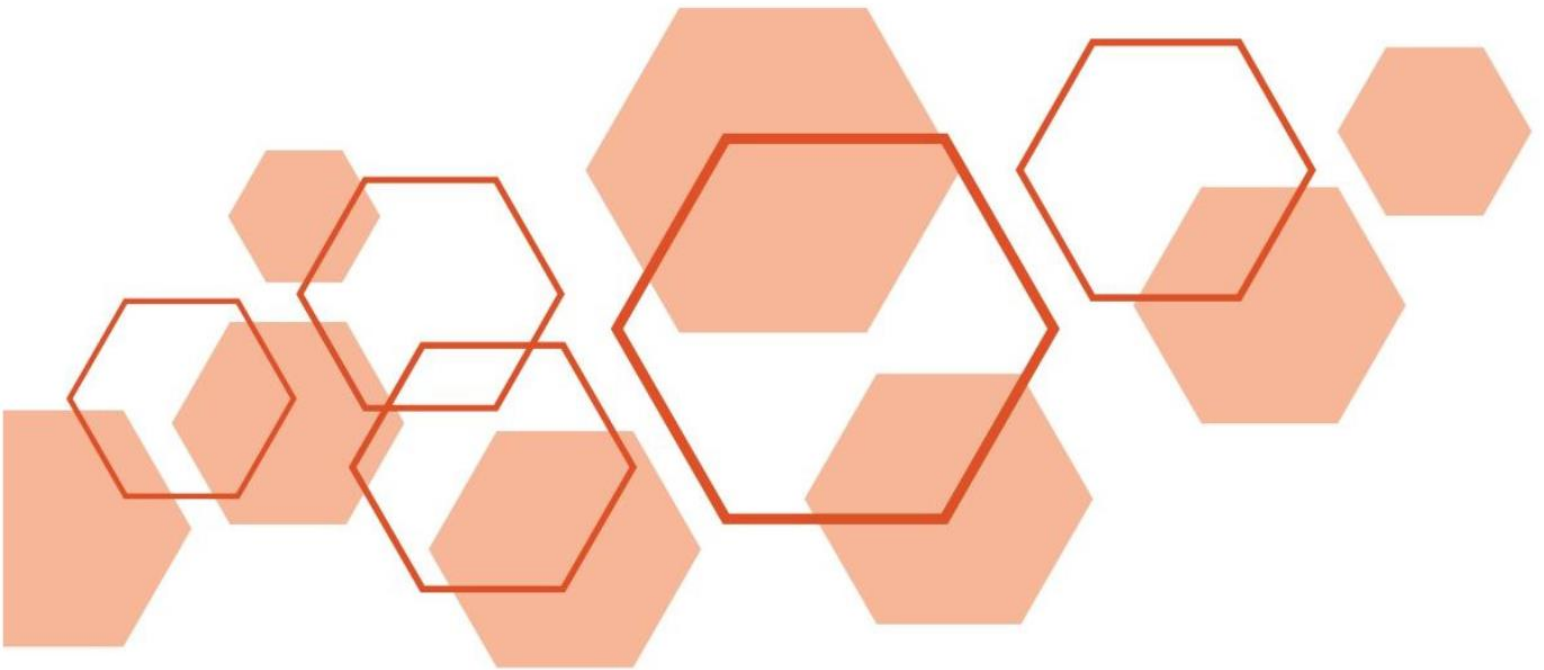


DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS S4

Consumers and end-users

Basis for conclusions



January 2023

DISCLAIMER

This Basis for Conclusions accompanies but is not part of the [draft] ESRS S4 *Consumers and end-users*. 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).

Table of contents

Objective	4
Context and reference table	4
ESRS 2 General disclosures	12
Consumers and end-users specific Disclosure Requirement related to ESRS 2 SBM-2 Interests and views of stakeholders	12
Consumers and end-users specific Disclosure Requirement related to ESRS 2 SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model(s)	13
Impact, risk and opportunity management	15
Disclosure Requirement S4-1: Policies related to consumers and end-users	15
Disclosure Requirement S4-2: Processes for engaging with consumers and end-users about impacts	17
Disclosure Requirement S4-3: Processes to remediate negative impacts and channels for consumers and end-users to raise concerns	18
Disclosure Requirement S4-4: Taking action on material impacts on consumers and end-users and approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions	19
Metrics and Targets	22
Disclosure Requirement S4-5: Targets related to managing material impacts on consumers and end-users	22
Appendix: Sources of defined terms	24

Objective

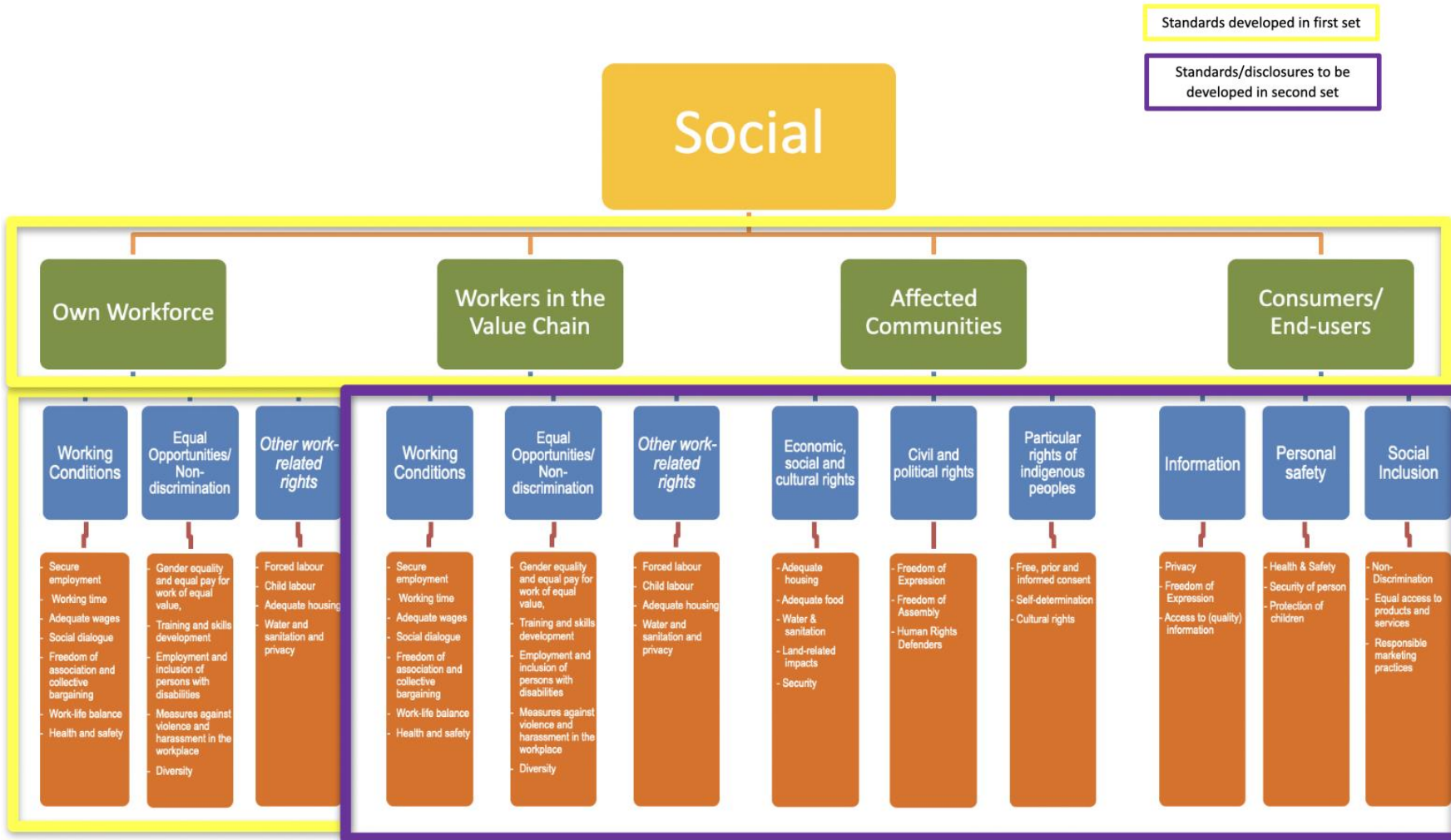
- BC1. The objective of this [draft] standard is to set disclosure requirements that cover the information required by undertakings across all sectors in order to report under a double materiality perspective. It covers in particular:
- (a) the positive and negative, actual or potential impacts on consumers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

Context and reference table

- 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 working conditions; equal treatment and opportunities for all; and respect for the human rights, fundamental freedoms, democratic principles and standards defined in the aforementioned article for social and human rights. For consumers and end-users, assessment of the CSRD text cited above has led to the following four categories of actual and potential impacts
- (a) consumers and/or end-users of products that are inherently harmful to people and/or increase risks for chronic disease;
 - (b) consumers and/or end-users of services that potentially negatively impact their rights to privacy, have their personal data protected, freedom of expression and non-discrimination;
 - (c) consumers and/or end-users who are dependent on accurate and accessible product or service-related information, such as manuals and product labels, to avoid potentially damaging use of a product or service;
 - (d) consumers and/or end-users who are particularly vulnerable to health or privacy impacts or impacts from marketing and sales strategies, such as children or financially vulnerable individuals.
- BC4. In line with the CSRD requirement, 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 undertakings' 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 ESRS are the undertaking's own workforce (ESRS S1-S4), 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 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 consumers and end-users 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 and targets. Therefore, the diversity of value chains to be considered within the scope of drafting sector agnostic standards for the first set supports the decision to further develop performance indicators 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.

[Draft] ESRS S4 Consumers and End-users



- 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 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 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 business 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. Material opportunities are as well covered by the [draft] Standard, in line with the [draft] CSRD requirements.
- BC12. 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.
- BC13. 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."¹ 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[s] investment flows towards economic activities with positive social outcomes*" (European Pillar of Social Rights Action Plan, Section 4).
- BC14. The disclosures 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 ESRS 2; and in addition, to the principles of the European Pillar of Social Rights.
- BC15. 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 consumers and end-users, 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 burden on companies 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.
- BC16. The [draft] Standard addresses undertakings' impacts and dependencies on consumers and end-users.

¹ 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

- 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 Consumers and End-users aims to ensure that stakeholders of the undertaking obtain information that enables them to understand:
- (a) how consumers and end-users of the undertaking's products and services can be impacted in both positive and negative ways;
 - (b) the due diligence approaches taken to identify, prevent, mitigate or account for how it addresses the actual and potential negative impacts on consumers and/or end-users and assess the effectiveness of these actions;
 - (c) how the voices and perspectives of consumers and end-users are integrated into these due diligence processes and through remedy channels and processes;
 - (d) how undertakings contribute positively to improved social outcomes for consumers and end-users;
 - (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 consumers and end-users; and
 - (f) the approaches taken to mitigating these risks and pursuing these opportunities.
- BC18. The Tripartite Declaration offers guidance to MNEs based on principles contained in international labour Conventions and Recommendations, which are particularly relevant for 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, consumer issues are reflected in the overall structure and architecture of [draft] ESRS S4.
- 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 Guiding Principles including the principles and rights set out in 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) 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 UN Guiding principles, eight core ILO conventions and the International Bill of Human Rights.
- BC22. In drafting the [draft] standards, it 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.

- 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 consumers and end-users include the human rights to non-discrimination, security of the person, privacy, the right to an adequate standard of living, and freedom of expression.
- BC25. The International Covenant on Economic, Social and Cultural Rights further elaborates on the rights to non-discrimination, the right to an adequate standard of living; the right to the enjoyment of the highest attainable standard of health.
- BC26. The disclosure requirements of this [draft] Standard on Consumers and End-users are in line with relevant provisions of these international instruments specified in the CSRD. They also take account of the RTS developed by the European Supervisory Authorities that are relevant to impacts risks and opportunities related to consumers and end-users. The disclosures 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 disclosures requirements.
- BC27. Following the architecture outlined in paragraph BC4 herein, the [draft] Standard defines how to report impacts on consumers and end-users. The [draft] Standard is aligned with ESRS S1-S3.
- BC28. 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 the future sets, will apply post 2024 and onwards. The expansion in future sets will build on the principles outlined in the 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);
 - (b) complying with the requirements of the CSRD, the existing EU regulation, 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) (now consolidated into the ISSB), 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.

[Draft] ESRS S4 Consumers and end-users

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
ESRS 2 SBM 2	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
ESRS 2 SBM 3	Art. 19a 1 Art. 19a 2 (a) (ii) and (iv) Art. 19a 2 (f) (ii) Art. 19a 2 (g)			UNGP 18, 21 and 24 OECD IV.45	GRI 2-22, 3-3 and 3-2 UNGP Reporting Framework A2 and B1 IR 4.25 CDSB Reporting Requirements 1 and 3 SASB CG-AA-430b.3 and CG-AA-440a.3
DR S4-1	Art. 19a 2 (d)	Mandatory indicator #10 in Table 1 of Annex 1 Mandatory indicator #11 in Table 1 of Annex 1 Additional indicator #9 in Table 3 of Annex 1	CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1)	UNGP 15 and 16 OECD IV 4 and Commentary IV para. 44	GRI 2-23 and 3-3 UNGP Reporting Framework A1, A1.3 and C1 CDSB Reporting Requirement 2 UN Global Compact

[Draft] ESRS S4 Consumers and end-users

[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
					Principles 1 and 2
DR S4-2	Art. 19a 2 (f) (i)			UNGP 18 OECD II.A-14	GRI 2-29 / GRI 3-3 (f) UNGP Reporting Framework C2 CDSB Reporting Requirements 2 and 3
DRS4-3	Art. 19a 2 (f) (iii)			UNGP 29, 30 and 31 OECD IV.6	GRI 2-25 UNGP Reporting Framework C6.2
DR S4-4	Art. 19a 2 (f) (iii) and (g)	Additional indicator n. 14 Table #3 of Annex 1		UNGP 19, 20 and 22 OECD II.A and IV 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 SASB CG-AM-250a.2
DR S5-5	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, 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.

ESRS 2 General disclosures

Consumers and end-users specific Disclosure Requirement related to ESRS 2 SBM-2 Interests and views of stakeholders

- BC33. 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 19a 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.
- BC34. 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.
- BC35. 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.
- BC36. 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.
- BC37. 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.

- BC38. 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.

Consumers and end-users specific Disclosure Requirement related to ESRS 2 SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model(s)

- BC39. 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 consumers and end-users, 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.² 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 and capturing the specificities of how the business is designed to operate.
- BC40. 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.
- BC41. 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 organisation's business model and strategy may contribute to material environmental and social risks.
- BC42. 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.
- BC43. 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 (e) (ii) of the CSRD requires a description of the “*principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain*” (impact materiality).

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

- BC44. 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.
- BC45. 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.
- BC46. 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 organisation 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 ESRS 2.
- BC47. 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.
- BC48. In addition to disclosing whether and how actual and potential impacts on consumers and end-users 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 consumers and end-users and its strategy and business model(s), , paragraph XX of the [draft] Standard requires disclosure on the main types of consumers and end-users that are affected by those impacts (for example, people with disabilities, women, children, etc.). The disclosure on the affected types of consumers and end-users 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*".
- BC49. The Integrated Reporting Framework (4.25) highlights that an integrated report should identify the key risks and opportunities that are specific to the organisation, including those that relate to the organisation'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, which could be relevant with regard to consumers and end-users.
- BC50. 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 organisation 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 organisations need in order to create and sustain value.

- BC51. 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 organisation 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 organisation has identified, such as risks to the availability of any of the organisation's natural, social, or human capital dependencies.
- BC52. 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 company within an industry. With regard to consumers and end-users, for example, standards require undertakings to describe processes to identify and manage safety risks associated with the use of products (e.g. CG-AM-250a.2)

Impact, risk and opportunity management

Disclosure Requirement S4-1: Policies related to consumers and end-users

- BC53. 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, as well as Article 19a 2 (d) of the [draft] CSRD, 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 consumers and end-users.
- BC54. 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 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*".
- BC55. 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. 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 organisation has developed specifically for the topic, in addition to the policy commitments reported under Disclosure 2-23.

- BC56. 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 consumers and end-users. Its supporting guidance explains that specific policies may be addressed through a single provision or section within a broader document.
- BC57. Application Requirement AR13 refers to the communication of relevant policies to consumers, end-users 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.
- BC58. 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 S4-1.
- BC59. The UN Guiding Principles Reporting Framework A1.3 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 consumers, end-users and the associations representing their interests.
- BC60. 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.
- BC61. The SFDR includes the following amongst the indicators financial market participants are expected to disclose the following information according to paragraph 15 of this [draft] Standard:
- (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 related SFDR Regulation).
 - (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 S4, relevant information will be disclosed in the context of Disclosure Requirement S4-1. Further relevant information will also be found in the context of Disclosure Requirement S4-3, focused on processes to remediate negative impacts and channels for consumers and end-users 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 S4-4. In particular, insights will be strengthened by looking for information under Disclosure Requirement S4-4, on how the undertaking assesses the effectiveness of its own efforts to prevent, mitigate or remediate impacts.

- BC62. Disclosure Requirement S3-1, and specifically paragraph 15 supports the information needs of financial market participants of further SFDR PAI indicators, that is: "Lack of a human rights policy" (indicator 9 in Table 3 of Annex 1 of the related SFDR Regulation). In addition to the information made available through undertakings' responses to paragraph 15 of ESRS S4, it is important to highlight that insights will be strengthened by attention to some of the accompanying disclosures under Disclosure Requirement S3-1, beyond the existence of the policy alone.
- BC63. Through information reported under Disclosure Requirement S4-1, 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 related 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 BC96). Disclosures under [draft] ESRS 2 on actual and potential material impacts may also provide some relevant information, albeit undertakings will rarely report in the language of "violations". The insights of financial market participants will be strengthened by also looking at reporting under Disclosure Requirements S4-2, S4-3 and S4-4 on how the undertaking responds in the event of violations.
- BC64. Additionally, paragraph 16 supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816, specifically the indicator "*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*" in section 1 and 2 of Annex 2. The datapoints from the EU Benchmark Regulation and the SFDR PAI are highly interrelated.

Disclosure Requirement S4-2: Processes for engaging with consumers and end-users about impacts

- BC65. 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.
- BC66. 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.

- BC67. 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.
- BC68. 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 organisation 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.
- BC69. 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.
- BC70. 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 organisation'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 S4-3: Processes to remediate negative impacts and channels for consumers and end-users to raise concerns

- BC71. 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.
- BC72. 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.
- BC73. 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.

- BC74. 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.
- BC75. 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. Both UN Guiding Principle 29 and the OECD Guidelines IV-6 underline that operational-level grievance mechanisms can be important complements to wider stakeholder engagement, which it cannot however substitute, nor should it preclude access to judicial or non-judicial grievance mechanisms.
- BC76. GRI 2-25 specifically requires disclosing the grievance mechanisms that the organisation 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.
- BC77. This disclosure requirement requires undertakings to explain whether and how they know that consumers and end-users 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.
- BC78. 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.
- BC79. Reporting on non-retaliation, as indicated in paragraph 25 of [draft] ESRS S4, 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. Undertakings may however open a whistleblower mechanism to wider stakeholders, including consumers and end-users. 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 S4-4: Taking action on material impacts on consumers and end-users and approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions

- BC80. Addressing during the redeliberation of this [draft] Standard by the SRB, it was decided to merge the disclosure requirements S4-5 and S4-6 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.

- BC81. Taking action on 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 S4-4, 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 or remediate or bring an end to actual or potential adverse impacts, and the result of such actions*”.
- BC82. 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 entity. 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 entity, or collaborating with other actors.
- BC83. 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.
- BC84. 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.
- BC85. GRI 3-3 (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.
- BC86. 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 organisation’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.
- BC87. 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.

- BC88. 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.
- BC89. 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 organisation's operational policies and procedures.
- BC90. 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).
- BC91. 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).
- BC92. The OECD Guidelines II.A-1 state that enterprises should contribute to economic, environmental and social progress with a view to achieving sustainable development.
- BC93. 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 S4, AR 34 indicates that an 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), providing an example which refers to UN SDG 3 "Ensure healthy lives and promote well-being for all at all ages".
- BC94. 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.
- BC95. 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.

- BC96. 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 consumers and end-users.
- BC97. 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.
- BC98. 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 organisation’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.
- BC99. SASB standards require undertakings to describe processes to identify and manage safety risks associated with the use of products (e.g. CG-AM-250a.2).
- BC100. Disclosure Requirement S4-4 also supports the information needs of financial market participants under the SFDR. Paragraph 33 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 S4-5: Targets related to managing material impacts on consumers and end-users

- BC101. 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 consumers and end-users.
- BC102. 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.

- BC103. 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 organisation'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.
- BC104. 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.

Appendix: Sources of defined terms

Defined terms	Definition	Source
Consumers	Individuals who acquire, consume or use goods and services for personal use, either for themselves or for others, and not for resale or commercial purposes. Consumers include actually and potentially affected end-users	The definition of consumers within EU regulations stems from the Consumer Rights Directive and is aligned with the ESRS definition. It is also to be noted that consumer protection forms part of the EU Charter of Fundamental Rights (Art 38) which is referred in Art 29 b) 2 b) iii) within the human rights and social factors section.



EFRAG is co-funded by the European Union and EEA and EFTA countries. The contents of the documents are however the sole responsibility of the EFRAG PTF- ESRS and do not necessarily reflect those of the European Union or the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Neither the European Union nor DG FISMA can be held responsible for them.