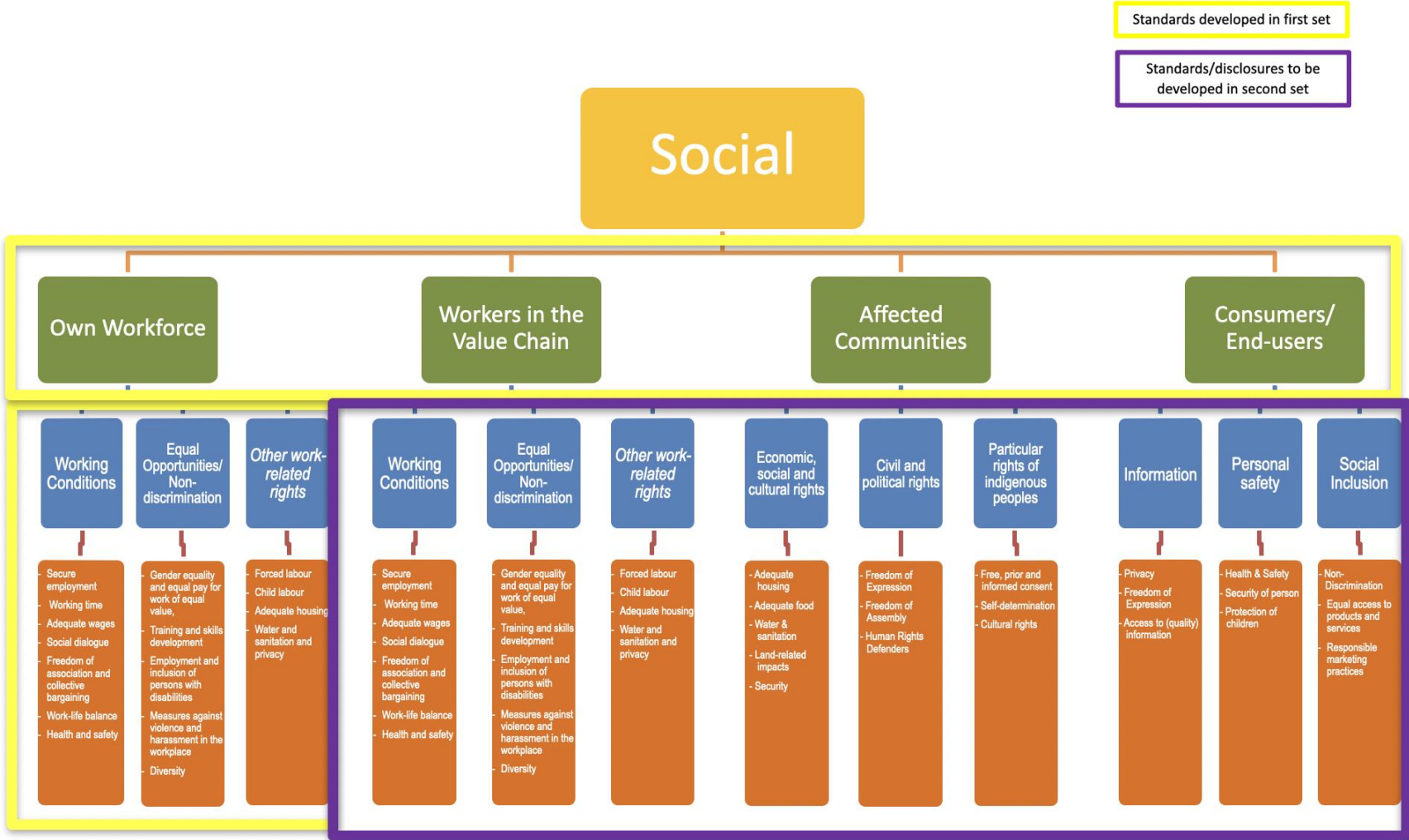
- BC1. The objective of this [draft] standard is to set disclosure requirements that cover the information required by undertakings across all sectors in order to report under a double materiality perspective. It covers in particular:
- (a) the positive and negative, actual or potential impacts on workers in the value chain;
  - (b) the material risks and opportunities arising from the undertaking's impacts and dependencies. Such risks and opportunities are sources of financial effects;
  - (c) the actions taken to address impacts, mitigate and pursue opportunities related to workers in the value chain and the results of those actions; and
  - (d) the financial effects on the undertaking over the short-, medium- and long-term

## Context

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- BC2. The Corporate Sustainability Reporting Directive (CSRD) and its predecessor, the Non-Financial Reporting Directive (NFRD), as well as the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation (EU Taxonomy) are the central components of the sustainability reporting requirements that both underpin and will advance the objectives of the EU's sustainable finance strategy. These all recognise the importance of respect for human rights, as enshrined in the Charter of Fundamental Rights of the European Union, and international instruments such as the United Nations Guiding Principles on Business and Human Rights (UN Guiding Principles) and the Organisation for Economic Co-Operation and Development Guidelines for Multinational Enterprises (OECD Guidelines).
- BC3. Specifically, the CSRD aims to improve the relevance, faithfulness, reliability and comparability of information about social sustainability matters. Article 29b requires disclosure on:
- (a) working conditions (for example secure employment, working time, adequate wages, social dialogue, freedom of association, including existence of works councils, collective bargaining, work-life balance, and health and safety);
  - (b) equal treatment and opportunities for all (for example, gender equality and equal pay for work of equal value, training and skills development, the employment and inclusion of persons with disabilities, measures against violence and harassment in the workplace, and diversity; and
  - (c) respect for the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, including the UN Convention on the Rights of Persons with Disabilities, the UN Declaration on the Rights of Indigenous Peoples, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the fundamental conventions of the International Labour Organization, the European Convention for the protection of Human Rights and Fundamental Freedoms, the European Social Charter, and the Charter of Fundamental Rights of the European Union. This has been categorised as other work-related rights (for example, child labour, forced labour, adequate housing, water and sanitation, and privacy).
- BC4. In line with the CSRD, this [draft] Standard, along with the other social standards, was drafted with the understanding that social topics are, in their essence, about people, as individuals, groups and societies. Based on the approach of double materiality, this includes both the perspective of the undertaking's impacts on people and the perspective of business risks and opportunities that result from the undertaking's impacts and dependencies on people. The key categories of people – or affected 'stakeholders' – addressed in the [draft] ESRS are the undertaking's own workforce (ESRS S1), workers in the value chain (ESRS S2), affected communities (ESRS S3), and consumers and end-users (ESRS S4).

- BC5. The social standards, taken together, are designed to address these four categories of stakeholders. The standards include respective overarching disclosure requirements and application requirements related to [draft] ESRS 2 Disclosure Requirements SBM-2 and SBM-3 - covering *interests and views of stakeholders* and *material impacts, risks and opportunities and their interaction with strategy and business model(s)* - for each stakeholder group (ESRS S1, S2, S3 and S4) that reflects the general due diligence process defined in international guidelines and recommendations, but they do not include disclosure requirements on policies, action plans and resources nor metrics and targets at this stage. The disclosure requirements related to ESRS 2, together with the remaining topical standards' disclosure requirements on impact, risk and opportunity management and targets on workers in the value chain embed human rights due diligence.
- BC6. In preparing the [draft] ESRS S2-S4 and assessing potential metrics and targets within the context of the value chain, the conclusion of the analysis performed is that it is the specific facts and circumstances of the undertaking's value chain that play a significant role and will help determine appropriate and meaningful metrics. Therefore, the diversity of value chains to be considered within the scope of drafting sector agnostic reporting standards for the first set supports the decision to further develop metrics as part of the future sets of standards where both extensions to the sector-agnostic standards and sector-specific standards will be drafted. The same approach is to be applied to the other affected stakeholder groups such as affected communities and consumers and end-users where a similar rationale has been applied.
- BC7. The structure of the standards (social topic; sub-topics; sub-sub-topics) is set out below, with the disclosure requirements published in this first set highlighted in yellow and proposal for the second set in purple.



- BC8. The CSRD highlights the particular importance of sustainability reporting standards being aligned with internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including the Sustainable Development Goals (SDGs), the UN Guiding Principles and the OECD Guidelines, including their chapters on human rights and employment and industrial relations, and related sectoral guidelines, the Global Compact, the International Labour Organization's (ILO) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the ISO 26000 standard on social responsibility, and the UN Principles for Responsible Investment.
- BC9. Human rights (which include labour rights) address the full range of types of negative impacts on people that can occur: economic, social, cultural, civil and political. They include the commonly understood social issues of health and safety (in the workplace and beyond), privacy (of data and other), non-discrimination (often addressed in organisational settings through diversity and inclusion programs) and are today understood to include also impacts on people resulting from climate change and broader environmental harm.
- BC10. Human rights represent a threshold: they are about impacts on people that are sufficiently acute that they undermine the basic dignity and equality of individuals. As such, human rights impacts and, in particular, severe impacts on human rights are likely to be material in terms of the impacts themselves. And these material impacts on people are in turn among the most likely to also raise material risks to the undertaking in the short-, medium- or long-term. This [draft] Standard focuses on the reporting of these material impacts and/or material risks or opportunities.
- BC11. Additional social matters include the advancement of skills, knowledge and job satisfaction, which are commonly included in the concept of 'human capital', defined by the Capitals Coalition as 'the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being.'
- BC12. Material opportunities are as well covered by the [draft] Standard, in line with the CSRD requirements.
- BC13. The CSRD also makes clear that the content of reporting on due diligence should be fully aligned with the UN Guiding Principles and OECD Guidelines as per recital 31.
- BC14. In addition to recognising international and European human rights instruments, the CSRD also references the European Pillar of Social Rights (EPSR), which is a key European initiative containing 20 principles intended to serve as a "...beacon guiding us towards a strong social Europe that is fair, inclusive and full of opportunity"<sup>1</sup>. The accompanying Action Plan is a set of concrete initiatives to deliver on the European Pillar of Social Rights. In accordance with the Action Plan, the CSRD aims to ensure that *"better public reporting by companies about social issues [...] facilitate investment flows towards economic activities with positive social outcomes"* (European Pillar of Social Rights Action Plan, Section 4).
- BC15. The disclosure requirements in this [draft] Standard therefore align with the elements of due diligence as set out in the UN Guiding Principles and OECD Guidelines, and which are summarised in [draft] ESRS 1; and, in addition, to the principles of the European Pillar of Social Rights.

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<sup>1</sup> European Commission: The European pillar of Social Rights in 20 principles. [https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-20-principles_en)

- BC16. The disclosure requirements aim to reach a fair balance between the need for meaningful information regarding an undertaking's impact, risks and opportunities in relation to value chain workers, and the need to ensure that disclosure requirements are reasonable and feasible for the undertaking itself, recognising the time and resources it can take to gather and interpret the data required. Any additional requirement on the undertaking flowing from the disclosure requirements should lead to more relevant and comparable reporting, whereby resources are allocated efficiently and in a targeted manner that directly serves the objectives of the CSRD and complementary EU and international instruments. The [draft] Standard addresses the undertaking's impacts and dependencies on workers in the value chain. Disclosure requirements for 'own workforce' are covered in ESRS S1.
- BC17. Based on the relevant provisions from the CSRD as illustrated in Table 1 below, and other EU legislation, as well as the global standard of the UN Guiding Principles and relevant chapters of the OECD Guidelines, this [draft] Standard on Workers in the Value Chain aims to ensure that stakeholders of the reporting undertaking obtain information that enables them to understand:
- (a) how workers in the undertaking's value chain can be impacted in both positive and negative ways;
  - (b) the due diligence approaches taken to identify, prevent, mitigate and account for how it addresses the actual and potential negative impacts on the value chain and assess the effectiveness of these actions;
  - (c) how the voices and perspectives of value chain workers are integrated into these due diligence processes and through remedy channels and processes;
  - (d) how the undertaking contributes positively to improved social outcomes for value chain workers;
  - (e) The nature, type and extent of the material risks or opportunities for the business which arise from the impacts described above or from their dependencies on value chain workers; and
  - (f) the approaches taken to mitigating these risks and pursuing these opportunities.
- BC18. The Tripartite Declaration offers guidance to undertakings based on principles contained in international labour Conventions and Recommendations, which are particularly relevant to the [draft] social standards.
- BC19. The ISO 26000 standard on social responsibility contains a number of clauses addressing core subjects of social responsibility. In particular, human rights and labour practices are reflected in the overall structure and architecture of [draft] ESRS S2.
- BC20. Under the EU Taxonomy, undertakings have to meet the minimum safeguards stipulated in Article 18, according to which investments must align with the OECD Guidelines and the UN Global Compact, including the principles and rights set out in the UN Guiding Principles, the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.
- BC21. Under the SFDR, the European Supervisory Authorities (ESAs) have developed Regulatory Technical Standards (RTS) that are designed to align with the minimum safeguards requirements of the EU Taxonomy Regulation, as well as its Do No Significant Harm principle. The RTS contain templates for pre-contractual and periodic product disclosures that include information on whether the sustainable investment is aligned with the OECD Guidelines and UN Global Compact as well as the principles and rights set out in the eight core ILO conventions and the International Bill of Human Rights.



- BC22. In drafting the [draft] standards, the EFRAG Sustainability Reporting Board was endeavoured to make sure that all SFDR Principal Adverse Impact (PAI) indicators would be covered by the proposed disclosure requirements. The approach taken was to directly implement the indicators wherever possible or, when not possible, to make sure that the information needed by the financial market participants would be easily identified and found in the standards. In doing so, it was noted that in the preparation of the necessary information by preparers to enable financial market participants to meet their SFDR-related reporting obligations, questions of application and interpretation may emerge for a subset of the indicators. This [draft] standard does not provide guidelines to overcome those possible application and interpretation issues.
- BC23. In order to support the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816, the [draft] social standards also take into account disclosures for explanations in the benchmark statement of how environmental, social and governance factors are reflected in each benchmark provided and published. The datapoints related to social matters on workers in the value chain have been embedded in this [draft] Standard.
- BC24. The Universal Declaration of Human Rights (UDHR) addresses a range of human rights that are further elaborated in the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights. Taken together, these instruments constitute the International Bill of Human Rights. Human rights in the UDHR that are specifically relevant to value chain workers include the human rights to non-discrimination, freedom from slavery or servitude, just and favourable conditions of work, equal pay for equal work, just and favourable remuneration for work, an adequate standard of living, rest and leisure, and the right to form and join trade unions.
- BC25. The International Covenant on Economic, Social and Cultural Rights further elaborates on the rights to non-discrimination, fair wages, equal remuneration for work of equal value, safe and healthy working conditions, rest and leisure; the right to form and join trade unions, the rights of trade unions and the right to strike; the right to family life and protection against child labour; the right to an adequate standard of living, including adequate food, clothing and housing; the right to the enjoyment of the highest attainable standard of health.
- BC26. The ILO core conventions address: Freedom of Association and Collective Bargaining (Nos. 87 and 98), Forced Labour (Nos. 29 and 105), Child Labour (Nos. 138 and 182), and non-discrimination (Nos. 100 and 111).
- BC27. The disclosure requirements of this [draft] Standard on Workers in the value chain are in line with relevant provisions of these international instruments specified in the CSRD. They also take account of the SFDR RTS developed by the European Supervisory Authorities that are relevant to impacts risks and opportunities related to value chain workers. The disclosure requirements aim to provide the information necessary to meet the requirements of those RTS disclosures. Through their alignment with the UN Guiding Principles and the OECD Guidelines more generally, they also provide context that can assist investors (and other users of sustainability reporting) in appropriately interpreting those disclosure requirements.
- BC28. Following the architecture outlined in paragraph BC4 herein, the [draft] Standard defines how to report impacts on workers in the undertaking's value chain. The [draft] Standard is aligned with [draft] ESRS S1 while reflecting distinctions in the relationship between an undertaking and its own workforce, according to the definitions of own workforce and workers in the value chain described in both [draft] standards. The [draft] Standard will apply for the reporting years [2024] and onwards, while more granular standards related to specific types of impact, risk and opportunity, once developed as part of future sets, will apply post 2024 onwards. The expansion in future sets will build on the principles outlined in the [draft] Standard and follow the architecture presented above in BC4.
- BC29. The design of the [draft] Standard has been guided by the four following considerations:
- (a) determining disclosure requirements that can reasonably apply to all undertakings (that is, sector-agnostic disclosure requirements);

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- (b) complying with the requirements of the CSRD, the existing EU regulation defined in Article 29 (b) 5 of the CSRD, including reporting requirements and agreed initiatives in the field of sustainable finance, together with the SFDR and the EU Taxonomy Regulation;
- (c) the need for disclosure requirements to build on existing reporting standards and frameworks wherever appropriate, while ensuring that disclosures meet the quality of information guidelines, reflect lessons drawn from experience in the application of social indicators and disclosures, and provide relevant contextual information; and
- (d) the importance of disclosure requirements being reasonable and feasible for the undertaking at this point in time, while also helping preparers respond to the increasing demand for sustainability information by providing a coherent system of disclosures that reduces the potential for multiple requests for information in different formats.

BC30. The CSRD aims to build on and contribute to international sustainability reporting initiatives. The reporting frameworks and standards of the Global Reporting Initiative (GRI), the Climate Disclosure Standards Board (CDSB) the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC) and the UN Guiding Principles Reporting Framework are reflected, as relevant, in the [draft] Standard.

BC31. The following table cross-references requirements of the [draft] Standard and the requirements of the CSRD, the UN Guiding Principles and OECD Guidelines, and other reporting frameworks.

Table 1 Cross-reference of requirements of the [draft] Standard and the requirements of the CSRD, NFRD, the UN Guiding Principles and OECD Guidelines, and other reporting frameworks

[draft] ESRS	Required by CSRD	Required by SFDR Principal Adverse Impacts	Required by Benchmark regulation	References to OECD Guidelines and UN Guiding Principles	References to other reporting frameworks
<b>ESRS 2 SBM 2</b>	Art. 19a 2 (a) (iv)			UNGP 18 OECD II.A-14	GRI 2-29 and 3-3 (f)  CDSB Reporting Requirement 2 and 3  UNGP Reporting Framework C2
<b>ESRS 2 SBM 3</b>	Art. 19a 1 Art. 19a 2 (a) (ii) and (iv) Art. 19a 2 (f) (ii) Art. 19a 2 (g)	Additional indicator #12 in Table 3 of Annex 1  Additional indicator #13 in Table 3 of Annex 1		OECD IV.45 UNGP 18, 21 and 24	GRI 2-22, 3-3 and 3-2  UNGP Reporting Framework A2 and B1  IR 4.25

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[draft] ESRS	Required by CSRD	Required by SFDR Principal Adverse Impacts	Required by Benchmark regulation	References to OECD Guidelines and UN Guiding Principles	References to other reporting frameworks
					CDSB Reporting Requirements 1 and 3  SASB CG-AA-430b.3 and CG-AA-440a.3
<b>DR S2-1</b>	Art. 19a 2 (d)	Mandatory indicator #10 in Table 1 of Annex 1  Mandatory indicator #11 in Table 1 of Annex 1  Additional indicator #4 in Table 3 of Annex 1  Additional indicator #9 in Table 3 of Annex 1  Additional indicator #11 in Table 3 of Annex 1	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1) CDR (EU) 2020/1816, Annex II	OECD IV.4 and Commentary IV para. 44  UNGP 15 and 16	GRI 2-23 and 3-3  UNGP Reporting Framework A1, A1.3 and C1  CDSB Reporting Requirement 2  UN Global Compact Principles 1 and 2
<b>DR S2-2</b>	Art. 19a 2 (f) (i)			OECD II.A-14 UNGP 18	GRI 2-29 / GRI 3-3 (f) UNGP Reporting Framework C2 CDSB Reporting Requirements 2, and 3
<b>DRS2-3</b>	Art. 19a 2 (f) (iii)			OECD IV.6 UNGP 29, 30 and 31	GRI 2-25 UNGP Reporting

[Draft] ESRS S2 Workers in the value chain

[draft] ESRS	Required by CSRD	Required by SFDR Principal Adverse Impacts	Required by Benchmark regulation	References to OECD Guidelines and UN Guiding Principles	References to other reporting frameworks
					Framework C6.2
<b>DR S2-4</b>	Art. 19a 2 (f) (iii) and (g)	Additional indicator n. 14 Table #3 of Annex 1		OECD II.A and IV UNGP 19, 20 and 22 OECD II.A-1 OECD MNE Guidelines Section III.1-2 OECD DD Guidance II 3.1	GRI 3-3 (a), (d) and (e) CDSB Reporting Requirement 2 UNGP Interpretive Guide III B UNGP Reporting Framework C4.3, C5 and C6.5 GRI 3-3 (a) / UN Global Compact / GRI Step 3.1 CG-AA-430b.1
<b>DR S2-5</b>	Art 19a 2 (b)			UNGP 20 OECD VI.1	GRI 3-3 (e) and 3-3 (f)  CDSB Reporting Requirement 2

BC32. The Basis for conclusions includes the following information, as applicable, for each disclosure requirement:

- (a) relevant EU-legislations that have been referenced (for example, CSRD, SFDR/RTS, EU Benchmark Regulation);
- (b) reference to the leading international instruments as they are relevant to the standard: the UN Guiding Principles and the OECD Guidelines, and their provisions that underpin the rationale for the specific disclosure requirements;
- (c) relevant reporting frameworks and standards that provide for disclosures that are relevant or similar to the disclosure requirements (for example, GRI, UN Guiding Principles Reporting Framework, SASB, CDSB); and
- (d) additional explanation of the elements is included in each disclosure requirement.

BC33. [Draft] ESRS S2 addresses sub-subtopics and related matters similar to [draft] ESRS S1, focusing however on value chain workers, a different affected stakeholder group. The references to international and EU instruments for these related issues/matters are therefore similar to the ones listed in the Basis for conclusion of [draft] ESRS S1.

## ESRS 2 General disclosures

### **Workers in the value chain-specific Disclosure Requirement related to ESRS 2 SBM-2 Interests and views of stakeholders**

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- BC34. The CSRD requires undertakings to report on “*how the undertaking’s business model and strategy take account of the interests of the undertaking’s stakeholders and of the impacts of the undertaking on sustainability matters*” (Article 19 a 2 (a)(iv)). This is aligned with the UN Guiding Principles and the OECD Guidelines, both clarifying the need for undertakings to inform their due diligence processes throughout by engagement with relevant stakeholders, especially those who may be adversely impacted.
- BC35. The UN Guiding Principles refer to the importance of meaningful stakeholder engagement in the conduct of human rights due diligence. For example, the commentary to UN Guiding Principles 18 states that, to enable undertakings to assess their human rights impacts accurately, they should seek to understand the concerns of potentially affected stakeholders by consulting them directly in a manner that takes into account language and other potential barriers to effective engagement. It further states that in situations where such consultation is not possible, undertakings should consider reasonable alternatives such as consulting credible, independent expert resources, including human rights defenders and others from civil society. The UN Interpretive Guide to the Corporate Responsibility to Respect Human Rights defines stakeholder engagement as an ongoing process of interaction and dialogue between an enterprise and its potentially affected stakeholders that enables the enterprise to hear, understand and respond to their interests and concerns, including through collaborative approaches.
- BC36. Section II.A-14 of the OECD Guidelines similarly provides that undertakings should engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making that may significantly impact them. The related Commentary adds that stakeholder engagement involves interactive processes of engagement (for example, meetings, hearings or consultation proceedings) and that effective stakeholder engagement is characterised by two-way communication and depends on the good faith of the participants on both sides.
- BC37. GRI 2-29 requires undertakings to describe their approach to engaging with stakeholders, including the categories of stakeholders they engage with, and how they are identified; the purpose of the stakeholder engagement; and how the undertaking seeks to ensure meaningful engagement with stakeholders. GRI 3-3 (f) requires undertakings to describe how engagement with stakeholders has informed the actions taken to address material impacts and how it has informed whether the actions have been effective.
- BC38. The UN Guiding Principles Reporting Framework (C2) guides undertakings to disclose how the undertaking identifies which stakeholders to engage with in relation to each of its salient (material) issues; which stakeholders it has engaged with regarding each salient issue in the reporting period, and why; and how the views of stakeholders have influenced the undertaking’s understanding of each salient issue and/or its approach to addressing it.
- BC39. Requirement 2 of CDSB’s Reporting Framework states that information about environmental and social policies and strategies should include confirmation of whether and to what extent policies and strategies take account of the undertaking’s key stakeholder relationships and perspectives including details about engagement with key stakeholder relationships and perspectives along the value chain. Requirement 3 states that information related to the identification, assessment and prioritisation of risks and opportunities is useful where it explains whether and how the processes include engagement with affected stakeholders, their legitimate representatives or subject matter experts, and the types of stakeholders engaged, and the engagement methods used.

**Workers in the value chain-specific Disclosure Requirement related to ESRS 2 SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model(s)**

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- BC40. As stated in Article 19a 2 (a) (iv) of the CSRD, undertakings should briefly describe ‘*how the business model and strategy take account of the interests of the undertaking’s stakeholders and of the impacts of the undertaking on sustainability matters*’. While undertakings are increasingly focused on connections between business models and climate change, the features of business models that can be a source of impacts on people, including on value chain workers, should also be considered, when material. Research has shown the various ways in which such connections between business model, strategy and material impacts can arise.<sup>2</sup> Examples can be observed in cases where, typical mitigation strategies may be ineffective at the operational level, given that impacts are part of how the business is designed to operate, and therefore require engagement of senior leaders and governance bodies to address them effectively. This disclosure requirement is aimed at describing such interactions with the undertaking’s strategy and business model(s) and capturing the specificities of how the business is designed to operate.
- BC41. Guidance to GRI 2-22 states that undertakings should describe how their purpose, business strategy, and business model aim to prevent negative impacts and achieve positive impacts on the economy, environment, and people.
- BC42. CDSB Reporting Requirement 1 states that disclosures shall describe the governance of environmental and social policies, strategies and information, and that this disclosure requirement will be satisfied when disclosures, inter alia, explains whether and how the board considers how the undertaking’s business model and strategy may contribute to material environmental and social risks.
- BC43. Question A2 of the UN Guiding Principles Reporting Framework guides undertakings to report on how they demonstrate the importance they attach to the implementation of their human rights commitment, including how the business model reflects, or has been adapted to enable, respect for human rights, as well as how any risks to human rights associated with the business model (for example, offering lowest-cost products) are understood among the senior leadership and the Board.
- BC44. ESRS 2 Disclosure Requirement SBM-3 builds on Article 19a 1 of the CSRD which requires undertakings to include in the management report information “*necessary to understand how sustainability matters affect the undertaking’s development, performance and position*”. Article 19a 2 (g) of the CSRD requires “*a description of the principal risks to the undertaking related to sustainability matters*, including a description of the undertaking’s principal dependencies on those matters, and how the undertaking manages those risks” and Article 19a 2 (a) (ii) refers to “*the opportunities for the undertaking related to sustainability matters*”. Article 19a 2 (f) (ii) of the CSRD requires a description of the “*principal actual or potential adverse impacts connected with the undertaking’s own operations and with its value chain, including its products and services, its business relationships and its supply chain*” (impact materiality).
- BC45. According to UN Guiding Principle 18 and OECD Guidelines IV-45, the initial step in conducting human rights due diligence is to identify and assess any actual or potential adverse human rights impacts with which undertakings may be involved either through their own activities or as a result of their business relationships. The purpose is to understand the specific impacts on specific people, given a specific context.
- BC46. UN Guiding Principle 24 states that where it is necessary to prioritise actions to address actual and potential impacts, undertakings should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable. The UN’s Interpretive Guide to the Corporate Responsibility to Respect Human Rights under the UN Guiding Principles refers to these as “salient” human rights, while the OECD Guidelines refer to them as the most significant. These steps within the due diligence process are further set out in [draft] ESRS 1.

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<sup>2</sup> Shift, ‘Business Model Red Flags’, New York, 2021, <https://shiftproject.org/resource/business-model-red-flags/red-flags-about/>

- BC47. The UN Guiding Principles Reporting Framework B1 and GRI 3 set out how this same prioritisation process leads to the identification of the material impacts of the undertaking by determining the threshold above which the most salient/significant impacts are understood to be material. This is reflected in the application requirements on determining impact materiality, as part of double materiality, under [draft] ESRS 2.
- BC48. GRI 3-3 requires undertakings to describe the actual and potential, negative and positive impacts on the economy, environment, and people, including impacts on their human rights. Further, the undertaking should describe whether it is involved with the negative impacts through its activities or as a result of its business relationships and describe the activities or business relationships.
- BC49. In addition to disclosing whether and how actual and potential impacts on value chain workers originate from or are connected to the undertaking's strategy and business models, and inform and contribute to adapting the undertaking's strategy and business model(s); and the relationship between its material risks and opportunities arising from impacts and dependencies on value chain workers and its strategy and business model(s), paragraph 11 (a) of the [draft] Standard requires disclosure on the main types of workers that are affected by those impacts (for example, migrant workers, women workers, children, etc.). The disclosure on the affected types of workers provides context for understanding the nature and potential consequences of the impacts, and for assessing the potential actions that could be appropriate in response. UN Guiding Principle 21 requires that, in their external communications, undertakings should "*provide information that is sufficient to evaluate the adequacy of an enterprise's response to the particular human rights impact involved*".
- BC50. The Integrated Reporting Framework (4.25) highlights that an integrated report should identify the key risks and opportunities that are specific to the undertaking, including those that relate to the undertaking's effects on, and the continued availability, quality and affordability of, relevant capitals in the short-, medium- and long-term. This includes both human capital and social and relationship capital, both of which could be relevant with regard to value chain workers.
- BC51. Requirement 3 of the CDSB Reporting Framework for reporting environmental and social information states that disclosures shall explain the material current and anticipated environmental and social risks and opportunities affecting the undertaking and the processes used to identify, assess and prioritise the risks and opportunities. The Framework defines human and social capital dependencies, which may be a source of risks or opportunities, as the human and social resources and relations that undertakings need in order to create and sustain value.
- BC52. Requirement 3 of the CDSB Reporting Framework further states that information will be useful where it explains whether and how the undertaking's processes to identify, assess and prioritise risks and opportunities include an assessment of whether business risks may result, in the short-, medium-, and long-term, from actual or potential negative environmental and social impacts that the undertaking itself may cause or contribute to or which may be linked to its operations, products or services through its business relationships; and when it explains any additional causes and sources of the material business risks and opportunities the undertaking has identified, such as risks to the availability of any of the undertaking's natural, social, or human capital dependencies.
- BC53. SASB Industry Standards evaluate sustainability issues for inclusion in the standards by assessing whether a given topic is reasonably likely to materially affect the financial condition, operating performance, or risk profile of a typical undertaking within an industry. With regard to value chain workers, for example, standards for a number of industries require undertakings to describe the greatest labour and safety risks in their supply chain (for example, CG-AA-430b.3) and to describe the social risks associated with sourcing priority raw materials and the strategic approach the undertaking takes to manage these risks (CG-AA-440a.3).
- BC54. Based on the SFDR, financial market participants shall report information on the sustainability impacts and risks of their investment portfolios. Undertakings will need to report information that will enable investors to meet such an obligation. Among other metrics, financial market participants falling under the scope of the SFDR will need to disclose:

- (a) “Operations and suppliers at significant risk of incidents of child labour” (indicator 12 in Table 3 of Annex 1 of the related Delegated Regulation); and
- (b) “Operations and suppliers at significant risk of incidents of forced or compulsory labour” (indicator 13 in Table 3 of Annex 1 of the related Delegated Regulation).

Paragraph 11 (b) of ESRS S2 supports the information needs of financial market participants related to the above indicators. It was considered that, instead of these indicators being reported in isolation by financial market participants, the provision of contextual information would support the preparation of better information. These indicators should therefore be considered in combination with additional information. In particular, financial market participants should seek greater insight by looking for reporting on how the undertaking is using its leverage, including through collaboration with others, to address child, forced and compulsory labour, and whether it is taking a role in incentivising or enabling remedy when cases of child, forced or compulsory labour are found. To that extent, the disclosure requirements related to impact, risk and opportunity management (DR S2-1 – S2-4) should be the basis of the additional information.

- BC55. The ILO Core Conventions and UN Global Compact Principle 2 on upholding the elimination of all forms of forced and compulsory labour are reflected in these indicators.

### **Impact, risk and opportunity management**

#### **Disclosure Requirement S2-1: Policies related to value chain workers**

- BC56. As stated in Article 19a 2 (d) of the CSRD as well as previously in Article 19a 1 (b) of the NFRD amending Directive 2013/34/EU and its non-binding guidelines, undertakings should provide “a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented” and “a description of the undertaking’s policies in relation to sustainability matters”. A policy demonstrates the nature of the commitment made by the undertaking regarding impacts, risks and opportunities related to value chain workers.
- BC57. According to both UN Guiding Principle 15 and the OECD Guidelines (IV-4), undertakings should have in place policies and processes appropriate to their size and circumstances, including a policy commitment to meet their responsibility to respect of human rights. UN Guiding Principle 16 states that such a policy should stipulate the enterprise’s human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services; and that it should be publicly available and communicated internally and externally to all personnel, business partners and other relevant parties. Expanding on section IV para. 4, the OECD Guidelines’ Commentary on Human Rights specifies that undertakings should “express their commitment to respect human rights through a statement of policy that: (i) is approved at the most senior level of the enterprise; (ii) is informed by relevant internal and/or external expertise; (iii) stipulates the enterprise’s human rights expectations of personnel, business partners and other parties directly linked to its operations, products or services; (iv) is publicly available and communicated internally and externally to all personnel, business partners and other relevant parties; (v) is reflected in operational policies and procedures necessary to embed it throughout the enterprise”.
- BC58. GRI 2-23 requires the undertaking to describe policy commitments for responsible business conduct, including the specific policy commitment to respect human rights, the internationally recognised human rights that the commitment covers, and the categories of stakeholders, including at-risk or vulnerable groups, that the undertaking gives particular attention to in the commitment. It requires undertakings to provide links to the policy commitments if publicly available (c). GRI 3-3 also requires the undertaking to describe its policies or commitments regarding material topics (i.e., specific material impacts). This entails describing the policies or commitments the undertaking has developed specifically for the topic, in addition to the policy commitments reported under Disclosure 2-23.



- BC59. The UN Guiding Principles Reporting Framework guides undertakings to report on their public commitment to respect human rights (A1) for which relevant information would include whether the public commitment covers all individuals and groups who may be impacted by the undertaking's activities or through its business relationships, and whether there are any groups to which the undertaking pays particular attention, and why. It guides undertakings to report any more specific policies they may have that address their salient (material) human rights issues (C1). It indicates that relevant information would include clarification of whose human rights the policy or policies relate to, such as value chain workers. Its supporting guidance explains that specific policies may be addressed through a single provision or section within a broader document, for instance, where a supply chain code of conduct includes provisions on the right to freedom of association and collective bargaining in relation to the employees of suppliers.
- BC60. Application Requirement 16 of this [draft] Standard refers to the communication of relevant policies to value chain workers, business relationships and other relevant stakeholders in the undertaking's value chain. In line with UN Guiding Principle 16d and OECD Guidelines (IV-44), GRI 2-23 requires undertakings to describe how their policy commitments – including with regard to respect for human rights – are communicated to workers, business partners, and other relevant parties. In addition, the guidance to GRI 2-23 (f) suggests disclosing how the undertaking identifies and removes potential barriers to the communication or dissemination of the policy commitments, for example, by making them accessible and available in relevant languages.
- BC61. The UN Guiding Principles Reporting Framework A-1.3 guides undertakings to report how their public commitment to respect human rights is disseminated and indicates that relevant information would include whether and how the public commitment is disseminated in an accessible form to external stakeholders, in particular potentially affected stakeholders, for example workers in the undertaking's value chain, and trade unions representing value chain workers.
- BC62. UN Global Compact Principle 1, which stresses that businesses should support and respect the protection of internationally proclaimed human rights, as well as Principle 2, which refers to ensuring that companies are not complicit in human rights abuses, are reflected in disclosure requirement S2-1.
- BC63. Requirement 2 of CDSB's Reporting Framework requires the disclosure of social policies, including details on the organisational or activity boundary to which the policies and strategies apply, as well as the rationale for and nature of those policies and strategies, or to contribute to national or international social ambitions.
- BC64. The SFDR includes the following amongst the indicators financial market participants are expected to disclose the following information according to paragraph 17 of this [draft] Standard:
- (a) (a) "Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises" (indicator 11 in Table 1 of Annex 1 of the SFDR Regulation).
  - (b) (b) The associated metric reads: "Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD MNE Guidelines or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD MNE".

As read above, the metric speaks to policies and grievance mechanisms, for which disclosure requirements are included in a number of standards, in particular, [draft] ESRS S1 and [draft] ESRS S2. With regards to [draft] ESRS S2, relevant information will be disclosed in the context of Disclosure Requirement S2-1. Further relevant information will also be found in the context of Disclosure Requirement S2-3, focused on processes to remediate negative impacts and channels for value chain workers to raise concerns.

The indicator itself speaks to processes and compliance mechanisms to monitor compliance, which further brings in elements of reporting under Disclosure Requirement S2-4. In particular, insights will be strengthened by looking for information under Disclosure Requirement S2-4, on how the undertaking assesses the effectiveness of its own efforts to prevent, mitigate or remediate impacts.

- BC65. Also, Disclosure Requirement S2-1 in paragraph 17 and 18, respectively, , supports the information needs of financial market participants of further SFDR PAI indicators, that is:
- (a) “Lack of a human rights policy” (indicator 9 in Table 3 of Annex 1 of the SFDR Regulation); and
  - (b) “Lack of processes and measures for preventing trafficking in human beings” (indicator 11 in Table 3 of Annex 1 of the SFDR Regulation).
  - (c) Lack of a supplier code of conduct” (indicator 4 in Table 3 of Annex 1 of the SFDR Regulation)

In addition to the information made available through undertakings’ responses to paragraph 17 of [draft] ESRS S2, it is important to highlight that insights will be strengthened by attention to some of the accompanying disclosure requirements under Disclosure Requirement S2-1, beyond the existence of the policy alone.

With regard to processes and measures for preventing trafficking in human beings, the undertaking will support the provision of relevant insights for financial market participants by disclosing, in particular, whether they have any processes or measures in place to address human trafficking and providing a summary thereof.

- BC66. Through information reported under Disclosure Requirement S2-1, financial market participants will further gain insight into the SFDR PAI indicator “Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises” (indicator 10 in Table 1 of Annex 1 of the SFDR Regulation). In particular, investors will need to look to third party sources on violations, for example, NCP cases, or other reported cases. With regard to human rights, the sources will be much the same as for indicator 14 in Table 3 of Annex 1 of the SFDR Delegated Regulation, which asks for the number of identified cases of severe human rights issues and incidents (see BC52). Disclosures under [draft] ESRS 2 on actual and potential material impacts may also provide some relevant information, albeit undertakings may rarely report in the language of “violations”. The insights of financial market participants will be strengthened by also looking at reporting under Disclosure Requirements S2-2, S2-3 and S2-4 on how the undertaking responds in the event of violations (for example, remediation plans or mitigating actions).
- BC67. Additionally, paragraph 19 supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816, specifically the indicators “*Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organisation Conventions 1 to 8*” in section 1 and 2 of Annex 2, and “*Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law*”. The datapoints from the EU Benchmark Regulation and the SFDR PAI are highly interrelated.

### ***Disclosure Requirement S2-2: Processes for engaging with value chain workers about impacts***

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- BC68. Article 19a 2(f) (i) of the CSRD requires undertakings to provide “*a description of the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process*”. In line with the UN Guiding Principles and the OECD Guidelines, this due diligence process should throughout be informed by engagement with relevant stakeholders, especially those who may be adversely impacted.

- BC69. The UN Guiding Principles refer to the importance of meaningful stakeholder engagement in the conduct of human rights due diligence. For example, the commentary to UN Guiding Principles 18 states that, to enable undertakings to assess their human rights impacts accurately, they should seek to understand the concerns of potentially affected stakeholders by consulting them directly in a manner that takes into account language and other potential barriers to effective engagement. It further states that in situations where such consultation is not possible, undertakings should consider reasonable alternatives such as consulting credible, independent expert resources, including human rights defenders and others from civil society. The UN Interpretive Guide to the Corporate Responsibility to Respect Human Rights defines stakeholder engagement as an ongoing process of interaction and dialogue between an enterprise and its potentially affected stakeholders that enables the enterprise to hear, understand and respond to their interests and concerns, including through collaborative approaches.
- BC70. Section II.A-14 of the OECD Guidelines similarly provides that undertakings should engage with relevant stakeholders in order to provide meaningful opportunities for their views to be taken into account in relation to planning and decision making that may significantly impact them. The related Commentary adds that stakeholder engagement involves interactive processes of engagement (for example, meetings, hearings or consultation proceedings) and that effective stakeholder engagement is characterised by two-way communication and depends on the good faith of the participants on both sides.
- BC71. GRI 2-29 requires undertakings to describe their approach to engaging with stakeholders, including the categories of stakeholders they engage with, and how they are identified; the purpose of the stakeholder engagement; and how the undertaking seeks to ensure meaningful engagement with stakeholders. GRI 3-3 (f) requires undertakings to describe how engagement with stakeholders has informed the actions taken to address material impacts and how it has informed whether the actions have been effective.
- BC72. The UN Guiding Principles Reporting Framework C2 guides undertakings to disclose how the undertaking identifies which stakeholders to engage with in relation to each of its salient (material) issues; which stakeholders it has engaged with regarding each salient issue in the reporting period, and why; and how the views of stakeholders have influenced the undertaking's understanding of each salient issue and/or its approach to addressing it.
- BC73. Requirement 2 of CDSB's Reporting Framework states that information about environmental and social policies and strategies should include confirmation of whether and to what extent policies and strategies take account of the undertaking's key stakeholder relationships and perspectives including details about engagement with key stakeholder relationships and perspectives along the value chain. Requirement 3 states that information related to the identification, assessment and prioritisation of risks and opportunities is useful where it explains whether and how the processes include engagement with affected stakeholders, their legitimate representatives or subject matter experts, and the types of stakeholders engaged and the engagement methods used.

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

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- BC74. Following the assessment of the public consultation results, the SRB redeliberated on the contents of this disclosure requirement from the April ED. The conclusion was to seek further alignment with the international Due diligence instruments (i.e. UNGP and OECD) in so far to explicitly describe the connection between those channels to raise concerns and the undertaking's general approach to remedy, including the assessment of the effectiveness of the remedy. In addition, the revised text of this [draft] Standard also describes the relationship between grievance mechanisms and channels to raise concerns was also established.

- BC75. UN Guiding Principle 29 states that, to make it possible for grievances to be addressed early and remediated directly, undertakings should establish or participate in effective operational-level grievance mechanisms for individuals as well as communities who may be adversely impacted. The commentary explains that operational-level grievance mechanisms are accessible directly to individuals and communities who may be adversely impacted by an undertaking; are typically administered by enterprises, alone or in collaboration with others, including relevant stakeholders; may also be provided through recourse to a mutually acceptable external expert or body; do not require that those bringing a complaint first access other means of recourse; engage the undertaking directly in assessing the issues and seeking remediation of any harm. It states that such mechanisms need not require that a complaint or grievance amount to an alleged human rights abuse before it can be raised, but specifically aim to identify any legitimate concerns of those who may be adversely impacted.
- BC76. In addition, UN Guiding Principle 30 addresses the importance of industry, multi-stakeholder and other collaborative initiatives that are based on respect for human rights-related standards ensuring the availability of grievance mechanisms.
- BC77. UN Guiding Principle 22 and OECD Guidelines IV-6 also recommend that when undertakings identify through their human rights due diligence process or other means that they have caused or contributed to an adverse impact, they should have processes in place to enable remediation. The Guidelines note that some situations require cooperation with judicial or State-based non-judicial mechanisms. The concept of remedy is key in international standards, and closely connected with due diligence. Remedy is not only a human right in itself, but also a fundamental pillar of international standards of corporate responsibility for human rights. Additionally, remedy is relevant beyond the concern channels, in and of itself.
- BC78. Whilst concern channels are the place where stakeholders can lodge complaints or raise concerns, remediation is the solution to the harm that has been caused. GRI 2-25 requires undertakings to describe the processes for remediation of negative impacts and how the effectiveness of these processes is tracked. The Guidelines note that some situations require cooperation with judicial or State-based non-judicial mechanisms.
- BC79. Both UN Guiding Principle 29 and the OECD Guidelines IV-6 underline that operational-level grievance mechanisms should not be used to undermine the role of trade unions in addressing labour-related disputes and should not preclude access to judicial or non-judicial grievance mechanisms.
- BC80. GRI 2-25 specifically requires disclosing the grievance mechanisms that the undertaking has established or participates in, as well as a description of how the stakeholders who are intended users of the grievance mechanisms are involved in the design, review, operation, and improvement of these mechanisms.
- BC81. This Disclosure Requirement requires undertakings to explain whether and how they know 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. This aligns with UN Guiding Principle 31, which states that grievance mechanisms should be legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning and based on engagement and dialogue. The OECD Guidelines similarly state that operational-level grievance mechanisms can be an effective means of providing for remediation when they meet the core criteria of: legitimacy, accessibility, predictability, equitability, compatibility with the Guidelines and transparency, and are based on dialogue and engagement with a view to seeking agreed solutions.
- BC82. The UN Guiding Principles Reporting Framework (C6.2) specifically guides undertakings to disclose how they know if people feel able and empowered to raise complaints or concerns, with relevant information including evidence that they are used by the intended individual or groups and feedback from those who have and have not used the channels regarding their confidence in them.

- BC83. Reporting on non-retaliation, as indicated in paragraph 28 of [draft] ESRS S2, is critical to whistleblowing, as this is relevant to any form of grievance mechanism. A whistleblower mechanism is typically at the level of the undertaking and available to its own employees/contractors. The undertaking may however open a whistleblower mechanism to wider stakeholders, including value chain workers. This datapoint also supports the SFDR PAI from [draft] ESRS G1 Business conduct on whistleblowing protection and the requirements of the EU Whistleblowing Directive.

***Disclosure Requirement S2-4: 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***

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- BC84. During the redeliberation of this [draft] Standard by the SRB, it was decided to merge the disclosure requirements S2-5 and S2-6 from the April ED without proposing further readjustment on its content whilst ensuring that the disclosure requirements should clearly identify the datapoints on impact materiality and financial effects.
- BC85. Taking action on the identified material impacts, and disclosing the approaches to mitigating material risks and pursuing material opportunities related to value chain workers as well as the effectiveness of those actions, as required by DR S2-4, is part of the human rights due diligence process and in line with Art 19a 2 (f) (iii) of the CSRD which calls for a description of “*any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions*”.
- BC86. UN Guiding Principle 19 states that undertakings should take appropriate action in order to prevent and mitigate negative human rights impacts and that, to facilitate this, responsibility for addressing such impacts should be assigned to the appropriate level and function within the business enterprise; and internal decision-making, budget allocations and oversight processes should enable effective responses. The commentary to UN Guiding Principle 19 elaborates that an undertaking should take the necessary steps to cease or prevent any impacts it causes, may cause or to which it contributes, and should use its leverage to mitigate, to the greatest extent possible, impacts it has not contributed to, but where that impact is nevertheless directly linked to its operations, products or services by its business relationship with another undertaking. It states that if an undertaking lacks leverage there may be ways for it to increase it, for example, offering capacity-building or other incentives to the related undertaking, or collaborating with other actors.
- BC87. The OECD Guidelines II.A and IV similarly set out the different steps on how to address actual and potential adverse impacts. The UN’s Interpretive Guide on the Corporate Responsibility to Respect Human Rights (III B) and the OECD’s related Due Diligence Guidance for Responsible Business Conduct (II, 3.1) set out in more detail what this entails.
- BC88. The UN Guiding Principles and the OECD Guidelines also address the need for action in response to actual impacts to include steps to provide remedy. This is more general than the requirement to provide an effective grievance mechanism, while such mechanisms can provide one means through which action may be taken. UN Guiding Principle 22 states that where business enterprises identify that they have caused or contributed to adverse impacts, they should provide for or cooperate in their remediation through legitimate processes. The commentary notes that operational-level grievance mechanisms can be one effective means of enabling remediation when they meet effectiveness criteria.
- BC89. GRI3-3 (d) requires undertakings to disclose information on actions taken to manage material topics and related impacts, including actions to prevent or mitigate potential negative impacts; actions to address actual negative impacts, including actions to provide for or cooperate in their remediation; and actions to manage actual and potential positive impacts.

- BC90. The CDSB Reporting Framework (Requirement 2) states that information on the undertaking's environmental and social policies and strategies should include information about whether the undertaking's environmental and social policies and strategies involve working with entities in the value chain (upstream and downstream) and other third parties (for example, joint venture partners, franchisees) to facilitate their management of environmental and social impacts; and information relating to actions to mitigate or remediate environmental and social impacts.
- BC91. The UN Guiding Principles Reporting Framework (C4.3) guides undertakings to report what action they have taken in the reporting period to prevent or mitigate potential impacts related to each salient (material) issue and (C6.5) whether the undertaking provided or enabled remedy for any actual impacts related to a salient (material) issue.
- BC92. UN Guiding Principle 20 states that tracking is necessary in order for undertakings to know whether their policies are being implemented optimally, whether they responded effectively to the identified impacts, and to drive continuous improvement. It further requires that tracking should be based on appropriate qualitative and quantitative indicators and draw on feedback from both internal and external sources, including affected stakeholders. Section VI 1 (c) of the OECD Guidelines also recommends that undertakings regularly monitor and verify progress toward environmental, health, and safety objectives or targets.
- BC93. GRI 3-3 (e) requires undertakings to report the processes used to track the effectiveness of the actions; goals, targets, and indicators used to evaluate progress; the effectiveness of the actions, including progress toward the goals and targets; and lessons learned and how these have been incorporated into the undertaking's operational policies and procedures.
- BC94. The UN Guiding Principles Reporting Framework (C5) guides undertakings to disclose how they know if their efforts to address salient (material) issues are effective in practice. It indicates that relevant information would include internal review processes, internal audit, supplier audits, surveys of employees or other workers, surveys of external stakeholders, other processes for affected stakeholders to provide feedback, including stakeholder engagement processes and grievance mechanisms, databases that track outcomes when actual impacts or complaints arise). Relevant information is also indicated as including qualitative and/or quantitative indicators used to assess how effectively each salient issue is being managed (for example, indicators developed by the undertaking or by a relevant industry association, multi-stakeholder initiative or in a more general reporting framework).
- BC95. The non-binding guidelines of the NFRD state in their key principles that the impact of an undertaking's activity is a relevant consideration when making non-financial disclosures and that impacts may be positive or adverse (3.1).
- BC96. The OECD Guidelines II.A-1 state that enterprises should contribute to economic, environmental and social progress with a view to achieving sustainable development.
- BC97. The explanatory memorandum of the CSRD puts the UN Sustainable Development Goals (SDGs) at the centre of the CSRD's objective as an EU policy. The preamble to the CSRD also highlights that the Commission has linked the SDGs to the Union policy framework to ensure that all Union actions and policy initiatives, both in and beyond the Union, take those SDGs on board at the outset. To reflect the SDGs in draft ESRS S2, AR 39 indicates that an 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), providing an example which refers to UN SDG 8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

- BC98. Step 3.1 of the UN Global Compact/GRI Practical Guide to Integrating the SDGs into Corporate Reporting guides undertakings to report on their strategy, including objectives (goals) and measurement (indicators) for contributing to their priority SDG targets, recognising that positive contributions can result from both tackling risks and providing beneficial products or services. It states that this may include providing a description of relevant company policies, systems and processes, including their engagement with stakeholders; and data that demonstrate how the undertaking is progressing towards its objectives for contributing to its priority SDG targets and any setbacks it has encountered.
- BC99. GRI 3-3 (a) guidance indicates in relation to reporting on positive impacts, that an undertaking may describe whether the positive impacts are actual or potential, the timeframe of the positive impacts (i.e. whether the positive effects are short-term or long-term and when they are likely to arise); the activities that result in the positive impact; and the stakeholders (without identifying specific individuals) that are positively affected or could be positively affected, including their geographic location.
- BC100. Article 19a 2 (g) of the CSRD requires “a description of the principal risks to the undertaking related to sustainability matters, including the undertaking’s principal dependencies on those matters, and how the undertaking manages those risks”. The objective of this Disclosure Requirement is also to describe the undertaking’s approach to manage financial effects on workers in the value chain.
- BC101. According to the OECD Guidelines III-1 and III-2 undertakings should ensure the disclosure of timely and accurate information on all material matters regarding their activities, structure, financial situation, performance, ownership and governance.
- BC102. Requirement 2 of the CDSB Reporting Framework states that information about undertakings’ environmental and social policies and strategies should include the rationale for and nature of those policies and strategies, for example, to respond to the particular business risks and opportunities identified, or to contribute to national or international environmental and social ambitions (for example, the Paris Agreement or SDGs). Under this requirement, information should also include details of social policies and strategies, for example, whether they involve investing resources in the prevention, mitigation, and remediation of particular negative human rights impacts, the advancement of human capital, the development of beneficial products and services, etc.; information about whether the undertaking’s environmental and social policies and strategies involve working with entities in the value chain (upstream and downstream) and other third parties; information relating to actions to mitigate or remediate environmental and social impacts. The requirement also calls for a description of the resources that are allocated to managing and delivering the policies, strategies, and targets, including investment and capital expenditure plans.
- BC103. SASB disclosures regarding 'Labour Conditions in the Supply Chain', in the Apparel, Accessories and Footwear, Electronic Manufacturing, Toys and Sporting Goods sectors include variously the number of facilities audited to a social responsibility code of conduct and the priority non-conformance rate and associated corrective action rate for suppliers’ labour code of conduct audits.
- BC104. Disclosure Requirement S2-4 also supports the information needs of financial market participants under the SFDR. Paragraph 36 relates to the SFDR PAI indicator “Number of identified cases of severe human rights issues and incidents” (indicator 14 in Table 3 of Annex 1 of the related Delegated Regulation). This also covers UN Global Compact Principle 2, referring to ensuring that companies are not complicit in human rights abuses. For relevant insights, financial market participants will in particular need to look to third party sources or further information, such as NCP (National Contact Point) cases or incidents captured by service providers.

## **Metrics and targets**

### ***Disclosure Requirement S2-5: Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities***

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- BC105. Art. 19a 2 (b) of the CSRD mandates undertakings to provide a description of time-bound sustainability targets and the progress made towards achieving those targets. It contains specific disclosure requirements on targets related to sustainability matters, which include rights relevant to workers in the value chain.
- BC106. The setting of targets provides a goal against which progress can be tracked. The Commentary to UN Guiding Principle 20 states that undertakings should make particular efforts to track the effectiveness of their responses to impacts on individuals from groups or populations that may be at heightened risk of vulnerability or marginalisation. The OECD Guidelines VI-1 also recommend that undertakings regularly monitor and verify progress toward environmental, health, and safety objectives or targets.
- BC107. With regard to tracking the effectiveness of actions taken, GRI 3-3 (e) requires undertakings to report the processes used to track the effectiveness of the actions; any goals, targets, and indicators used to evaluate progress; the effectiveness of the actions, including progress toward the goals and targets; lessons learned and how these have been incorporated into the undertaking's operational policies and procedures. Its guidance further states that reporting on goals and targets should include how the targets are set. GRI 3-3 (f) also requires undertakings to describe how engagement with stakeholders has informed the actions taken [to address impacts] and how it has informed whether the actions have been effective.
- BC108. Requirement 2 of the CDSB Reporting Framework states that disclosures shall report management's environmental and social policies, strategies, and targets, including the indicators, plans and timelines used to assess performance. It further specifies that to meet this requirement undertakings will need to describe their targets, timelines, and key performance indicators against which delivery of environmental and social strategies and policies is measured and resourced. Information on a social target should include whether it is a direct measure of outcomes for people or a measure of systemic changes aimed at improving outcomes for people. Information on targets should further include whether and how they are informed by engagement with affected stakeholders, their legitimate representatives and/or subject matter experts; and key performance indicators used to assess progress against targets.
- BC109. With regard to UN SDG related goals, we note that the following could be applicable to targets for material impacts, risks or opportunities of value chain workers:
- (a) SDG 3 – Good Health and well-being
  - (b) SDG 5 – Gender equality
  - (c) SDG 8 – Decent work and economic growth
  - (d) SDG 10- Reduced inequalities



## **Appendix: Sources of defined terms**

<b>Defined terms</b>	<b>Definition</b>	<b>Source</b>
<b>Credible proxies</b>	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.	Obtained from: 'Doing Business With Respect for Human Rights', by the Global Perspectives Project (from collaboration between the Global Compact Network Netherlands, Oxfam and Shift) <a href="https://www.businessrespecthumanrights.org/en/page/348/stakeholder-engagement">https://www.businessrespecthumanrights.org/en/page/348/stakeholder-engagement</a>
<b>Legitimate representatives</b>	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.	Based on Article 3 ILO C135 - Workers' Representatives Convention, 1971 (No. 135) <a href="https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312280">https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312280</a>
<b>Leverage</b>	The ability of the undertaking to effect a change in the wrongful practices of another party that is causing or contributing to a negative human rights impact.	Obtained from the UNGP Reporting Framework <a href="https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework_withguidance2017.pdf">https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework_withguidance2017.pdf</a>
<b>Stakeholder engagement</b>	An ongoing process of interaction and dialogue between the undertaking and its stakeholders that enables the undertaking to hear, understand and respond to their interests and concerns.	Obtained from Shift UNGP Reporting Framework Glossary <a href="https://www.ungpreporting.org/resources/glossary/">https://www.ungpreporting.org/resources/glossary/</a> and based on: The Corporate Responsibility to Respect Human Rights: An Interpretative Guide, published by the United Nations Office of the High Commissioner for Human Rights
<b>Supplier</b>	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	Based on and adapted from GRI Standards Glossary 2021 <a href="https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/">https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/</a>

Defined terms	Definition	Source
	relationship with the organisation (often referred to as a first-tier supplier) or an indirect business relationship.	
<b>Worker in the value chain</b>	An individual performing work in the value chain of the 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 by the undertaking, this includes impacts that are caused or contributed to by the undertaking and those which are directly linked to its own operations, products, or services through its business relationships. This includes all workers who 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)).	Based on and adapted from UNGP Reporting Framework (adapted from ‘worker’) <a href="https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework_withguidance2017.pdf">https://www.ungpreporting.org/wp-content/uploads/UNGPREportingFramework_withguidance2017.pdf</a> (pages 101-108)  This definition is complementary to own workers from [draft] ESRS S1 in order to ensure that clear limits between the two categories of workers.



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