

## VSME Support Guide on Disclosure C7 – Severe negative human rights incidents

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### Background on the VSME Ecosystem Support Guides

- 1 EFRAG aims to produce support material to facilitate the adoption and reporting process for the VSME, within the context of the VSME ecosystem. Following the consultation on the VSME, the following disclosures in the comprehensive module of the VSME have been identified as Support Guide priority areas: **C2: Description of practices, policies and, future initiatives for transitioning towards a more sustainable economy; C3: GHG reduction targets and climate transition; and C7: Severe negative human rights incidents.**

### Introduction and aim of this support guide on disclosure C7 (severe negative human rights incidents)

- 2 The Support Guide C7 aims to provide hands-on guidance to support SMEs in disclosing eventual severe negative human rights incidents that arise in the **value chain**, in relation to **workers, affected communities and consumers/end-users.**
- 3 The request for this Support Guide stems from EFRAG’s VSME ED Public Consultation.
- 4 It is important to emphasise that this guide focuses on paragraph 62(c) of Disclosure C7 - Severe negative human rights incidents related to workers in the in the value chain, affected communities and consumers and end/users.

**C7 – Severe negative human rights incidents**

62. The undertaking shall disclose an answer to the following questions:

(a) Does the undertaking have confirmed incidents in its **own workforce** related to:

- i. child labour (YES/ NO);
- ii. forced labour (YES/ NO);
- iii. human trafficking (YES/ NO);
- iv. discrimination (YES/ NO); or
- v. other? (YES/NO – if yes, specify).

(b) If yes, the undertaking may describe the **actions** being taken to address the **incidents** described above.

(c) Is the undertaking aware of any confirmed **incidents** involving **workers in the value chain, affected communities, consumers and end-users**? If yes, specify.

- 5 For SMEs operating in high-risk sectors and regions, where labour and community rights violations are more likely due to factors such as low levels of social dialogue or no ratification of the core ILO core convention there could be higher exposure to these severe negative impacts through its own operations or value chain.

### Definition of ‘Confirmed Incidents’

- 6 In paragraph 238 (VSME Guidance), a “confirmed incident” refers to a legal action or complaint registered with the SME or competent authorities through a formal process, or an instance of non-compliance identified by the undertaking through established

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procedures. Established procedures to identify instances of non-compliance can include management system audits, formal monitoring programs, or grievance mechanisms.

- 7 This implies that an SME could be aware of such incidents via a variety of channels and tools that may provide context on specific sectors, specific countries as well as specific groups of value chain workers, affected communities and consumers and end-users.
- 8 To support preparers, the following subsections may provide examples of confirmed incidents.

### **Examples of severe negative human rights incidents**

#### **1. Example of severe negative human rights incidents for Workers in the Value Chain:**

*A small construction company received a formal complaint through a letter from an NGO raising concerns about child labour at one of its suppliers in Southeast Asia. The complaint, submitted by a local labour rights group, included photos and testimonies indicating that children under 14 were involved in physically demanding work, such as carrying heavy bricks and operating kilns without protective equipment. The issue gained further attention when a local journalist reported on the factory's conditions, increasing pressure on the SME to respond. Given the lack of an internal compliance responsible or team, the SME engaged a trusted local expert to visit the supplier and verify the claims. The investigation confirmed that several children were working in unsafe conditions and often as part of a family debt repayment system. With limited leverage over the supplier, the SME sought support from an industry association and a local NGO to address the issue.*

#### **2. Example of severe negative human rights incidents for Affected Communities:**

*A SME is operating several fruits and vegetable plantations in Southern Europe. Several local communities have initiated a campaign, alleging that the fertilizers used on the plantations contain harmful components that pose risks to human health. They further allege that some forms of illness suffered by members of the communities are caused by the fertilizers. These communities claim that the use of such fertilizers is compromising their right to health and their right to live in a clean and healthy environment. Investigations into these allegations are underway, in collaboration with relevant authorities and experts, to assess the situation and address any identified issues.*

**3. Example of severe negative human rights incidents for Consumers and End-users:**

*A medium-sized tech SME launched a cloud-based service to store and to manage sensitive customer data. Despite efforts to ensure data security and data privacy protection, a breach occurred, leading to unauthorised access to customer data. The breach exposed personal information (names, addresses, and financial details) impacting thousands of customers. This breach also significantly increased the risk of identity theft. Concerned customers filed formal complaints with data protection authorities, alleging that their right to privacy has been impacted with the SME failing to implement adequate security measures. The authorities launched an investigation into the company data privacy practices and discovered several lapses in its security protocols.*