

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

Entry level wages

Issues Paper

Objective

1. The objective of this paper is to report to the SR TEG the analysis performed by Secretariat on the datapoint for entry-level-wages employees, as proposed by some SR TEG members to be added in module 1 of the VSME standard.

Background

2. On September 29 SR TEG members discussed two proposals made by EFRAG Secretariat on how to include a metric on adequate wages that was aligned with Set 1 and LSME but simplified accordingly for a VSME standard. The two alternatives proposed were:
 - a. whether all employees are paid an adequate wage, in line with applicable benchmarks; or
 - b. % of employees paid an adequate wage, in line with applicable benchmarks.
3. Another SR TEG member proposed a third alternative based on GRI 202-1 (lowest entry level wage) which is the consensus reached by SR TEG: *“the undertaking shall disclose (a) when a significant proportion of employees are compensated based on wages subject to minimum wage rules, the relevant ratio of the entry level wage to the minimum wage, at significant locations of operations”*.

Description of the issue

4. Entry level wages paid compared to local minimum wages show the competitiveness of an undertakings wages and provide information relevant for assessing the effect of wages on the local labour market.¹ The formulation of such datapoint is to consider the relevance and comparability information criteria defined in ESRS 1 Qualitative characteristics of information.

¹ GRI 202: Market Presence 2016

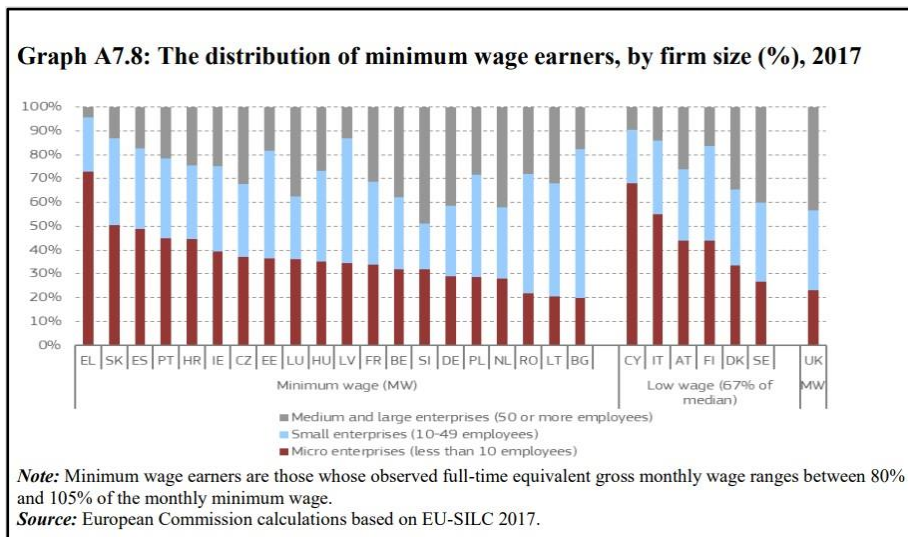


5. Detailed below are the implementation questions that can derive from the new formulation and have been analysed by Secretariat:
 - How should the requirement cover the different schemes used in EU Member States for minimum wage setting?
 - What qualifies as “a significant proportion of employees”?
 - What are the employees’ categories whose wages should be considered for the calculation?

Analysis of the issue

Different systems of minimum wage protection across MS – Comparability

6. EU Member States have different systems for setting minimum wages: either through legislative provisions (statutory minimum wages) or through collective bargaining agreements. Both schemes are recognized by the Minimum Adequate Wage Directive (AMWD).
7. In six EU Member States (Austria, Cyprus, Denmark, Finland, Italy, and Sweden) minimum wage protection is provided by wages set in collective agreements. Usually, these agreements are concluded at the sectoral level. In general, these Member States have a comprehensive collective bargaining system, with high membership of both unions and employers’ associations.
8. Twenty-one EU Member States have a statutory national minimum wage, a wage floor set by law applying to all sectors of the economy. There is a considerable variety across countries in the mechanism to set these.



9. The AMWD also states the importance of reliable monitoring and data collection for effective minimum wage protection (Recital 33). In that line, it requires Member States to report on (Article 10):

- a. For statutory minimum wages: (1) the level of statutory minimum wage and share of workers covered by it, (2) description of existing variations, deduction, and the reason for them.
- b. For collective agreements: (1) lowest pay rates covering low-wage earners or an estimate thereof (if no accurate data) and share of workers covered, (2) level of wages paid to workers not covered by collective agreements and its relation to level of wages paid to workers covered by collective agreements.

Defining a significant proportion of employees

10. “Significant proportion of employees” would need to be defined (i.e., threshold), in order to allow for comparability of the information across undertakings. Also, to note is whether the current formulation would consider vulnerable groups if the significant proportion is based on majority of number of employees; thus, a potential consideration being the relevance of the information achieved.²

Calculating the entry level wage

11. Entry level wage is defined in GRI 202-1 as “full-time wage in the lowest employment category”, without considering interns or apprentices.
12. Such metric may or may not consider all categories of employees when identifying the lowest employment category (i.e., categories of employees who are not representative of the undertaking’s workforce may need to be excluded). Also, this metric may not take account of the vulnerable groups.
13. The share of minimum wage workers is higher in SMEs than in large companies and SMEs on average tend to pay lower wages³.

Other alternatives in line with the VSME draft

14. Other alternatives that could be considered for the VSME draft, and aligned with the content and style of Set 1 and LSME, are:
 - a. To replace this metric with a specific PAT requirement in module 2. This module is subject to materiality assessment, and the requirements are to be disclosed only if the undertaking has policies, actions or targets in place. This would provide proportionality to the undertakings in scope and would limit the disclosure only to meaningful information: only to be disclosed if adequate wages is a material matter and if it is, the disclosure

² Women, low-skilled workers, workers with non-standard contracts are more likely to be minimum wage earners. For example, in Czechia, Germany, Malta, the Netherlands, and Slovakia women represent over 70% of minimum wage earners. Source: EC, Impact Assessment Report, Adequate Minimum Wage Directive.

³ Micro and small enterprises employ a majority of minimum wage earners. There are differences across Member States, for example companies with less than 50 workers employ more than 80% of minimum wage earners in Bulgaria, Estonia, Greece, Latvia, Slovakia and Spain, while the weight is below 60% in Germany, the Netherlands and Slovenia.

Source: EC, Impact Assessment Report, Adequate Minimum Wage Directive.

Source: ILO, The Power of small: unlocking the power of SMEs.



should be regarding the policies, actions and targets in place to manage the negative impacts and financial risks. Therefore, the proposed reading would be as follows:

“Where adequate wages is a material matter, the undertaking shall disclose its policies, actions and targets to manage the negative impacts and address the financial risks.”

Conclusion

15. Information on adequate wages in SMEs is important to understand the impact they have on their own workforce, as well as the risks that those impacts and dependencies pose for their business. It can be relevant for both affected stakeholders and users of sustainability statements. The specific information to be required on this topic is to be formulated to comply with the *Qualitative characteristics of information* of ESRS 1 (i.e., relevance, faithful representation, comparability, verifiability and understandability).
16. The metric proposed by a SR TEG member based on GRI 202-1 (lowest entry level wage) has been analysed by Secretariat from an implementation perspective and questions that could be identified with the current formulation described above. There is time between now and the issuance of VSME for public consultation to elaborate on the implementation challenges noted. This could be combined with a specific question on this matter in the public consultation.
OPTION 1
17. As an alternative, EFRAG Secretariat proposes addressing specifically adequate wages as part of module 2 through a Disclosure Requirement. **OPTION 2**

Questions for EFRAG SR TEG

1. Do EFRAG SR TEG members agree with option 1 or option 2?

