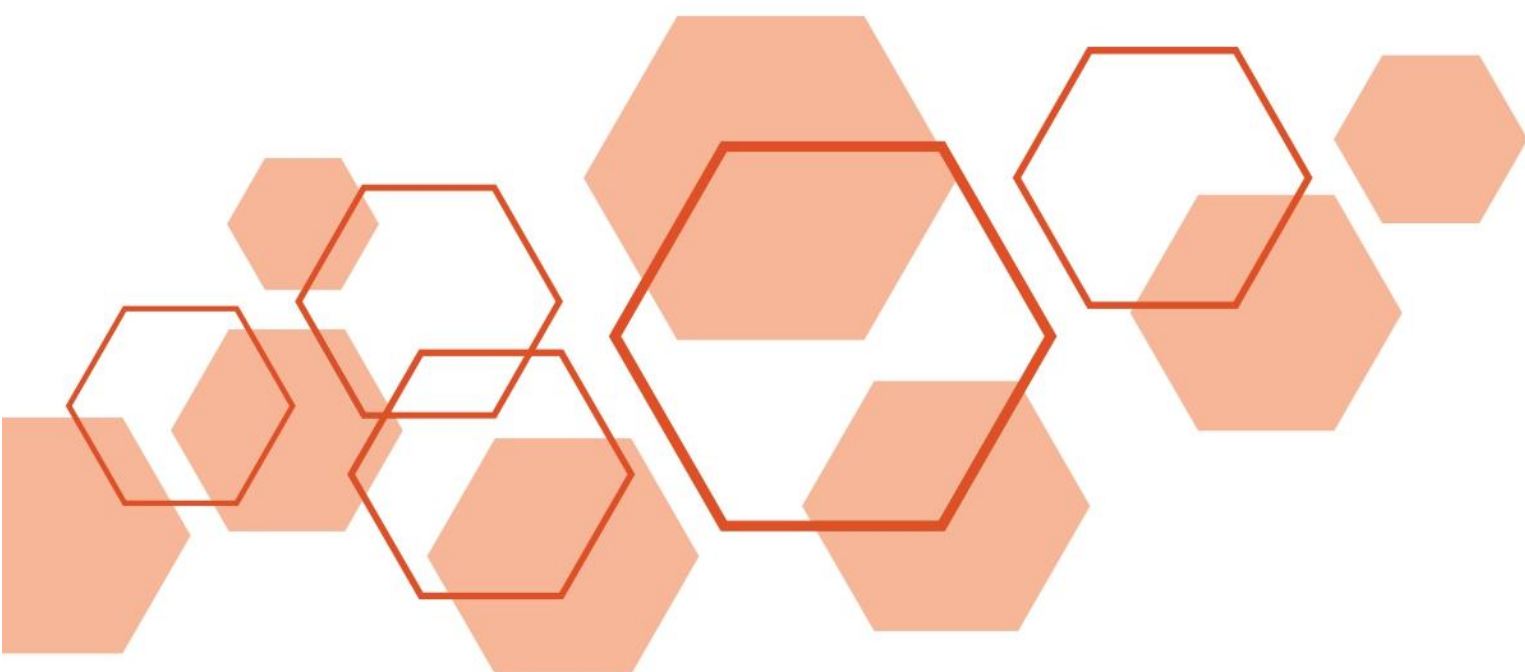


EXPOSURE DRAFT

ESRS S2

Workers in the value chain

April 2022



Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

 **EFRAG**

DISCLAIMER

This Exposure Draft has to be read in conjunction with the cover note for ESRS public consultation. It has been prepared under the sole responsibility of the EFRAG PTF-ESRS and is submitted to public consultation by EFRAG SRB to inform the upcoming standard-setting steps. It therefore does not reflect the EFRAG SRB's position at this stage, nor the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), nor the position of organisations with which the EFRAG PTF-ESRS has cooperated. The final version of the [draft] Standard will be produced by the EFRAG SRB starting from this Exposure Draft, taking into consideration the outcome of the public consultation and the requirements of the final CSRD.

[Draft] ESRS S2 Workers in the Value Chain is set out in paragraphs 1–40 and Appendices A: Defined terms and B: Application Guidance. All the paragraphs, including those in the Appendices A and B, have equal authority. Each Disclosure Requirement objective is stated in a bold paragraph, followed by a paragraph that illustrates the principle to be followed in the preparation of the respective disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

EXPLANATORY NOTE

In this first set of standards, the PTF-ESRS has focused on developing the disclosures that can be expected of all entities under the scope of the CSRD. This Standard therefore provides high-level disclosures regarding an undertaking's impacts on value chain workers and related risks and opportunities, when viewed in general across an undertaking's operations and upstream and downstream value chain.

Subsequent standards are expected to expand on this Standard by providing more detailed disclosures in relation to the sub-topics and specific issues that would be identified as material through the sector-specific or entity-specific materiality determination, which will include actions to address specific impacts and risks, along with related targets and performance measures.

In developing the [draft] Standard, initiatives from the Platform for Sustainable Finance, including the announced guidance on the Minimum Safeguards, as well as the proposal for an EU Corporate Sustainability Due Diligence Directive, were taken into consideration in order to ensure that the structure of the reporting would be compatible with upcoming developments in this area.

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Objective

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

Interaction with other ESRS

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

Disclosure Requirements

General, strategy, governance and materiality assessment

9. The provisions of this [draft] Standard shall be read in conjunction with and reported alongside the disclosure required by ESRS 2.
10. Appendix B of this [draft] Standard contains specific application guidance to report on workers in the value chain that the undertaking shall follow when disclosing information under ESRS 2, in particular with regards to:
 - (a) the interaction between material impacts, risks and opportunities and the strategy and business model as per ESRS 2 Disclosure Requirements SBM 2, 3 and 4; and
 - (b) the outcome of the assessment of material sustainability impacts, risks and opportunities as per ESRS 2 Disclosure Requirements IRO 2 and 3.

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

11. **The undertaking shall state its policies that address the management of its material impacts on value chain workers, as well as associated material risks and opportunities; and provide a summary of the content of the policies and how they are communicated¹.**
12. The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on value chain workers specifically, as well as policies that cover material risks or opportunities related to value chain workers, or policies that cover impacts, risks and opportunities in one policy. It also aims to provide an understanding of how both the internal organisation, and the value chain workers whose interests they address, are made aware of their existence and content.
13. The summary of the description of the policy shall contain the information requirements defined in ESRS 1 Disclosure Principle 1 – On policies adopted to manage material sustainability matters.
14. Where a policy is publicly available on a website, the undertaking may provide a link to the policy.

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

15. The undertaking shall state human rights policy commitments that are relevant to value chain workers, including policies to monitor compliance with the UN Global Compact principles or OECD Guidelines for Multinational Enterprises, as well as those that address²:
 - (a) respect for the human rights of all stakeholders;
 - (b) respect for the human rights, including labour rights, of workers;
 - (c) engagement with affected stakeholders; and
 - (d) measures to provide and/or enable remedy for human rights impacts.

The undertaking shall also state whether its policies in relation to value chain workers explicitly address trafficking in human beings, forced or compulsory labour and child labour.
16. The undertaking shall summarise how the policy that addresses material impacts on, and risks and opportunities in relation to, value chain workers (including policy commitments, code of conducts and other relevant policies as outlined above) is communicated in an accessible form to value chain workers, business relationships, and other relevant stakeholders in the undertaking's value chain.
17. If the undertaking does not disclose the above required information, because it does not believe it has material impacts, risks or opportunities in relation to value chain workers or it has not adopted a policy and/or objectives as outlined in ESRS 1, it shall disclose this to be the case, shall provide reasons for not having adopted a policy or objectives, and may report a timeframe in which it aims to have such policy or objectives in place.

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

18. **The undertaking shall explain its general processes for engaging with value chain workers and their representatives about actual and potential material impacts on them.**
19. The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking engages, as part of its ongoing due diligence process, with value chain workers and related trade union and worker representatives about material actual and potential positive and/or negative impacts that do or may affect them, and whether and how perspectives of value chain workers are taken into account in the decision-making processes of the undertaking.
20. The undertaking shall explain whether and how the perspectives of value chain workers inform its decisions or activities. This shall include, where relevant, an explanation of:
 - (a) whether engagement occurs with value chain workers or their legitimate representatives, or with credible proxies that have insight into their situation;
 - (b) the stage(s) at which engagement occurs (for example, in assessing material impacts on value chain workers, in determining mitigation approaches or in evaluating their effectiveness), and the type of engagement (e.g. participation, consultation, information, etc.), as well as the frequency of the engagement (e.g. quarterly, yearly, etc);
 - (c) what role or function within the undertaking has responsibility for ensuring this engagement happens and that the results inform the undertaking's approach;

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

- (d) any Global Framework Agreement or other agreements that the undertaking has with global union federations related to the respect of human rights of workers in the value chain, including their right to bargain collectively; and
- (e) how the effectiveness of, and, where relevant, outcomes and agreements from engagements are monitored.

Disclosure Requirement S2-3 – Channels for value chain workers to raise concerns

- 21. **The undertaking shall describe:**
 - (a) the channels it has in place for value chain workers to raise their concerns or needs directly with the undertaking; and/or
 - (b) the processes through which the undertaking supports the availability of such channels through the workplace of value chain workers; and
 - (c) how it monitors issues raised and addressed.
- 22. The principle to be followed under this Disclosure Requirement is to provide an understanding of the formal means by which value chain workers can make their concerns and needs known directly to the undertaking and/or through which the undertaking supports the availability of grievance mechanisms in the workplace of value chain workers, how follow up is done with these workers regarding the issues raised and the effectiveness of these channels.
- 23. The undertaking shall describe the channels in place, together with information on how the undertaking supports or requires the availability of such channels and whether it has insight into the issues raised. The channels, for raising concerns or needs, include any grievance mechanisms, hotlines, dialogue processes or other means through which value chain workers or their legitimate representatives can raise concerns about impacts or explain needs that they would like the undertaking to address. This could include both channels provided by the undertaking directly and channels provided by the entities where the value chain workers are working.
- 24. The undertaking shall explain whether and how it assesses that value chain workers are aware of and trust these structures or processes as a way to raise their concerns or needs and have them addressed, and whether the undertaking has policies in place regarding the protection of individuals that use them against retaliation.³
- 25. If the undertaking cannot disclose the above required information because it has not adopted a channel for raising concerns and/or does not support the availability of mechanisms in the workplace of value chain workers, it shall disclose this to be the case. It shall then also provide reasons for not having adopted such a channel or not having such processes and may report a timeframe in which it aims to have such a channel or processes to be in place.

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

- 26. **The undertaking shall explain the outcome-oriented targets it may have related to:**
 - (a) reducing negative impacts on value chain workers; and/or
 - (b) advancing positive impacts on value chain workers; and/or

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

- (c) managing material risks and opportunities related to value chain workers.
- 27. The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking is using outcome-oriented targets to drive and measure its progress in addressing negative impacts, and/or advancing positive impacts, on value chain workers, and/or in managing material risks and opportunities related to value chain workers.
- 28. The undertaking shall describe any targets linked to specific material positive or negative impacts on workers in the value chain and/or to risks or opportunities associated with workers in the value chain.
- 29. The summary of the description of the targets shall contain the information requirements defined in ESRS 1 General principles related to the Disclosure Principle 1-2 – On targets, progress and tracking effectiveness.
- 30. The undertaking shall disclose the process for setting the targets, including whether and how the undertaking engaged directly with workers in the value chain or their legitimate representatives, or with credible proxies that have insight into their situation in:
 - (a) setting any such targets;
 - (b) tracking the undertaking's performance against them; and
 - (c) identifying any lessons or improvements as a result of the undertaking's performance.

Disclosure Requirement S2-5 – Taking action on material impacts on value chain workers and effectiveness of those actions

- 31. **The undertaking shall explain:**
 - (a) what action is planned or underway to prevent, mitigate or remedy material negative impacts on value chain workers that are connected to its operations, products or services;
 - (b) any additional initiatives or processes it has in place with the primary purpose of delivering positive impacts for value chain workers; and
 - (c) how it assesses the effectiveness of these actions, programmes and processes in delivering intended outcomes for value chain workers.
- 32. The principle to be followed under this Disclosure Requirement is to provide an understanding of the types of processes, initiatives or engagements through which the undertaking (a) works to prevent, mitigate and remedy material impacts on value chain workers, or (b) seeks to achieve positive impacts for value chain workers, recognising that in both instances, the ultimate aim is to deliver improved outcomes in workers' lives.
- 33. The summary of the description of the approaches to taking action on material impacts shall contain the information requirements defined in ESRS 1 related to the Disclosure Principle 1-3 – On Actions, action plans and resources in relation to policies and targets.
- 34. The undertaking shall describe its approaches to:
 - (a) identifying what action is needed and appropriate in response to a particular actual or potential material negative impact;
 - (b) taking action in relation to specific material negative impacts on value chain workers, including any action in relation to its own purchasing or other internal practices, as well as capacity-building or other forms of engagement with entities in the value chain, or forms of collaborative action with industry peers or other relevant parties; and

- (c) ensuring that processes to provide or enable remedy in the event of negative impacts are available and effective in their implementation and outcomes.
- 35. The undertaking shall describe the approaches and processes through which it tracks the effectiveness of the actions it takes to address impacts. Where it has in place a target in relation to a material impact, as disclosed under ESRS S2-4 Disclosure Requirement, it shall explain how these efforts to track the effectiveness of its actions, including any indicators it uses, relate to the target and help the undertaking evaluate its progress.
- 36. The undertaking shall also describe whether it has additional initiatives or processes in place whose primary purpose is to deliver positive impacts for value chain workers, and how it tracks effectiveness of these initiatives and processes.

Disclosure Requirement S2-6 – Approaches to mitigating material risks and pursuing material opportunities related to value chain workers

- 37. **The undertaking shall explain:**
 - (a) what action is planned or underway to mitigate material risks for the undertaking arising from its impacts and dependencies on value chain workers; and
 - (b) what action is planned or underway to pursue material opportunities for the undertaking in relation to value chain workers.
- 38. The principle to be followed under this Disclosure Requirement is to provide an understanding of the ways in which the undertaking is addressing the material risks and pursuing the material opportunities related to workers in its value chain.
- 39. The undertaking shall explain how the actions it has planned or is implementing in response to material risks arising from its impacts and dependencies on value chain workers are expected to mitigate those risks, and how it tracks their effectiveness in practice, including any evidence to date of their success.
- 40. The undertaking shall explain how the actions it has planned or is implementing to pursue material opportunities for the undertaking arising from its impacts and dependencies on value chain workers are expected to achieve the opportunities, and how it tracks their effectiveness in practice, including any evidence to date of their success.

Appendix A: Defined terms

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

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

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| | <p>undertaking's products, services and activities. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "Own Workforce" ("Own Workforce" includes workers who are in an employment relationship with the undertaking ('employees') and non-employee workers who are either individual contractors supplying labour to the undertaking ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities' (NACE Code N78)).</p> |
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Appendix B: Application Guidance

This appendix is an integral part of the [draft] ESRS S2 Workers in the value chain. It describes the application of the requirements set for in paragraphs 9-40 and has the same authority as the other parts of this [draft] ESRS S2 Standard.

Objective

- AG 1. The undertaking may highlight special issues relevant to a material impact for a shorter period of time, for instance initiatives regarding the health and safety of workers in the value chain during a pandemic.
- AG 2. Undertakings shall not omit any information in relation to the value chain that they themselves possess or should be able to produce within a reasonable time frame. Reporting on most Disclosure Requirements in this [draft] Standard does not rely on data from third parties but can be responded to by referring to the undertaking's own policies, targets, action plans and resources (where available), including as they relate to their third-party business relationships.

General, strategy, governance and materiality assessment

Workers in the value chain-related specific application guidance on ESRS 2 Disclosure Requirement SBM 2 (paragraphs 38 (a; b)) on the views, interests, rights and expectations of stakeholders

- AG 3. The Section on ESRS 2 Disclosure Requirements SBM 1, 2, 3 and 4 require the undertaking to provide an understanding of if and how it considers whether its business model and strategy play a role in creating, exacerbating or (conversely) mitigating significant material impacts on value chain workers, and whether and how the business model and strategy are adapted to address such material impacts.
- AG 4. When responding to ESRS 2 Disclosure Requirement SBM 2 paragraphs 38 (a) and (b), the undertaking shall explain how the views, interests, rights and expectations of (actual or potential) materially affected value chain workers, including respect for their human (including labour) rights, inform its strategy and business model. Value chain workers are a key group of affected stakeholders.
- AG 5. While value chain workers will often not be engaging with an undertaking at the level of its strategy or business model, their views shall inform the undertaking's assessment of its strategy and business model. Where possible, the undertaking shall also seek the views of the (actual or potential) materially affected value chain workers' legitimate representatives (trade unions or works councils) or those of credible proxies that have insight into their situation.

Workers in the value chain-related specific application guidance on ESRS 2 Disclosure Requirement SBM 3 (paragraph 41 (a) to (c)) on the interaction between material impacts and the strategy and business models

- AG 6. When responding to ESRS 2 Disclosure Requirement SBM 3 paragraphs 41 (a) to (c), the undertaking shall explain whether and how actual and potential impacts on value chain workers as identified in ESRS 2 Disclosure Requirements IRO 1, 2 and 3 (a) originate from or are connected to, and (b) inform and contribute to adapting, the undertaking's strategy and business model(s). Impacts on value chain workers can originate in an undertaking's business model or strategy in a number of different ways. For example, impacts may relate to the undertaking's value proposition (e.g., providing lowest cost products or services, or high-speed delivery, in ways that put pressure on labour rights in the upstream or downstream value chain), its value chain (e.g.,

relying on commodities of unclear provenance, without visibility to impacts on workers), or its cost structure and the revenue model (e.g., shifting inventory risk to suppliers, with knock-on effects on the labour rights of their workers).

Workers in the value chain-related specific application guidance on ESRS Disclosure Requirement SBM 4 (paragraphs 47 (a) to (d)) on the interaction between material risks and opportunities and the strategy and business models

- AG 7. When responding to ESRS 2 Disclosure Requirement SBM 4 paragraphs 47 (a) to (d), the undertaking shall provide an understanding of the relationship between its material risks and opportunities arising from impacts and dependencies on value chain workers and its strategy and business model.
- AG 8. Impacts on value chain workers that originate in the business model or strategy can also bring material risks to an undertaking. For example, in the context of a pandemic or other severe health crisis, undertakings that rely on contingent labour with little to no access to sick care and health benefits may face severe operational and business continuity risks as workers have no choice but to keep working while sick, further exacerbating the spread of the disease and causing major supply chain breakdowns. Or where selling goods premised on cheapest prices for customers create operational risks as suppliers under extreme price pressure may sub-contract production, leading to lower quality, and a longer, less transparent, and less controllable supply chain. Reputational and business opportunity risks linked to the exploitation of low-skilled, low-paid workers in sourcing geographies with minimal protections for them are also increasing with media backlash and consumer preferences moving to more ethically sourced or sustainable goods.

Workers in the value chain related-specific application guidance on ESRS 2 Disclosure Requirement IRO 2 and 3 on the outcome of the assessment of material sustainability impacts, risks and opportunities

- AG 9. The undertaking shall ensure that all value chain workers who can be significantly impacted through the undertaking's own operations or in its upstream or downstream value chain by a business relationship related to the undertaking's products, services and activities are included in the scope of its reporting under ESRS 2. When responding to ESRS 2 Disclosure Requirement IRO 2 paragraph 77 (a), the undertaking shall provide the following information:
- (a) a brief description of the types of workers subject to material impacts by its operations or through its upstream and downstream value chain, and specify whether they are:
- i. workers whose work and/or workplace is controlled by the undertaking but who are not employees, individual contractors, i.e. self-employed workers, or workers provided by third party undertakings primarily engaged in employment activities (covered through ESRS S1);
 - ii. workers working for entities in the undertaking's upstream value chain (e.g., those involved in the extraction of metals or minerals or harvesting of commodities, in refining, manufacturing or other forms of processing);
 - iii. workers working for entities in the undertaking's downstream value chain (e.g., those involved in the activities of logistics or distribution providers, franchisees, retailers);
 - iv. workers working in the operations of a joint venture or special purpose vehicle involving the reporting undertaking;
 - v. workers who (within the prior categories or additionally) are particularly vulnerable to negative impacts whether due to inherent characteristics or to the particular context, such as trade unionists, migrant workers, home workers, women or young workers.

- (b) any geographies (at country level or other levels) or commodities for which there is a significant risk of child labour, or of forced or compulsory labour, among workers in its value chain. If this is not considered a material impact for the undertaking, it shall explain why⁴;
- (c) in the case of negative impacts, whether they are widespread or systemic in contexts where the undertaking operates or has sourcing or other business relationships (e.g., child labour or forced labour in particular commodity supply chains in specific countries or regions), or whether they are related to individual incidents (e.g., an industrial accident or an oil spill) or to specific business relationships;
- (d) in the case of positive impacts, a brief description of the activities that result in the positive impacts (e.g., updated purchasing practices, capacity-building to supply chain workers) and the types of value chain workers that are positively affected or could be positively affected, including their geographic location; and
- (e) any material risks and opportunities for the undertaking arising from impacts and dependencies on value chain workers.

AG 10. In describing the main types of value chain workers negatively affected following the process set out in ESRS 2 Disclosure Requirement IRO 1, the undertaking shall explain how it has developed an understanding of how workers with particular characteristics, those working in particular contexts, or those undertaking particular activities may be at greater risk of harm. For example, this may be because workers are young and may be more susceptible to impacts on their physical and mental development, or they are women workers in a context where women are routinely discriminated against in the terms and conditions of work, or they are migrant workers in a context where the market for the supply of labour is poorly regulated and workers are routinely charged recruitment fees. For some workers, the inherent nature of the activity that they are required to undertake may put them at risk (e.g., workers required to handle chemicals or operate certain equipment or low paid workers who are on “zero hours” contracts).

AG 11. The undertaking shall explain any connections between impacts on its own workforce (ESRS S1) and impacts on workers in the value chain (ESRS S2), and generally ensure the coherence of its reporting under these standards.

AG 12. In describing the material risks and opportunities for the undertaking arising from impacts and dependencies on value chain workers, the undertaking shall explain which, if any, of those material risks and opportunities arise from its material positive or negative impacts on value chain workers. This could be because a material impact on value chain workers could affect the undertaking’s future cash flows, for example, if some workers in the undertaking’s value chain are at risk of forced labour, and the undertaking is importing products into countries where the law allows for the confiscation of imported goods that are suspected of being made with forced labour.

AG 13. The business risks could also arise because of the undertaking’s dependency on value chain workers where low likelihood but high impact events may affect the undertaking’s future cash flows, for example, where a global pandemic leads to severe health impacts on workers at all stages of the value chain resulting in major disruptions to production and distribution. Other examples of business risk related to the undertaking’s dependency on value chain workers include a shortage in skilled workers or political decisions or legislation affecting value chain workers working for logistics providers.

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting additional indicators related to principal adverse impacts as set out by indicators #12 and #13 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (respectively “Operations and suppliers at significant risk of incidents of child labour” and “Operations and suppliers at significant risk of incidents of forced or compulsory labour”).

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

- AG 14. This disclosure requires the undertaking to provide a summary of the policies or commitments the undertaking has developed that are relevant to managing the undertaking's material impacts on value chain workers and/or to the management of related risks and opportunities identified under ESRS 2 IRO 1, 2 and 3.
- AG 15. If the policies are limited to the undertaking's own workforce and do not cover workers in upstream and downstream entities and relationships, they shall be disclosed under ESRS S1 and not in relation to this requirement.
- AG 16. The summary shall also include the most relevant (if any) external-facing codes of conduct or similar documents that set out the undertaking's expectations of conduct of, for example, suppliers, franchise owners or other value chain partners about the management of impacts on value chain workers. With regard to supplier codes of conduct that the undertaking may have, the summary shall indicate whether they include provisions addressing the safety of workers, including precarious work (i.e. use of workers on short-term or limited hours contracts, workers employed via third parties, sub-contracting to third parties or use of informal workers), human trafficking, the use of forced labour or child labour, and whether such provisions are fully in line with applicable ILO standards.⁵
- AG 17. The summary shall include an explanation of how the external-facing policies are embedded, for example through internal policies of responsible sourcing, and aligned with other policies relevant to value chain workers, for example, regarding forced labour.
- AG 18. The summary shall also include which position or function within the undertaking has ultimate accountability and operational responsibility for the implementation of the policy, unless this information is already provided under ESRS 2 as part of the Governance section, in which case a cross reference will fulfil this Disclosure Requirement.
- AG 19. If reporting under ESRS S1 includes information relevant for workers in the value chain, a reference to this can be made here; reporting on the remaining elements shall then be fulfilled under this Disclosure Requirement.
- AG 20. The policy may take the form of a stand-alone policy regarding value chain workers or be included in a broader document such as a code of ethics or a general sustainability policy.
- AG 21. The summary shall include the key information necessary to ensure a faithful representation of the policies in relation to value chain workers, including an explanation of significant changes to the policies adopted during the reporting year (e.g., new expectations for suppliers, new or additional approaches to due diligence and remedy).
- AG 22. The summary shall explain whether the undertaking's policy covers all value chain workers that could be affected by the material impacts identified under ESRS 2 Disclosure Requirements IRO-2 and 3, or whether they only cover specific groups of workers and if so, why.
- AG 23. The summary shall state if any material impacts are not covered by or addressed in any relevant policy and explain any plans it has to address the gap. When preparing this disclosure, the

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #4 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of a supplier code of conduct").

undertaking shall consider whether severe human rights issues and incidents connected to its upstream and downstream value chain have been reported and, if applicable, disclose these⁶.

AG 24. The undertaking shall disclose whether the relevant policies are mandatory or are only recommendatory in nature for those who are expected to follow or implement them. If they are mandatory, the undertaking shall explain how it ensures adherence by staff internally and/or from its business relationships, as relevant.

AG 25. The undertaking shall disclose the extent of the alignment of its policies with internationally recognised standards relevant to value chain workers, including the standards set out in Universal Declaration of Human Rights and the two Covenants that implement it, as well as the International Labour Organisation's Declaration on Fundamental Rights and Principles at Work and the core conventions that underpin it. The undertaking shall also state whether its policies enable it to monitor compliance with the UN Global Compact principles and/or the OECD Guidelines for Multinational Enterprises. The undertaking shall also disclose the extent to which violations in relation to the UN Global Compact principles and/or the OECD Guidelines for Multinational Enterprises that involve workers in the value chain have been reported in its upstream and downstream value chain and, if applicable, an indication of these⁷.

AG 26. Where the undertaking through its policy commitment is explicitly referring to alignment with the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and the United Nations (UN) Guiding Principles on Business and Human Rights, it shall state so if it has not disclosed this as part of disclosures under ESRS 2 or ESRS S1.

AG 27. The undertaking shall explain how its policies are communicated to those individuals or entities for whom they are relevant, either because they are expected to implement them (for example, the undertaking's employees, contractors and suppliers), or because they have a direct interest in their implementation (for example, value chain workers, investors). The undertaking shall explain if and how it tailors dissemination to different audiences, to help ensure that the policy is accessible and that they understand its implications. Elements of information may include communication tools and channels (e.g., flyers, newsletters, dedicated websites, social media, face to face interactions, unions and/or workers representatives) or identification and removal of potential barriers for dissemination, such as through translation into relevant languages or the use of graphic depictions.

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

AG 28. This Disclosure Requirement focuses on how the undertaking gains insight into the perspectives of value chain workers regarding impacts that do or may affect them, and how the undertaking takes these perspectives into account in their activities or decisions.

AG 29. The undertaking shall disclose whether engagement occurs directly with value chain workers or their legitimate representatives, or with credible proxies who have knowledge of their interests, experiences or perspectives. Legitimate representatives could include trade unions and worker representatives. Credible proxies could include expert organisations working on specific issues such as forced labour or child labour in local contexts.

⁶ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #14 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").

⁷ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory indicator related to principal adverse impacts as set out by indicator #10 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises").

- AG 30. The undertaking shall explain any steps it takes to gain insight into the perspectives of workers that may be particularly vulnerable to impacts and/or marginalised (for example, women workers, migrant workers, workers with disabilities).
- AG 31. The undertaking shall disclose the due diligence stage(s) at which engagement with value chain workers occurs, for example in assessing impacts, taking action on them or evaluating the effectiveness of the undertaking's approach. It shall explain whether engagement occurs on a regular basis, at certain points in a project or business process (for example, when a new harvest season begins or a new production line is opened), in response to legal requirements and/or in response to stakeholder requests and whether the result of the engagement is being integrated into the undertaking's decision-making processes.
- AG 32. The undertaking shall describe if and how inputs from value chain workers are taken into account in the identification of the material impacts, in particular, inputs from potentially affected value chain workers.
- AG 33. The undertaking shall state what position or function has operational responsibility for such engagement and/or ultimate accountability, and whether it requires certain skills of, or provides training or capacity-building for, relevant staff to undertake engagement. The undertaking shall disclose whether this is a dedicated role or function or part of a broader role or function. If it cannot identify such a position or function, it shall explain why not. This requirement could also be fulfilled with reference to ESRS 2 GOV 1.
- AG 34. Where the undertaking has a Global Framework Agreement or other formal arrangement with a global union federation related to the rights of value chain workers, it shall state this and explain how the agreement enables the undertaking to gain insight into those workers' perspectives.
- AG 35. Wherever possible, the undertaking shall provide examples from the reporting period to illustrate how the perspectives of value chain workers have informed specific decisions or activities of the undertaking.

Disclosure Requirement S2-3 – Channels for value chain workers to raise concerns

- AG 36. This Disclosure Requirement focuses on information about channels for value chain workers themselves to proactively raise concerns about actual or potential impacts on them and have them addressed. This shall be disclosed in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on workers, such as compliance audits.
- AG 37. The undertaking shall explain whether it operates the channels itself or participates in any third-party grievance mechanisms. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. The undertaking shall explain whether these mechanisms are accessible to all workers who may be potentially or actually materially impacted by the undertaking (or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of adverse impacts), and through which value chain workers (or individuals or organisations acting on their behalf or who are otherwise in a position to be aware of adverse impacts), can raise complaints or concerns related to the undertaking's own activities.
- AG 38. The undertaking shall explain whether and how value chain workers that may be affected are able to access channels at the level of the undertaking they are employed by, or contracted to work for, in relation to each material impact. Relevant channels may include hotlines, trade unions (where workers are unionised), or other grievance mechanisms operated by the relevant undertaking or by a third party. Where the undertaking is relying solely on information about the existence of such channels provided by its business relationships to answer this requirement, it shall state that.

AG 39. The undertaking may explain whether these various mechanisms treat grievances confidentially and with respect to the rights of privacy and data protection and whether they allow for workers to use them anonymously (for example, through representation by a third party).

AG 40. In explaining whether and how the undertaking knows that value chain workers are aware of and trust any of these channels, it shall include relevant and reliable data it may have about the effectiveness of these channels from the perspective of value chain workers themselves. Examples of sources of information are surveys of workers that have used such channels and their levels of satisfaction with the process and outcomes.

AG 41. In describing the effectiveness of channels for value chain workers to raise concerns, the undertaking may be guided by the following questions, based on the “effectiveness criteria for nonjudicial grievance mechanisms”, as laid out in the UN Guiding Principles on Business and Human Rights. The below considerations may be applied to individual channels or to a collective system of channels:

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

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

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

AG 42. This Disclosure Requirement is set to capture targets related to specific material impacts on value chain workers and/or targets related to risks and opportunities associated with value chain workers. Any targets reported related to impacts shall clearly relate to the intended outcomes to be achieved in the lives of a certain number of value chain workers.

AG 43. Targets related to risks and opportunities may be the same as or distinct from targets tied to impacts. Therefore, no distinction is to be made per se, but what the target is aiming at shall be disclosed (i.e. impact and/or risks and opportunities). For example, a target to reach living wages for supply chain workers could both reduce impacts on those workers and reduce associated business risks in terms of the quality and reliability of supply.

AG 44. The undertaking shall also state any specific targets it has set in relation to each material impact and explain how it arrived at those targets. Where the undertaking does not have any such targets it shall state this and explain any plans it has to address the gap.

- AG 45. The undertaking may also distinguish between short, medium and long-term targets covering the same policy commitment. For example, an undertaking may have a long-term target to achieve an 80% reduction in health and safety incidents affecting its delivery drivers by 2030 and a near-term target to reduce the overtime hours of delivery drivers by x% while maintaining their income by 2024.
- AG 46. In general, when disclosing targets in relation to value chain workers, the undertaking shall disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for workers and that they are measurable/verifiable, and stable over time in terms of definitions and methodologies to allow for continuity in the datapoints derived from the targets. Any standards or commitments on which the targets are based shall also be clearly defined in the reporting (for instance code of conducts, sourcing policies, global frameworks or industry codes).
- AG 47. In relation to both overarching and specific targets, the undertaking shall explain whether and how value chain workers themselves were or are involved in the process of defining the target(s), tracking performance against it/them and/or identifying lessons related to implementation.
- AG 48. Where an undertaking has changed or replaced a target in the reporting period, this shall be explained, for instance by linking it to significant changes in the business model or to broader changes in the accepted standard or legislation from which the target is derived.
- AG 49. The undertaking shall explain any connections to its disclosure on material topics relating to impacts on its workforce under ESRS S1 (as specified in the application guidance related to ESRS 2 Disclosure Requirement IRO 1 and 2).

Disclosure Requirement S2-5 – Taking action on material impacts on value chain workers and effectiveness of those actions

- AG 50. This Disclosure Requirement focuses on what measures the undertaking has in place to respond to material negative impacts on its value chain workers as well as those measures aimed at achieving additional positive impacts. The undertaking shall disclose whether and to what extent its measures have the ultimate aim of delivering improved outcomes in the lives of affected workers but start from the standpoint of the negative impact that they aim to prevent, mitigate or remedy. The Disclosure Requirement also enables an undertaking to disclose additional initiatives or processes through which it aims to deliver positive impacts, and which are not part of an effort to address negative impacts.
- AG 51. It takes time to understand negative impacts and how the undertaking may be involved with them through its value chain, as well as to identify appropriate responses and put them into practice. It is therefore unlikely that an undertaking will be able to show that all challenges have been addressed. Therefore, the undertaking shall explain:
- (a) its general and specific approaches to addressing material negative impacts;
 - (b) its initiatives aimed at contributing to additional material positive impacts;
 - (c) how far it has progressed in its efforts during the reporting period; and
 - (d) its aims for continued improvement.
- AG 52. In relation to each material impact, the undertaking shall explain which internal functions are involved in managing the impact and what types of action they take to address negative and advance positive impacts. Appropriate action will vary according to whether the undertaking causes or contributes to a material impact, or whether it is involved because the impact is directly linked to its operations, products or services by a business relationship. Refer to ESRS 1 General Provisions, Appendix C for further guidance on 'cause contribute and directly linked'.

- AG 53. The undertaking shall explain whether and how it ensures that its own practices do not cause or contribute to material negative impacts on value chain workers, including, where relevant, its practices in relation to procurement, sales and data use. This may include explaining what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.
- AG 54. Given that material negative impacts affecting value chain workers may not be caused by the undertaking alone and may be linked to entities or operations outside its direct control, the undertaking shall explain whether and how it seeks to use leverage with relevant business relationships to manage those impacts. This may include using commercial leverage (for example, enforcing contractual requirements with business relationships or implementing incentives), other forms of leverage within the relationship (such as providing training or capacity-building on workers' rights to business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible recruitment or ensuring workers receive a living wage) to motivate business relationships to take action.
- AG 55. If the undertaking reports on its participation in an industry or multi-stakeholder initiative as part of its actions to address material negative impacts, the undertaking shall make clear how the initiative, and its own involvement, is aiming to address the material impact concerned. It may report under ESRS S2- 4 Disclosure Requirement regarding any relevant targets set by the initiative and progress towards them.
- AG 56. The undertaking shall also explain whether and how it considers actual and potential impacts on value chain workers in decisions to terminate business relationships and whether and how it seeks to address any negative impacts that may result from termination.
- AG 57. The undertaking shall explain what resources are allocated to the management of its material impacts with a level of specificity and detail that allows readers to gain a thorough understanding of how the impacts are managed.
- AG 58. Where the undertaking has caused or contributed to actual material negative impacts on value chain workers during the reporting period, it shall explain whether and how it has provided or enabled remedy (to the extent of its contribution).
- AG 59. Where material negative impacts have occurred during the reporting period, but the undertaking has not caused or contributed to them, it may explain whether and how it has taken a role in using its leverage to help enable remedy for the affected workers and any lessons learned.
- AG 60. The undertaking shall explain how it tracks the effectiveness of its actions to manage material impacts during the reporting period and any lessons learned from the previous and current reporting periods. Processes used to track the effectiveness of actions can include internal or external auditing or verification, court proceedings and/or related court decisions, impact assessments, measurement systems, stakeholder feedback, grievance mechanisms, external performance ratings, and benchmarking. Where there is a relationship with a target under ESRS 2-4 Disclosure Requirement, the undertaking shall explain the connection.
- AG 61. In reporting on effectiveness, the undertaking shall enable the understanding of the links between the actions it has taken and the effective management of impacts. For example, to show the effectiveness of its actions to support its suppliers with improving their working conditions, the undertaking may report survey feedback from the suppliers' workers showing that working conditions have improved since the time the undertaking began working with those suppliers. Additional information the undertaking may provide includes data showing a decrease in the number of incidents identified through for instance independent audits.
- AG 62. With regards to initiatives or processes whose primary aim is to deliver positive impacts for value chain workers, the undertaking shall describe any initiatives or processes it has in place that are based on affected workers' needs and their level of implementation. This description shall include:

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

AG 63. The undertaking may explain whether any such initiatives are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). For example, through a commitment to advance UN SDG 8 to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” the undertaking may be providing capacity-building to smallholders in its supply chain, resulting in increases in their income; or it may be supporting training to increase the proportion of women able to take delivery jobs in its downstream value chain.

AG 64. The undertaking shall state the intended positive outcomes of its actions for value chain workers and disclose any evidence of achievement of these outcomes. The undertaking shall be careful to distinguish evidence of certain activities having occurred (e.g., that x number of workers have received financial literacy training) from evidence of actual outcomes for workers (e.g., that x workers report that they are able to better manage their household budgets so as to meet their savings goals).

AG 65. The undertaking may explain whether these initiatives or processes also play a role in mitigating material negative impacts disclosed under ESRS 2 IRO 2 and 3; for example, where a programme that aims to advance women workers’, financial literacy has resulted in more women being promoted as well as in reports of reduced sexual harassment in the workplace.

Disclosure Requirement S2-6 – Approaches to mitigating material risks and pursuing material opportunities related to value chain workers

AG 66. This Disclosure Requirement assumes that the undertaking has determined its material sustainability-related business risks and opportunities following the process set out in ESRS 2 Disclosure Requirement IRO 1.

AG 67. This Disclosure Requirement focuses on how the undertaking seeks to monitor, manage and mitigate business risks, and pursue business opportunities, related to its impacts or dependencies on value chain workers. This disclosure shall include:

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

AG 68. The undertaking shall highlight external developments that influence whether dependencies turn into risks.

AG 69. The undertaking shall disclose policies, targets, action plans and resources related to the management of material risks and opportunities. Where the risks and opportunities arise from

a material impact, the undertaking may cross-reference its disclosures on policies, targets, action plans and resources in relation to that impact.

AG 70. The undertaking shall explain the extent to which its processes to manage material risks related to value chain workers are integrated into its existing risk management processes and how.



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