

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of the EFRAG SR TEG/SRB. 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 the 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.

Draft Amended ESRS S3 Affected communities Exposure Draft

UNAPPROVED Working document

(ESRS S3 – V1.6)

DRAFTING PROCESS FOR THE WORKING DOCUMENTS SO FAR

The EFRAG SRB and SR TEG provided written comments on the “V.1” versions of the Secretariat working drafts prepared between the end of May and the first week of June. Based on those comments, the EFRAG Secretariat prepared the “V1.5” versions which were discussed in meetings mid-June by both EFRAG SR TEG and SRB.

Subsequently these versions were amended and critically reviewed by dedicated review panels. The review panels submitted the outcome of their work and the remaining points for discussion to the EFRAG SRB and ST TEG.

All agenda papers for the 9/10 July EFRAG SR TEG meeting and 14/16 July SRB meeting (“V.1.6”) have been prepared by the Secretariat on the basis of (i) the “V1.5” working documents discussed by the EFRAG SRB and SR TEG, (ii) the review by the respective review panels within the SRB (with SR TEG experts when appropriate) and (iii) the subsequent discussions and decisions in the SRB. Step (i) and (ii) took place in the first week of July.

All comments shared by members in written on the “V1.5” working documents have been considered and incorporated when consistent with the SRB decisions.

DISCLAIMER ON THE STATUS OF THIS UNAPPROVED DOCUMENT

This working document does not represent an EFRAG view at this stage. This “V.1.6” draft is now made public as Working Document for the SR TEG discussions on 9/10 July and the SRB discussions on 14/16 July 2025. They are not to be considered as Exposure Drafts yet. They are unapproved and still subject to change reflecting the discussions in those meetings and for editorial and quality review that has not yet taken place. In addition, they are not accompanied by the necessary explanatory documents that are still being prepared and will accompany the Exposure Draft.

EFRAG recommends stakeholders that intend to contribute to the consultation to plan their review on the Exposure Drafts once they are issued, as they will benefit from the final content and from explanatory content.

REVISED STRUCTURE AND DRAFTING CONVENTIONS

- As compared to the ESRS Set 1 (adopted in July 2023), the structure of the standards has been revised and streamlined. In particular:
- All the “shall disclose/shall include/shall report/shall describe/shall explain” have been considered and simplified. They are presented in the main body of the standard. They have been counted as separate datapoints.
- Below the text of each Disclosure Requirement in topical standards (or section for ESRS 1), boxed content presents the streamlined corresponding mandatory methodological guidance, which is

still named “Application Requirements” (AR). This includes “shall consider” as element of methodology for preparing the disclosure and “may (present)” for presentation options.

- Non mandatory appendices have been maintained in ESRS 1 on an exceptional basis, given their importance (former AR 16).
- All the “may” disclosures have been either eliminated or moved to another category (either deleted or moved to guidance), except for a few of them which are exceptionally still being considered.
- All the non-mandatory content has been moved to separate documents named “Non-Mandatory Illustrative Guidance (NMIG). While the four points above are drafted to become part of the delegated act, the legal status of the NMIG remains open from an EFRAG’s standpoint (either as appendices in the delegated act or as documents issued independently of the delegated act) and will be considered by the EC in due course.

HOW TO READ THIS DOCUMENT

The paragraph numbering has been revised to reflect the draft amendments. Where applicable, the previous Set 1 paragraph numbers are indicated in brackets – for example, ‘4. (24)’ or ‘4. (24. amended)’.

Objective

1. When reporting in accordance with ESRS, the **sustainability statement** shall cover information in relation to S3 'Affected communities', when this **topic** is related to material **impacts, risks** and **opportunities**. The disclosure on the material impacts, risks and opportunities is expected to cover policies, **actions** and **targets** (if in place), **dependencies** when relevant, **metrics** and **financial effects**.
2. The objective of this Standard is to specify disclosure Requirements in relation to these items of information that are not covered in ESRS 2.
3. When only one of the **sub-topics** covered by this Standard is material, the undertaking shall report only on that sub-topic.
- 3bis. This Standard also requires an explanation of the undertaking's general approach to identifying and managing any **material actual** and **potential impacts, risks** and **opportunities** on its **affected communities** in relation to the following sub-topics:
 - (a) Communities' economic, social and cultural rights (land-related impacts, security-related impacts, adequate housing and food, water and sanitation)
 - (b) Communities' civil and political rights (freedom of expression, freedom of assembly, impacts on human rights defenders)
 - (c) Rights of indigenous peoples (**free, prior and informed consent (FPIC)**, self-determination, cultural rights)
4. The undertaking shall apply the provisions of ESRS 2 paragraphs from 30 to 33 and GDR-P, GDR-A and GDR-T. In particular:
 - (a) If the undertaking has not adopted **policies, actions** and **targets** with reference to a **topic** related to **material impacts, risks** and **opportunities**, it shall disclose this fact; the undertaking may present the description of its material impacts, risks and opportunities, in accordance with ESRS 2 IRO 2, alongside
 - (b) information about its policies, **actions, targets** and **metrics** through which it addresses them, to avoid duplication and support a coherent narrative.
5. In this standard, each Disclosure Requirement is introduced by a disclosure objective, with the exception of **policies, actions** and **targets**, for which the provisions in GDR-P, GDR-A and GDR-T provides the necessary framing for the relevant disclosures.
6. The objective of the Standard is also to enable **users** to understand the extent to which the undertaking aligns or complies with international and European human rights instruments and conventions, including the International Bill of Human Rights, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, and the UN Declaration on the Rights of Indigenous People.

Interaction with other ESRS

7. The reporting under this Standard shall be consistent, coherent and, where relevant, clearly linked with reporting on the undertaking's **own workforce** under ESRS S1 *Own Workforce*.

Disclosure requirements

Impact, risk and opportunity management

Disclosure Requirement S3-1 – Policies related to affected communities

8. (14 amended) The undertaking shall describe its policies for managing the **material impacts, risks** and **opportunities** related to **affected communities** in accordance with ESRS 2 GDR-P. It shall state whether these **policies** cover specific affected communities (for example, a community of **indigenous people** or a community living around the undertaking's **site**) or all affected communities.
9. (15 amended) The undertaking shall disclose any particular **policy** provisions for preventing and addressing **impacts** on **indigenous peoples**.

APPLICATION REQUIREMENTS – AR

AR 1 for paragraph 8	(AR 11 amended) The channels the undertaking uses to communicate its policies to the individuals, groups 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 can be described as contextual information.
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Disclosure Requirement S3-2–Engagement with affected communities, existence of channels for affected communities to raise concerns or needs and approaches to remedy

10. (20 amended) The objective of this Disclosure Requirement is to enable an understanding of the undertaking's general approach to engagement with **affected communities**, the availability of channels, including **grievance mechanisms**, and **remedy**.

11. (21 amended) The undertaking shall disclose how it engages directly with **affected communities**, their **legitimate representatives**, or with **credible proxies**, and how the perspectives of affected communities inform its decisions or activities aimed at managing the **actual** and **potential impacts** on affected communities during the reporting year. This shall include, where relevant:

- (a) (22 amended) how it gains insight into the perspectives of affected communities who may be particularly vulnerable to **impacts** and/or marginalised (for example, women, girls, migrants, people with disabilities).

12. (23 amended) Where **affected communities** are **indigenous peoples**, the undertaking shall also disclose how it takes into account and ensures respect of their particular rights in its **stakeholder engagement** approach, including their right to **free, prior and informed consent (FPIC)** with regard to: (i) their cultural, intellectual, religious and spiritual property; (ii) activities affecting their lands and territories; and (iii) legislative or administrative measures that affect them. In particular, where engagement occurs with indigenous peoples, the undertaking shall also disclose whether and how indigenous peoples have been consulted on the mode and parameters of the engagement (for example, in designing the agenda, nature, and timeliness of the engagement).

13. (27 amended) The undertaking shall describe the channels it has for **affected communities** to bring their concerns or needs directly to the attention of the undertaking and have them addressed. In particular, it shall state whether it has a **grievance mechanism**¹. It shall also explain how it assesses the effectiveness of these channels.

14. (27 amended) The undertaking shall describe its general approach to and processes for providing or contributing to **remedy** where it has caused or contributed to a material negative **impact** on **affected communities**.

¹ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #5 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Lack of grievance/complaints handling mechanisms related to employee matters).

APPLICATION REQUIREMENTS – AR

AR 2 for paragraph 11	(AR 15 amended) The engagement with affected communities can take different forms such as information, consultation or participation and frequency.
AR 3 for paragraph 12	(AR 13 amended) Examples for the engagement disclosure in paragraph 12, include the process to obtain consent from indigenous people and good faith negotiations where the undertaking affects lands, territories or resources (for example, relocation or occupation).
AR 4 for paragraph 13	(AR 18 amended) Channels for raising concerns or needs under paragraph 13 are formal structures with dedicated processes to which affected communities can raise such concerns or needs. They include grievance mechanisms , hotlines, dialogue processes, as well as, under certain circumstances, whistleblowing mechanisms. When whistleblowers mechanisms are reported to be used under paragraph 13, relevant information include whether they are limited to breaches of internal rules, including codes of ethics or conduct or the undertaking's workforce to raise wider concerns or needs.
AR 5 for paragraph 13	(28 amended) With regards to paragraph 10 on assessing the effectiveness of the channels, 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, can be used. When the undertaking has policies for protecting individuals that use these channels against retaliation, and it is disclosed in ESRS G1-1, the undertaking may refer to that disclosure.
AR 6 for paragraph 13	(AR 20 amended) Third party mechanisms can include those operated by a government, NGO, industry association or other collaborative initiative. When such mechanisms are used, disclosure on their effectiveness, as per AR 5, is of particular relevance.
AR 7 for paragraph 14	(AR 19 amended) 'Processes' for providing or contributing to remedy include formalised steps or criteria that are followed in order to ensure that concerns or needs or complaints are adequately addressed, including, where relevant, by providing or contributing remedy for actual impacts . Such processes can also include channels to raise concerns or needs reported at paragraph 13 as such channels can provide for or contribute to remediation.

Disclosure Requirement S3-3 – Actions and resources related to affected communities

15. (31 amended) The undertaking shall describe the key **actions** and resources to manage its **material impacts, risks** and **opportunities** related to **affected communities** in accordance with ESRS 2 GDR-A.
16. (32 amended) In relation to the material **impacts** related to **affected communities**, the undertaking shall describe:
 - (a) key **actions** taken, planned or underway to prevent, mitigate or remediate material negative impacts on affected communities, including the approach in situations where tensions arise between such actions and other business pressures;

- (b) how it tracks and assesses the effectiveness of these **actions** and initiatives in delivering outcomes for affected communities. This disclosure can be omitted if the undertaking discloses how it tracks effectiveness of its actions in accordance with GDR-T or GDR-M. In that case, a reference to that disclosure is sufficient.
17. (36 amended) The undertaking shall also disclose whether human rights **incidents** connected to **affected communities** have been reported and, if applicable, disclose these².

APPLICATION REQUIREMENTS – AR

AR 8 for paragraph 16	(AR 27 amended) The undertaking can be connected to an impact in different ways. The undertaking may cause or contribute to a material impact, or the material impact may be directly linked to its own operations, products or services through a business relationship . The undertaking's key actions may vary depending on such connections, including actions to remedying impacts as well as seeking to use leverage in its business relationships to manage those impacts. Such actions include multistakeholder and/or industry initiatives.
AR 9 for paragraph 16	(9 amended) The undertaking can describe the measures taken to mitigate negative impacts on affected communities that arise from the transition to a greener, climate-neutral economy, and in the case of innovation and restructuring, closure of mines, increased mining of minerals needed for the transition to a sustainable economy and solar panel production.
AR 10 for paragraph 17	(AR 12 amended) When determining the human rights incidents connected to the affected communities , the undertaking shall consider any legal disputes related to land rights and to the free, prior and informed consent (FPIC) of indigenous peoples .

Metrics and Targets

Disclosure Requirement S3-4 – Targets related to affected communities

18. (41 amended) If the undertaking evaluates the effectiveness of its **policies** and **actions** for managing **topics** associated with material **impacts, risks** and **opportunities** related to **affected communities** through qualitative and/or quantitative **targets**, it shall describe them in accordance with ESRS 2 GDR-T.

19. (42 amended) When disclosing in accordance with ESRS 2 GDR-T, the undertaking shall disclose whether and how it engaged directly with **affected communities**, their **legitimate representatives**, or with **credible proxies** that have insight into their situation, during the reporting period for the purpose of:

- (a) setting any such **targets**;
- (b) tracking the undertaking's performance against the **targets**.

APPLICATION REQUIREMENTS – AR

AR 11 for paragraph 18	(AR 47 amended) In case of changes to prior-year targets relevant background information includes changes to the business model or legal changes to which the targets in question are connected. In this case, ESRS 2 BP-2 Disclosures in relation to specific circumstances applies.
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² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 because it is derived from an additional indicator related to principal adverse impacts as set out by indicator #14 in Table III of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Number of identified cases of severe human rights issues and incidents").