

Exposure Draft

ESRS S2 – S4 workers in the value chain, affected communities and consumers/end-users

31 May 2022



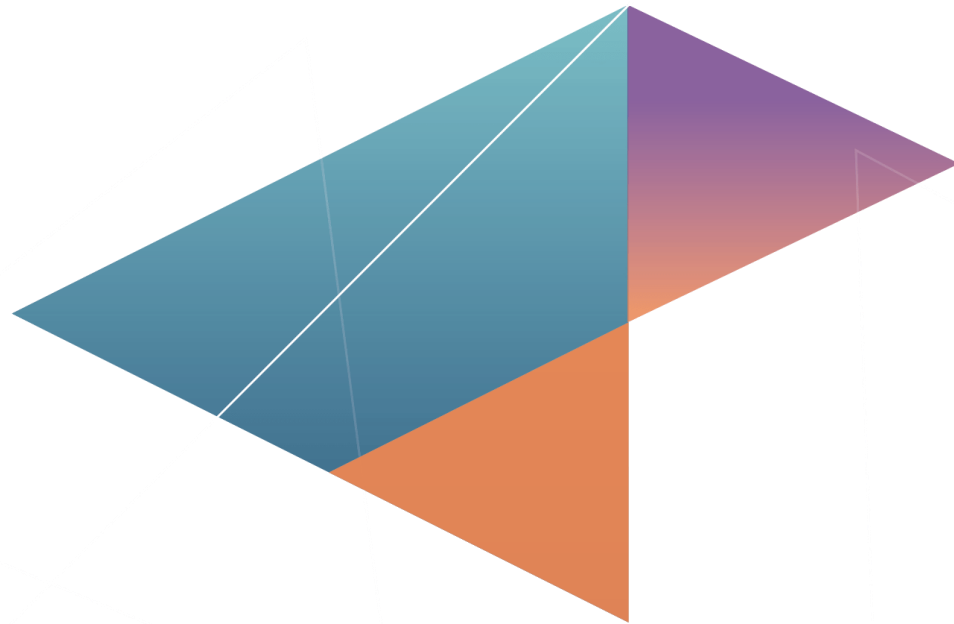
EFRAG

European Financial Reporting Advisory Group



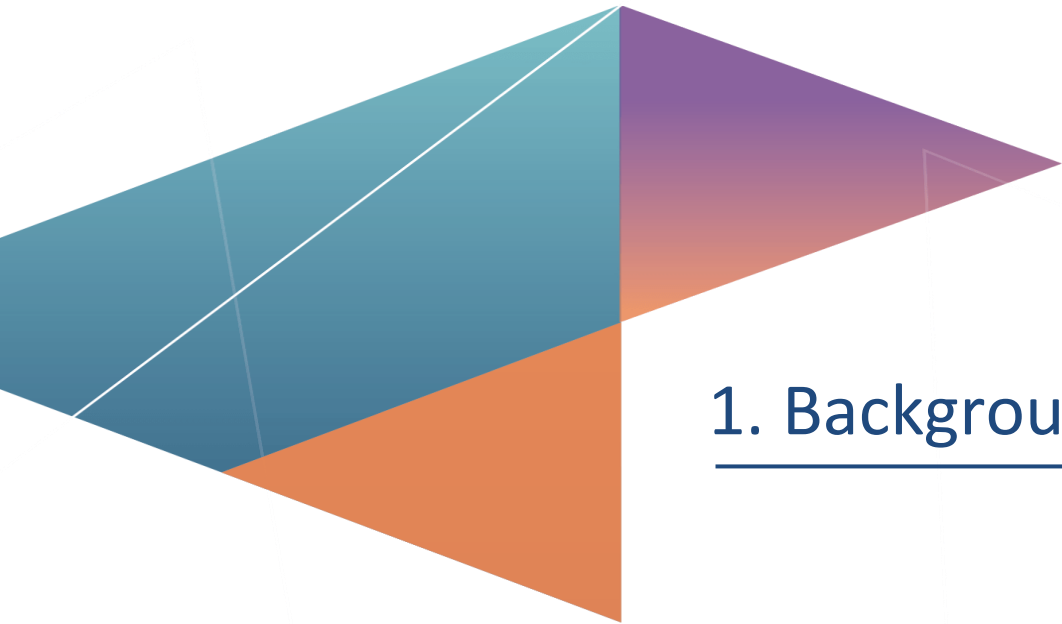
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Agenda

1. Background and methodology
2. Structure of the social ESRs
3. Objective of the [draft] standards and overview
4. Application Guidance related to ESRs 2
5. Disclosure Requirements
3. Q&A



1. Background and methodology

1. Background and methodology

Standard development based on CSRD, Article 19 b (Extract)

“ (b) specify the information that undertakings are to disclose about social factors, including information about:

(i) Equal opportunities

for all, including gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities;

(ii) Working conditions

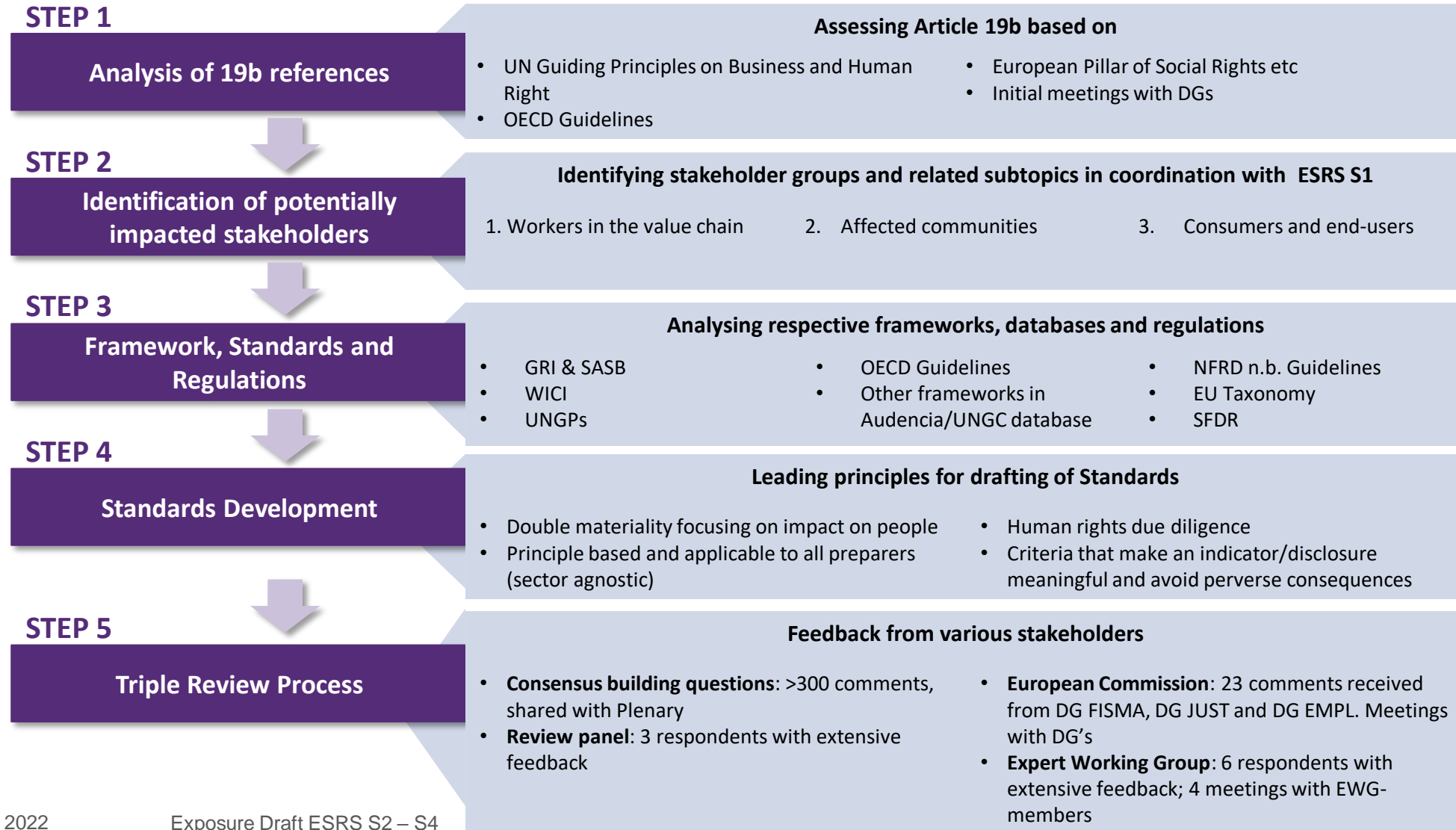
including secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment;

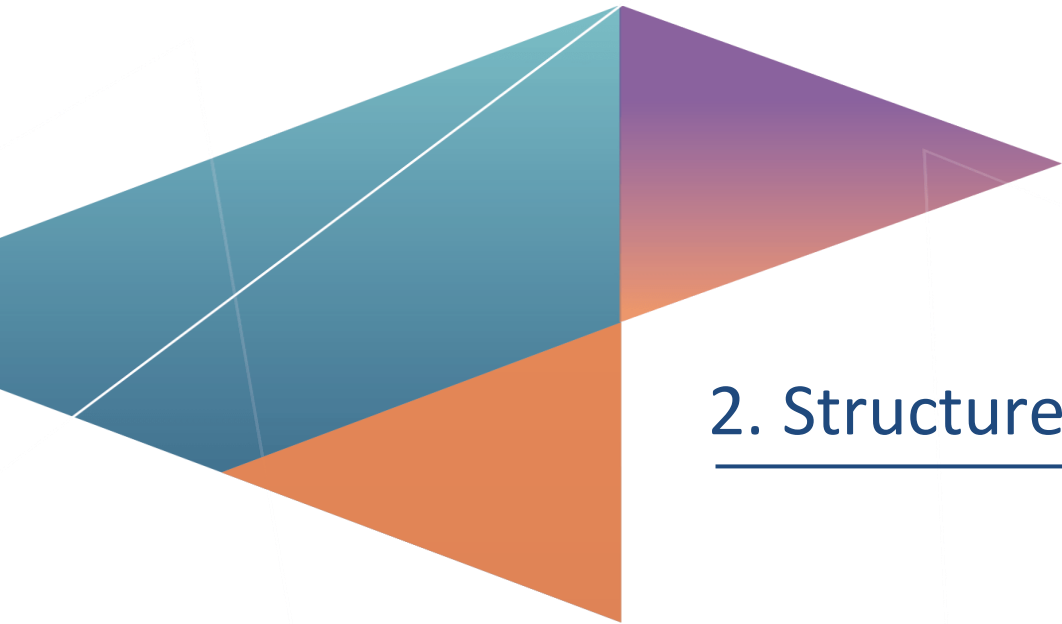
(iii) Respect for the human rights

fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.”

1. Background and methodology

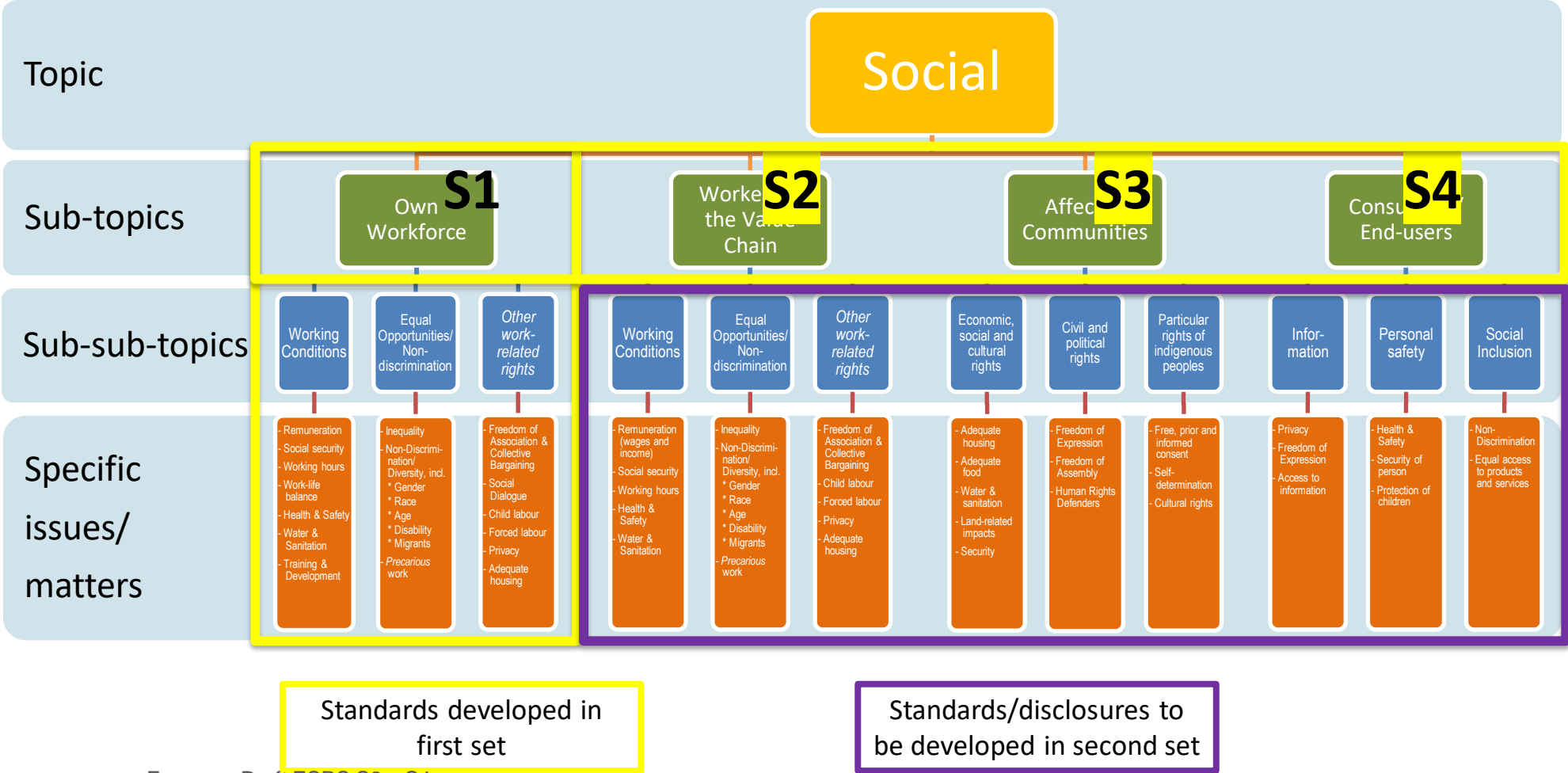
The approach for ESRS S2, S3 and S4 in 4 steps



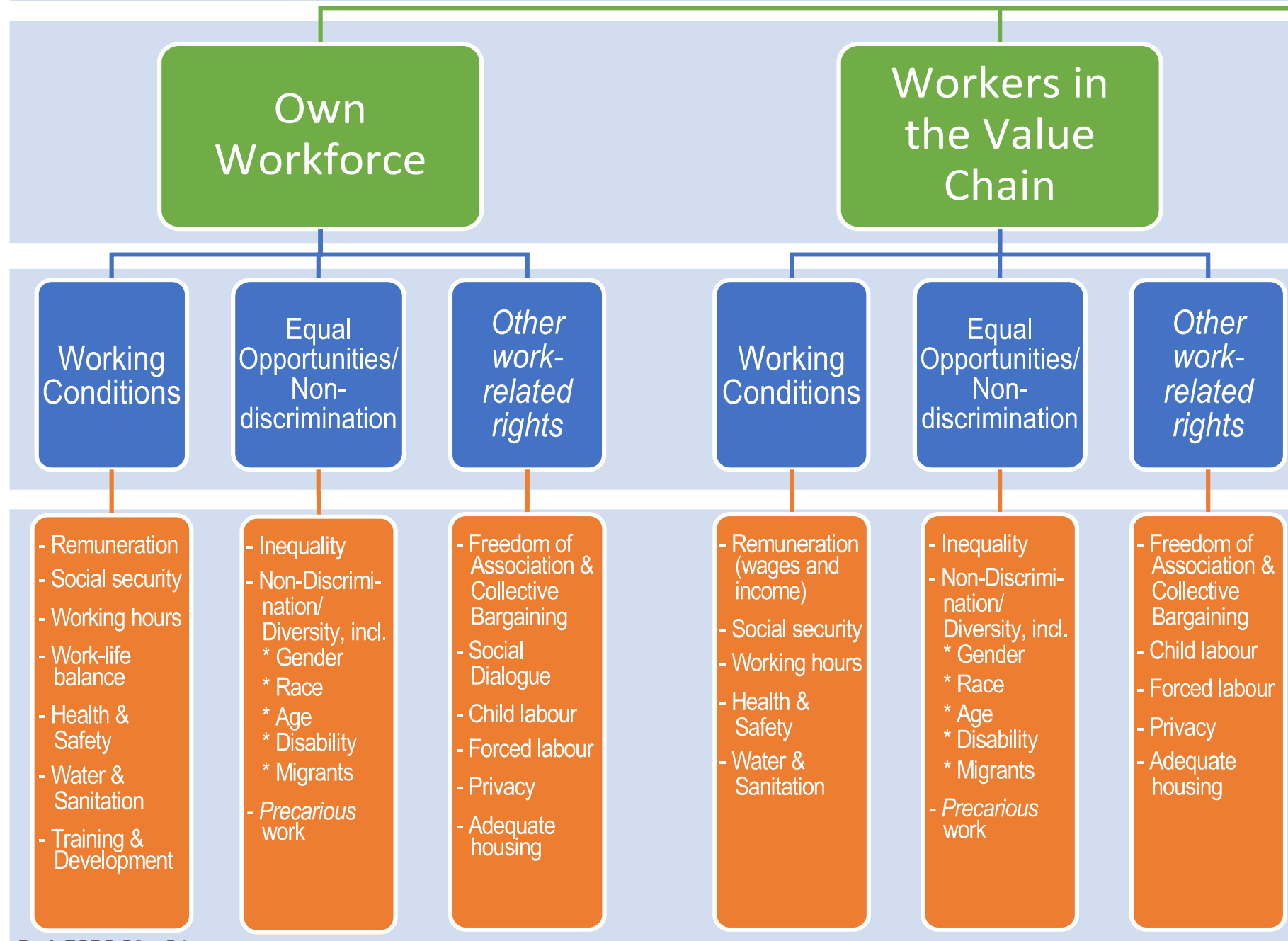


2. Structure of the social ESRSs

Structure of the social pillar

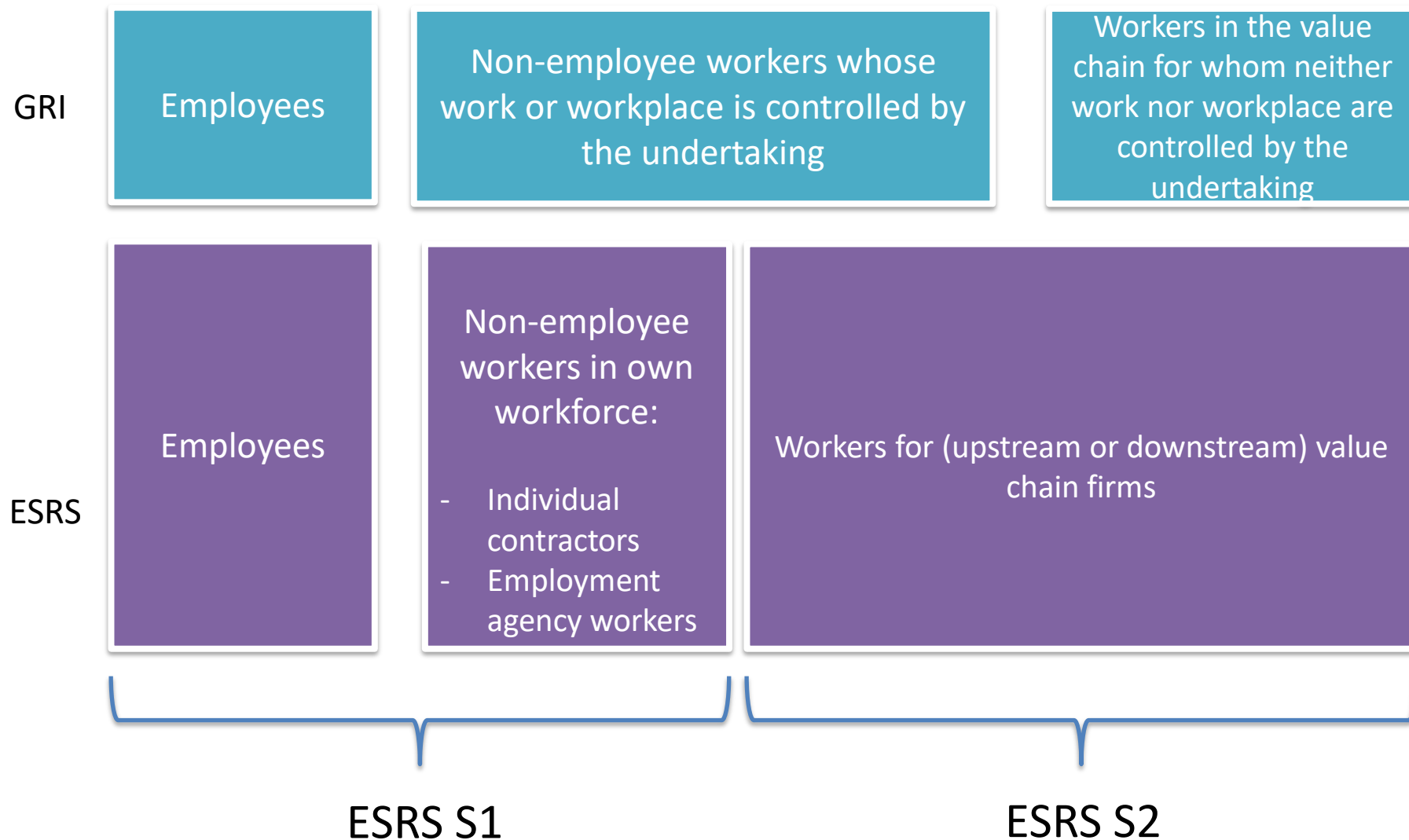


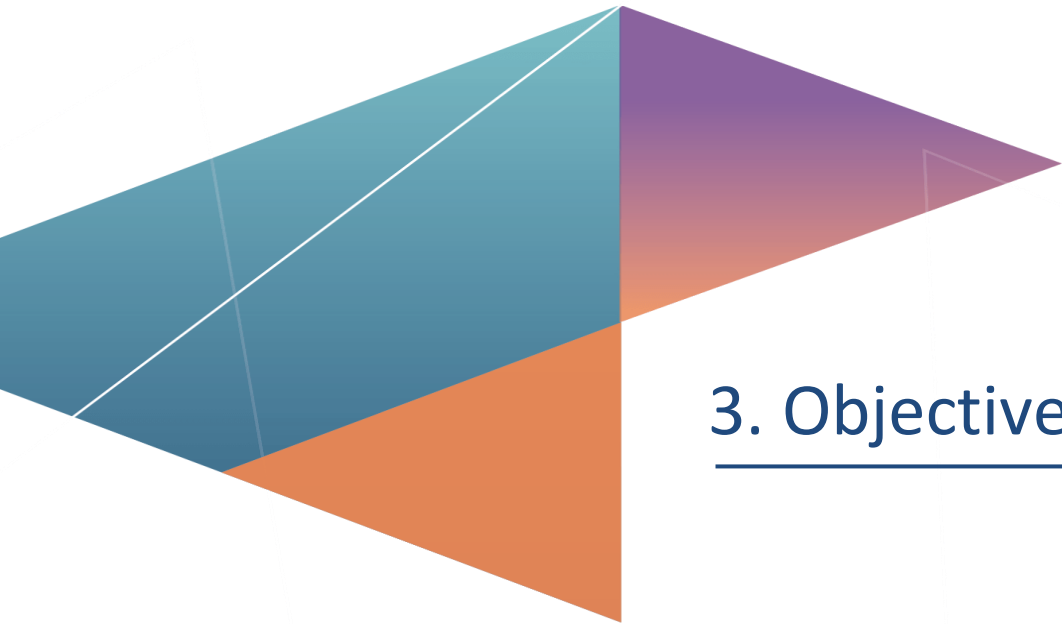
Structure of the social pillar



2. Structure of the social ESRs – Definition of own workforce

Standard development based on CSRD, Article 19 b (Extract)





3. Objective of the [draft] standards and overview

Objective and Overview

Content of ESRS S2 – S4

STRATEGY (complemented by ESRS 2)

AG on ESRS 2-SBM2: Interaction between **material impacts, risks and opportunities** and the strategy and business model

AG on ESRS 2-SBM3: Workforce matters on people and the **adaptation** of its **strategy** and **business model(s)** to such material sustainability impacts

AG on ESRS 2-SBM4: Workforce matters that originate from or are connected to the undertaking's strategy and business model(s) and of the adaptation of its strategy and business model(s) to such **material risks and opportunities**

AG on ESRS 2-IRO2: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with **sector-agnostic** and **sector-specific** level ESRS

SFDR

AG on ESRS 2-IRO3: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities that are not covered by an **ESRS (entity-specific level)**

IMPLEMENTATION

DR S2-1: **Policies**, targets, action plans and resources

GRI

OECD

UNGP

SFDR

DR S2-2: **Processes** for engaging with own workers and workers' representatives about impacts

GRI

OECD

UNGP

DR S2-3: Channels for own workers and workers' representatives to raise concerns

SFDR

UNGP

DR S2-4: Targets related to **managing** material negative impacts, **advancing** positive impacts, and managing material risks and opportunities

GRI

UNGP

DR S2-5: Taking action on **material impacts** on own workforce and effectiveness of those actions

GRI

OECD

UNGP

DR S2-6: **Approaches** to mitigating material risks and pursuing material opportunities related to own workforce

OECD

UNGP

PERFORMANCE MEASURES

First set:

Focus on developing the disclosures that can be expected of **all entities** under the scope of the CSRD. These standards provide **high-level disclosures** regarding an undertaking's impacts on value chain workers / affected communities / consumers and users and related risks and opportunities, when viewed in general across an undertaking's operations and upstream and downstream value chain.

Subsequent standards:

Subsequent standards are expected to expand on these standards 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 to cater for the diversity in value chains.

SFDR/CSDDD structural alignment

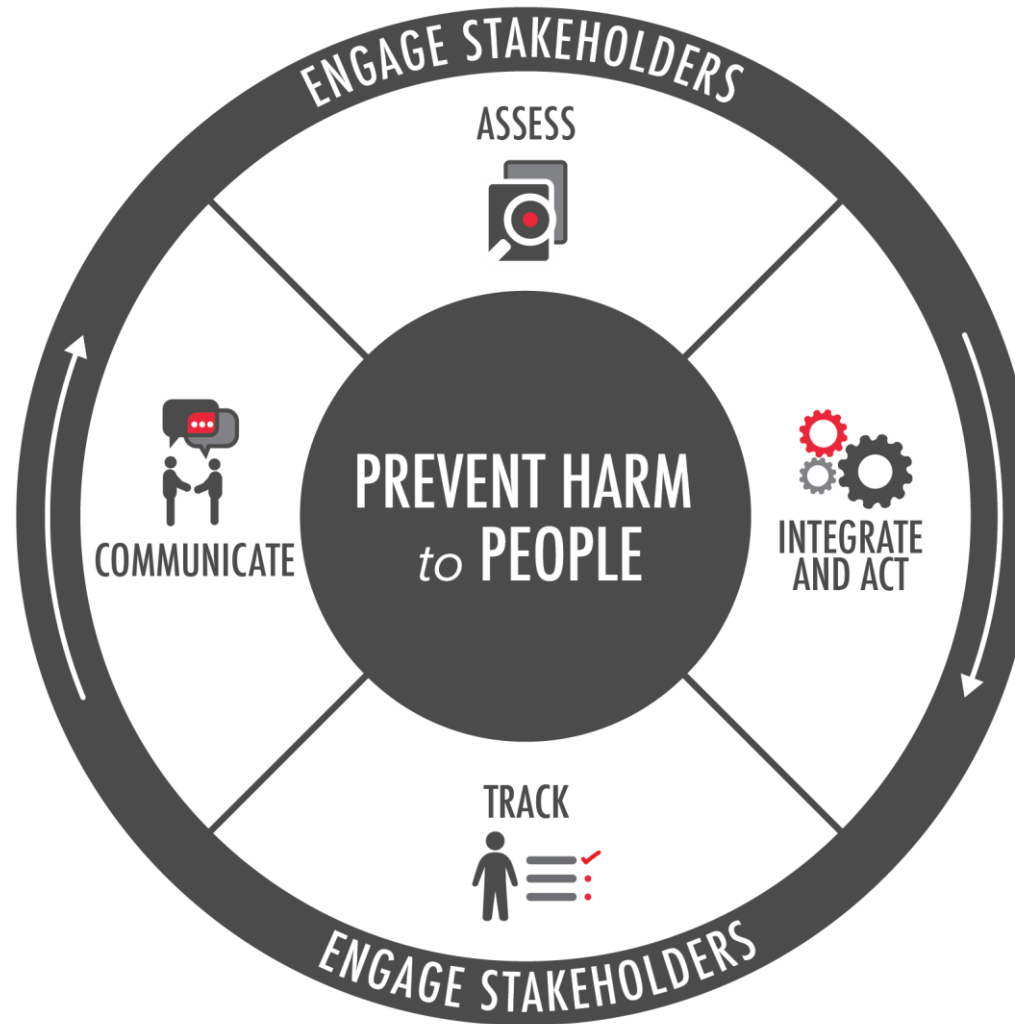
Initiatives from the Platform for Sustainable Finance (incl. announced guidance on the Minimum Safeguards), as well as the proposal for an EU Corporate Sustainability Due Diligence Directive, were taken into consideration to ensure that the structure of the reporting would be compatible with upcoming developments in this area.

Objective and Overview

Human Rights Due Diligence for the three stakeholder groups of S2 – S4

ESRS S2 – S4, DR's 2 and 3: **engage stakeholders**

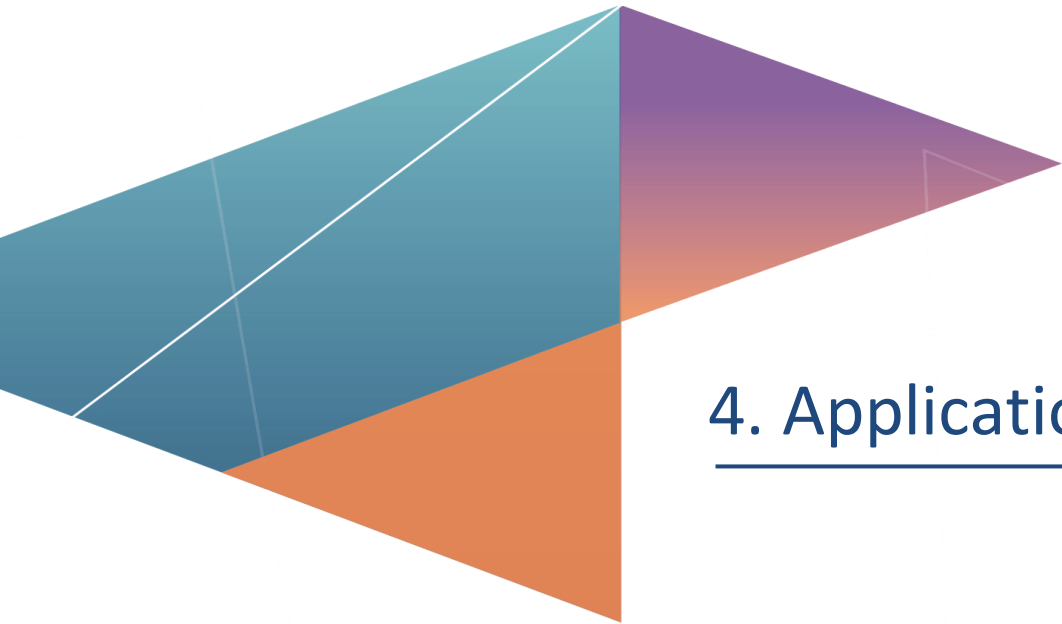
The standards in their entirety contribute to the reporting obligation required by the draft CSRD: **communicate**



ESRS 2 (cross cutting) and AG's 3 – 12/13: **assess** impacts, risks and opportunities

ESRS S2 – S4, DR's 1, 2, 5 and 6: **integrate and act** by developing policies, setting targets and taking action

ESRS 1 on targets, progress and tracking effectiveness and ESRS S2 – S4, DR 4: **track** performance



4. Application Guidance related to ESRS 2

Application Guidance

General, strategy, governance and materiality assessment

Strategy and business model (SBM), Impacts, risks and opportunities (IRO)

The description of the impact of SBM should include (AG 3 – 8):

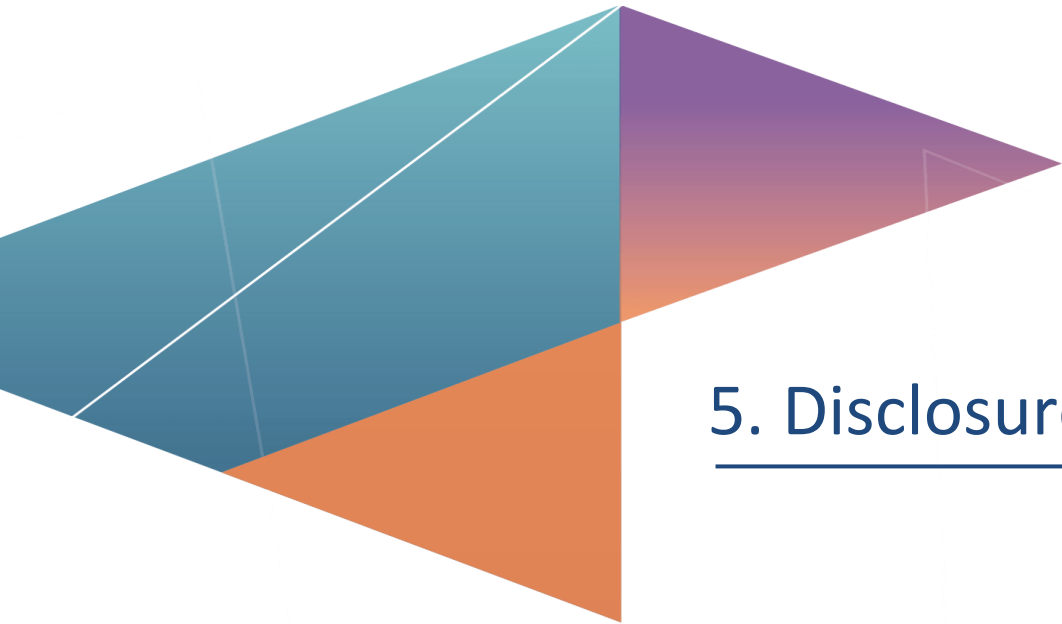
Provide an understanding of if and how it considers whether its business model and strategy play a role in creating, exacerbating or (conversely) mitigating significant material impacts, material risks and opportunities on value chain workers/affected communities/consumers and end-users, and whether and how the business model and strategy are adapted to address such material impacts.

Explain how the views, interests, rights and expectations of (actual or potential) materially affected S2 – 4 stakeholders, including respect for their human (including labour) rights, inform its strategy and business model.

The outcome of the assessment of material sustainability IRO (AG 9 – 12/13):

Ensure that all S2 – S4 stakeholders 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.

With special attention for child labour, forced labour and vulnerable groups who may at greater risk of harm



5. Disclosure Requirements

DR's for ESRS S2, S3 and S4

DR 1: **Policies** related to value chain workers/communities/consumers and end-users

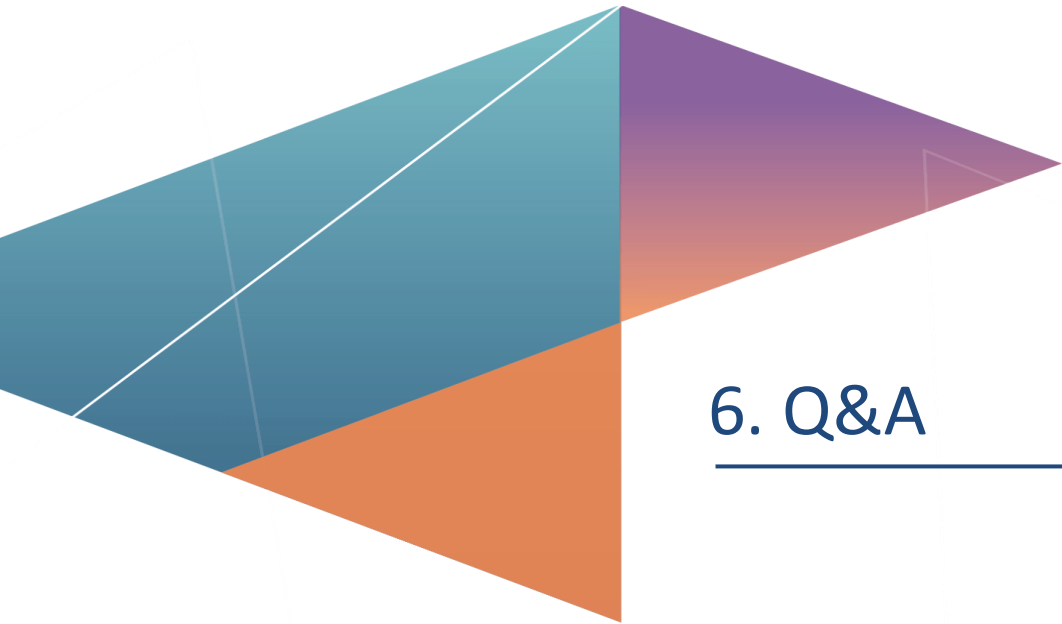
DR 2: **Process for engaging** with value chain workers/affected communities/consumers and end-users **about impacts**

DR 3: **Channels** for value chain workers/affected communities/consumers and end-users **to raise concerns**

DR 4: **Targets related to managing material impacts** on value chain workers/affected communities/consumers and end-users

DR 5: **Taking action on material impacts** on value chain workers/local communities/consumers and end-users and effectiveness of those actions

DR 6: **Approaches to mitigating material risks and pursuing material opportunities** related to value chain workers/local communities/consumers and end-users

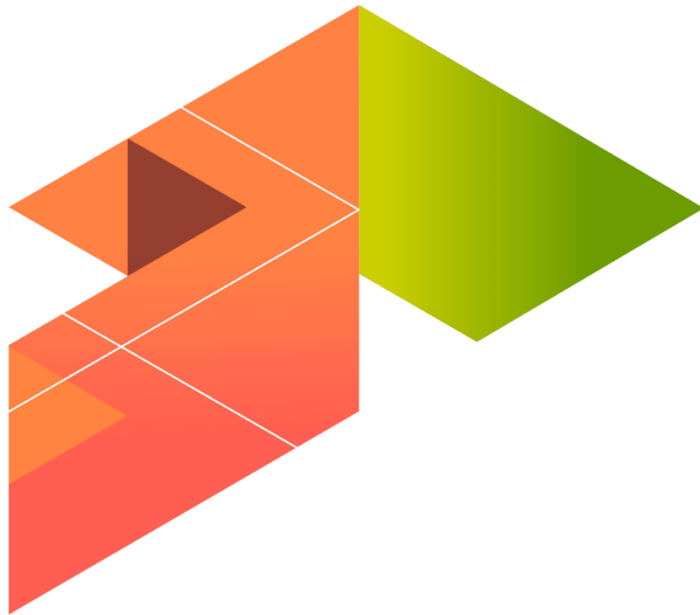


6. Q&A



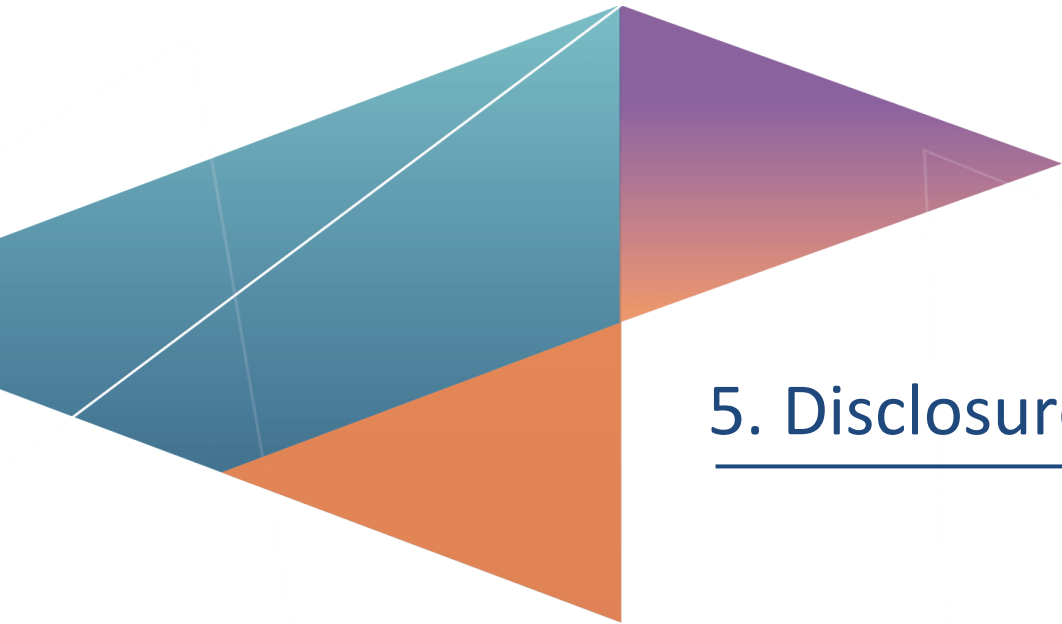
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5. Disclosure Requirements (Appendix)

Deep dive on Disclosure Requirements

DR S2 – S4 1 – Policies related to value chain workers/affected communities/consumers and end-users

The undertaking shall disclose policies implemented and provide contextual information

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 communicated

Provide an understanding of how both the internal organisation, and the value chain workers/local communities/consumers and end-users whose interests they address, are made aware of their existence and content.

Monitor compliance with the UN Global Compact principles or the OECD Guidelines for Multinational Enterprises

Include **which position or function within the undertaking has ultimate accountability and operational responsibility** for the implementation of the policy (AG)

Shall include **key information** necessary to **ensure a faithful representation** of the policies in relation to value chain workers/local communities/consumers and end-users (AG)

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 (AG)

Deep dive on Disclosure Requirements

DR S2 – S4 2 – Processes for engaging with value chain workers/affected communities/consumers about impacts

The undertaking shall describe:

The undertaking shall explain its **general processes for engaging** with value chain workers/affected communities/consumers and end-users and their representatives **about actual and potential material impacts** on them.

Whether engagement occurs with value chain workers or their legitimate representatives, or with credible proxies that have insight into their situation;

The stage(s) at which engagement occurs, and the type of engagement, as well as the frequency of the engagement

What role or function within the undertaking **has responsibility** for ensuring this engagement happens and that the results inform the undertaking's approach)

Shall explain any **steps it takes to gain insight** into the perspectives of workers/affected communities/consumers and end-users that may be particularly vulnerable to impacts and/or marginalised (AG)

Shall describe **if and how inputs** from value chain workers/communities/consumers and end-users **are taken into account** in the identification of the material impacts, in particular, inputs from potentially affected value chain workers/affected communities/consumers and end-users (AG)

Deep dive on Disclosure Requirements

DR S2 – S4 3 – Channels for value chain workers/affected communities/consumers and end-users to raise concerns

The undertaking shall describe:

The **channels** it has in place for value chain workers to **raise their concerns or needs** directly with the undertaking; and/or

The **processes** through which the undertaking supports the availability of such channels through the workplace of value chain workers; and

How it **monitors issues raised** and addressed

Whether and how it assesses that value chain workers/affected communities/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, and whether the undertaking has policies in place regarding the protection of individuals that use them against retaliation.

Shall **explain any steps it takes to gain insight** into the perspectives of workers/affected communities/consumers and end-users that may be particularly vulnerable to impacts and/or marginalised (AG)

Shall describe **if and how inputs** from value chain workers/communities/consumers and end-users **are taken into account in the identification of the material impacts**, in particular, inputs from potentially affected value chain workers/affected communities/consumers and end-users (AG)

If the undertaking cannot disclose the 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/by its business relationships, 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**

Deep dive on Disclosure Requirements

DR S2 – S4 4 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

The undertaking shall explain the outcome-oriented targets it may have related to:

Reducing negative impacts on value chain workers/affected communities/consumers and end-users;
and/or

Advancing positive impacts on value chain workers/affected communities/consumers and end-users;
and/or

Managing material risks and opportunities related to value chain workers/affected communities/consumers and end-users

Disclose the process for setting the targets, including whether and how the undertaking engaged directly with workers in the value chain/affected communities/consumers and end-users or their legitimate representatives, or with credible proxies that have insight into their situation in.

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). (AG)

Shall disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for workers/affected communities/consumers and end-users 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. (AG)

Deep dive on Disclosure Requirements

DR S2 – S4 5 – Taking action on material impacts on value chain workers and effectiveness of those actions

The undertaking shall explain:

What action is planned or underway to prevent, mitigate or remedy material negative impacts on value chain workers/local communities/consumers and end-users that are connected to its operations, products or services;

Additional initiatives or processes it has in place with the primary purpose of delivering positive impacts for value chain workers/local communities/consumers and end-users; and

How it assesses the effectiveness of these actions, programmes and processes in delivering intended outcomes for value chain workers/affected communities/consumers and end-users

The undertaking shall describe the approaches and processes through which it tracks the effectiveness of the actions it takes to address impacts

Which internal functions are involved in managing the impact and what types of action they take to address negative and advance positive impacts (AG)

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 (AG)

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 (AG)

Deep dive on Disclosure Requirements

DR S2 – S4 6 – Approaches to mitigating material risks and pursuing material opportunities related to value chain workers

The undertaking shall explain:

What **action is planned or underway to mitigate material risks** for the undertaking arising from its impacts and dependencies on value chain workers/local communities/consumers and end-users; and

⋮

What **action is planned or underway to pursue material opportunities** for the undertaking in relation to value chain workers/local communities/consumers and end-users

⋮

How the **actions it has planned or is implementing** in response to material risks or to pursue opportunities arising from its impacts and dependencies on value chain workers/local communities/consumers and end-users are expected to mitigate those risks, and **how it tracks their effectiveness in practice**, including any evidence to date of their success..

Focus 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/affected communities/consumers and end-users (AG)

Shall **disclose policies, targets, action plans and resources** related to the management of material risks and opportunities (AG)