



COMPARISON: EFRAG DRAFT ESRS AND EUROPEAN COMMISSION'S DRAFT DELEGATED ACT (DA) – ESRS S2 WORKERS IN THE VALUE CHAIN

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DISCLAIMER

This paper below contains the EFRAG draft ESRS S2 **Workers in the Value Chain** which has been modified in track changes to match the version the EC proposed in the DA.

This document does not represent Accountancy Europe's views or analysis of these changes. It is a comparison run automatically by IT tools (including WordCompare) available to us. It is an Accountancy Europe's working document in view of preparing our feedback to their EC draft delegated act with the first set of European Sustainability Reporting Standards (ESRS).

Accountancy Europe makes this document available to help other stakeholders understand the detailed changes of the standards and help them in their own feedbacks to the European Commission.

~~Draft~~ **ESRS S2**
WORKERS IN THE VALUE CHAIN

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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** ~~statement~~ to understand material **impacts** on **value chain workers** ~~caused or contributed to by the undertaking, as well as material impacts which are directly linked to~~ connected with the undertaking's own operations, ~~and value chain, including through its~~ products or services, as well as through its business relationships, and its related material risks and opportunities, including:
 - (a) how the undertaking affects workers in its value 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 negative impacts, and to address risks and opportunities;
 - (c) the nature, type and extent of the undertaking's material risks and opportunities, including those related to its impacts and **dependencies** on workers in the value chain, and how the undertaking manages them; and
 - (d) the **financial effects** on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities, including those arising from the undertaking's impacts and dependencies on workers in the value chain.
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:
 - (a) working conditions (for example, secure employment, working time, **adequate wages** ~~wage~~, **social dialogue**, freedom of association, including the existence of work councils, **collective bargaining**, **work-life balance** and health and safety);
 - (b) **equal treatment** and **opportunities** for all (for example, gender equality and equal **pay** for work of equal value, **training** and skills **development**, the employment and inclusion of **persons with disabilities**, measures against violence and **harassment** in the workplace, and diversity);
 - (c) other work-related rights (for example, **child labour**, **forced labour**, adequate housing, water and sanitation and privacy).
3. 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 the 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.
4. This ~~[draft]~~ Standard covers all workers in the undertaking's upstream and downstream **value chain** who are or can be materially impacted by the undertaking, ~~this includes~~ including impacts that are ~~caused or contributed to by~~ connected with the ~~undertaking and those which are directly linked to its~~ undertaking's own operations, ~~products, or~~ and value chain, including through its products or services, as well as through its business relationships. This includes all workers who 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*. See AR 3 for examples of what is included in the scope of this ~~[draft]~~ Standard.

Interaction with other ESRS

5. This ~~[draft]~~ Standard applies when material **impacts** on and/or material **risks** and **opportunities** related to ~~workers in the value chain~~ **workers** have been identified through the **materiality** assessment process laid out in ESRS 2 *General disclosures*.

6. This ~~draft~~ Standard shall be read in conjunction with ESRS 1 *General requirements*, and ESRS 2, as well as the ESRS S1, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*.
7. 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~~ effective reporting.

Disclosure Requirements

ESRS 2 General disclosures

8. The requirements of this section should be read in conjunction with the disclosures required by ESRS 2 on Strategy (SBM). The resulting disclosures shall be presented alongside the disclosures required by ESRS 2, except for SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model(s)*, for which the undertaking has an option to present the disclosures alongside the topical disclosure.

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 Interests and views of stakeholders

9. When responding to ESRS 2 SBM-2 paragraph 43, the undertaking shall disclose how the interests, views, and rights ~~and expectations of (actual or potential) materially affected its value chain workers who can be materially impacted by the undertaking,~~ including respect for their human ~~(including labour) rights, inform its strategy and business model(s).~~ Value chain workers are a key group of affected **stakeholders**.

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

10. When responding to ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose:
 - (a) whether and how actual and potential impacts on **value chain workers**, as identified in ESRS 2 IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities*: (i) originate from or are connected to the undertaking's strategy and business models, and (ii) inform and contribute to adapting the undertaking's strategy and business model(s); and
 - (b) the relationship between on the one hand its material risks and opportunities arising from impacts and **dependencies** on **value chain workers**, and on the other hand its strategy and business model(s).
11. When fulfilling the requirements of paragraph ~~46 (a) and (c),~~ ESRS 2 SBM-3 paragraph 48, the undertaking shall disclose whether all **value chain workers** who ~~can be~~ are likely to be materially impacted by the undertaking, including impacts that are ~~caused or contributed by the undertaking or directly linked to its~~ connected with the undertaking's own operations, ~~and value chain, including through its~~ as well as through its business relationships, are included in the scope of its disclosure under ESRS 2. In addition, the undertaking shall provide the following information:
 - (a) a brief description of the types of value chain workers ~~subject to material~~ who can be materially impacted by the undertaking, including impacts ~~by its~~ that connected with the undertaking's own operations and value chain, including through its products or services, as well as through its ~~upstream and downstream value chain~~ business relationships, and specify whether they are:
 - i. workers working on the undertaking **site** but who are not part of **own**

workforce, i.e., who are not self-employed workers, or workers provided by third party undertakings ~~primarily engaged~~ 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~~ involving the reporting undertaking;
 - v. workers who (within the prior categories or additionally) are particularly vulnerable to negative impacts whether due to their 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 labour** or compulsory labour, among workers in the undertaking's value ~~chain.~~ chain⁸⁵;
- (c) in the case of material negative impacts, whether they are either (i) 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 (ii)~~ related to individual **incidents** (e.g., an industrial accident or an oil spill) ~~or to~~ or to specific business relationships. This includes consideration of impacts on ~~workers in the value chain~~ workers that may arise from the transition to greener and climate-neutral operations. Potential impacts include impacts associated with innovation and restructuring, closure of mines, increased mining of minerals needed for the transition ~~mineral mining to a sustainable economy,~~ and solar panel production;
- (d) in the case of material 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), including providing opportunities for the workforce such as job creation and upskilling in the context of a 'just transition', and the types of value chain workers that are positively affected or could be positively affected, ~~including their geographic location, the undertaking may also disclose whether the positive impacts occur in specific countries or regions;~~ and
- (e) any material risks and opportunities for the undertaking arising from impacts and **dependencies** on value chain workers.

41.12. In describing the main types of **value chain workers** who are or may be negatively affected, based ~~on the~~ on the **materiality** assessment set out in ESRS 2 IRO-1, the undertaking shall disclose whether and 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.

42.13. The undertaking shall disclose which, if any, of its material **risks** and **opportunities** arising from **impacts** and **dependencies** on its value chain workers, ~~are impacts on~~ relate to specific groups of value chain workers (for example, particular age groups, workers in a particular factory or country) rather than ~~impacts that affect~~ to all of the value chain workers. ~~Such circumstances arise when a material impact on value chain workers could lead to financial effects for the undertaking.~~

⁸⁵ 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 number 12 and number 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").

Impact, risk and opportunity management

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

- ~~13.14.~~ The undertaking shall describe 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.~~
- ~~14.15.~~ The objective of this Disclosure Requirement is to enable 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.
- ~~15.16.~~ The disclosure required by paragraph 14 shall contain the information on the undertaking's policies to manage its material impacts, risks and opportunities related to **value chain workers** in accordance with ESRs 2 MDR-P *Policies adopted to manage material sustainability matters*~~);~~. In addition, the undertaking shall specify ~~if~~**whether** such policies coverspecific groups ~~of value chain workers~~ or all ~~workers in the value chain workers~~.
- ~~16.17.~~ The undertaking shall describe its human rights **policy commitments**~~commitments~~⁸⁶ that are relevant to **value chain workers**, including those processes and mechanisms to monitor compliance with the UN ~~Global Compact principles~~Guiding Principles on Business and the Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational ~~Enterprises, in Enterprises~~⁸⁷. In its disclosure, it shall focus on those matters that are material in relation to, as well as the general approach ~~in relation to~~⁸⁸:
- respect for the human rights, including labour rights, of workers;
 - engagement with value chain workers; and
 - measures to provide and/or enable **remedy** for human rights impacts.
- ~~17.18.~~ The undertaking shall ~~also~~ state whether its policies in relation to **value chain workers** explicitly address trafficking in human beings⁸⁸, **forced labour** or compulsory labour and **child labour**. It shall also state whether the undertaking has a **supplier** code of conduct⁸⁹.
- ~~18.19.~~ The undertaking shall disclose whether and how its policies with regard to ~~workers in the value chain workers~~ are aligned with internationally recognised ~~standards~~instruments relevant to value chain workers, including the United Nations (UN) Guiding Principles on Business and Human Rights⁹⁰. The undertaking shall also disclose the extent to which ~~violations in relation to cases of non-respect of the UN Global Compact principles~~Guiding Principles on Business and the Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises that involve ~~workers in the value chain workers~~ have been reported in its upstream and downstream value chain and, if applicable, an indication of the nature of ~~these~~such cases⁹¹.

⁸⁶ 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 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of a human rights policy").

⁸⁷ 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~~").

⁸⁸ 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 #11 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of processes and measures for preventing trafficking in human beings").

⁸⁹ 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").

⁹⁰ This information supports the needs of benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labour Organisation Conventions 1 to 8" in section 1 and 2 of Annex

2.

⁷⁹¹ 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”~~) and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicators “Number of benchmark constituents subject to social violations (absolute number and relative divided by all benchmark constituents), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law” and “Exposure of the benchmark portfolio to companies without due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8” in section 1 and 2 of Annex 2.

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

~~19-20.~~ The undertaking shall disclose its general processes for engaging with value chain workers and their representatives about actual and potential impacts on them.

~~20-21.~~ The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with **value chain workers** and their legitimate representatives, or with **credible proxies**, about material actual and potential positive and/or negative impacts that do or are likely to affect them, and whether and how perspectives of value chain workers are taken into account in the decision-making processes of the undertaking.

~~21-22.~~ The undertaking shall disclose whether and how the perspectives of **value chain workers** inform its decisions or activities aimed at managing the actual and potential ~~material~~ impacts on value chain workers. This shall include, where relevant, an explanation of:

- (a) whether engagement occurs with value chain workers or their **legitimate representatives** directly, or with **credible proxies** that have insight into their situation;
- (b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of the engagement;
- (c) the function and the most senior role within the undertaking that has operational responsibility for ensuring that this engagement happens, and that the results inform the undertaking's approach;
- (d) where applicable, Global Framework Agreements or for agreements that the undertaking has with global union federations related to respect of human rights of workers in the value chain, including their right to bargain collectively, and including an explanation of how the agreement enables the undertaking to gain insight into those workers' perspectives, ~~where applicable~~; and
- (e) where applicable, how the undertaking assesses the effectiveness of its engagement with workers in the value chain, including, where relevant, any agreements or outcomes that result.

~~22-23.~~ Where applicable, the undertaking shall disclose the 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).

~~23-24.~~ If the undertaking cannot disclose the above required information because it has not adopted a general process to engage with workers in the value chain, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a process in place.

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

~~24-25.~~ The undertaking shall describe the processes it has in place to provide for or cooperate in the remediation of negative impacts on ~~workers in the value chain~~ **workers** that the undertaking ~~has identified it has caused or contributed to~~ **is connected with**, as well as channels available to value chain workers to raise concerns and have them addressed.

~~25-26.~~ The objective of this Disclosure Requirement is to enable 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 such channels (for example, **grievance mechanisms**) in the workplace of value chain workers, how

follow up is ~~performed~~carried out with these workers regarding the issues raised, and the effectiveness of these channels.

26-27. The undertaking shall describe:

- (a) its general approach to and processes for providing or contributing to **remedy** where it has identified that it ~~has caused or contributed to~~connected with a material negative impact on **value-chain workers**, including whether and how the undertaking assesses that ~~remedy~~provided is effective;
- (b) any specific channels it has in place for value chain workers to raise their concerns or needs directly with the undertaking and have them addressed, including whether these are established by the undertaking itself and/or ~~through participation in~~whether they are third-party mechanisms;
- (c) ~~its~~the processes through which ~~the undertaking~~it supports or requires the availability of such channels ~~through~~in the workplace of value chain workers; and
- (d) how it tracks and monitors issues raised and addressed, and how it ensures the effectiveness of the channels, including through involvement of **stakeholders** who are the intended **users**.

27-28. The undertaking shall disclose 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. In addition, the undertaking shall disclose whether it has policies in place regarding the protection of individuals that use them against retaliation. If such information has been disclosed in accordance with ESRS G1-1, the undertaking may refer to that information.

28-29. 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~~such a channel in the workplace of **value chain workers**, it shall disclose this to be the case. It may disclose a timeframe in which it aims to have such a channel or processes in place.

Disclosure Requirement S2-4 – Taking action on material impacts on value chain workers, and approaches to ~~mitigating~~managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions

29-30. The undertaking shall disclose ~~its approaches to taking~~how it takes action ~~on~~to address material impacts on value chain workers, and to ~~mitigating~~manage material risks and ~~pursuing~~pursue material opportunities related ~~to value~~to value chain workers and the effectiveness of those actions.

30-31. The objective of this Disclosure Requirement is twofold. Firstly, it is to ~~provide~~enable an understanding of any ~~processes, actions or~~ initiatives ~~or~~ engagements through which the undertaking seeks to ~~improve workers' lives, whether by:~~

- (a) ~~working to~~ prevent, mitigate and **remediate** the negative material **impacts** on **value chain workers**; and/or
- (b) ~~seeking to~~ achieve positive material impacts for value chain workers.

Secondly, it is to ~~provide~~enable an understanding of the ways in which the undertaking is addressing the material **risks** and pursuing the material **opportunities** related to **workers in the value chain**.

The undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks, and opportunities on value chain workers as per ESRS 2 MDR-A Actions and resources in relation to sustainability matters.

31.32. In relation to material **impacts**, the undertaking shall describe:

- (a) ~~what action is actions taken~~, planned or underway to prevent, or mitigate ~~or remediate~~ material negative impacts on **value chain workers**;
- (b) ~~whether and how it has taken action to provide or enable remedy in relation to an actual material impact;~~
- (b)(c) any additional **actions** or initiatives ~~or processes~~ it has in place with the primary purpose of delivering positive impacts for value chain workers; and
- (d) ~~how it tracks and assesses the effectiveness of these such actions, programmes and processes initiatives~~ in delivering intended outcomes for value chain workers.

32.33. In relation to paragraph 30, the undertaking shall describe ~~its approaches to:~~

- (a) ~~identifying the processes through which it identifies~~ what action is needed and appropriate in response to a particular actual or potential ~~material~~ negative impact on **value chain workers**;
- (b) ~~its approach to~~ 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 how it ensures~~ that processes to provide or enable **remedy** in the event of material negative impacts are available and effective in their implementation and outcomes.

33.34. In relation to material risks and opportunities, the undertaking shall describe:

- (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 how it tracks effectiveness in practice; and
- (b) what action is planned or underway to pursue material opportunities for the undertaking in relation to value chain workers.

34.35. The undertaking shall disclose whether and how it ~~ensures that its own practices do not cause~~ takes action to avoid causing or ~~contribute~~ contributing to material negative impacts on **value chain** workers through its own practices, including, where relevant, ~~its practices~~ in relation to procurement, sales and data use. This may include disclosing what approach is taken when tensions arise between the prevention or mitigation of material negative impacts and other business pressures.

35.36. The undertaking shall also disclose whether severe human rights issues and **incidents** connected to its upstream and downstream **value chain** have been reported and, if applicable, disclose ~~these~~ these.

~~4. The~~ When disclosing the information required under paragraph 32 (c), the undertaking shall provide a summarised description of the action plans and resources to manage its material impacts, risks and opportunities on workers in the value chain as per consider ESRS 2 DC-A Actions and resources in relation to material sustainability matters. In addition, the undertaking shall describe the approaches and processes through which it tracks the effectiveness of the actions it takes to address material impacts (see ESRS 2 DCMDR-T Tracking effectiveness of policies and actions through targets).

36.37. ~~In the event of actual material negative impacts on workers in the value~~

~~chain during the reporting period, the undertaking shall disclose whether and how it has taken action to provide or enable remedy in relation to the actual material impact where the undertaking has caused or contributed to it if it evaluates the effectiveness of an action by setting a target.~~

⁹² 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”).

~~37-38.~~ The undertaking shall disclose what resources are allocated to the management of its material impacts, with ~~specific and detailed~~ information that enables ~~readers~~ users to gain an understanding of how the material impacts are managed.

Metrics and targets

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

~~38-39.~~ The undertaking shall disclose the time-bound and outcome-oriented targets it may have set related to:

- (a) reducing negative impacts on value chain workers; and/or
- (b) advancing positive impacts on value chain workers; and/or
- (c) managing material risks and opportunities related to value chain workers.

The objective of this Disclosure Requirement is to enable an understanding of the extent to which the undertaking is using time-bound and outcome-oriented **targets** to drive and measure its progress in addressing material negative impacts, and/or advancing positive impacts on **value chain** workers, and/or in managing material risks and opportunities related to value chain workers.

~~39-40.~~ The summarised description of the **targets** to manage its material impacts, risks and opportunities on **value chain workers** ~~in the value chain~~ shall contain the information requirements defined in ESRS 2 ~~DCMDR~~-T.

~~40-41.~~ The undertaking shall disclose the process for setting the **targets**, including whether and how the undertaking engaged directly with workers in the value chain, 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, ~~if any,~~ lessons or improvements as a result of the undertaking’s performance.

Appendix A: ~~Defined terms~~Application Requirements

This appendix is an integral part of the ~~[draft] ESRS S2~~ and has the same authority as the ~~other parts of the [draft] Standard.~~

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 the undertaking to effect a change in the wrongful practices of another party that is causing or contributing to a negative human rights impact.
Stakeholder engagement	An ongoing process of interaction and dialogue between the undertaking and its stakeholders that enables the undertaking to hear, understand and respond to their interests and concerns.
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 the undertaking, regardless of the existence or nature of any contractual relationship with that undertaking. In the ESRS, the following is included in the scope of workers in the value chain: all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted by the undertaking, this includes impacts that are caused or contributed to by the undertaking and those which are directly linked to its own operations, products, or services through its business relationships. This includes

~~all workers who are not included in the scope of “Own workforce” (“Own workforce” includes workers who are in an employment relationship with the undertaking (‘employees’) and non-employee workers who are either individual contractors supplying labour to the undertaking (‘self-employed workers’) or workers provided by undertakings primarily engaged in ‘employment activities’ (NACE Code N78))~~

Appendix B: Application Requirements

~~This appendix is an integral part of the [draft] ESRS S2 Workers in the value chain. It supports the application of the disclosure requirements set for out in paragraphs 8-43 this standard and has the same authority as the other parts of [draft] ESRS S2.~~

Objective

- AR 1. ~~The~~In addition to the issues listed in paragraph 2, the undertaking may ~~highlight special~~also consider disclosing information about other 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 workers~~ during a pandemic.
- AR 2. ~~The~~ overview of social and human rights matters provided in paragraph 2 is not meant to imply that all of these issues should be disclosed in each Disclosure Requirement in this ~~[draft]~~ Standard. Rather, it provides a list of matters that the undertaking shall consider in its **materiality** assessment (ref. to ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and ESRS 2 IRO-1) related to ~~workers in the value chain workers~~ and, ~~subsequently~~as appropriate, disclose as material impacts, risks and opportunities within the scope of this ~~[draft]~~ Standard.
- AR 3. ~~Examples of workers that fall within the scope of this [draft] Standard are:~~
- (a) workers of outsourced services working in the workplace of the undertaking (e.g., third party catering or security workers);
 - (b) workers of a **supplier** contracted by the undertaking who work on the supplier's premises using the supplier's work methods;
 - (c) workers for a 'downstream' entity which purchases goods or services from the undertaking;
 - (d) workers of an equipment supplier to the undertaking who, at a workplace controlled by the undertaking, perform regular maintenance on the supplier's equipment (e.g., photocopier) as stipulated in the contract between the equipment supplier and the undertaking; and
 - (e) workers deeper in the **supply chain** who are extracting commodities that are then processed into components that go in the undertaking's products.

ESRS 2 General disclosures

Strategy

Disclosure Requirement related to ESRS 2 SBM-2 - Interests and views of stakeholders

- AR 4. Disclosure Requirement ESRS 2 SBM-2 requires the undertaking to provide an understanding of ~~if~~whether and how it considers ~~whether~~the role that its strategy and business model ~~(s) may~~ play ~~a role~~ in creating, ~~exacerbating or~~

~~(conversely)exacerbating~~ or mitigating significant material impacts on **value chain** workers, and whether and how the business model~~(s)~~ and strategy are adapted to address such material impacts.

AR 5. While **value chain** workers may not be engaging with the undertaking at the level of its strategy or business model~~(s)~~, their views can inform the undertaking's assessment of its strategy and business model~~(s)~~. The undertaking ~~shall consider disclosing or~~ may disclose the views of the ~~(actual or potential) materially affected value chain workers and~~ value chain workers' ~~legitimate representatives (trade unions or works councils) or those of credible proxies that have insight into their situation.~~

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

- AR 6.— Impacts on **value chain** workers can originate in the undertaking's strategy or business model~~(s)~~ in a number of different ways. For example, impacts may relate to the undertaking's value proposition ~~(e.g., such as~~ providing lowest cost products or services, or high-speed delivery, in ways that put pressure on labour rights in the upstream and downstream value chains), its value chain ~~(e.g., such as~~ relying on commodities of unclear provenance, without visibility on 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).
- AR 7. Impacts on **value chain workers** that originate in the strategy or the business model~~(s)~~ can also bring material risks to the 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. Another example is 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.
- AR 8. ~~Examples of particular characteristics of~~ **workers in the value chain workers** that may be considered by the undertaking when responding to paragraph 12 relate to young workers that may be more susceptible to impacts on their physical and mental development, or women workers in a context where women are routinely discriminated against in the terms and conditions of work, or 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).
- AR 9. With regard to paragraph 13, ~~the business risks, which can lead to~~ material risks, could also arise because of the undertaking's dependency on **value chain workers** where low likelihood but high impact events may trigger **financial effects**; 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. 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.

Impact, risk and opportunity management

Disclosure Requirement S2-1 – Policies related to value chainworkers

- AR 10. 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 ESRSS1 and not in relation to this requirement.
- AR 11. If the disclosures under ESRS S1 ~~includes~~include information relevant for workers in the value chain, a reference to this can be made here; disclosures on the remaining elements shall then be fulfilled under this Disclosure Requirement.
- AR 12. ~~The summary shall include the key information necessary to ensure a faithful representation of the policies in relation to value chain workers and, therefore, the undertaking shall consider disclosing~~The undertaking may disclose explanations of significant changes to the policies adopted during the reporting year (e.g., new expectations for **suppliers**, new or additional approaches to **sustainability** due diligence and remedy).
- AR 13. ~~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 that has already been disclosed by the undertaking as part of another ~~[draft]~~ ESRS. In those cases, the undertaking shall provide an accurate cross-reference to identify the aspects of the policy that satisfy the requirements of this Disclosure Requirement.
- AR 14. ~~In~~When disclosing ~~its~~the alignment of its policies with the UN Guiding Principles on Business and Human Rights, the undertaking shall consider that the Guiding Principles refer to the International Bill of Rights, which consist of the 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, and may disclose its alignment with these ~~underlying standards~~instruments.
- AR 15. When disclosing how external-facing policies are embedded, the undertaking may, for example, consider internal policies of responsible sourcing, and alignment with other policies relevant to **value chain** workers, for example, regarding **forced labour**. 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 (for example, the 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.
- AR 16. The undertaking may ~~explain how~~provide an illustration of the types of communication of its policies ~~are communicated~~ to those individuals, group of 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~~own workers, investors), ~~or both, to help ensure that the policy is accessible and that they understand its implications, the undertaking~~. It may disclose communication tools and channels (for example, flyers, newsletters, dedicated websites, social media, face to face interactions, ~~unions and/or workers representatives~~) ~~and /or the identification and removal of workers' representatives~~, aimed at ensuring that the **policy** is accessible and that different audiences understand its implications. The undertaking may also explain how it identifies and removes 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

~~AR 17. Legitimate representatives who have knowledge of the interests, experiences or perspectives of value chain workers 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.~~

AR 18. When describing which function or role 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 may disclose whether this is a dedicated role or function or part of a broader role or function, ~~and whether any capacity building activities have been offered to support the staff to undertake engagement.~~ If it cannot identify such a position or function, it may state ~~so that this is the case.~~ This disclosure could also be fulfilled ~~with~~ ~~by~~ making reference to information disclosed according to ESRS 2 GOV-1 *The role of the administrative, management and supervisory bodies.*

AR 19. When preparing the disclosures described in paragraph 22 b) and c), the following illustrations ~~may~~ ~~maybe~~ considered:

- (a) ~~for stage(s)~~ examples of stages at which engagement occurs, ~~examples could be in are i)~~ determining the approach to mitigation approaches or in evaluating their and ii) evaluation the effectiveness of mitigation;
- (b) for type of engagement, these could be participation, consultation and/or information;
- (c) for the frequency of the engagement, information may be provided on 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, as well as whether it occurs 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; and
- (d) for the role with operational responsibility, whether ~~the undertaking~~ requires relevant staff to have certain skills ~~of,~~ or ~~whether it~~ provides **training** or capacity building to relevant staff to undertake engagement.

AR 20. Global Framework Agreements (GFA) serve to establish an ongoing relationship between a multinational enterprise and a Global Union Federation to ensure that the undertaking adheres to the same standards in every country in which it operates.

AR 21. To illustrate how the perspectives of **value chain** workers have informed specific decisions or activities of the undertaking, the undertaking may provide examples from the current reporting period.

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

AR 22. In fulfilling the requirements set out by Disclosure Requirement ESRS S2-3, the undertaking may be guided by the content of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises focused on **remediation** and **grievance mechanisms**.

AR 23. Channels for raising concerns or needs include **grievance mechanisms**, hotlines, trade unions (where workers are unionised), 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, ~~and are to be disclosed~~ in addition to any other mechanisms the undertaking may use to gain insight into the management of impacts on workers, such as compliance audits. Where the undertaking is relying solely on information about the existence of such channels provided by its **business relationships** to answer this requirement, it may state that.

AR 24. To provide greater insight into the information covered in Disclosure Requirement ESRS S2-3, the undertaking may ~~provide insight into~~ 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.

AR 25. Third party mechanisms could include those operated by the government, NGOs, industry associations and other collaborative initiatives. ~~With regard to the scope of these mechanisms, the~~ The undertaking may disclose whether these 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 negative 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 negative impacts), can raise complaints or concerns related to the undertaking's own activities.~~

AR 26. In relation to the protection of individuals that use the mechanisms against the retaliation, the undertaking may describe whether it treats grievances confidentially and with respect to the rights ~~of privacy~~of privacy and data protection; and whether ~~they~~the mechanisms allow for workers to use them anonymously (for example, through representation by a third party).

AR 27.— In disclosing whether and how the undertaking knows that **value chain** workers are aware of and trust any of these channels, the undertaking may provide relevant and reliable data 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.

AR 28.— 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 non-judicial **grievance mechanisms**”, as laid out in the UN Guiding Principles on Business and Human Rights, in particular Principle 31. 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~~agreed solutions, rather than seeking to unilaterally determine the outcome?

~~AR 29.— For more information, see Principle 31 of the UN Guiding Principles on Business and Human Rights.~~

Disclosure Requirement S2-4 – Taking Action on material impacts, and approaches to mitigating material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions and approaches

AR 30. It may take 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. Therefore, the undertaking shall consider:

- (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.

AR 31. Appropriate action can vary according to whether the undertaking causes or contributes to a

material impact or whether the material impact is directly linked to its own operations, products or services through a business relationship.

- AR 32. Given that material negative impacts affecting **value chain** workers that have occurred during the reporting period may ~~not be caused or contributed to by the undertaking alone and may also~~ be linked to entities or operations outside its direct control, the undertaking may disclose whether and how it seeks to use its leverage ~~with relevant in its~~ **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 ~~entities with which the undertaking has a~~ business relationships) or collaborative leverage with peers or other actors (such as initiatives aimed at responsible recruitment or ensuring workers receive ~~a living an~~ **adequate wage**).
- AR 33.— When the undertaking discloses its participation in an industry or multi-stakeholder initiative as part of its **actions** to address material negative impacts, the undertaking may disclose how the initiative, and its own involvement, is aiming to address the material impact concerned. It may disclose under ESR S2-5 the relevant **targets** set by the initiative and progress towards them.
- AR 34. When disclosing whether and how the undertaking 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, the undertaking may include examples.
- AR 35. In disclosing how it tracks the effectiveness of its **actions** to manage material impacts during the reporting period, the undertaking may disclose any lessons learned from the previous and current reporting periods.
- AR 36. 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.
- AR 37. Reporting on effectiveness is aimed at enabling the understanding of the links between **actions** taken by the undertaking 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 disclose survey feedback from the suppliers' workers showing that working conditions have improved since the time the undertaking began working with those suppliers. Additional information that the undertaking may provide includes data showing a decrease in the number of **incidents** identified through for instance, independent audits.
- AR 38. With regard to initiatives or processes the undertaking has in place that are based on affected workers' needs and ~~their level of with regard to progress in the~~ implementation ~~of such initiatives or processes~~, the undertaking may disclose:
- (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 initiatives or processes.
- AR 39.— The undertaking may disclose whether any initiatives or processes whose primary aim is to deliver positive impacts for **value chain** workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs). 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.
- AR 40. — When disclosing the intended or achieved positive outcomes of its **actions** for **value chain** workers a distinction is to be made between 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).

AR 41. When disclosing whether initiatives or processes also play a role in mitigating material negative impacts, the undertaking may e.g., consider programmes that aim to advance women workers' financial literacy that have resulted in more women being promoted as well as in reports of reduced sexual **harassment** in the workplace.

AR 42. When disclosing the material risks and opportunities related to the undertaking's impacts or ~~dependencies on value chain workers, the undertaking may consider the following business risks that could lead into material risks and business opportunities:~~

~~business~~ **dependencies on value chain workers, the undertaking may consider the following:**

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

AR 43. When disclosing whether **dependencies** turn into risks, the undertaking shall consider external developments.

AR 44. ~~When disclosing policies, **actions** and resources and **targets** related to the management of material **risks** and **opportunities**, in cases where risks and opportunities arise from a material **impact**, the undertaking may cross-reference its disclosures on policies, action and resources and targets in relation to that impact.~~

AR 45. ~~The undertaking shall consider ~~the extent to which~~ **whether and how** its process(es) to manage material risks related to **value chain** workers are integrated into its existing risk management process(es) ~~and how.~~~~

AR 46. When disclosing the resources allocated to the management of material impacts, the undertaking may disclose which internal functions are involved in managing the impacts and what types of action they take to address negative and advance positive impacts.

Metrics and targets

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

AR 47. ~~When disclosing ~~the information about~~ **targets** in accordance with paragraph 39, the undertaking shall consider disclosing, where applicable may disclose:~~

~~(a)~~ **(a)** the intended outcomes to be achieved in the lives of **value chain** workers, being as specific as possible;

~~(a)~~ **(a)** ~~that these are measurable/verifiable;~~

~~(a)(b)~~ **(a)(b)** ~~the~~ **the** stability **of the targets** over time in terms of definitions and methodologies to enable comparability over time;

~~(b)(c)~~ **(b)(c)** ~~references to the~~ standards or commitments **on** which the targets are based (for instance codes of conduct, sourcing policies, global frameworks or industry codes).

AR 48. ~~Targets related to material **risks** and **opportunities** may be the same as or distinct from targets ~~related~~ to material **impacts**. ~~Therefore, no distinction is to be made per se, but what the target is aiming at is to be disclosed (i.e., material impact and/or risks and~~~~

~~opportunities~~). For example, a target to reach living **wages** for **supplychain** workers could both reduce impacts on those workers and reduce associated business risks in terms of the quality and reliability of supply.

AR 49. The undertaking may also distinguish between short-, medium- and long-term **targets** covering the same **policy** commitment. For example, the undertaking may have a long-term target to achieve an 80% reduction in health and safety **incidents** affecting ~~its delivery driver~~ the workers of a given **supplier** by 2030 and a near-term target to reduce ~~the~~their **overtime**- hours of delivery drivers by x% while maintaining their income by 2024.

AR 50. When modifying or replacing a target in the reporting period, the undertaking may explain the change by cross-referencing it to significant changes in the business model~~(s)~~ or to broader changes in the accepted standard or legislation from which the target is derived to provide contextual information, as per ESRS 2 BP-2 *Disclosures in relation to specific circumstances*.

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