

Educational session on Draft ESRS S2 (Workers in the value chain), S3 (Affected communities) and S4 (Consumers and end-users)

Educational videos on the First set of draft ESRS

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*This series of educational videos was recorded
between December 2022 and February 2023.*

Overview

- Background
- Structure of the Social Pillar
- Overview of DRs S2, S3 and S4
- Appendix:
 - Changes from April Exposure Drafts
 - Sources of Disclosure Requirements

Background

- **Recital 26** : Article 19 a(1) and 29 a(1) of Directive 2013/34/EU require undertakings to disclose information about five reporting areas: business model, policies (including due diligence processes implemented), the outcome of the policies, risks and risk management and key performance indicators relevant to the business.
- **Recital 27**: To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a(1), point (b), and Article 29a(1), point (b) of Directive 2013/34/EU. [...].
- **Recital 31**: [...] Due diligence is the process that undertakings carry out to identify, track, prevent, mitigate, remediate and bring an end to the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts. Impacts connected with an undertaking's activities include impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking's value chain.
- **Recital 39**: Sustainability reporting standards should also take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including [...] the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct.
- **Recital 43**: [...] Sustainability reporting standards should specify the information that undertakings should disclose on social factors, including working conditions, social partner involvement, collective bargaining, equality, non-discrimination, diversity and inclusion, and human rights. The information that undertakings disclose about human rights should include information about forced labour and child labour in their value chains where relevant.

- **(a) a description of:**
 - (i) the due diligence process implemented by the group with regard to sustainability matters, and where applicable in line with EU requirements on undertakings to conduct a due diligence process;
 - (ii) the principal actual or potential adverse impacts connected with the group's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and track these impacts, and other adverse impacts which the parent undertaking is required to identify according to other EU requirements to conduct the due diligence process

CSRD: Article 29(b)

- (b) specify the information that undertakings are to disclose about social factors, including information about:
 - i) equal **treatment and opportunities** for all, including:
 - gender equality and equal pay for work of equal value
 - training and skills development
 - employment and inclusion of people with disabilities
 - measures against violence and harassment in the workplace
 - diversity
 - ii) **working conditions**, including:
 - secure employment
 - working time
 - wages
 - social dialogue
 - freedom of association
 - existence of work councils
 - collective bargaining including the rate of workers covered by collective agreements
 - the information, consultation and participation rights of workers
 - work-life balance
 - health and safety

CSRD: Article 29(b)

- (b) specify the information that undertakings are to disclose about social factors, including information about:
 - 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, including the UN Convention on Persons with Disabilities
 - the UN Declaration on the Rights of Indigenous Peoples
 - the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work
 - the ILO fundamental conventions
 - the European Convention of Human Rights
 - the revised European Social Charter
 - the Charter of Fundamental Rights of the European Union

Structure of the Social Pillar

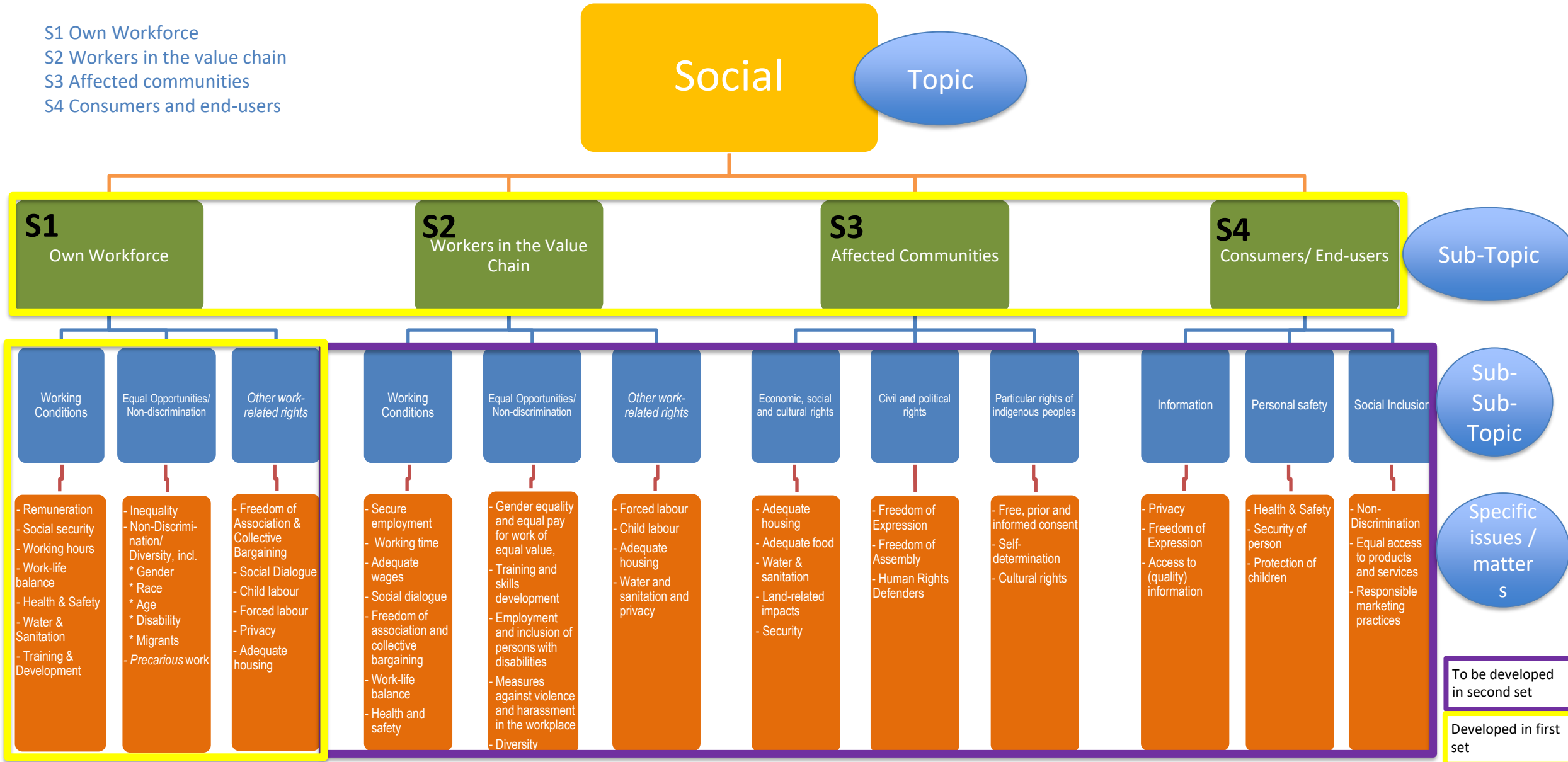
Social standards: Structure of the social pillar

S1 Own Workforce

S2 Workers in the value chain

S3 Affected communities

S4 Consumers and end-users



Overview of Disclosure Requirements

S2- S4 Workers in the value chain / Affected communities / Consumers and end-users: Overview

ESRS 2 GENERAL DISCLOSURES - STRATEGY (complemented by ESRS 2)

Complementary DR and AR on **ESRS 2-SBM2: Interests and views of stakeholders**

- *DR: When responding to ESRS 2 SBM-2 paragraph 43, the undertaking shall disclose how the interests, views, rights and expectations of (actual or potential) materially affected value chain workers/communities/consumers and end-users, including respect for their human (including labour) rights, inform its strategy and business model(s). Value chain workers/affected communities/consumers and end-users are a key group of affected stakeholders.*
- *AR: Disclosure Requirement ESRS 2 SBM-2 requires the undertaking to provide an understanding of if and how it considers whether its strategy and business model(s) play a role in creating, exacerbating or (conversely) mitigating significant material impacts on value chain workers/consumers/end-users, and whether and how the business model(s) and strategy are adapted to address such material impacts [...].*

Complementary DR and AR on **ESRS 2-SBM3: Material impacts, risks and opportunities** and their **interaction with strategy and business model(s)**

- *DR: When responding to ESRS 2 SBM-3, the undertaking shall disclose: (a) whether and how actual and potential impacts on value chain workers/communities/consumers and end-users, 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 its material risks and opportunities arising from impacts and dependencies on value chain workers/communities/consumers and end-users and its strategy and business model(s).*

ONLY for material impacts, risks and opportunities

S2- S4 Workers in the value chain / Affected communities / Consumers and end-users: Overview



IRO MANAGEMENT

DC-P

DR S2-1: **Policies related** to the affected stakeholder group

GRI OECD UNGP SFDR

DR S2-2: **Processes for engaging** with affected stakeholder groups about impacts

GRI OECD UNGP

DR S2-3: Processes to **remediate** negative **impacts** and **channels to raise concerns**

UNGP SFDR

DC-A

DR S2-4: **Taking action** on impacts and effectiveness of those actions, and **approaches to mitigating** material risks and pursuing material opportunities

GRI OECD UNGP

METRICS AND TARGETS

DC-T

DR S2-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

GRI UNGP

ONLY for material impacts, risks and opportunities with the exception of EU regulation datapoints (refer to next slide)

KEY CONSIDERATIONS

—> *S2,S3,S4: When material impacts on and/or material risks and opportunities related to workers in the value chain/communities/consumers and end-users have been identified through the materiality assessment process laid out in ESRS 2 General disclosures.*

First set:

Focus on 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/communities / consumers&end users and related risks and opportunities

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.

S2- S4 Workers in the value chain / Affected communities / Consumers and end-users: Overview

| Disclosure Requirement | SFDR reference | Benchmark regulation reference |
|---|---|---|
| ESRS 2- SBM3 – S2 Significant risk of child labour or forced labour in the value chain paragraph 11 (b) | Indicators n. 12 Table #3 of Annex 1 Indicator n. 13 Table #3 of Annex 1 | |
| ESRS S2-1 Human rights policy commitments paragraph 17 | Indicator n. 9 Table #3 of Annex 1 Indicator n. 11 Table #1 of Annex 1 | |
| ESRS S2-1 Policies related to value chain workers paragraph 18 | Indicator n. 11 of Annex 1 Indicator n. 4 Table #3 of Annex 1 | |
| ESRS S2-1 Violations of UNGC principles and OECD guidelines paragraph 19 | Indicator n. 10 Table #1 of Annex 1 | CDR (EU) 2020/1816, Annex II CDR (EU) 2020/1818, Art 12 (1) |
| ESRS S2-1 Due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8, paragraph 19 | | CDR (EU) 2020/1816, Annex II |
| ESRS S2-4 Human rights issues and incidents connected to its upstream and downstream value chain paragraph 36 | Indicator n. 14 Table #3 of Annex 1 | |

Appendix II

Changes from April EDs

Appendix: Main changes from April EDs

April Exposure Drafts

- **DR 1 – Policies** related to value chain workers/communities/consumers and end-users
- **DR 2 – Processes for engaging** with value chain workers/communities/consumers and end-users about impacts
- **DR 3 – Channels** for value chain workers/communities/consumers and end-users to raise concerns
- **DR 4 – Targets** related to managing impacts, mitigating risks and pursuing opportunities related to value chain workers/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**

November ESRS Drafts

- **DR 1 – Policies** related to value chain workers/communities/consumers and end-users
- **DR 2 – Processes for engaging** with value chain workers/communities/consumers and end-users about impacts
- **DR 3 – Processes to remediate negative impacts and channels** for value chain workers/communities/consumers and end-users to raise concerns
- **DR 4 – Taking action on impacts and approaches to mitigating risks and pursuing opportunities related to value chain workers/local communities/consumers and end-users and effectiveness of those actions**
- **DR 5 – Targets** related to managing impacts, mitigating risks and pursuing opportunities related to value chain workers/communities/consumers and end-users

Overview of changes

- Specification of the scope of the standards/IROs covered by the standards
- Reduction of disclosure requirements to 5 DRs (DR5 and DR6 merged into DR4)
- Simplification and further clarification of disclosure requirements
- Further alignment with UNGPs and OECD Guidelines (DR 3)
- Clarification of definitions
- S2: Clarification of definitions, for example workers in the value chain
- S3: AR on connection between communities and environmental IROs
- Just transition

Appendix II

Sources of DRs

Appendix: Sources of DRs

| Draft ESRS | Required by CSRD | Required by SFDR ^{SEP} Principal Adverse Impacts | Required by Benchmark Regulation | References to OECD Guidelines and UN Guiding Principles | References to other reporting frameworks |
|---------------------|---|--|----------------------------------|---|---|
| ESRS 2 SBM 2 | - Art. 19a 2 (a) (iv) | | | - UNGP 18 - OECD II.A-14 | - GRI 2-29 and 3-3 (f) - CDSB Reporting Requirement 2 and 3 - UNGP Reporting Framework C2 |
| ESRS 2 SBM 3 | - Art. 19a 1 - Art. 19a 2 (a) (ii) and (iv) - Art. 19a 2 (f) (ii) - Art. 19a 2 (g) | - Additional indicator #12 in Table 3, Annex 1 (S2 only) - Additional indicator #13 in Table 3, Annex 1 (S2 only) | | - OECD IV.45 - UNGP 18, 21 and 24 | - GRI 2-22, 3-3 and 3-2 - UNGP Reporting Framework A2 and B1 - IR 4.25 - CDSB Reporting Requirements 1 and 3 - S2: SASB CG-AA-430b.3 and CG-AA-440a.3 |

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Appendix: Sources of DRs

| Draft ESRS | Required by CSRD | Required by SFDR ^(SEP) Principal Adverse Impacts | Required by Benchmark Regulation | References to OECD Guidelines and UN Guiding Principles | References to other reporting frameworks |
|--------------------|----------------------|--|--|---|--|
| DR S2/3/4-1 | - Art. 19a 2 (d) | <ul style="list-style-type: none"> - Mandatory indicator #10 in Table 1, Annex 1 - Mandatory indicator #11 in Table 1, Annex 1 - Additional indicator #4 in Table 3, Annex 1 (S2 only) - Additional indicator #9 in Table 3, Annex 1 - Additional indicator #11 in Table 3, Annex 1 | <ul style="list-style-type: none"> - CDR (EU) 2020/1816, Annex II - CDR (EU) 2020/1818, Art 12 (1) - CDR (EU) 2020/1816, Annex II | <ul style="list-style-type: none"> - OECD IV.4 and Commentary IV para. 44 - UNGPs 15 and 16 | <ul style="list-style-type: none"> - GRI 2-23 and 3-3 - UNGP Reporting Framework A1, A1.3 and C1 - CDSB Reporting Requirement 2 - UN Global Compact Principles 1 and 2 |
| DR S2/3/4-2 | - Art. 19a 2 (f) (i) | | | <ul style="list-style-type: none"> - OECD II.A-14 - UNGP 18 | <ul style="list-style-type: none"> - GRI 2-29 / GRI 3-3 (f) - UNGP Reporting Framework C2 - CDSB Reporting Requirements 2, and 3 |

Appendix: Sources of DRs

| Draft ESRS | Required by CSRD | Required by SFDR ^{SEP} Principal Adverse Impacts | Required by Benchmark regulation | References to OECD Guidelines and UN Guiding Principles | References to other reporting frameworks |
|--------------------|--------------------------------|---|----------------------------------|--|--|
| DR S2/3/4-4 | - Art. 19a 2 (f) (iii) and (g) | - Additional indicator n. 14 Table #3 of Annex 1 | | <ul style="list-style-type: none"> - OECD II.A and IV - UNGP 19, 20 and 22 - OECD MNE Guidelines Section III.1-2 - OECD DD Guidance II 3.1 | <ul style="list-style-type: none"> - GRI 3-3 (a), (d) and (e) - CDSB Reporting Requirement 2 - UNGP Interpretive Guide III B - UNGP Reporting Framework C4.3, C5 and C6.5 - UN Global Compact / GRI Step 3.1 - S2: SASB CG-AA-430b.1 / S3: SASB EM-MM-210b.1 / S4: SASB CG-AM-250a.2 |
| DR S2/3/4-5 | - Art 19a 2 (b) | | | <ul style="list-style-type: none"> - UNGP 20 - OECD VI.1 | <ul style="list-style-type: none"> - GRI 3-3 (e) and 3-3 (f) - CDSB Reporting Requirement 2 |

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